

**Interim Statement  
as at 31 March 2018**



*This is an English translation of the original Italian document "Resoconto Intemedio al 31 marzo 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](http://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.*



# Interim Statement as at 31 March 2018

**Intesa Sanpaolo S.p.A.**

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



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## THE INTESA SANPAOLO GROUP



# The Intesa Sanpaolo Group: presence in Italy

## Banks

### INTESA SANPAOLO



#### NORTH WEST

| INTESA SANPAOLO | Subsidiaries          |          |
|-----------------|-----------------------|----------|
| Branches        | Company               | Branches |
| 1,191           | Fideuram              | 89       |
|                 | Banca Prossima        | 29       |
|                 | Mediocredito Italiano | 4        |
|                 | Banca IMI             | 1        |
|                 | Banca 5               | 1        |



#### NORTH EAST

| INTESA SANPAOLO | Subsidiaries                 |          |
|-----------------|------------------------------|----------|
| Branches        | Company                      | Branches |
| 597             | CR del Veneto                | 297      |
|                 | CR in Bologna                | 153      |
|                 | CR del Friuli Venezia Giulia | 88       |
|                 | CR di Forlì e della Romagna  | 77       |
|                 | Fideuram                     | 56       |
|                 | Banca Prossima               | 16       |
|                 | Mediocredito Italiano        | 2        |

#### CENTRE

| INTESA SANPAOLO | Subsidiaries          |          |
|-----------------|-----------------------|----------|
| Branches        | Company               | Branches |
| 587             | Banca CR Firenze      | 289      |
|                 | Fideuram              | 41       |
|                 | Banca Prossima        | 10       |
|                 | Banco di Napoli       | 4        |
|                 | Banca Apulia          | 2        |
|                 | Mediocredito Italiano | 2        |
|                 | Banca IMI             | 1        |
|                 | Banca Nuova           | 1        |

#### SOUTH

| INTESA SANPAOLO | Subsidiaries          |          |
|-----------------|-----------------------|----------|
| Branches        | Company               | Branches |
| 97              | Banco di Napoli       | 548      |
|                 | Banca Apulia          | 90       |
|                 | Fideuram              | 27       |
|                 | Banca Prossima        | 20       |
|                 | Banca Nuova           | 13       |
|                 | Mediocredito Italiano | 2        |

#### ISLANDS

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

Figures as at 31 March 2018

## Product Companies



Bancassurance and Pension Funds



Asset Management



Industrial credit, Factoring and Leasing



Fiduciary Services

# The Intesa Sanpaolo Group: international presence

## Banks, Branches and Representative Offices



### 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 <sup>(1)</sup> |
| Istanbul               | Moscow                  |
| London                 |                         |
| Madrid                 |                         |
| Paris                  |                         |
| Romania <sup>(2)</sup> |                         |
| Warsaw                 |                         |



### AFRICA

| Representative Offices | Country | Subsidiaries       | Branches |
|------------------------|---------|--------------------|----------|
| Cairo                  | Egypt   | Bank of Alexandria | 172      |

| Country                | Subsidiaries   | Branches |
|------------------------|--|----------|
| Albania                | Intesa Sanpaolo Bank Albania<br>Veneto Banka Albania | 32<br>14 |
| Bosnia and Herzegovina | Intesa Sanpaolo Banka Bosna i Hercegovina            | 54       |
| Croatia                | Privredna Banka Zagreb<br>Veneto Banka Croazia       | 194<br>1 |
| Czech Republic         | VUB Banka  | 1        |
| Hungary                | CIB Bank   | 70       |
| Ireland                | Intesa Sanpaolo Bank Ireland                         | 1        |
| Luxembourg             | Fideuram<br>Intesa Sanpaolo Bank Luxembourg          | 1<br>1   |
| Moldova                | Eximbank   | 18       |
| Romania                | Intesa Sanpaolo Bank Romania                         | 30       |
| Russian Federation     | Banca Intesa   | 37       |
| Serbia                 | Banca Intesa Beograd                                 | 158      |
| Slovakia               | VUB Banka  | 223      |
| Slovenia               | Intesa Sanpaolo Bank                                 | 52       |
| Switzerland            | Intesa Sanpaolo Private Bank (Suisse)                | 1        |
| The Netherlands        | Intesa Sanpaolo Bank Luxembourg                      | 1        |
| Ukraine                | Pravex-Bank  | 50       |
| United Kingdom         | Banca IMI<br>Intesa Sanpaolo Private Banking         | 1<br>1   |

Figures as at 31 March 2018

(1) International and Regulatory Affairs

(2) 19 branches in Romania of Intesa Sanpaolo S.p.A. Torino Bucharest Branch

## Product Companies





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# 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 <sup>(a)</sup>  |
| Directors                                     | Gianfranco CARBONATO<br>Franco CERUTI<br>Francesca CORNELLI<br>Giovanni COSTA<br>Edoardo GAFFEO <sup>(*)</sup><br>Giorgina GALLO<br>Giovanni GORNO TEMPINI<br>Rossella LOCATELLI<br>Marco MANGIAGALLI <sup>(**)</sup><br>Maria MAZZARELLA<br>Milena Teresa MOTTA <sup>(*)</sup><br>Bruno PICCA<br>Alberto Maria PISANI <sup>(*)</sup><br>Livia POMODORO<br>Daniele ZAMBONI<br>Maria Cristina ZOPPO <sup>(*)</sup> |

## 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



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# Introduction

Legislative Decree 25 of 15 February 2016, which implemented the Transparency Directive (2013/50/EU), eliminated the obligation to publish interim statements, previously required under paragraph 5 of Article 154-ter of the Consolidated Law on Finance. The Decree also gave Consob the option of requiring disclosures in addition to the annual report and the half-yearly report. By Resolution 19770 dated 26 October 2016, Consob, pursuant to regulatory delegation provided for in said Decree, approved the changes to the Issuers' Regulation on periodic additional financial disclosure, which have applied since 2 January 2017.

Under these regulations, listed companies have the right to select whether or not to publish periodic additional financial disclosure. If companies choose to publish this information on a voluntary basis, they shall:

- announce their intention to publish additional periodic financial information and specify the information to be disclosed. The decision to suspend publication must also be made public and justified and will be effective from the year after the announcement;
- specify the schedule for the approval and publication of the additional periodic financial information by the competent body;
- guarantee the consistency and correctness of the additional periodic financial information to be disclosed and its comparability with previous financial reports;
- ensure rapid, non-discriminatory access, guaranteeing, within reason, the effective dissemination of the information across the entire European Union.

In consideration of the foregoing, in announcing to the market the 2018 financial calendar, Intesa Sanpaolo specified that, pursuant to Art. 65-Bis and Art. 82-Ter of the Issuers' Regulation, it intends to disclose – on a voluntary basis – financial information as at 31 March and 30 September of each financial year, in addition to the annual report and half-yearly reports. This information consists of interim statements approved by the Board of Directors, basically providing continuity with the interim statements published in the past.

The Interim Statement as at 31 March 2018 has been prepared, in consolidated form, in compliance with the recognition and measurement criteria established by 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 EU Regulation 1606 of 19 July 2002, as described in detail in the chapter "Criteria for the preparation of the Interim Statement" and in the specific chapter on the first-time adoption of IFRS 9, which applies to this interim statement.

The report contains the Balance sheet, the Income statement, the Statement of comprehensive income for the period, the Changes in shareholders' equity, and the Report on operations. It is also complemented by information on significant events which occurred during the period.

In support of the comments on the results, 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.

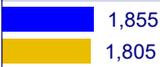
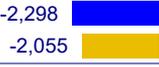
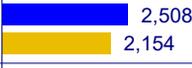
As detailed in the relevant chapters of this Interim Statement, following the adoption of IFRS 9 the financial statements referred to above have been amended with respect to the past in accordance with the provisions of Bank of Italy Circular no. 262, governing bank financial statements and recently updated to take account of the regulatory developments and the option of adopting the Deferral Approach. In accordance with the latter 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). As a consequence, the reclassified statements presented and commented on in this interim statement have also been duly amended with respect to those used previously.

The consolidated financial statements are subject to a limited review by the Independent Auditors KPMG for the sole purpose of issuing the certification required by Art. 26 (2) of the European Union Regulation no. 575/2013 and the European Central Bank Decision no. 2015/656.



**Overview of the  
first quarter 2018**

# Income statement figures and alternative performance measures

| Consolidated income statement figures (millions of euro)                      |   | Changes vs 31.03.2017 |       |
|---|---|-----------------------|-------|
|   |   | amount                | %     |
| Net interest income   |   | 50                    | 2.8   |
| Net fee and commission income   |   | 153                   | 8.2   |
| Income from insurance business  |    | 11                    | 3.9   |
| Profits (Losses) on financial assets and liabilities designated at fair value |    | 395                   |       |
| Operating income  |   | 597                   | 14.2  |
| Operating costs   |    | 243                   | 11.8  |
| Operating margin  |  | 354                   | 16.4  |
| Net adjustments to loans  |  | -212                  | -30.5 |
| Income (Loss) from discontinued operations                                    |  | 1                     | -     |
| Net income (loss)   |  | 351                   | 39.0  |

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

31.03.2018   
 31.03.2017 

| Consolidated income statement figures (millions of euro)                      |   | Changes vs 31.03.2017 |       |
|---|---|-----------------------|-------|
|   |   | Aggregate amount      | %     |
| Net interest income   |   | -25                   | -1.3  |
| Net fee and commission income   |   | 86                    | 4.5   |
| Income from insurance business  |    | 11                    | 3.9   |
| Profits (Losses) on financial assets and liabilities designated at fair value |    | 412                   |       |
| Operating income  |   | 456                   | 10.5  |
| Operating costs   |    | -30                   | -1.3  |
| Operating margin  |   | 486                   | 24.0  |
| Net adjustments to loans  |    | -213                  | -30.6 |
| Income (Loss) from discontinued operations                                    |    | 1                     | -     |
| Net income (loss)   |  | 351                   | 39.0  |

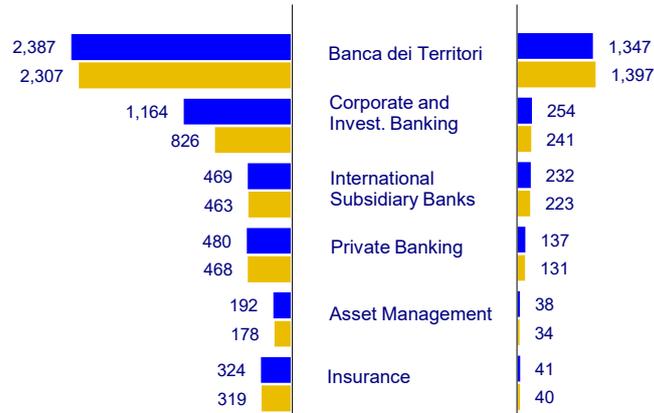
Figures restated, where necessary and material, considering the changes in the scope of consolidation. Aggregate figures recalculated on the basis of management accounts to include the economic effects of the acquired Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

31.03.2018  
31.03.2017 (Figure of the Aggregate Set)

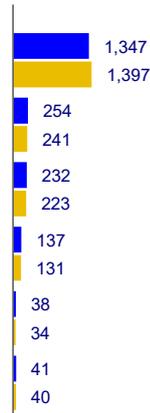


**Main income statement figures by business area (millions of euro)**

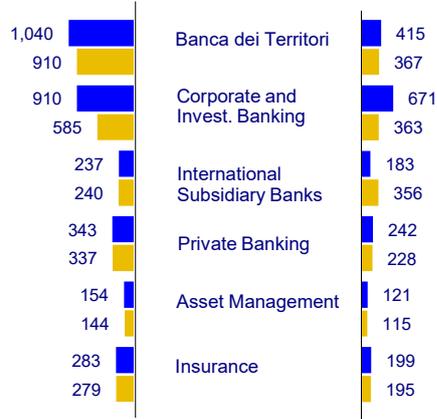
**Operating income**



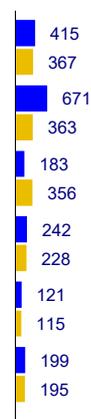
**Operating costs**



**Operating margin**



**Net income (loss)**



Figures restated, where necessary, 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.

31.03.2018

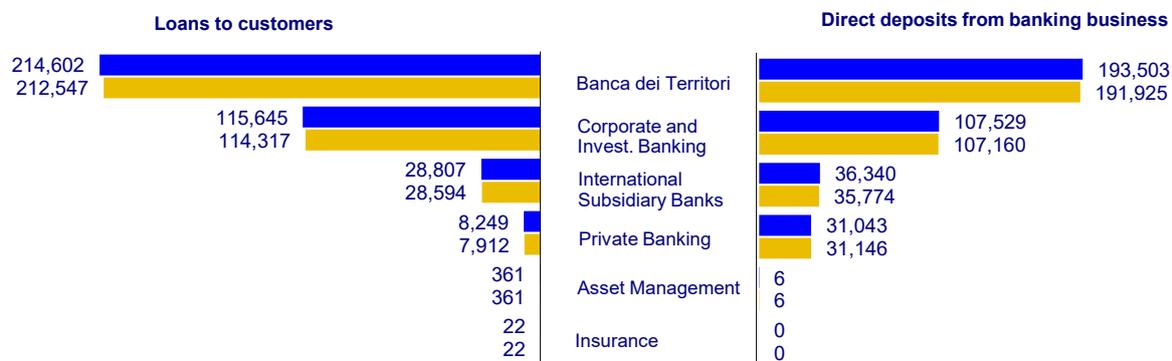
31.03.2017 (Figure of the Aggregate Set)



# Balance sheet figures and alternative performance measures

| Consolidated balance sheet figures (millions of euro)  |  | Changes<br>amount | %    |
|--|--|-------------------|------|
| Financial assets   | <br>114,197<br>113,575                        | 622               | 0.5  |
| Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39 | <br>154,026<br>153,005                        | 1,021             | 0.7  |
| Loans to customers   | <br>401,033<br>399,463                       | 1,570             | 0.4  |
| Total assets   | <br>792,728<br>794,097                       | -1,369            | -0.2 |
| Direct deposits from banking business  | <br>424,258<br>423,474                       | 784               | 0.2  |
| Direct deposits from insurance business and technical reserves                               | <br>153,056<br>152,403                        | 653               | 0.4  |
| Indirect deposits:<br><i>of which: Assets under management</i>                               | <br>516,614<br>518,443<br>338,498<br>337,998 | -1,829            | -0.4 |
| Shareholders' equity   | <br>54,552<br>53,268                          | 1,284             | 2.4  |

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



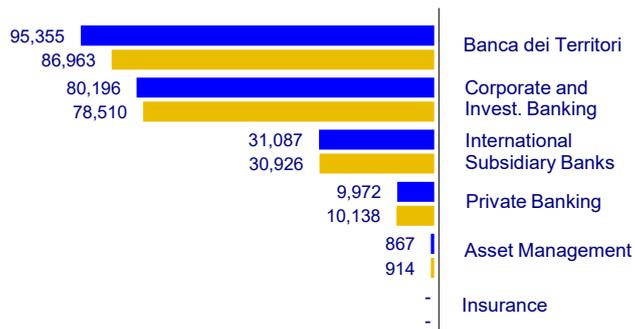
Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

31.03.2018   
01.01.2018 

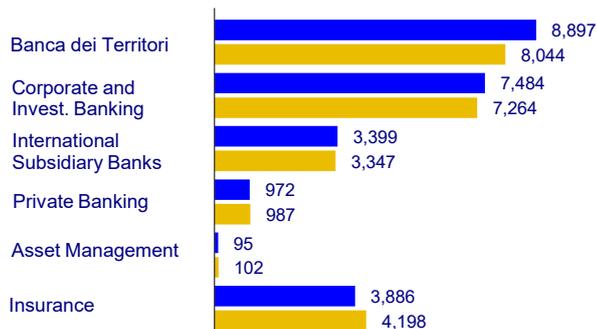
# Alternative performance measures and other measures

| Consolidated capital ratios (%)   |   |            |         |            |         |
|---|---|------------|---------|------------|---------|
| Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio) | <table border="0"> <tr><td>31.03.2018</td><td>13.3</td></tr> <tr><td>31.12.2017</td><td>13.3</td></tr> </table>       | 31.03.2018 | 13.3    | 31.12.2017 | 13.3    |
| 31.03.2018  | 13.3  |            |         |            |         |
| 31.12.2017  | 13.3  |            |         |            |         |
| TIER 1 Capital / Risk-weighted assets   | <table border="0"> <tr><td>31.03.2018</td><td>15.2</td></tr> <tr><td>31.12.2017</td><td>15.2</td></tr> </table>       | 31.03.2018 | 15.2    | 31.12.2017 | 15.2    |
| 31.03.2018  | 15.2  |            |         |            |         |
| 31.12.2017  | 15.2  |            |         |            |         |
| Total own funds / Risk-weighted assets  | <table border="0"> <tr><td>31.03.2018</td><td>17.9</td></tr> <tr><td>31.12.2017</td><td>17.9</td></tr> </table>       | 31.03.2018 | 17.9    | 31.12.2017 | 17.9    |
| 31.03.2018  | 17.9  |            |         |            |         |
| 31.12.2017  | 17.9  |            |         |            |         |
| Risk-weighted assets (millions of euro)   | <table border="0"> <tr><td>31.03.2018</td><td>282,430</td></tr> <tr><td>31.12.2017</td><td>286,825</td></tr> </table> | 31.03.2018 | 282,430 | 31.12.2017 | 286,825 |
| 31.03.2018  | 282,430   |            |         |            |         |
| 31.12.2017  | 286,825   |            |         |            |         |
| Absorbed capital (millions of euro)   | <table border="0"> <tr><td>31.03.2018</td><td>30,793</td></tr> <tr><td>31.12.2017</td><td>31,294</td></tr> </table>   | 31.03.2018 | 30,793  | 31.12.2017 | 31,294  |
| 31.03.2018  | 30,793  |            |         |            |         |
| 31.12.2017  | 31,294  |            |         |            |         |

## Risk-weighted assets by sector (millions of euro)



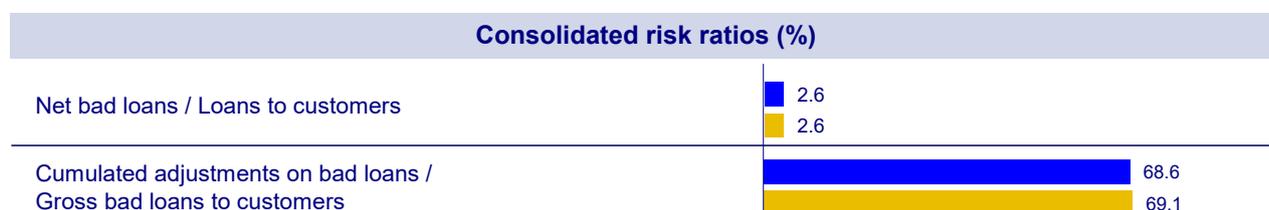
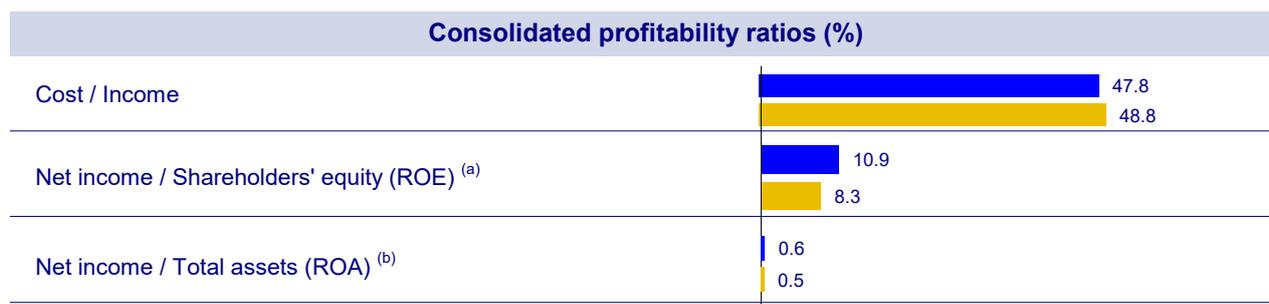
## Absorbed capital by sector (millions of euro)



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

31.03.2018

31.12.2017



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

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

<sup>(b)</sup> Ratio between net income and total assets. The figure for the period has been annualised.

<sup>(c)</sup> 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.

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



| Operating structure                      | 31.03.2018    | 31.12.2017    | Changes amount |
|--|---------------|---------------|----------------|
| <b>Number of employees</b>               | <b>95,828</b> | <b>96,892</b> | <b>-1,064</b>  |
| Italy                                    | 71,832        | 72,741        | -909           |
| Abroad                                   | 23,996        | 24,151        | -155           |
| <b>Number of financial advisors</b>      | <b>5,159</b>  | <b>5,136</b>  | <b>23</b>      |
| <b>Number of branches <sup>(e)</sup></b> | <b>5,783</b>  | <b>5,843</b>  | <b>-60</b>     |
| Italy                                    | 4,636         | 4,694         | -58            |
| Abroad                                   | 1,147         | 1,149         | -2             |

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

<sup>(e)</sup> Including Retail Branches, SME Branches and Corporate Branches. The figures for comparison have not been restated.

31.03.2018   
31.12.2017 

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# Transition to IFRS 9

## IFRS 9: the new financial reporting standard on financial instruments

### 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 5<sup>th</sup> 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 5<sup>th</sup> 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:
  - o 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;
  - o for loans, if they are sales of non-performing loans or loans classified as stage 2;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - o frequency is defined as the percentage ratio between the number of positions sold (ISINs or relationships) over the observation period and the total of the portfolio positions over the observation period;
  - o significance is defined as the percentage ratio between the nominal value of the sales and the 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 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, measured in terms of notches, 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 Basel 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<sup>1</sup> 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

<sup>1</sup> 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.

between macroeconomic variables and impairment losses, a single macroeconomic scenario is not representative of the 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<sup>2</sup>.

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.

<sup>2</sup> 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*”.

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 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, 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 this year, 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 issued by Italian banks 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 the usual households and business (e.g. non-profit organisations);
- pooled 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 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 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 |                               |                                       |  |   |                                  |                    |                        |                         |  |   |  |                             |                        |                 | TOTAL ASSETS |   |                   |
|--|--------|-------------------------------|---------------------------------------|--|---|----------------------------------|--------------------|------------------------|-------------------------|--|---|--|-----------------------------|------------------------|-----------------|--------------|---|-------------------|
|  |        | 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 |
| 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             |
| <b>TOTAL ASSETS</b>  |        | <b>9,353</b>                  | <b>39,518</b>                         | <b>75,269</b>  | <b>142,341</b>                          | <b>1,174</b>                     | <b>72,462</b>      | <b>410,746</b>         | <b>4,217</b>            | <b>-204</b>  | <b>678</b>  | <b>16</b>  | <b>6,678</b>                | <b>7,741</b>           | <b>16,887</b>   | <b>627</b>   | <b>9,358</b>  | <b>796,861</b>    |

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 5<sup>th</sup> 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           |                      |                       |  |  |                         |   |                     |  |                        |                                       | TOTAL        |                                       |                         |
|---|------------------|----------------------|-----------------------|--|--|-------------------------|---|---------------------|--|------------------------|---------------------------------------|--------------|---------------------------------------|-------------------------|
|   | 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 |
| 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   |                  |                      |                       |  |  |                         |   |                     |  |                        |                                       | 5,481        |                                       | 5,830                   |
| 110. Technical reserves   |                  |                      |                       |  |  |                         |   |                     |  |                        |                                       |              | 82,926                                | 82,926                  |
| <b>TOTAL</b>  | <b>99,990</b>    | <b>323,443</b>       | <b>94,239</b>         | <b>41,285</b>                              | <b>68,169</b>  | <b>7,489</b>            | <b>478</b>  | <b>2,509</b>        | <b>264</b>   | <b>12,574</b>          | <b>1,410</b>                          | <b>5,481</b> | <b>82,926</b>                         |                         |

## Shareholders' equity

(millions of euro)

| IFRS 9  | IAS 39                  |                        |                         |               |                            |                    |                          |                               |                        |     | TOTAL |                |        |
|---|-------------------------|------------------------|-------------------------|---------------|----------------------------|--------------------|--------------------------|-------------------------------|------------------------|-----|-------|----------------|--------|
|   | 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) |     |       |                |        |
| 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  |
| <b>TOTAL</b>  | <b>-789</b>             | <b>-</b>               | <b>4,103</b>            | <b>10,921</b> | <b>26,006</b>              | <b>8,732</b>       | <b>-84</b>               | <b>399</b>                    | <b>7,316</b>           |     |       |                |        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>         |                         |                        |                         |               |                            |                    |                          |                               |                        |     |       | <b>796,861</b> |        |

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 5<sup>th</sup> 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<br>(a)  | Effect of transition<br>to IFRS 9 (b)<br>Classification<br>and<br>Impairment<br>measurement |               | 01.01.2018<br>(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                         |
| <b>TOTAL ASSETS</b> |  | <b>796,861</b>     | <b>195</b>  | <b>-2,959</b> | <b>794,097</b>                |

#### 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

| Captions                 |   | 31.12.2017     | Effect of            | (millions of euro) |
|--------------------------|---|----------------|----------------------|--------------------|
|                          |   | (a)            | transition to IFRS 9 | 01.01.2018         |
|                          |   |                | (b)                  | (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              |
| <b>TOTAL LIABILITIES</b> |   | <b>796,861</b> | <b>-2,764</b>        | <b>794,097</b>     |

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)                   |
|--|--------------------------------------|
|  | <b>Effect of transition to IFRS9</b> |
| <b>IAS 39 Shareholders' Equity - 31.12.2017</b>  | <b>56,604</b>                        |
| of which: Group  | 56,205                               |
| of which: minority interests   | 399                                  |
| <b>CLASSIFICATION AND MEASUREMENT</b>  |                                      |
| <b>Adjustment to carrying amount of financial assets resulting from change in business model</b>   | <b>262</b>                           |
| <b>Fair value adjustment of financial assets failing the SPPI test</b>   | <b>-20</b>                           |
| <b>Reclassification from valuation reserves to retained earnings reserves:</b>   | <b>-</b>                             |
| 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                                  |
| <b>IMPAIRMENT</b>  |                                      |
| <b>Application of the new (ECL) impairment model to loans measured at amortised cost:</b>  | <b>-4,042</b>                        |
| performing (Stage 1 and 2)   | -1,136                               |
| non-performing (Stage 3)   | -2,906                               |
| <b>Application of the new (ECL) impairment model to guarantees given and loan commitments (irrevocable and revocable)</b>                  | <b>-186</b>                          |
| <b>Application of the new (ECL) impairment model to debt securities measured at amortised cost</b>   | <b>-95</b>                           |
| performing (Stage 1 and 2)   | -95                                  |
| non-performing (Stage 3)   | -                                    |
| <b>Reclassification from valuation reserves to retained earnings reserves:</b>   | <b>-</b>                             |
| 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                                  |
| <b>Tax effect</b>  | <b>1,131</b>                         |
| <b>Allocation of IFRS 9 transition effects to minority interests</b>   | <b>-13</b>                           |
| <b>Total IFRS 9 transition effects at 1.1.2018</b>   | <b>-2,937</b>                        |
| <b>IFRS 9 Shareholders' Equity - 1.1.2018</b>  | <b>53,654</b>                        |
| 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               |
| <b>Common Equity Tier 1 Capital (CET1)</b>                              | <b>38,051</b>   | <b>36,970</b>   | <b>-3,137</b>             | <b>33,833</b>         | <b>3,179</b>              | <b>37,012</b>         |
| Additional Tier 1 Capital (AT1)   | 5,414   | 5,436   | -                         | 5,436                 | -                         | 5,436                 |
| <b>Tier 1 Capital (T1 = CET1 + AT1)</b>                                 | <b>43,465</b>   | <b>42,406</b>   | <b>-3,137</b>             | <b>39,269</b>         | <b>3,179</b>              | <b>42,448</b>         |
| 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                 |
| <b>Tier 2 Instruments (T2)</b>  | <b>7,908</b>  | <b>8,211</b>  | <b>679</b>                | <b>8,890</b>          | <b>-855</b>               | <b>8,035</b>          |
| <b>Total Capital (TC = T1 + T2)</b>                                     | <b>51,373</b>   | <b>50,617</b>   | <b>-2,458</b>             | <b>48,159</b>         | <b>2,324</b>              | <b>50,483</b>         |
| <b>Risk-Weighted Assets (RWA)</b>                                       | <b>286,825</b>  | <b>285,893</b>  | <b>-1,918</b>             | <b>283,975</b>        | <b>1,896</b>              | <b>285,871</b>        |
| <b>Common Equity Tier 1 Capital / Risk-Weighted Assets (CET1 ratio)</b> | <b>13.27%</b>   | <b>12.93%</b>   |                           | <b>11.91%</b>         |                           | <b>12.95%</b>         |

## Consolidated financial statements - Consolidated balance sheet

|                     |  | (millions of euro) |
|---------------------|--|--------------------|
| <b>Assets</b>       |  | <b>01.01.2018</b>  |
| 10.                 | Cash and cash equivalents  | 9,353              |
| 20.                 | Financial assets measured at fair value through profit or loss                                   | 42,559             |
|                     | <i>a) financial assets held for trading</i>  | 39,651             |
|                     | <i>b) financial assets designated at fair value</i>  | 214                |
|                     | <i>c) other financial assets mandatorily measured at fair value</i>                              | 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            |
|                     | <i>a) due from banks</i>   | 72,108             |
|                     | <i>b) loans to customers</i>   | 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              |
|                     | <i>of which:</i>   |                    |
|                     | - <i>goodwill</i>  | 4,056              |
| 110.                | Tax assets   | 18,018             |
|                     | <i>a) current</i>  | 4,802              |
|                     | <i>b) deferred</i>   | 13,216             |
| 120.                | Non-current assets held for sale and discontinued operations                                     | 627                |
| 130.                | Other assets   | 9,358              |
| <b>Total assets</b> |  | <b>794,097</b>     |

(millions of euro)

**Liabilities and Shareholders' Equity****01.01.2018**

|      |   |         |
|------|---|---------|
| 10.  | Financial liabilities measured at amortised cost  | 516,360 |
|      | <i>a) due to banks</i>  | 99,989  |
|      | <i>b) due to customers</i>  | 323,386 |
|      | <i>c) securities issued</i>   | 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   |
|      | <i>a) current</i>   | 364     |
|      | <i>b) deferred</i>  | 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   |
|      | <i>a) commitments and guarantees given</i>  | 535     |
|      | <i>b) post-employment benefits</i>  | 1,104   |
|      | <i>c) other allowances for risks and charges</i>  | 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<br>(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         |
| <b>TOTAL</b>                                   | <b>405,134</b> | <b>57,217</b> | <b>51,943</b> | <b>514,294</b> | <b>-953</b>       | <b>-1,659</b> | <b>-29,487</b> | <b>-32,099</b> | <b>404,181</b> | <b>55,558</b> | <b>22,456</b> | <b>482,195</b> |

|                 | 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         |
| 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         |
| <b>TOTAL</b>    | <b>459,349</b>     | <b>52,077</b>  | <b>511,426</b> | <b>-1,605</b>     | <b>-26,613</b> | <b>-28,218</b> | <b>457,744</b> | <b>25,464</b>  | <b>483,208</b> |

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 forbore 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) |
|--|---|--------------------|
|  |   | <b>1.1.2018</b>    |
| <b>Assets</b>  |   |                    |
| <b>Due from banks</b>  |   | <b>71,576</b>      |
| 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                         | -                  |
| <b>Loans to customers</b>  |   | <b>399,463</b>     |
| <b>Loans to customers measured at amortised cost</b>   |   | <b>399,076</b>     |
| 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              |
| <b>Loans to customers designated at fair value through other comprehensive income and through profit or loss</b> |   | <b>387</b>         |
| 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                     | -                  |
| <b>Financial assets measured at amortised cost which do not constitute loans</b>                                 |   | <b>11,557</b>      |
| 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             |
| <b>Financial assets designated at fair value through profit or loss</b>  |   | <b>42,158</b>      |
| 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              |
| <b>Financial assets designated at fair value through other comprehensive income</b>                              |   | <b>59,860</b>      |
| Caption 30 (partial)   | Financial assets measured at fair value through other comprehensive income  | 59,860             |
| <b>Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39</b>              |   | <b>152,582</b>     |
| Caption 35   | Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39                        | 152,582            |
| <b>Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39</b>          |   | <b>423</b>         |
| Caption 45   | Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39                    | 423                |
| <b>Investments in associates and companies subject to joint control</b>  |   | <b>678</b>         |
| Caption 70   | Investments in associates and companies subject to joint control  | 678                |
| <b>Property, equipment and intangible assets</b>   |   | <b>14,419</b>      |
| Caption 90   | Property and equipment  | 6,678              |
| Caption 100  | Intangible assets   | 7,741              |
| <b>Tax assets</b>  |   | <b>18,018</b>      |
| Caption 110  | Tax assets  | 18,018             |
| <b>Non-current assets held for sale and discontinued operations</b>  |   | <b>627</b>         |
| Caption 120  | Non-current assets held for sale and discontinued operations  | 627                |
| <b>Other assets</b>  |   | <b>22,736</b>      |
| 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              |
| <b>Total assets</b>  |   | <b>794,097</b>     |

|  |   | (millions of euro) |
|--|---|--------------------|
| <b>Liabilities</b>   |   | <b>1.1.2018</b>    |
| <b>Due to banks at amortised cost</b>  |   | 99,989             |
| Caption 10 a)  | Financial liabilities measured at amortised cost - Due to banks                                       | 99,989             |
| <b>Due to customers at amortised cost and securities issued</b>  |   | 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             |
| <b>Financial liabilities held for trading</b>  |   | 41,456             |
| Caption 20   | Financial liabilities held for trading  | 41,456             |
| <b>Financial liabilities designated at fair value</b>  |   | 3                  |
| Caption 30   | Financial liabilities designated at fair value  | 3                  |
| <b>Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39</b> |   | 1,312              |
| Caption 15   | Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 | 1,312              |
| <b>Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39</b>     |   | 68,233             |
| Caption 35   | Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39     | 68,233             |
| <b>Tax liabilities</b>   |   | 2,509              |
| Caption 60   | Tax liabilities   | 2,509              |
| <b>Liabilities associated with non-current assets held for sale and discontinued operations</b>              |   | 264                |
| Caption 70   | Liabilities associated with non-current assets held for sale and discontinued operations              | 264                |
| <b>Other liabilities</b>   |   | 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             |
| <b>Technical reserves</b>  |   | 82,926             |
| Caption 110  | Technical reserves  | 82,926             |
| <b>Allowances for risks and charges</b>  |   | 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              |
| <i>of which allowances for commitments and financial guarantees given</i>                                    |   |                    |
| Caption 100 a)   | Allowances for risks and charges - Loan commitments and guarantees given                              | 535                |
| <b>Share capital</b>   |   | 8,732              |
| Caption 170  | Share capital   | 8,732              |
| <b>Reserves</b>  |   | 33,578             |
| Caption 130  | Redeemable shares   | -                  |
| Caption 150  | Reserves  | 7,656              |
| Caption 160  | Share premium reserve   | 26,006             |
| - Caption 180  | Treasury shares   | -84                |
| <b>Valuation reserves</b>  |   | -878               |
| Caption 120  | Valuation reserves  | -878               |
| <b>Valuation reserves pertaining to insurance companies</b>  |   | 417                |
| Caption 125  | Valuation reserves pertaining to insurance companies  | 417                |
| <b>Equity instruments</b>  |   | 4,103              |
| Caption 140  | Equity instruments  | 4,103              |
| <b>Minority interests</b>  |   | 386                |
| Caption 190  | Minority interests  | 386                |
| <b>Net income (loss)</b>   |   | 7,316              |
| Caption 200  | Net income (loss) (+/-)   | 7,316              |
| <b>Total liabilities and shareholders' equity</b>  |   | <b>794,097</b>     |

## Reclassified Consolidated Balance Sheet

(millions of euro)

| <b>Assets</b>  | <b>01.01.2018</b> |
|--|-------------------|
| Due from banks   | 71,576            |
| Loans to customers   | 399,463           |
| <i>Loans to customers measured at amortised cost</i>   | 399,076           |
| <i>Loans to customers designated at fair value through other comprehensive income and through profit or loss</i> | 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            |
| <b>Total Assets</b>  | <b>794,097</b>    |
| <b>Liabilities</b>   | <b>01.01.2018</b> |
| 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             |
| <i>of which allowances for commitments and financial guarantees given</i>  | 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             |
| <b>Total liabilities and shareholders' equity</b>  | <b>794,097</b>    |

## 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        |
| <b>Non-Performing Loans</b>   | <b>52,073</b>  | <b>-26,609</b>    | <b>25,464</b>  | <b>51.1</b> | <b>-16</b>                        | <b>-14</b>                    | <b>-2,906</b>                               |                 | <b>52,057</b>  | <b>-29,529</b>    | <b>22,528</b>  | <b>56.7</b> |
| <i>Non-Performing Loans in Stage 3 (subject to impairment)</i>              | XXXXXX         | XXXXXX            | XXXXXX         |             |                                   |                               |   |                 | 51,939         | -29,483           | 22,456         | 56.8        |
| <i>Non-performing loans designated at fair value through profit or loss</i> | XXXXXX         | XXXXXX            | XXXXXX         |             |                                   |                               |   |                 | 118            | -46               | 72             | 39.0        |
| <b>Performing loans</b>   | <b>373,457</b> | <b>-1,299</b>     | <b>372,158</b> | <b>0.4</b>  | <b>39</b>                         | <b>46</b>                     | <b>-3</b>                                   | <b>-1,164</b>   | <b>373,493</b> | <b>-2,417</b>     | <b>371,076</b> | <b>0.6</b>  |
| Stage 2   | XXXXXX         | XXXXXX            | XXXXXX         |             |                                   |                               |   | -1,039          | 51,684         | -1,573            | 50,111         | 3.0         |
| Stage 1   | XXXXXX         | XXXXXX            | XXXXXX         |             |                                   |                               |   | -125            | 321,494        | -844              | 320,650        | 0.3         |
| <i>Performing loans designated at fair value through profit or loss</i>     | XXXXXX         | XXXXXX            | XXXXXX         |             |                                   |                               |   |                 | 315            |                   | 315            | n.a.        |
| <b>Performing loans represented by securities</b>                           | <b>13,313</b>  | <b>-189</b>       | <b>13,124</b>  | <b>1.4</b>  | <b>-7,385 (**)</b>                | <b>223</b>                    | <b>-15</b>                                  | <b>-88</b>      | <b>5,913</b>   | <b>-54</b>        | <b>5,859</b>   | <b>0.9</b>  |
| Stage 2   | XXXXXX         | XXXXXX            | XXXXXX         |             |                                   |                               |   |                 | 662            | -23               | 639            | 3.5         |
| Stage 1   | XXXXXX         | XXXXXX            | XXXXXX         |             |                                   |                               |   |                 | 5,251          | -31               | 5,220          | 0.6         |
| <b>Loans held for trading</b>   | <b>XXXXXX</b>  | <b>XXXXXX</b>     | <b>XXXXXX</b>  |             |                                   |                               |   |                 |                |                   |                |             |
| <b>Total loans to customers</b>   | <b>438,843</b> | <b>-28,097</b>    | <b>410,746</b> |             | <b>-7,362</b>                     | <b>255</b>                    | <b>-18</b>                                  | <b>-4,158</b>   | <b>431,463</b> | <b>-32,000</b>    | <b>399,463</b> |             |

(\*) 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.



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# Executive summary

## Intesa Sanpaolo in the first three months of 2018

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### Consolidated results

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The results for the first quarter of 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. As explained in the previous chapter, the adoption of IFRS 9 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 the first quarter of 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 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 with the results for the first quarter of 2018 – the figures for the three quarters of 2017 have also been reconstructed, based on operational information, 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 the first quarter of 2018 with net income of 1,252 million euro, up 39% on 901 million euro for the first quarter of the previous year. The positive performance with respect to the “Aggregate” like-for-like figures was due to the significant increase in Operating income, largely attributable to the Profits (losses) on financial assets and liabilities designated at fair value, in addition to the positive contribution of net fee and commission income. Operating costs were down on the like-for-like figure. Net adjustments to loans were lower, while the reduced impact of levies and charges for the banking system also had a positive effect.

The detailed breakdown of the components of operating income shows net interest income of 1,855 million euro for the first quarter, slightly down on the aggregate figure (-1.3%), but up on the figure for the first three months of 2017 (+2.8%), due to higher interest income on customer dealing.

The contribution of net fee and commission income (2,008 million euro), which represents around 42% of operating income, was up by 4.5% on the aggregate figure and 8.3% on the figure for the first three months of 2017, due to the positive performance of the commercial banking segment (+10%) and the management, dealing and financial consultancy segment (+8.5%).

Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, showed an increase (+3.9% to 294 million euro), due to a higher contribution from the technical margin.

The Profits (losses) on financial assets and liabilities designated at fair value, which include the profits (losses) on trading and the fair value adjustments in hedge accounting, reached 621 million euro, a significant increase (+412 million euro on the aggregate figure and +395 million euro on the first quarter of 2017), partly due to the fair value measurement of the interest held in NTV - Nuovo Trasporto Viaggiatori (264 million euro) in relation to its subsequent sale.

Other operating income and expenses – which include profits on investments carried at equity and other income and expenses from continuing operations – were down (28 million euro compared to 56 million euro for the aggregate figure compared to 40 million euro in the first quarter of 2017) due to the lower contribution from companies consolidated at equity.

As a result of the above performance, operating income for the first quarter of 2018 amounted to 4,806 million euro, up 10.5% on the aggregate figure and 14.2% on the figure for the first three months of 2017.

Operating costs (2,298 million euro) were down on the Aggregate figure (-1.3%), both for personnel expenses (-1.2%) and for other administrative expenses (-2.2%), but were up on the figure for the first quarter of 2017 (around +12%) in both components (+11.7% and +12.9% respectively), due to the operations of the Aggregate Set.

Amortisation and depreciation increased on both the Aggregate figure (+1.5%) and the figure for the first three months of 2017 (+9.7%), due to the amortisation of intangible assets in relation to investments made.

The cost/income ratio for the period came to 47.8%, an improvement on 53.5% for the Aggregate figure and 48.8% for the first quarter of 2017.

As a result of the revenue and cost performance, the operating margin came to 2,508 million euro, up 24% on the Aggregate figure and 16.4% on the figure for the first three months of the previous year.

Net adjustments to loans were down overall to 483 million euro (around -30.5%).

Other net provisions and net impairment losses on other assets increased overall compared to the first three months of 2017 to 51 million euro (Aggregate figure of 8 million euro and 3 million euro for the first quarter of 2017), mainly due to the provisions made for legal and tax disputes.

The amount of other income (expenses), which includes realised profits (losses) on investments and income and expenses not strictly linked to operations, was low (2 million euro) in comparison with the figure of 196 million euro for the first quarter of 2017, which resulted from the fair value measurement of the investment in Bank of Qingdao due to the reclassification of the equity investment, which was no longer included under entities subject to significant influence.

The amount of the losses from discontinued operations was also not significant both in the first quarter of 2018 and in the same period of 2017.

As a result of the changes described above, gross income amounted to 1,977 million euro (around +31% on the Aggregate figure and around +20% on the first quarter of 2017).

Income taxes came to 544 million euro, with a tax rate of 27.5%. Charges for integration and exit incentives were recorded for 19 million euro, as well as effects of purchase price allocation for 44 million euro.

Although they were lower than in the first quarter of the previous year, the charges for maintaining the stability of the banking system still had a significant impact, totalling 117 million euro, net of tax (282 million euro in the first quarter of 2017). These consisted almost entirely of estimated charges for the full year 2018 for ordinary contributions to the resolution funds (114 million euro net of tax, corresponding to 166 million euro before tax), plus the ordinary contributions of some international subsidiaries to the deposit guarantee schemes (3 million euro after tax, corresponding to 4 million euro before tax).

After recording minority interests of 1 million euro, the income statement for the first quarter of 2018 closed, as stated, with net income of 1,252 million euro, compared to 901 million euro in the first quarter of 2017.

With regard to the balance sheet aggregates, loans to customers as at 31 March 2018 amounted to 401,033 million euro and were up (+0.4%) on the like-for-like figure as at 1 January 2018 (which includes the effects of the first-time adoption of IFRS 9), driven by the positive performance of commercial banking loans (+0.6%).

On the funding side, direct deposits from banking business amounted to 424,528 million euro and were also up compared to 1 January 2018 (+0.2%), due to the increase in current accounts and deposits (+0.6%) and in outstanding repurchase agreements (+18.5%). Direct deposits from insurance business, which include technical reserves, were also up slightly, to 153,056 million euro, with an increase of 0.4% from the beginning of the year, essentially attributable to the higher value of financial liabilities (+1.2%), with technical reserves – which represent the amounts owed to customers subscribing to traditional policies – showing a slight fall (-0.3%). The new business of Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to 5.5 billion euro for the year.

As at 31 March 2018, the Group's indirect customer deposits were close to 517 billion euro, down slightly (-0.4%) from the beginning of the year. With assets under management essentially stable (+0.1%), this performance was driven by the decrease in assets under administration (-1.3%), attributable to the securities and third-party products held in the customer portfolios.

For an illustration of the income statement results and the balance sheet aggregates broken down by Group business segment, please refer to the specific chapter.

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## Highlights

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On 5 February 2018, the Board of Directors of Intesa Sanpaolo approved the merger by incorporation of Banca Nuova into Intesa Sanpaolo.

As described in detail in the 2017 Annual Report, to which readers may refer, 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.

As regards the stake in the Bank of Italy's share capital, in the first quarter of 2018 further stakes equal to a total of approximately 1.51% of the capital of the Bank of Italy were sold – at nominal value, coinciding with the carrying value – for a price of approximately 113 million euro. Following the completion of the transactions, the Group's stake in the Bank of Italy's share capital decreased to 25.53%.

With regard to events after the end of the quarter, 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 Economy and Finance renouncing the related government guarantee. The renunciation of the guarantee will be valid only and exclusively in respect of the bonds held by the Bank (equal to around 9.3 billion euro), while it will 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.

Also on 6 April 2018 – following the authorisation issued by the European Central Bank – the plan for the merger by incorporation of Cassa dei Risparmi di Forlì e della Romagna into Intesa Sanpaolo was filed with the Torino Company Register.

On 10 April 2018, after having obtained all the necessary authorisations, the agreement was signed for the acquisition 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 will permit 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 17 April 2018, Intesa Sanpaolo and Intrum signed a binding agreement to form a strategic partnership in respect of non-performing loans (NPLs), involving two transactions:

- 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, in respect of whom discussions will be held with the Trade Unions also with the aim of enabling the partnership to further enhance the human resources concerned;
- 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 in line with the carrying value already determined for the portion of the Group's saleable bad loans, taking into account the sale scenario. The capital of the securitisation vehicle will be structured as follows, in order to obtain the full accounting and regulatory derecognition of the portfolio at the closing date (expected in November 2018):
  - a Senior Tranche equivalent to 60% of the portfolio price, to be underwritten by a pool of leading banks;
  - Junior and Mezzanine Tranches equivalent to the remaining 40% of the portfolio price, to be underwritten by a vehicle (51%) – owned by Intrum and one or more co-investors, but that will act as a single investor for governance purposes – and by Intesa Sanpaolo (49%).

These transactions, which are subject to authorisations being received from the competent authorities, envisage a valuation of around 0.5 billion euro for Intesa Sanpaolo's servicing platform and around 3.1 billion euro for the bad-loan portfolio to be securitised.

The agreement underpins 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% (to 9.6% from 11.9%, based on 2017 year-end figures);
- proven ability of Intesa Sanpaolo to dispose of a sizeable amount of NPLs at no extraordinary cost to shareholders;
- a net capital gain of around 400 million euro in the consolidated income statement;
- 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 26 April 2018, the sale was completed 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 envisages the sale of 100% of NTV for an amount of 1,940 million euro, and also provides for the current shareholders of NTV to receive the dividend of 30 million euro, on the 2017 results, approved by the shareholders' meeting on 19 January 2018. Lastly, GIP will incur the expenses relating to the interruption of the listing on the Borsa Italiana stock market up to a maximum of 10 million euro. As a result, the total price for the acquisition of the entire share capital is 1,980 million euro. Intesa Sanpaolo held an equity interest of 18.81% in the share capital of NTV, classified in the Fair Value Through Profit or Loss (FVTPL) category, upon the introduction of IFRS 9. For the Interim Report as at 31 March 2018, the equity interest was measured based on the sale price agreed, with the difference compared to the previous carrying amount recognised through profit or loss. Taking into account the estimate of the cost of the transaction and the related tax effects, a net positive amount of 246 million euro was recognised through profit or loss for the first quarter of 2018.

On 27 April, 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:

- the remuneration policies for 2018, as described in the Report on Remuneration;
- the 2018-2021 POP (Performance Call Option) Long-Term Incentive Plan for Top Management, Risk Takers and Key Managers in Italy;
- 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 that are beneficiaries of the POP Plan).

In the extraordinary session, the Shareholders' Meeting 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:
  - o the approval of the mandatory conversion, along with the relative amendments to the Articles of Association, pursuant to Article 146, par. 1 (b) of Legislative Decree no. 58 of 1998 by the special meeting of the savings shareholders;
  - o 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
  - o 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 granted powers, pursuant to Article 2443 of the Italian Civil Code, to the Board of Directors of Intesa Sanpaolo 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, to service the implementation of the 2018-2021 LECOIP 2.0 Long-Term Investment Plan based on financial instruments;
- 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 determination of the maximum number of ordinary shares to be issued shall depend on the issue price, which shall be determined by the Board of Directors. Assuming all employees adhere to the Professional Plan and the Manager Plan, the two share capital increases would have a dilutive effect of 3.5% on the ordinary share capital of Intesa Sanpaolo on the assumption of a share price of 3 euro, and 4.4% on the assumption that the maximum amount of shares per the Shareholders' Meeting resolution is issued in a stress scenario at a price of 2.4 euro. Assuming, in addition, that all savings shares are converted into ordinary shares, the dilutive effect would be equal to around 4.1% of the total share capital post-conversion of the savings shares.

As regards the amendments to the Articles of Association approved at the Shareholders' Meeting, the European Central Bank has already released the verification, required under Article 56 of Legislative Decree 385/1993, that is needed to start procedures for entry in the Company Register.

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. Having also received the authorisation from the European Central Bank for the amendments to the articles of association, for the inclusion of the ordinary shares issued under the conversion within the CET 1 and for the purchase, where necessary, of own shares of the Company at the end of the payment procedure for the withdrawing shareholders, the transaction remains subject to the condition that the amount to be paid to those who have exercised the right of withdrawal cannot exceed 400 million euro.

On 4 May 2018, following the authorisations released by the European Central Bank, the plans for the mergers by incorporation of Cassa di Risparmio del Friuli Venezia Giulia, Banco di Napoli and Cassa di Risparmio del Veneto into Intesa Sanpaolo were filed with the Torino Company Register.

**Consolidated  
financial statements**

## Consolidated balance sheet

| Assets              |  | 31.03.2018     | 31.12.2017     | (millions of euro) |             |
|---------------------|--|----------------|----------------|--------------------|-------------|
|                     |  |                |                | CHANGES            |             |
|                     |  |                |                | amount             | %           |
| 10.                 | Cash and cash equivalents  | 7,507          | 9,353          | -1,846             | -19.7       |
| 20.                 | Financial assets measured at fair value through profit or loss                                   | 42,689         | 39,582         | 3,107              | 7.8         |
|                     | <i>a) financial assets held for trading</i>  | 39,680         | 39,028         | 652                | 1.7         |
|                     | <i>b) financial assets designated at fair value</i>  | 213            | 554            | -341               | -61.6       |
|                     | <i>c) other financial assets mandatorily measured at fair value</i>                              | 2,796          | -              | 2,796              |             |
| 30.                 | Financial assets measured at fair value through other comprehensive income                       | 60,451         | 64,968         | -4,517             | -7.0        |
| 35.                 | Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39    | 153,550        | 152,582        | 968                | 0.6         |
| 40.                 | Financial assets measured at amortised cost  | 482,542        | 483,959        | -1,417             | -0.3        |
|                     | <i>a) due from banks</i>   | 70,971         | 72,057         | -1,086             | -1.5        |
|                     | <i>b) loans to customers</i>   | 411,571        | 411,902        | -331               | -0.1        |
| 45.                 | Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 | 476            | 423            | 53                 | 12.5        |
| 50.                 | Hedging derivatives  | 3,582          | 4,213          | -631               | -15.0       |
| 60.                 | Fair value change of financial assets in hedged portfolios (+/-)                                 | -246           | -204           | 42                 | 20.6        |
| 70.                 | Investments in associates and companies subject to joint control                                 | 654            | 678            | -24                | -3.5        |
| 80.                 | Technical insurance reserves reassured with third parties  | 16             | 16             | -                  | -           |
| 90.                 | Property and equipment   | 6,695          | 6,678          | 17                 | 0.3         |
| 100.                | Intangible assets  | 7,672          | 7,741          | -69                | -0.9        |
|                     | <i>of which:</i>   | -              | -              | -                  | -           |
|                     | <i>- goodwill</i>  | 4,056          | 4,056          | -                  | -           |
| 110.                | Tax assets   | 17,174         | 16,887         | 287                | 1.7         |
|                     | <i>a) current</i>  | 4,105          | 3,688          | 417                | 11.3        |
|                     | <i>b) deferred</i>   | 13,069         | 13,199         | -130               | -1.0        |
| 120.                | Non-current assets held for sale and discontinued operations                                     | 751            | 627            | 124                | 19.8        |
| 130.                | Other assets   | 9,215          | 9,358          | -143               | -1.5        |
|                     |  | -              | -              | -                  |             |
| <b>Total assets</b> |  | <b>792,728</b> | <b>796,861</b> | <b>-4,133</b>      | <b>-0.5</b> |

## Consolidated balance sheet

| Liabilities and Shareholders' Equity              |   | 31.03.2018     | 31.12.2017     | (millions of euro) |             |
|---|---|----------------|----------------|--------------------|-------------|
|   |   |                |                | CHANGES            |             |
|   |   |                |                | amount             | %           |
| 10.   | Financial liabilities measured at amortised cost  | 514,327        | 516,360        | -2,033             | -0.4        |
|   | <i>a) due to banks</i>  | 96,905         | 99,989         | -3,084             | -3.1        |
|   | <i>b) due to customers</i>  | 326,724        | 323,386        | 3,338              | 1.0         |
|   | <i>c) securities issued</i>   | 90,698         | 92,985         | -2,287             | -2.5        |
| 15.   | Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 | 1,394          | 1,312          | 82                 | 6.3         |
| 20.   | Financial liabilities held for trading  | 39,751         | 41,218         | -1,467             | -3.6        |
| 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     | 69,058         | 68,233         | 825                | 1.2         |
| 40.   | Hedging derivatives   | 7,030          | 7,489          | -459               | -6.1        |
| 50.   | Fair value change of financial liabilities in hedged portfolios (+/-)                                 | 453            | 478            | -25                | -5.2        |
| 60.   | Tax liabilities   | 2,548          | 2,509          | 39                 | 1.6         |
|   | <i>a) current</i>   | 361            | 364            | -3                 | -0.8        |
|   | <i>b) deferred</i>  | 2,187          | 2,145          | 42                 | 2.0         |
| 70.   | Liabilities associated with non-current assets held for sale and discontinued operations              | 266            | 264            | 2                  | 0.8         |
| 80.   | Other liabilities   | 13,107         | 12,247         | 860                | 7.0         |
| 90.   | Employee termination indemnities  | 1,386          | 1,410          | -24                | -1.7        |
| 100.  | Allowances for risks and charges  | 5,854          | 5,808          | 46                 | 0.8         |
|   | <i>a) commitments and guarantees given</i>  | 503            | 327            | 176                | 53.8        |
|   | <i>b) post-employment benefits</i>  | 1,116          | 1,104          | 12                 | 1.1         |
|   | <i>c) other allowances for risks and charges</i>  | 4,235          | 4,377          | -142               | -3.2        |
| 110.  | Technical reserves  | 82,656         | 82,926         | -270               | -0.3        |
| 120.  | Valuation reserves  | -760           | -1,206         | -446               | -37.0       |
| 125.  | Valuation reserves pertaining to insurance companies  | 429            | 417            | 12                 | 2.9         |
| 130.  | Redeemable shares   | -              | -              | -                  | -           |
| 140.  | Equity instruments  | 4,103          | 4,103          | -                  | -           |
| 150.  | Reserves  | 14,874         | 10,921         | 3,953              | 36.2        |
| 160.  | Share premium reserve   | 26,006         | 26,006         | -                  | -           |
| 170.  | Share capital   | 8,732          | 8,732          | -                  | -           |
| 180.  | Treasury shares (-)   | -84            | -84            | -                  | -           |
| 190.  | Minority interests (+/-)  | 342            | 399            | -57                | -14.3       |
| 200.  | Net income (loss) (+/-)   | 1,252          | 7,316          | -6,064             | -82.9       |
| <b>Total liabilities and shareholders' equity</b> |   | <b>792,728</b> | <b>796,861</b> | <b>-4,133</b>      | <b>-0.5</b> |

## Consolidated income statement

|             |   | (millions of euro) |               |              |             |
|-------------|---|--------------------|---------------|--------------|-------------|
|             |   | 31.03.2018         | 31.03.2017    | CHANGES      |             |
|             |   |                    |               | amount       | %           |
| 10.         | Interest and similar income   | 2,588              | 2,613         | -25          | -1.0        |
|             | <i>of which: interest income calculated using the effective interest rate method</i>                      | 2,526              | 2,576         | -50          | -1.9        |
| 20.         | Interest and similar expense  | -733               | -946          | -213         | -22.5       |
| <b>30.</b>  | <b>Interest margin</b>  | <b>1,855</b>       | <b>1,667</b>  | <b>188</b>   | <b>11.3</b> |
| 40.         | Fee and commission income   | 2,470              | 2,216         | 254          | 11.5        |
| 50.         | Fee and commission expense  | -553               | -480          | 73           | 15.2        |
| <b>60.</b>  | <b>Net fee and commission income</b>  | <b>1,917</b>       | <b>1,736</b>  | <b>181</b>   | <b>10.4</b> |
| 70.         | Dividend and similar income   | 11                 | 7             | 4            | 57.1        |
| 80.         | Profits (Losses) on trading   | 139                | 139           | -            | -           |
| 90.         | Fair value adjustments in hedge accounting  | -12                | -4            | 8            |             |
| 100.        | Profits (Losses) on disposal or repurchase of:  | 231                | 76            | 155          |             |
|             | <i>a) financial assets measured at amortised cost</i>   | 3                  | 8             | -5           | -62.5       |
|             | <i>b) financial assets measured at fair value through other comprehensive income</i>                      | 257                | 85            | 172          |             |
|             | <i>c) financial liabilities</i>   | -29                | -17           | 12           | 70.6        |
| 110.        | Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss  | 253                | 2             | 251          |             |
|             | <i>a) financial assets and liabilities designated at fair value</i>                                       | -2                 | 2             | -4           |             |
|             | <i>b) other financial assets mandatorily measured at fair value</i>                                       | 255                | -             | 255          |             |
| 115.        | Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39 | 828                | 923           | -95          | -10.3       |
| <b>120.</b> | <b>Net interest and other banking income</b>  | <b>5,222</b>       | <b>4,546</b>  | <b>676</b>   | <b>14.9</b> |
| 130.        | Net losses/recoveries for credit risks associated with:   | -527               | -767          | -240         | -31.3       |
|             | <i>a) financial assets measured at amortised cost</i>   | -513               | -504          | 9            | 1.8         |
|             | <i>b) financial assets measured at fair value through other comprehensive income</i>                      | -14                | -263          | -249         | -94.7       |
| 135.        | Net losses/recoveries pertaining to insurance companies pursuant to IAS39                                 | -1                 | -1            | -            | -           |
| 140.        | Profits (Losses) on changes in contracts without derecognition  | -1                 | -             | 1            |             |
| <b>150.</b> | <b>Net income from banking activities</b>   | <b>4,693</b>       | <b>3,778</b>  | <b>915</b>   | <b>24.2</b> |
| 160.        | Net insurance premiums  | 1,799              | 1,799         | -            | -           |
| 170.        | Other net insurance income (expense)  | -2,246             | -2,346        | -100         | -4.3        |
| <b>180.</b> | <b>Net income from banking and insurance activities</b>   | <b>4,246</b>       | <b>3,231</b>  | <b>1,015</b> | <b>31.4</b> |
| 190.        | Administrative expenses:  | -2,476             | -2,222        | 254          | 11.4        |
|             | <i>a) personnel expenses</i>  | -1,449             | -1,302        | 147          | 11.3        |
|             | <i>b) other administrative expenses</i>   | -1,027             | -920          | 107          | 11.6        |
| 200.        | Net provisions for risks and charges  | -29                | -1            | 28           |             |
|             | <i>a) commitments and guarantees given</i>  | 36                 | -             | 36           |             |
|             | <i>b) other net provisions</i>  | -65                | -1            | 64           |             |
| 210.        | Net adjustments to / recoveries on property and equipment   | -85                | -84           | 1            | 1.2         |
| 220.        | Net adjustments to / recoveries on intangible assets  | -138               | -115          | 23           | 20.0        |
| 230.        | Other operating expenses (income)   | 207                | 178           | 29           | 16.3        |
| <b>240.</b> | <b>Operating expenses</b>   | <b>-2,521</b>      | <b>-2,244</b> | <b>277</b>   | <b>12.3</b> |
| 250.        | Profits (Losses) on investments in associates and companies subject to joint control                      | 7                  | 221           | -214         | -96.8       |
| 260.        | Valuation differences on property, equipment and intangible assets measured at fair value                 | -                  | -             | -            |             |
| 270.        | Goodwill impairment   | -                  | -             | -            |             |
| 280.        | Profits (Losses) on disposal of investments   | -                  | 2             | -2           |             |
| <b>290.</b> | <b>Income (Loss) before tax from continuing operations</b>  | <b>1,732</b>       | <b>1,210</b>  | <b>522</b>   | <b>43.1</b> |
| 300.        | Taxes on income from continuing operations  | -480               | -303          | 177          | 58.4        |
| <b>310.</b> | <b>Income (Loss) after tax from continuing operations</b>   | <b>1,252</b>       | <b>907</b>    | <b>345</b>   | <b>38.0</b> |
| 320.        | Income (Loss) after tax from discontinued operations  | 1                  | -             | 1            |             |
| <b>330.</b> | <b>Net income (loss)</b>  | <b>1,253</b>       | <b>907</b>    | <b>346</b>   | <b>38.1</b> |
| 340.        | Minority interests  | -1                 | -6            | -5           | -83.3       |
| <b>350.</b> | <b>Parent Company's net income (loss)</b>   | <b>1,252</b>       | <b>901</b>    | <b>351</b>   | <b>39.0</b> |
|             | <b>Basic EPS - Euro</b>   | <b>0.07</b>        | <b>0.05</b>   |              |             |
|             | <b>Diluted EPS - Euro</b>   | <b>0.07</b>        | <b>0.05</b>   |              |             |

## Statement of consolidated comprehensive income

|             |   | (millions of euro) |             |            |              |
|-------------|---|--------------------|-------------|------------|--------------|
|             |   | 31.03.2018         | 31.03.2017  | Changes    |              |
|             |   |                    |             | amount     | %            |
| <b>10.</b>  | <b>NET INCOME (LOSS)</b>  | <b>1,253</b>       | <b>907</b>  | <b>346</b> | <b>38.1</b>  |
|             | <b>Other comprehensive income (net of tax) that may not be reclassified to the income statement</b>           | <b>58</b>          | <b>3</b>    | <b>55</b>  |              |
| 20.         | Equity instruments designated at fair value through other comprehensive income                                | 39                 | -           | 39         |              |
| 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  | 1                  | -           | 1          |              |
| 60.         | Intangible assets   | -                  | -           | -          |              |
| 70.         | Defined benefit plans   | 14                 | 3           | 11         |              |
| 80.         | Non-current assets held for sale  | -                  | -           | -          |              |
| 90.         | Share of valuation reserves connected with investments carried at equity                                      | 4                  | -           | 4          |              |
|             | <b>Other comprehensive income (net of tax) that may be reclassified to the income statement</b>               | <b>77</b>          | <b>-308</b> | <b>385</b> |              |
| 100.        | Hedges of foreign investments   | -                  | -           | -          |              |
| 110.        | Foreign exchange differences  | 12                 | 38          | -26        | -68.4        |
| 120.        | Cash flow hedges  | 57                 | 80          | -23        | -28.8        |
| 130.        | Hedging instruments (not designated elements)   | -                  | -           | -          |              |
| 140.        | Financial assets (other than equities) measured at fair value through other comprehensive income              | 1                  | -243        | 244        |              |
| 145.        | Financial assets measured at fair value through other comprehensive income, pertaining to Insurance companies | 7                  | -104        | 111        |              |
| 150.        | Non-current assets held for sale and discontinued operations  | -                  | -           | -          |              |
| 160.        | Share of valuation reserves connected with investments carried at equity                                      | -                  | -79         | -79        |              |
| <b>170.</b> | <b>Total other comprehensive income (net of tax)</b>  | <b>135</b>         | <b>-305</b> | <b>440</b> |              |
| <b>180.</b> | <b>TOTAL COMPREHENSIVE INCOME (Captions 10 + 170)</b>   | <b>1,388</b>       | <b>602</b>  | <b>786</b> |              |
| <b>190.</b> | <b>Total consolidated comprehensive income pertaining to minority interests</b>                               | <b>3</b>           | <b>6</b>    | <b>-3</b>  | <b>-50.0</b> |
| <b>200.</b> | <b>Total consolidated comprehensive income pertaining to the Parent Company</b>                               | <b>1,385</b>       | <b>596</b>  | <b>789</b> |              |

## Changes in consolidated shareholders' equity as at 31 march 2018

|  | 31.03.2018      |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
|--|-----------------|----------------|-----------------------|-------------------|-------|--------------------|--|--------------------|-----------------|-------------------|----------------------|----------------------------|--------------------|
|  | 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 |                    |  |                    |                 |                   |                      |                            |                    |
| <b>AMOUNTS AS AT 31.12.2017</b>                          | 8,541           | 485            | 26,031                | 10,462            | 578   | -1,281             | 417  | 4,103              | -86             | 7,354             | 56,604               | 56,205                     | 399                |
| <b>Changes in opening balances (FTA IFRS9)</b>           | -               | -              | -                     | -3,278            | -     | 328                | -  | -                  | -               | -                 | -2,950               | -2,937                     | -13                |
| <b>AMOUNTS AS AT 1.1.2018</b>                            | 8,541           | 485            | 26,031                | 7,184             | 578   | -953               | 417  | 4,103              | -86             | 7,354             | 53,654               | 53,268                     | 386                |
| <b>ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)</b> |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| <b>Reserves</b>  |                 |                |                       | 7,338             |       |                    |  |                    |                 | -                 | 7,338                | -                          | -                  |
| <b>Dividends and other allocations</b>                   |                 |                |                       |                   |       |                    |  |                    |                 | -16               | -16                  | -                          | -16                |
| <b>CHANGES IN THE PERIOD</b>                             |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| <b>Changes in reserves</b>                               |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| <b>Operations on shareholders' equity</b>                |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| Issue of new shares                                      |                 |                |                       |                   |       |                    |  |                    | 2               |                   | 2                    | 2                          | -                  |
| Purchase of treasury shares                              |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| Extraordinary dividends                                  |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| Changes in equity instruments                            |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| Derivatives on treasury shares                           |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| Stock options  |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| Changes in equity investments                            |                 |                |                       |                   |       |                    |  |                    |                 |                   |                      |                            |                    |
| Other  | -23             |                | -3                    | -108              |       |                    |  |                    |                 |                   | -134                 | -103                       | -31                |
| <b>Total comprehensive income for the period</b>         |                 |                |                       |                   |       | 123                | 12   |                    |                 | 1,253             | 1,388                | 1,385                      | 3                  |
| <b>SHAREHOLDERS' EQUITY AS AT 31.03.2018</b>             | 8,518           | 485            | 26,028                | 14,414            | 578   | -830               | 429  | 4,103              | -84             | 1,253             | 54,894               | 54,552                     | 342                |
| - Group  | 8,247           | 485            | 26,006                | 14,296            | 578   | -760               | 429  | 4,103              | -84             | 1,252             | 54,552               |                            |                    |
| - minority interests                                     | 271             | -              | 22                    | 118               | -     | -70                | -  | -                  | -               | 1                 | 342                  |                            |                    |

(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 march 2017

(millions of euro)

|  | 31.03.2017      |                |                       |                   |       |                    |                    |                 |                   |                      |                            |                    |
|--|-----------------|----------------|-----------------------|-------------------|-------|--------------------|--------------------|-----------------|-------------------|----------------------|----------------------------|--------------------|
|  | 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 |                    |                    |                 |                   |                      |                            |                    |
| <b>AMOUNTS AS AT 1.1.2017</b>                            | 8,621           | 485            | 27,375                | 8,947             | 578   | -1,930             | 2,117              | -74             | 3,200             | 49,319               | 48,911                     | 408                |
| <b>ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR (a)</b> |                 |                |                       |                   |       |                    |                    |                 |                   |                      |                            |                    |
| Reserves   |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Dividends and other allocations                          |                 |                |                       | 3,200             |       |                    |                    |                 | -3,200            | -                    | -                          | -                  |
| <b>CHANGES IN THE PERIOD</b>                             |                 |                |                       |                   |       |                    |                    |                 |                   |                      |                            |                    |
| Changes in reserves                                      |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Operations on shareholders' equity                       |                 |                |                       |                   |       |                    |                    |                 |                   |                      |                            |                    |
| Issue of new shares                                      |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Purchase of treasury shares                              |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Extraordinary dividends                                  |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Changes in equity instruments                            |                 |                |                       |                   |       |                    | 1,241              |                 |                   | 1,241                | 1,241                      | -                  |
| Derivatives on treasury shares                           |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Stock options  |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Changes in equity investments                            |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Other  | -94             |                |                       | 23                |       |                    |                    |                 |                   | -71                  | -13                        | -58                |
| <b>Total comprehensive income for the period</b>         |                 |                |                       |                   |       | -305               |                    |                 | 907               | 602                  | 596                        | 6                  |
| <b>SHAREHOLDERS' EQUITY AS AT 31.03.2017</b>             | 8,527           | 485            | 27,375                | 12,170            | 578   | -2,235             | 3,358              | -74             | 907               | 51,091               | 50,735                     | 356                |
| - Group  | 8,247           | 485            | 27,349                | 12,048            | 578   | -2,159             | 3,358              | -72             | 901               | 50,735               |                            |                    |
| - minority interests                                     | 280             | -              | 26                    | 122               | -     | -76                | -                  | -2              | 6                 | 356                  |                            |                    |

(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.



## **Report on operations**



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# 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 the previous periods have not been restated in terms of the recognition and measurement of financial instruments to take account of the introduction of IFRS 9. Accordingly, the 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 the first quarter of 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 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 ("31.3.2017 Aggregate").

Breakdowns of restatements and reclassifications made in accordance with the layout established in Bank of Italy Circular 262 are provided, as already said, 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;
- Profit and 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 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, Net profit (loss) on other financial assets and liabilities designated 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 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 charges 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 Provisions 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 investments 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

|   | 31.03.2018    | 31.03.2017    | Changes          |             | 31.03.2017<br>Aggregate | (millions of euro)<br>Changes vs<br>31.03.2017<br>Aggregate |             |   |
|---|---------------|---------------|------------------|-------------|-------------------------|---|-------------|---|
|   |               |               | vs<br>31.03.2017 | amount      |                         | %   | amount      | % |
|   |               |               |                  |             |                         |   |             |   |
| Net interest income   | 1,855         | 1,805         | 50               | 2.8         | 1,880                   | -25   | -1.3        |   |
| Net fee and commission income   | 2,008         | 1,855         | 153              | 8.2         | 1,922                   | 86  | 4.5         |   |
| Income from insurance business  | 294           | 283           | 11               | 3.9         | 283                     | 11  | 3.9         |   |
| Profits (Losses) on financial assets and liabilities designated at fair value | 621           | 226           | 395              |             | 209                     | 412   |             |   |
| Other operating income (expenses)   | 28            | 40            | -12              | -30.0       | 56                      | -28   | -50.0       |   |
| <b>Operating income</b>   | <b>4,806</b>  | <b>4,209</b>  | <b>597</b>       | <b>14.2</b> | <b>4,350</b>            | <b>456</b>  | <b>10.5</b> |   |
| Personnel expenses  | -1,436        | -1,286        | 150              | 11.7        | -1,454                  | -18   | -1.2        |   |
| Other administrative expenses   | -658          | -583          | 75               | 12.9        | -673                    | -15   | -2.2        |   |
| Adjustments to property, equipment and intangible assets                      | -204          | -186          | 18               | 9.7         | -201                    | 3   | 1.5         |   |
| <b>Operating costs</b>  | <b>-2,298</b> | <b>-2,055</b> | <b>243</b>       | <b>11.8</b> | <b>-2,328</b>           | <b>-30</b>  | <b>-1.3</b> |   |
| <b>Operating margin</b>   | <b>2,508</b>  | <b>2,154</b>  | <b>354</b>       | <b>16.4</b> | <b>2,022</b>            | <b>486</b>  | <b>24.0</b> |   |
| Net adjustments to loans  | -483          | -695          | -212             | -30.5       | -696                    | -213  | -30.6       |   |
| Other net provisions and net impairment losses on other assets                | -51           | -3            | 48               |             | -8                      | 43  |             |   |
| Other income (expenses)   | 2             | 196           | -194             | -99.0       | 196                     | -194  | -99.0       |   |
| Income (Loss) from discontinued operations                                    | 1             | -             | 1                | -           | -                       | 1   | -           |   |
| <b>Gross income (loss)</b>  | <b>1,977</b>  | <b>1,652</b>  | <b>325</b>       | <b>19.7</b> | <b>1,514</b>            | <b>463</b>  | <b>30.6</b> |   |
| Taxes on income   | -544          | -445          | 99               | 22.2        | -432                    | 112   | 25.9        |   |
| Charges (net of tax) for integration and exit incentives                      | -19           | -12           | 7                | 58.3        | -12                     | 7   | 58.3        |   |
| Effect of purchase price allocation (net of tax)                              | -44           | -6            | 38               |             | -6                      | 38  |             |   |
| Levies and other charges concerning the banking industry (net of tax)         | -117          | -282          | -165             | -58.5       | -296                    | -179  | -60.5       |   |
| Impairment (net of tax) of goodwill and other intangible assets               | -             | -             | -                | -           | -                       | -   | -           |   |
| Minority interests  | -1            | -6            | -5               | -83.3       | 133                     | -134  |             |   |
| <b>Net income (loss)</b>  | <b>1,252</b>  | <b>901</b>    | <b>351</b>       | <b>39.0</b> | <b>901</b>              | <b>351</b>  | <b>39.0</b> |   |

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           |               |                |               |
|   | First quarter      | Fourth quarter | Third quarter | Second quarter | First quarter |
| Net interest income   | 1,855              | 1,837          | 1,807         | 1,815          | 1,805         |
| Net fee and commission income   | 2,008              | 2,146          | 1,946         | 1,896          | 1,855         |
| Income from insurance business  | 294                | 183            | 227           | 240            | 283           |
| Profits (Losses) on financial assets and liabilities designated at fair value | 621                | 538            | 182           | 365            | 226           |
| Other operating income (expenses)   | 28                 | 9              | 11            | 32             | 40            |
| <b>Operating income</b>   | <b>4,806</b>       | <b>4,713</b>   | <b>4,173</b>  | <b>4,348</b>   | <b>4,209</b>  |
| Personnel expenses  | -1,436             | -1,606         | -1,440        | -1,338         | -1,286        |
| Other administrative expenses   | -658               | -834           | -680          | -633           | -583          |
| Adjustments to property, equipment and intangible assets                      | -204               | -234           | -202          | -188           | -186          |
| <b>Operating costs</b>  | <b>-2,298</b>      | <b>-2,674</b>  | <b>-2,322</b> | <b>-2,159</b>  | <b>-2,055</b> |
| <b>Operating margin</b>   | <b>2,508</b>       | <b>2,039</b>   | <b>1,851</b>  | <b>2,189</b>   | <b>2,154</b>  |
| Net adjustments to loans  | -483               | -1,229         | -643          | -737           | -695          |
| Other net provisions and net impairment losses on other assets                | -51                | -135           | -23           | -57            | -3            |
| Other income (expenses)   | 2                  | 861            | 72            | 3,617          | 196           |
| Income (Loss) from discontinued operations                                    | 1                  | -              | -             | -              | -             |
| <b>Gross income (loss)</b>  | <b>1,977</b>       | <b>1,536</b>   | <b>1,257</b>  | <b>5,012</b>   | <b>1,652</b>  |
| Taxes on income   | -544               | -249           | -343          | -444           | -445          |
| Charges (net of tax) for integration and exit incentives                      | -19                | -227           | -20           | -41            | -12           |
| Effect of purchase price allocation (net of tax)                              | -44                | 364            | -26           | -5             | -6            |
| Levies and other charges concerning the banking industry (net of tax)         | -117               | 3              | -192          | -178           | -282          |
| Impairment (net of tax) of goodwill and other intangible assets               | -                  | -              | -             | -              | -             |
| Minority interests  | -1                 | 1              | -26           | -7             | -6            |
| <b>Net income (loss)</b>  | <b>1,252</b>       | <b>1,428</b>   | <b>650</b>    | <b>4,337</b>   | <b>901</b>    |

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

In a context characterised by a more favourable economic scenario in the Eurozone, in the first quarter of 2018 the Intesa Sanpaolo Group reported a net income of 1,252 million euro, up by 39% on the same period in 2017. This performance was primarily due to the increase in Profits (losses) on financial assets and liabilities designated at fair value and Net fee and commission income, as well as to the decline in Net adjustments to loans.

## Quarterly development of the reclassified income statement – Aggregate figures

(millions of euro)

|   | 2018          |                | 2017                    |                          |                         |
|---|---------------|----------------|-------------------------|--------------------------|-------------------------|
|   | First quarter | Fourth quarter | Third quarter Aggregate | Second quarter Aggregate | First quarter Aggregate |
| Net interest income   | 1,855         | 1,837          | 1,828                   | 1,890                    | 1,880                   |
| Net fee and commission income   | 2,008         | 2,146          | 1,979                   | 1,986                    | 1,922                   |
| Income from insurance business  | 294           | 183            | 227                     | 240                      | 283                     |
| Profits (Losses) on financial assets and liabilities designated at fair value | 621           | 538            | 183                     | 348                      | 209                     |
| Other operating income (expenses)   | 28            | 9              | 19                      | 47                       | 56                      |
| <b>Operating income</b>   | <b>4,806</b>  | <b>4,713</b>   | <b>4,236</b>            | <b>4,511</b>             | <b>4,350</b>            |
| Personnel expenses  | -1,436        | -1,606         | -1,467                  | -1,501                   | -1,454                  |
| Other administrative expenses   | -658          | -834           | -692                    | -727                     | -673                    |
| Adjustments to property, equipment and intangible assets                      | -204          | -234           | -206                    | -202                     | -201                    |
| <b>Operating costs</b>  | <b>-2,298</b> | <b>-2,674</b>  | <b>-2,365</b>           | <b>-2,430</b>            | <b>-2,328</b>           |
| <b>Operating margin</b>   | <b>2,508</b>  | <b>2,039</b>   | <b>1,871</b>            | <b>2,081</b>             | <b>2,022</b>            |
| Net adjustments to loans  | -483          | -1,229         | -648                    | -738                     | -696                    |
| Other net provisions and net impairment losses on other assets                | -51           | -135           | -30                     | -62                      | -8                      |
| Other income (expenses)   | 2             | 861            | 72                      | 3,617                    | 196                     |
| Income (Loss) from discontinued operations                                    | 1             | -              | -                       | -                        | -                       |
| <b>Gross income (loss)</b>  | <b>1,977</b>  | <b>1,536</b>   | <b>1,265</b>            | <b>4,898</b>             | <b>1,514</b>            |
| Taxes on income   | -544          | -249           | -366                    | -433                     | -432                    |
| Charges (net of tax) for integration and exit incentives                      | -19           | -227           | -20                     | -41                      | -12                     |
| Effect of purchase price allocation (net of tax)                              | -44           | 364            | -26                     | -5                       | -6                      |
| Levies and other charges concerning the banking industry (net of tax)         | -117          | 3              | -192                    | -193                     | -296                    |
| Impairment (net of tax) of goodwill and other intangible assets               | -             | -              | -                       | -                        | -                       |
| Minority interests  | -1            | 1              | -11                     | 111                      | 133                     |
| <b>Net income (loss)</b>  | <b>1,252</b>  | <b>1,428</b>   | <b>650</b>              | <b>4,337</b>             | <b>901</b>              |

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 4,806 million euro, up by 10.5% on the aggregate figure for the first quarter of 2017, due to the aforementioned increases in Net fee and commission income (+4.5%), the single largest revenue item, and Profits (losses) on financial assets and liabilities designated at fair value, which far exceeded the decline in Net interest income (-1.3%) and Other operating income.

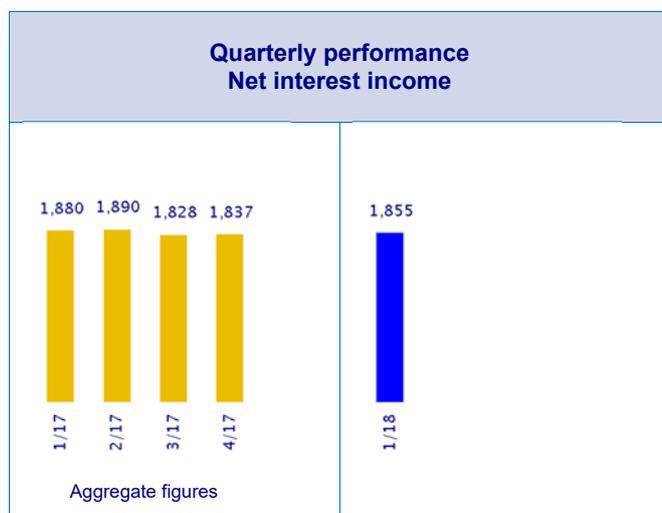
Compared to the figure for the first three months of 2017, operating income was up by 14.2%, with an increase in Net interest income of 2.8% and in Net fee and commission income of 8.2%.

## Net interest income

|  | 31.03.2018   | 31.03.2017   | (millions of euro)<br>Changes |              |
|--|--------------|--------------|-------------------------------|--------------|
|  |              |              | amount                        | %            |
| Relations with customers   | 1,918        | 1,823        | 95                            | 5.2          |
| Securities issued  | -619         | -694         | -75                           | -10.8        |
| <b>Customer dealing (*)</b>  | <b>1,299</b> | <b>1,129</b> | <b>170</b>                    | <b>15.1</b>  |
| Instruments measured at amortised cost which do not constitute loans                   | 33           | 11           | 22                            |              |
| Other financial assets and liabilities designated at fair value through profit or loss | 54           | 23           | 31                            |              |
| Other financial assets designated at fair value through other comprehensive income     | 112          | 162          | -50                           | -30.9        |
| <b>Financial assets and liabilities</b>  | <b>199</b>   | <b>196</b>   | <b>3</b>                      | <b>1.5</b>   |
| <b>Relations with banks (*)</b>  | <b>40</b>    | <b>42</b>    | <b>-2</b>                     | <b>-4.8</b>  |
| <b>Differentials on hedging derivatives</b>  | <b>-27</b>   | <b>38</b>    | <b>-65</b>                    |              |
| <b>Non-performing assets</b>   | <b>318</b>   | <b>379</b>   | <b>-61</b>                    | <b>-16.1</b> |
| <b>Other net interest income</b>   | <b>26</b>    | <b>21</b>    | <b>5</b>                      | <b>23.8</b>  |
| <b>Net interest income</b>   | <b>1,855</b> | <b>1,805</b> | <b>50</b>                     | <b>2.8</b>   |

(\*) Including the interest on instruments and loans designated at fair value through profit or loss and designated at fair value through other comprehensive income

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



Net interest income amounted to 1,855 million euro, down by 1.3% on the Aggregate figure and up by 2.8% on the same period of 2017, as shown in the table above. Against the backdrop of very low spreads from a historical standpoint, performance was conditioned by the decline in interest on non-performing assets due to pro-active management of NPLs, as reflected in decreasing volumes, and by the more limited contribution of hedging of core deposits as a consequence of the actions taken in light of the changed expectations regarding the interest rate curve. The contribution of intermediated volumes had a particularly positive effect on income from customer dealing of 1,299 million euro.

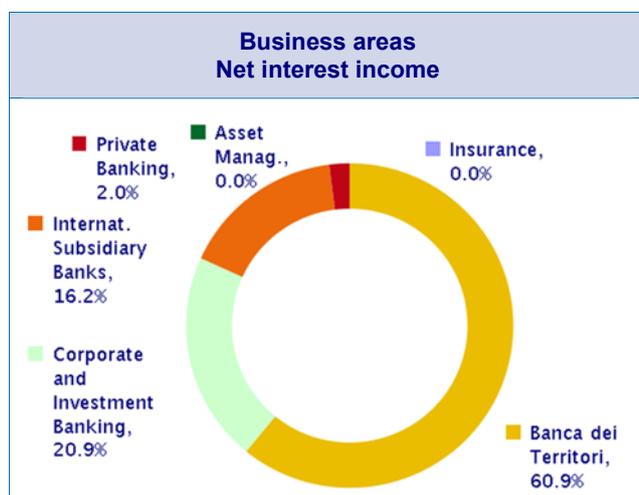
Interest on financial assets of 199 million euro remained essentially stable.

Net interest income on the interbank market came to 40 million euro, benefiting from the lower interest expense on interbank funding.

On the basis of the aggregate data, net interest income in the first quarter of 2018 exceeded the levels of the third and fourth quarters of 2017 but was lower than in the first two quarters of the previous year.

|                                  | 31.03.2018   | 31.03.2017   | 31.03.2017   | (millions of euro)    |             |
|----------------------------------|--------------|--------------|--------------|-----------------------|-------------|
|                                  |              |              |              | changes vs 31.03.2017 | Aggregate   |
|                                  |              |              |              | amount                | %           |
| Banca dei Territori              | 1,181        | 1,087        | 1,171        | 10                    | 0.9         |
| Corporate and Investment Banking | 406          | 392          | 397          | 9                     | 2.3         |
| International Subsidiary Banks   | 314          | 321          | 321          | -7                    | -2.2        |
| Private Banking                  | 39           | 43           | 43           | -4                    | -9.3        |
| Asset Management                 | -            | -            | -            | -                     | -           |
| Insurance                        | -            | -            | -            | -                     | -           |
| <b>Total business areas</b>      | <b>1,940</b> | <b>1,843</b> | <b>1,932</b> | <b>8</b>              | <b>0.4</b>  |
| Corporate Centre                 | -85          | -38          | -52          | 33                    | 63.5        |
| <b>Intesa Sanpaolo Group</b>     | <b>1,855</b> | <b>1,805</b> | <b>1,880</b> | <b>-25</b>            | <b>-1.3</b> |

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.



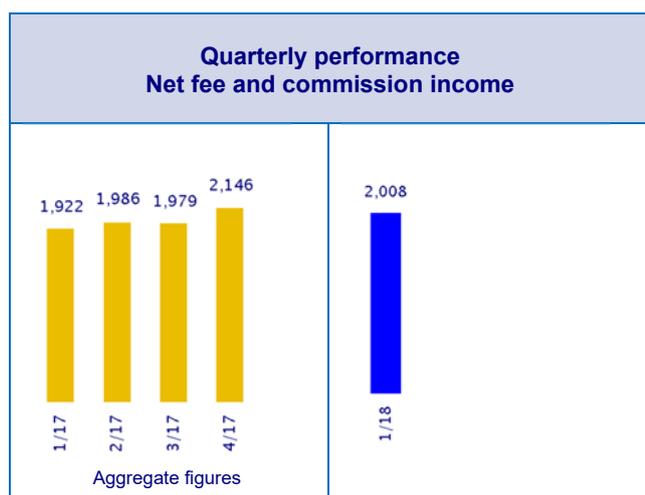
The Banca dei Territori Division, which accounts for over 60% of business area results, recorded a slight increase in net interest income (+0.9% or +10 million euro), benefiting from the increase in customer dealing volumes. The net interest income of the Corporate and Investment Banking Division also increased (+2.3%, or +9 million euro), primarily due to the greater contribution from customer dealing in terms of volumes. By contrast, net interest income decreased for both the International Subsidiary Banks (-2.2% or -7 million euro) and the Private Banking Division, which in relative terms have a lesser impact on the consolidated accounts.

The decline in the net interest income of the Corporate Centre should be viewed in relation to the negative contribution by the Treasury Department attributable to the securities and money market portfolio.

**Net fee and commission income**

|   | 31.03.2018   | 31.03.2017   | (millions of euro) |             |
|---|--------------|--------------|--------------------|-------------|
|   |              |              | Changes<br>amount  | %           |
| Guarantees given / received                           | 59           | 81           | -22                | -27.2       |
| Collection and payment services                       | 92           | 95           | -3                 | -3.2        |
| Current accounts                                      | 319          | 252          | 67                 | 26.6        |
| Credit and debit cards                                | 92           | 83           | 9                  | 10.8        |
| <b>Commercial banking activities</b>                  | <b>562</b>   | <b>511</b>   | <b>51</b>          | <b>10.0</b> |
| Dealing and placement of securities                   | 208          | 176          | 32                 | 18.2        |
| Currency dealing                                      | 12           | 10           | 2                  | 20.0        |
| Portfolio management                                  | 592          | 539          | 53                 | 9.8         |
| Distribution of insurance products                    | 378          | 373          | 5                  | 1.3         |
| Other   | 45           | 40           | 5                  | 12.5        |
| <b>Management, dealing and consultancy activities</b> | <b>1,235</b> | <b>1,138</b> | <b>97</b>          | <b>8.5</b>  |
| <b>Other net fee and commission income</b>            | <b>211</b>   | <b>206</b>   | <b>5</b>           | <b>2.4</b>  |
| <b>Net fee and commission income</b>                  | <b>2,008</b> | <b>1,855</b> | <b>153</b>         | <b>8.2</b>  |

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

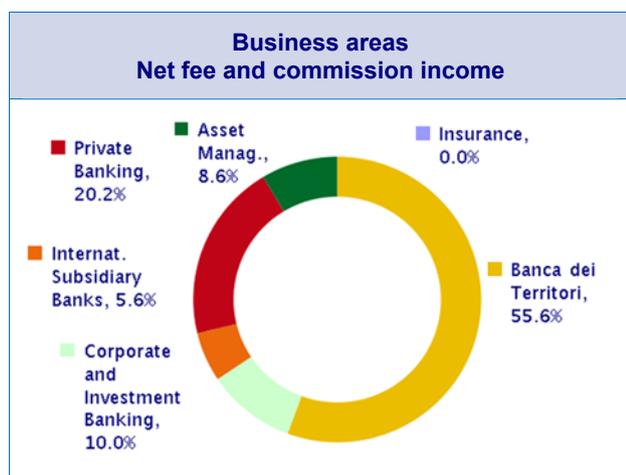


In the first three months of 2018, net fee and commission income, which accounts for 42% of operating revenues, amounted to 2,008 million euro, an increase of 4.5% on the Aggregate figure and of 8.2% on the first quarter of 2017 (as shown in the table above), characterised by the positive performance of management and dealing activity. The significant commercial effort devoted by the Group's distribution network to asset management products, accompanied by a bull stock market and an expansion in the volumes of securities traded, produced notable growth in fee and commission income on management, dealing and financial consultancy activities.

At the quarterly level, and on a like-for-like basis, fee and commission income was higher than in all quarters of 2017 except for the fourth quarter, which traditionally benefits from seasonal effects.

|                                  | 31.03.2018   | 31.03.2017   | 31.03.2017       | (millions of euro)<br>changes vs<br>31.03.2017<br>Aggregate |            |
|----------------------------------|--------------|--------------|------------------|---|------------|
|                                  |              |              |                  | amount  | %          |
|                                  |              |              | <b>Aggregate</b> |   |            |
| Banca dei Territori              | 1,188        | 1,016        | 1,103            | 85  | 7.7        |
| Corporate and Investment Banking | 213          | 248          | 248              | -35   | -14.1      |
| International Subsidiary Banks   | 120          | 115          | 116              | 4   | 3.4        |
| Private Banking                  | 432          | 405          | 409              | 23  | 5.6        |
| Asset Management                 | 185          | 157          | 157              | 28  | 17.8       |
| Insurance                        | -            | -            | -                | -   | -          |
| <b>Total business areas</b>      | <b>2,138</b> | <b>1,941</b> | <b>2,033</b>     | <b>105</b>  | <b>5.2</b> |
| Corporate Centre                 | -130         | -86          | -111             | 19  | 17.1       |
| <b>Intesa Sanpaolo Group</b>     | <b>2,008</b> | <b>1,855</b> | <b>1,922</b>     | <b>86</b>   | <b>4.5</b> |

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.



At the level of business segments, the Banca dei Territori Division, which accounts for more than one-half of the result of the business units, recorded an increase in fee and commission income (+7.7% or +85 million euro), mostly attributable to the asset management segment – which benefited from greater placement and volume growth – and bancassurance products; Private Banking reported an increase of 5.6% or +23 million euro, to be viewed in connection with the greater average volumes of assets under management that generate recurring fees and commissions and with the positive contribution provided by advanced consulting services; Asset Management registered a favourable performance (+17.8% or +28 million euro), driven in particular by management fees, correlated with the increase in average assets under management, and by placement fees; the International Subsidiary Banks posted an improvement of 3.4% (+4 million euro), attributable to the banks operating in Slovakia and Serbia; finally, Corporate and Investment Banking was down by 14.1% (-35 million euro), due to the lower fees and

commissions associated with the commercial banking (loans and guarantees) and investment banking areas.

## Income from insurance business

| Captions (a)  | 31.03.2018 |           |            | 31.03.2017 |           |            | (millions of euro)<br>Changes |              |
|---|------------|-----------|------------|------------|-----------|------------|-------------------------------|--------------|
|   | Life       | Non-life  | Total      | Life       | Non-life  | Total      | amount                        | %            |
| <b>Technical margin</b>   | <b>50</b>  | <b>27</b> | <b>77</b>  | <b>-46</b> | <b>21</b> | <b>-25</b> | <b>102</b>                    |              |
| Net insurance premiums (b)  | 1,708      | 91        | 1,799      | 1,715      | 84        | 1,799      | -                             | -            |
| Net charges for insurance claims and surrenders (c)   | -2,620     | -16       | -2,636     | -2,205     | -22       | -2,227     | 409                           | 18.4         |
| Net charges for changes in technical reserves (d)   | 725        | -         | 725        | 173        | -         | 173        | 552                           |              |
| Gains (Losses) on investments pertaining to insured parties on insurance products (e)                       | 271        | -         | 271        | 333        | -         | 333        | -62                           | -18.6        |
| Net fees on investment contracts (f)  | 95         | -         | 95         | 75         | -         | 75         | 20                            | 26.7         |
| Commission expenses on insurance contracts (g)  | -135       | -27       | -162       | -133       | -28       | -161       | 1                             | 0.6          |
| Other technical income and expense (h)  | 6          | -21       | -15        | -4         | -13       | -17        | -2                            | -11.8        |
| <b>Net investment result</b>  | <b>242</b> | <b>8</b>  | <b>250</b> | <b>341</b> | <b>4</b>  | <b>345</b> | <b>-95</b>                    | <b>-27.5</b> |
| Operating income from investments   | -468       | 8         | -460       | 1,619      | 4         | 1,623      | -2,083                        |              |
| <i>Net interest income</i>  | 439        | 1         | 440        | 488        | 1         | 489        | -49                           | -10.0        |
| <i>Dividends</i>  | 49         | 1         | 50         | 43         | 1         | 44         | 6                             | 13.6         |
| <i>Gains/losses on disposal</i>   | 386        | 6         | 392        | 397        | 2         | 399        | -7                            | -1.8         |
| <i>Valuation gains/losses</i>   | -1,323     | -         | -1,323     | 710        | -         | 710        | -2,033                        |              |
| <i>Portfolio management fees paid (i)</i>   | -19        | -         | -19        | -19        | -         | -19        | -                             | -            |
| Gains (losses) on investments pertaining to insured parties   | 710        | -         | 710        | -1,278     | -         | -1,278     | 1,988                         |              |
| <i>Insurance products (j)</i>   | -276       | -         | -276       | -316       | -         | -316       | -40                           | -12.7        |
| <i>Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)</i> | 5          | -         | 5          | -17        | -         | -17        | 22                            |              |
| <i>Investment products (l)</i>  | 981        | -         | 981        | -945       | -         | -945       | 1,926                         |              |
| <b>Income from insurance business gross of consolidation effects</b>  | <b>292</b> | <b>35</b> | <b>327</b> | <b>295</b> | <b>25</b> | <b>320</b> | <b>7</b>                      | <b>2.2</b>   |
| Consolidation effects   | -33        | -         | -33        | -37        | -         | -37        | -4                            | -10.8        |
| <b>Income from insurance business</b>   | <b>259</b> | <b>35</b> | <b>294</b> | <b>258</b> | <b>25</b> | <b>283</b> | <b>11</b>                     | <b>3.9</b>   |

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.

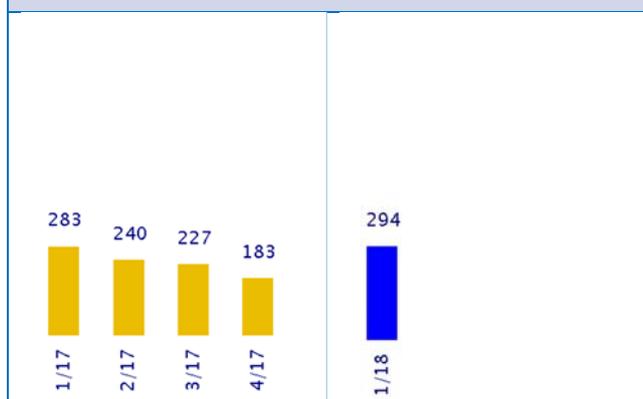
(h) Residual caption comprising fee income on insurance product management fee income (unit and index-linked insurance products and pension funds), rebates, net interest income on current accounts of the insurance company and on subordinated loans and other income and technical charges.

(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 performance  
Income from insurance business**


During the first quarter of 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 a growth in net revenues, standing at 294 million euro, compared to the 283 million euro recorded in the same period of 2017. This performance was primarily due to the technical margins on life insurance products and the profitability of the protection business. By contrast, financial performance was shaped by latent losses on portfolios, which drove down margins.

At the quarterly level, income from insurance business, including the life and non-life businesses, was higher in the first quarter of 2018 than in the quarters of the previous year.

|   | 31.03.2018        |                 |              | (millions of euro)<br>31.03.2017 |              |
|---|-------------------|-----------------|--------------|----------------------------------|--------------|
|   | Periodic premiums | Single premiums | Total        | of which new business            |              |
| <b>Life insurance business</b>                  | <b>39</b>         | <b>1,669</b>    | <b>1,708</b> | <b>1,669</b>                     | <b>1,716</b> |
| Premiums issued on traditional products         | 34                | 1,517           | 1,551        | 1,517                            | 1,572        |
| Premiums issued on unit-linked products         | 2                 | 1               | 3            | 1                                | 4            |
| Premiums issued on capitalisation products      | -                 | -               | -            | -                                | -            |
| Premiums issued on pension funds                | 3                 | 151             | 154          | 151                              | 140          |
| <b>Non-life insurance business</b>              | <b>27</b>         | <b>66</b>       | <b>93</b>    | <b>18</b>                        | <b>86</b>    |
| Premiums issued                                 | 32                | 83              | 115          | 71                               | 116          |
| Change in premium reserves                      | -5                | -17             | -22          | -53                              | -30          |
| <b>Premiums ceded to reinsurers</b>             | <b>-1</b>         | <b>-1</b>       | <b>-2</b>    | <b>-2</b>                        | <b>-3</b>    |
| <b>Net premiums from insurance products</b>     | <b>65</b>         | <b>1,734</b>    | <b>1,799</b> | <b>1,685</b>                     | <b>1,799</b> |
| Business on index-linked contracts              | -                 | -               | -            | -                                | -            |
| Business on unit-linked contracts               | 20                | 3,824           | 3,844        | 3,827                            | 4,321        |
| <b>Total business from investment contracts</b> | <b>20</b>         | <b>3,824</b>    | <b>3,844</b> | <b>3,827</b>                     | <b>4,321</b> |
| <b>Total business</b>                           | <b>85</b>         | <b>5,558</b>    | <b>5,643</b> | <b>5,512</b>                     | <b>6,120</b> |

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

In the first quarter of 2018, business in the insurance segment amounted to approximately 5.6 billion euro, down from 6.1 billion euro in the same period of 2017. The shift towards unit-linked investment contracts (which have lower capital requirements) from traditional life policies, which had already been observed in the previous year, continued during the period.

New business was nearly 5.5 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**

|  | 31.03.2018 | 31.03.2017 | (millions of euro)<br>changes |       |
|--|------------|------------|-------------------------------|-------|
|  |            |            | amount                        | %     |
| Interest rates   | 44         | 97         | -53                           | -54.6 |
| Equity instruments   | 284        | 58         | 226                           |       |
| Currencies   | 42         | -28        | 70                            |       |
| Structured credit products   | 2          | 8          | -6                            | -75.0 |
| Credit derivatives   | 21         | 20         | 1                             | 5.0   |
| Commodity derivatives  | 4          | 2          | 2                             |       |
| <b>Income from operations on assets designated at fair value through profit or loss</b>  | <b>397</b> | <b>157</b> | <b>240</b>                    |       |
| Profits (Losses) on disposal or repurchase of assets designated at fair value through other comprehensive income and financial liabilities | 224        | 69         | 155                           |       |
| <b>Profits (Losses) on financial assets and liabilities designated at fair value</b>   | <b>621</b> | <b>226</b> | <b>395</b>                    |       |
| Operations in equities designated at fair value through other comprehensive income without recycling to profit or loss                     | -          | -          | -                             | -     |

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

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



Profits (Losses) on financial assets and liabilities designated at fair value amounted to 621 million euro in the first three months of 2018, up sharply on the Aggregate figure and on the first quarter of 2017. The item was up threefold on a like-for-like basis, due in part to the positive effect of 264 million euro deriving from the measurement of the investment in NTV at fair value.

The quarterly figure was higher than in any quarter of 2017.

**Other operating income (expenses)**

Other operating income (expenses) amounted to 28 million euro, compared with an Aggregate figure of 56 million euro and with 40 million euro in the first three months of 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 at the annual level was chiefly due to this latter component.

## Operating costs

|   | 31.03.2018   | 31.03.2017   | (millions of euro) |             |
|---|--------------|--------------|--------------------|-------------|
|   |              |              | Changes<br>amount  | %           |
| Wages and salaries                        | 993          | 880          | 113                | 12.8        |
| Social security charges                   | 256          | 229          | 27                 | 11.8        |
| Other                                     | 187          | 177          | 10                 | 5.6         |
| <b>Personnel expenses</b>                 | <b>1,436</b> | <b>1,286</b> | <b>150</b>         | <b>11.7</b> |
| Information technology expenses           | 169          | 151          | 18                 | 11.9        |
| Management of real estate assets expenses | 152          | 131          | 21                 | 16.0        |
| General structure costs                   | 100          | 98           | 2                  | 2.0         |
| Professional and legal expenses           | 69           | 76           | -7                 | -9.2        |
| Advertising and promotional expenses      | 20           | 18           | 2                  | 11.1        |
| Indirect personnel costs                  | 25           | 25           | -                  | -           |
| Other costs                               | 107          | 74           | 33                 | 44.6        |
| Indirect taxes and duties                 | 36           | 33           | 3                  | 9.1         |
| Recovery of expenses and charges          | -20          | -23          | -3                 | -13.0       |
| <b>Administrative expenses</b>            | <b>658</b>   | <b>583</b>   | <b>75</b>          | <b>12.9</b> |
| Property and equipment                    | 80           | 81           | -1                 | -1.2        |
| Intangible assets                         | 124          | 105          | 19                 | 18.1        |
| <b>Adjustments</b>                        | <b>204</b>   | <b>186</b>   | <b>18</b>          | <b>9.7</b>  |
| <b>Operating costs</b>                    | <b>2,298</b> | <b>2,055</b> | <b>243</b>         | <b>11.8</b> |

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



Close attention continued to be devoted to managing operating costs, which amounted to 2,298 million euro at the quarterly level, down by 1.3% on the Aggregate figure and up by 11.8% on the first three months of 2017, as shown in the table above. Personnel expenses amounted to 1,436 million euro, down by 1.2% on a like-for-like basis, due to the savings resulting from the redundancies negotiated in the agreements entered into with trade unions in 2017. These savings 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 658 million euro, down by 2.2% on a like-for-like basis as a result of the savings achieved on certain items of expenses, including legal and professional fees.

Amortisation and depreciation came to 204 million euro, comparable to the figure reported on a like-for-like basis in the first three months of 2017.

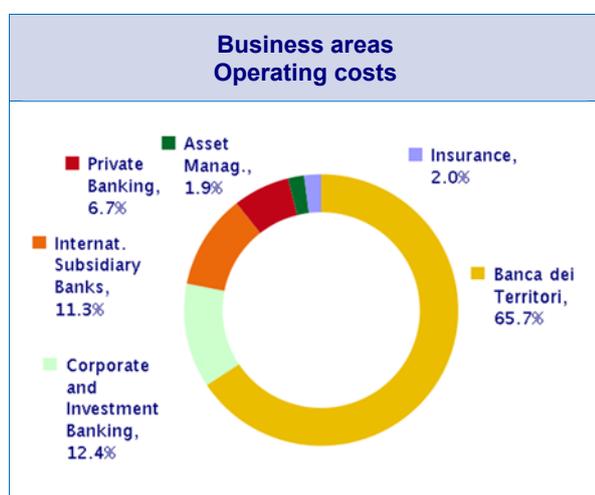
The cost/income ratio for the period was 47.8%, compared with the 53.5% recorded in the same period of 2017 on a like-for-like basis, due to the performance of revenues, and, to a

lesser extent, of costs.

At the quarterly level, the aggregate figure recorded in the first quarter of 2018 was lower than in the previous periods.

|                                  | 31.03.2018   | 31.03.2017   | 31.03.2017   | (millions of euro)                     |             |
|----------------------------------|--------------|--------------|--------------|--|-------------|
|                                  |              |              |              | Changes vs 31.03.2017 Aggregate amount | %           |
| Banca dei Territori              | 1,347        | 1,176        | 1,397        | -50                                    | -3.6        |
| Corporate and Investment Banking | 254          | 240          | 241          | 13                                     | 5.4         |
| International Subsidiary Banks   | 232          | 215          | 223          | 9                                      | 4.0         |
| Private Banking                  | 137          | 130          | 131          | 6                                      | 4.6         |
| Asset Management                 | 38           | 34           | 34           | 4                                      | 11.8        |
| Insurance                        | 41           | 40           | 40           | 1                                      | 2.5         |
| <b>Total business areas</b>      | <b>2,049</b> | <b>1,835</b> | <b>2,066</b> | <b>-17</b>                             | <b>-0.8</b> |
| Corporate Centre                 | 249          | 220          | 262          | -13                                    | -5.0        |
| <b>Intesa Sanpaolo Group</b>     | <b>2,298</b> | <b>2,055</b> | <b>2,328</b> | <b>-30</b>                             | <b>-1.3</b> |

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.



At the level of operating costs, the Banca dei Territori Division, which accounts for over 65% of all costs for the business areas, reported savings compared to the first three months of the previous year (-3.6%, or -50 million euro) thanks to lower personnel and other administrative expenses. By contrast, the other business units reported increases in operating costs: Corporate and Investment Banking (+5.4% or +13 million euro), Private Banking (+4.6% or +6 million euro) and Asset Management (+11.8% or +4 million euro), driven by higher personnel and other administrative expenses, the International Subsidiary Banks (+4% or +9 million euro), due to the performance of personnel expenses and, to a lesser extent, other administrative expenses, amortisation and depreciation, and Insurance (+2.5% or +1 million euro), as a result of higher personnel expenses.

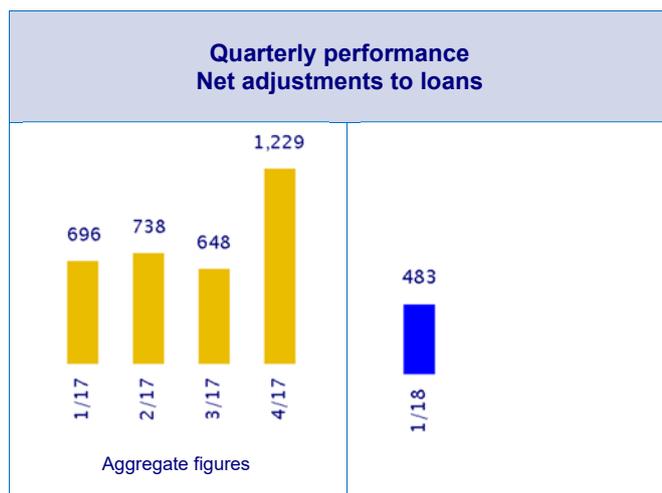
### Operating margin

The operating margin was 2,508 million euro in the first quarter of 2018, up by 24% compared with the Aggregate figure, driven by higher revenues and the containment of operating costs. Compared with the figure for the first three months of 2017, operating margin was up by 16.4%.

**Net adjustments to loans**

|  | 31.03.2018  | 31.03.2017  | (millions of euro) |              |
|--|-------------|-------------|--------------------|--------------|
|  |             |             | Changes<br>amount  | %            |
| Bad loans  | -183        | -394        | -211               | -53.6        |
| Unlikely to pay  | -244        | -261        | -17                | -6.5         |
| Past due loans   | -82         | -72         | 10                 | 13.9         |
| Stage 3 loans  | <b>-509</b> | <b>-727</b> | <b>-218</b>        | <b>-30.0</b> |
| <i>of which debt securities</i>  | -           | -           | -                  | -            |
| Stage 2 loans  | -39         | -           | 39                 | -            |
| <i>of which debt securities</i>  | 1           | -           | 1                  | -            |
| Stage 1 loans  | 30          | 33          | -3                 | -9.1         |
| <i>of which debt securities</i>  | 9           | -           | 9                  | -            |
| <b>Net losses/recoveries on impairment of loans</b>  | <b>-518</b> | <b>-694</b> | <b>-176</b>        | <b>-25.4</b> |
| <b>Profits/losses from changes in contracts without derecognition</b>  | <b>-1</b>   | <b>-</b>    | <b>1</b>           | <b>-</b>     |
| <b>Net provisions for risks and charges for credit risk associated with commitments and financial guarantees given</b> | <b>36</b>   | <b>-1</b>   | <b>37</b>          |              |
| <b>Net adjustments to loans</b>  | <b>-483</b> | <b>-695</b> | <b>-212</b>        | <b>-30.5</b> |

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



ratio of 0.6%.

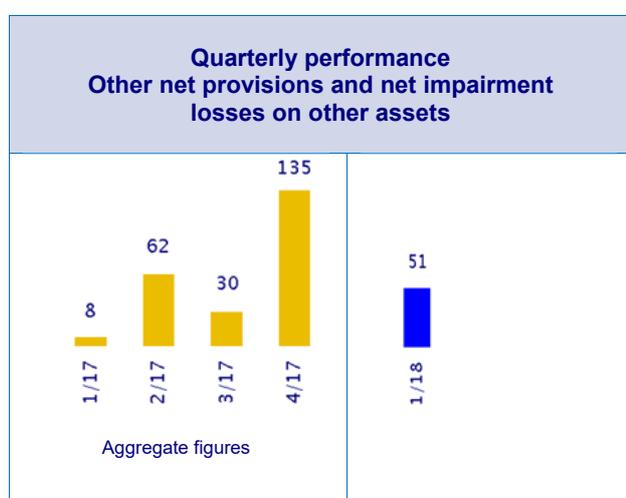
Net adjustments to loans continued to decline in the first three months of the current year, falling to 483 million euro, a decrease of over 30% on the first quarter of 2017. While the coverage of total non-performing assets remained unchanged, while the incidence of non-performing loans on total loans fell, the cost of credit, expressed as the ratio of annualised net adjustments to net loans, decreased to 48 bps from 81 bps in 2017.

In particular, the decline was essentially associated with bad loans, which required net adjustments of 183 million euro, with a coverage ratio of 68.6%. Net impairment losses on unlikely to pay loans, totalling 244 million euro, were down compared to the same period of 2017, with a coverage ratio of 33.6%. Net impairment losses on past due loans amounted to 82 million euro, with a coverage ratio of 21.6%. The coverage ratio for forbore positions within the non-performing loans category was 39.2% at the end of March 2018. Finally, the stage 1 and stage 2 components of performing loans presented a coverage

**Other net provisions and net impairment losses on other assets**

|  | 31.03.2018 | 31.03.2017 | (millions of euro) |       |
|--|------------|------------|--------------------|-------|
|  |            |            | Changes<br>amount  | %     |
| Other net provisions   | -37        | -1         | 36                 |       |
| Net impairment losses on instruments designated at fair value through other comprehensive income | -13        | -          | 13                 | -     |
| Net impairment losses on other assets  | -1         | -2         | -1                 | -50.0 |
| Net Losses/Recoveries pertaining to insurance companies pursuant to IAS 39                       | -          | -          | -                  | -     |
| <b>Other net provisions and net impairment losses on other assets</b>                            | <b>-51</b> | <b>-3</b>  | <b>48</b>          |       |

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



Within the layout of the reclassified income statement, this caption primarily consists of other net provisions for risks and charges and net impairment losses on other assets and on securities designated at fair value. In the first quarter of the current year, other net provisions and net impairment losses on other assets amounted to 51 million euro, compared with the Aggregate figure of 8 million euro and the 3 million euro recognised in the first quarter of 2017. The increase should be viewed in conjunction with the greater net provisions for risks and charges and net adjustments to securities designated at fair value.

**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.

These amounted to 2 million euro in the first quarter of 2018, compared with the 196 million euro recorded in the first three months of 2017. In that period, capital gains were recognised on the measurement at fair value following reclassification of the investment in Bank of Qingdao (190 million euro), no longer included among the entities subject to significant influence.

**Income (loss) from discontinued operations**

Income from discontinued operations amounted to 1 million euro in the first quarter of 2018.

**Gross income**

Income before tax from continuing operations came to 1,977 million euro, up +30.6% compared with the Aggregate figure and +19.7% compared with the first three months of 2017.

**Income tax**

Current and deferred taxes came to 544 million euro for an effective tax rate of 27.5%, comparable to the level of the first three months of 2017.

**Charges (net of tax) for integration and exit incentives**

This caption amounted to 19 million euro, compared with 12 million euro reported in the same period of 2017.

***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 the first quarter of 2018, such expenses amounted to 44 million euro, up from the 6 million euro recognised in the same period of 2017 as a consequence of the effects deriving from the measurement at fair value of the assets and liabilities of the former Venetian Banks acquired in 2017.

***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 the first three months of 2018 such levies, net of taxes, fell to 117 million euro compared with the same period of 2017, which primarily included the impairment losses on the investment in the Atlante Fund and the ordinary contributions to the European Resolution Fund. In the reporting quarter, such charges chiefly consisted of the ordinary contributions to the European Resolution Fund estimated for all of 2018.

***Minority interests***

In the first quarter of 2018, the net income attributable to minority interests amounted to 1 million euro, compared with a net loss attributable to minority interests of 133 million at the level of the aggregate figures (Aggregate Set), due to the inclusion of the related components line by line and the attribution of the corresponding share of net income to minority interests. The net income attributable to minority interests amounted to 6 million euro in the first quarter of 2017.

***Net income (loss)***

As a result of the above trends, the Group ended the first quarter of 2018 with net income of 1,252 million euro, up considerably (+39%) on an annual basis.

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# Balance sheet aggregates

## General aspects

A condensed balance sheet is 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 quarter, 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 change of financial assets/liabilities in hedged portfolios in Other assets/liabilities;
- the inclusion of the technical insurance reserves reassured with third parties under Other assets;
- the aggregation in one single caption of Property and equipment and Intangible assets;
- the 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

| Assets   | 31.03.2018     | 01.01.2018     | (millions of euro)<br>Changes |             |
|--|----------------|----------------|-------------------------------|-------------|
|  |                |                | amount                        | %           |
| Due from banks   | 70,451         | 71,576         | -1,125                        | -1.6        |
| Loans to customers   | 401,033        | 399,463        | 1,570                         | 0.4         |
| <i>Loans to customers measured at amortised cost</i>   | 400,419        | 399,076        | 1,343                         | 0.3         |
| <i>Loans to customers designated at fair value through other comprehensive income and through profit or loss</i> | 614            | 387            | 227                           | 58.7        |
| Financial assets measured at amortised cost which do not constitute loans  | 11,688         | 11,557         | 131                           | 1.1         |
| Financial assets designated at fair value through profit or loss   | 42,111         | 42,158         | -47                           | -0.1        |
| Financial assets designated at fair value through other comprehensive income                                     | 60,398         | 59,860         | 538                           | 0.9         |
| Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39                     | 153,550        | 152,582        | 968                           | 0.6         |
| Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39                 | 476            | 423            | 53                            | 12.5        |
| Investments in associates and companies subject to joint control   | 654            | 678            | -24                           | -3.5        |
| Property, equipment and intangible assets  | 14,367         | 14,419         | -52                           | -0.4        |
| Tax assets   | 17,174         | 18,018         | -844                          | -4.7        |
| Non-current assets held for sale and discontinued operations   | 751            | 627            | 124                           | 19.8        |
| Other assets   | 20,075         | 22,736         | -2,661                        | -11.7       |
| <b>Total Assets</b>  | <b>792,728</b> | <b>794,097</b> | <b>-1,369</b>                 | <b>-0.2</b> |

| Liabilities   | 31.03.2018     | 01.01.2018     | (millions of euro)<br>Changes |             |
|---|----------------|----------------|-------------------------------|-------------|
|   |                |                | amount                        | %           |
| Due to banks at amortised cost  | 96,905         | 99,989         | -3,084                        | -3.1        |
| Due to customers at amortised cost and securities issued  | 417,422        | 416,371        | 1,051                         | 0.3         |
| Financial liabilities held for trading  | 39,751         | 41,456         | -1,705                        | -4.1        |
| 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 | 1,394          | 1,312          | 82                            | 6.3         |
| Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39     | 69,058         | 68,233         | 825                           | 1.2         |
| Tax liabilities   | 2,548          | 2,509          | 39                            | 1.6         |
| Liabilities associated with non-current assets held for sale and discontinued operations              | 266            | 264            | 2                             | 0.8         |
| Other liabilities   | 20,590         | 19,954         | 636                           | 3.2         |
| Technical reserves  | 82,656         | 82,926         | -270                          | -0.3        |
| Allowances for risks and charges  | 7,240          | 7,426          | -186                          | -2.5        |
| <i>of which allowances for commitments and financial guarantees given</i>                             | 503            | 535            | -32                           | -6.0        |
| Share capital   | 8,732          | 8,732          | -                             | -           |
| Reserves  | 40,796         | 33,578         | 7,218                         | 21.5        |
| Valuation reserves  | -760           | -878           | -118                          | -13.4       |
| Valuation reserves pertaining to insurance companies  | 429            | 417            | 12                            | 2.9         |
| Equity instruments  | 4,103          | 4,103          | -                             | -           |
| Minority interests  | 342            | 386            | -44                           | -11.4       |
| Net income (loss)   | 1,252          | 7,316          | -6,064                        | -82.9       |
| <b>Total liabilities and shareholders' equity</b>   | <b>792,728</b> | <b>794,097</b> | <b>-1,369</b>                 | <b>-0.2</b> |

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

## Quarterly development of the reclassified balance sheet

| Assets   | (millions of euro) |                |                |                |                |                |
|--|--------------------|----------------|----------------|----------------|----------------|----------------|
|  | 2018               |                |                | 2017           |                |                |
|  | 31/3               | 1/1            | 31/12          | 30/9           | 30/6           | 31/3           |
| Due from banks   | 70,451             | 71,576         | 72,057         | 79,520         | 75,552         | 61,788         |
| Loans to customers   | 401,033            | 399,463        | 411,902        | 399,943        | 405,181        | 402,764        |
| <i>Loans to customers measured at amortised cost</i>   | 400,419            | 399,076        | 411,902        | 399,943        | 405,181        | 402,764        |
| <i>Loans to customers designated at fair value through other comprehensive income and through profit or loss</i> | 614                | 387            | -              | -              | -              | -              |
| Financial assets measured at amortised cost which do not constitute loans  | 11,688             | 11,557         | -              | -              | -              | -              |
| Financial assets designated at fair value through profit or loss   | 42,111             | 42,158         | 39,582         | 42,532         | 44,981         | 47,159         |
| Financial assets designated at fair value through other comprehensive income                                     | 60,398             | 59,860         | 64,968         | 68,489         | 67,598         | 76,758         |
| Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39                     | 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                 | 476                | 423            | 423            | 433            | 305            | 887            |
| Investments in associates and companies subject to joint control   | 654                | 678            | 678            | 655            | 732            | 769            |
| Property, equipment and intangible assets  | 14,367             | 14,419         | 14,419         | 12,425         | 12,548         | 12,568         |
| Tax assets   | 17,174             | 18,018         | 16,887         | 16,834         | 17,056         | 16,917         |
| Non-current assets held for sale and discontinued operations   | 751                | 627            | 627            | 788            | 778            | 783            |
| Other assets   | 20,075             | 22,736         | 22,736         | 18,856         | 20,520         | 24,231         |
| <b>Total Assets</b>  | <b>792,728</b>     | <b>794,097</b> | <b>796,861</b> | <b>790,866</b> | <b>792,872</b> | <b>790,368</b> |
| <b>Liabilities and Shareholders' Equity</b>  | <b>2018</b>        |                |                | <b>2017</b>    |                |                |
|  | <b>31/3</b>        | <b>1/1</b>     | <b>31/12</b>   | <b>30/9</b>    | <b>30/6</b>    | <b>31/3</b>    |
| Due to banks at amortised cost   | 96,905             | 99,989         | 99,989         | 99,999         | 99,827         | 103,001        |
| Due to customers at amortised cost and securities issued   | 417,422            | 416,371        | 416,371        | 416,507        | 411,344        | 412,416        |
| Financial liabilities held for trading   | 39,751             | 41,456         | 41,218         | 41,715         | 42,553         | 44,823         |
| Financial liabilities designated at fair value   | 4                  | 3              | 3              | 3              | 4              | 3              |
| Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39            | 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                | 69,058             | 68,233         | 68,233         | 65,466         | 62,891         | 60,637         |
| Tax liabilities  | 2,548              | 2,509          | 2,509          | 2,225          | 2,136          | 2,348          |
| Liabilities associated with non-current assets held for sale and discontinued operations                         | 266                | 264            | 264            | 296            | 295            | 302            |
| Other liabilities  | 20,590             | 19,954         | 20,214         | 18,499         | 27,978         | 24,195         |
| Technical reserves   | 82,656             | 82,926         | 82,926         | 83,211         | 83,593         | 84,405         |
| Allowances for risks and charges   | 7,240              | 7,426          | 7,218          | 7,042          | 7,017          | 5,442          |
| <i>of which allowances for commitments and financial guarantees given</i>  | 503                | 535            | 327            | 399            | 440            | 547            |
| Share capital  | 8,732              | 8,732          | 8,732          | 8,732          | 8,732          | 8,732          |
| Reserves   | 40,796             | 33,578         | 36,843         | 37,301         | 37,300         | 40,273         |
| Valuation reserves   | -760               | -878           | -1,206         | -2,327         | -2,240         | -2,555         |
| Valuation reserves pertaining to insurance companies   | 429                | 417            | 417            | 419            | 404            | 398            |
| Equity instruments   | 4,103              | 4,103          | 4,103          | 4,102          | 4,102          | 3,358          |
| Minority interests   | 342                | 386            | 399            | 391            | 357            | 356            |
| Net income (loss)  | 1,252              | 7,316          | 7,316          | 5,888          | 5,238          | 901            |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>792,728</b>     | <b>794,097</b> | <b>796,861</b> | <b>790,866</b> | <b>792,872</b> | <b>790,368</b> |

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

The Intesa Sanpaolo Group's consolidated assets and liabilities amounted to 793 billion euro as at 31 March 2018, down slightly (-0.2%) compared with the beginning of the year. There were declines in other assets and in due from banks, offset by

the growth in loans to customers. On the liabilities side, there were decreases in amounts due to banks at amortised cost and financial liabilities held for trading.

## Loans to customers

|  | 31.03.2018     |                | 01.01.2018     |                | (millions of euro)<br>Changes |             |
|--|----------------|----------------|----------------|----------------|-------------------------------|-------------|
|  | amount         | %<br>breakdown | amount         | %<br>breakdown | amount                        | %           |
| Current accounts                       | 22,013         | 5.5            | 22,006         | 5.5            | 7                             | -           |
| Mortgages                              | 174,558        | 43.5           | 173,163        | 43.3           | 1,395                         | 0.8         |
| Advances and other loans               | 144,950        | 36.1           | 144,424        | 36.2           | 526                           | 0.4         |
| <b>Commercial banking loans</b>        | <b>341,521</b> | <b>85.1</b>    | <b>339,593</b> | <b>85.0</b>    | <b>1,928</b>                  | <b>0.6</b>  |
| <b>Repurchase agreements</b>           | <b>31,704</b>  | <b>7.9</b>     | <b>31,483</b>  | <b>7.9</b>     | <b>221</b>                    | <b>0.7</b>  |
| <b>Loans represented by securities</b> | <b>5,882</b>   | <b>1.5</b>     | <b>5,859</b>   | <b>1.5</b>     | <b>23</b>                     | <b>0.4</b>  |
| <b>Non-performing loans</b>            | <b>21,926</b>  | <b>5.5</b>     | <b>22,528</b>  | <b>5.6</b>     | <b>-602</b>                   | <b>-2.7</b> |
| <b>Loans to customers</b>              | <b>401,033</b> | <b>100.0</b>   | <b>399,463</b> | <b>100.0</b>   | <b>1,570</b>                  | <b>0.4</b>  |

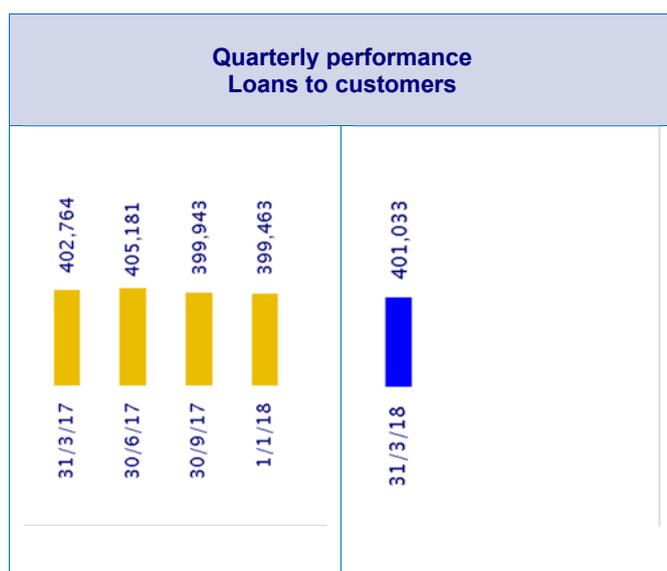
Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

The Group's loans to customers amounted to 401 billion euro as at 31 March 2018, marking a year-to-date increase of 1.6 billion euro or +0.4%.

Loan growth was driven by the positive performance of commercial banking loans (+1.9 billion euro or +0.6%), against a decline in non-performing loans (-0.6 billion euro). Against the backdrop of a favourable economic scenario, commercial banking loans to individuals and businesses increased, driven by mortgage lending (+1.4 billion euro) and advances and other loans (+0.5 billion euro).

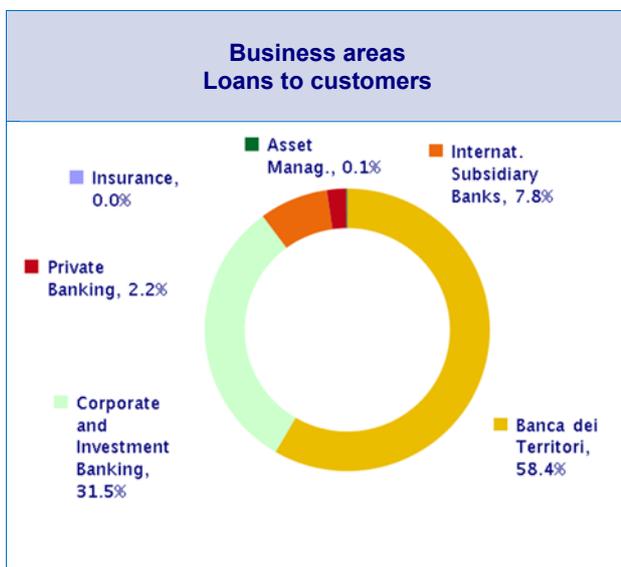
In the domestic medium-/long-term loan market, disbursements to households in the first quarter of 2018 (including the small business accounts having similar needs to family businesses) reached 4.8 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 4.5 billion euro. During the period, medium-/long-term disbursements to segments included in the scope of the Corporate Division amounted to approximately 3 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy amounted to 12.5 billion euro. On the whole, medium-/long-term disbursements for the Group in the first quarter of 2018 were 14.6 billion euro.

As at 31 March 2018, the Group's share of the Italian domestic market was estimated at 18.1% for total loans. This estimate was based on the sample deriving from the ten-day report of the Bank of Italy as the global banking system figures for the end of March are not yet available.



|                                  | 31.03.2018     | 01.01.2018     | (millions of euro) |            |
|----------------------------------|----------------|----------------|--------------------|------------|
|                                  |                |                | Changes<br>amount  | %          |
| Banca dei Territori              | 214,602        | 212,547        | 2,055              | 1.0        |
| Corporate and Investment Banking | 115,645        | 114,317        | 1,328              | 1.2        |
| International Subsidiary Banks   | 28,807         | 28,594         | 213                | 0.7        |
| Private Banking                  | 8,249          | 7,912          | 337                | 4.3        |
| Asset Management                 | 361            | 361            | -                  | -          |
| Insurance                        | 22             | 22             | -                  | -          |
| <b>Total business areas</b>      | <b>367,686</b> | <b>363,753</b> | <b>3,933</b>       | <b>1.1</b> |
| Corporate Centre                 | 33,347         | 35,710         | -2,363             | -6.6       |
| <b>Intesa Sanpaolo Group</b>     | <b>401,033</b> | <b>399,463</b> | <b>1,570</b>       | <b>0.4</b> |

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



In the analysis of loans by business area, the Banca dei Territori Division, which accounts for nearly 60% of the aggregate of the Group's business areas, recorded a year-to-date increase of 2.1 billion euro (+1%), essentially due to the increase in medium-/long-term loans. The Corporate and Investment Banking Division's loans were up by 1.3 billion euro (+1.2%), driven largely by the increase in business with large groups and international customers. The loans to customers of the International Subsidiary Banks Division also increased (+0.7%). Turning to the other business divisions, whose loans are of relatively modest amounts in light of their specific businesses, the loans of the Private Banking Division increased by 4.3%, driven by the growth of repurchase agreements with institutional customers.

The decline posted by the Corporate Centre is related also to the deleveraging process associated with the Capital Light Bank project.

**Loans to customers: credit quality**

|   | 31.03.2018     |              | 01.01.2018     |              | (millions of euro)<br>Change |
|---|----------------|--------------|----------------|--------------|------------------------------|
|   | Net exposure   | % breakdown  | Net exposure   | % breakdown  | Net exposure                 |
| Bad loans   | 10,555         | 2.6          | 10,562         | 2.6          | -7                           |
| Unlikely to pay   | 10,972         | 2.7          | 11,592         | 2.9          | -620                         |
| Past due loans  | 399            | 0.1          | 374            | 0.1          | 25                           |
| <b>Non-Performing Loans</b>   | <b>21,926</b>  | <b>5.5</b>   | <b>22,528</b>  | <b>5.6</b>   | <b>-602</b>                  |
| <i>Non-performing loans in Stage 3 (subject to impairment)</i>              | 21,854         | 5.5          | 22,456         | 5.6          | -602                         |
| <i>Non-performing loans designated at fair value through profit or loss</i> | 72             | -            | 72             | -            | -                            |
| <b>Performing loans</b>   | <b>373,193</b> | <b>93.0</b>  | <b>371,076</b> | <b>92.9</b>  | <b>2,117</b>                 |
| <i>Stage 2</i>  | 53,126         | 13.2         | 50,111         | 12.5         | 3,015                        |
| <i>Stage 1</i>  | 319,609        | 79.7         | 320,650        | 80.3         | -1,041                       |
| <i>Performing loans designated at fair value through profit or loss</i>     | 458            | 0.1          | 315            | 0.1          | 143                          |
| <b>Performing loans represented by securities</b>                           | <b>5,882</b>   | <b>1.5</b>   | <b>5,859</b>   | <b>1.5</b>   | <b>23</b>                    |
| <i>Stage 2</i>  | 423            | 0.1          | 639            | 0.2          | -216                         |
| <i>Stage 1</i>  | 5,459          | 1.4          | 5,220          | 1.3          | 239                          |
| <b>Loans held for trading</b>   | <b>32</b>      | <b>-</b>     | <b>-</b>       | <b>-</b>     | <b>32</b>                    |
| <b>Total loans to customers</b>   | <b>401,033</b> | <b>100.0</b> | <b>399,463</b> | <b>100.0</b> | <b>1,570</b>                 |
| <i>of which forbore performing</i>  | <b>8,091</b>   |              | <b>7,626</b>   |              | <b>465</b>                   |
| <i>of which forbore non-performing</i>                                      | <b>6,704</b>   |              | <b>6,704</b>   |              | <b>-</b>                     |

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

As at 31 March 2018, the Group's net non-performing loans amounted to 21.9 billion euro, down by 2.7% compared with the beginning of the year, continuing the progressive decline that marked in the previous year. There was also a slight decrease in non-performing assets as a percentage of total net loans to customers to 5.5%. As a result of the strategic agreement with Intrum currently being finalised, the stock of gross non-performing loans should decrease by over 10 billion euro and the non-performing loan ratio should be further reduced to 4.7%.

In further detail, bad loans came to 10.6 billion euro, net of adjustments, at the end of March 2018, unchanged compared with the beginning of the year, and represented 2.6% of total loans. During the same period, the coverage ratio stood at 68.6%. Loans included in the unlikely to pay category amounted to almost 11 billion euro, down by 5.3%, accounting for 2.7% of total loans to customers, with a coverage ratio of 33.6%. Past due loans amounted to 399 million euro, up 6.7% since the beginning of the year, with a coverage ratio of 21.6%. Within the non-performing loans category, forbore exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 6.7 billion euro, with a coverage ratio of 39.2%, while forbore exposures in the performing loans category amounted to 8.1 billion euro.

Overall, the coverage ratio for performing loans was 0.6%, sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.

## Customer financial assets

|  | 31.03.2018     |              | 01.01.2018     |              | (millions of euro)<br>Changes |             |
|--|----------------|--------------|----------------|--------------|-------------------------------|-------------|
|  | breakdown      | %            | breakdown      | %            | amount                        | %           |
| Direct deposits from banking business                          | 424,258        | 45.0         | 423,474        | 44.9         | 784                           | 0.2         |
| Direct deposits from insurance business and technical reserves | 153,056        | 16.3         | 152,403        | 16.1         | 653                           | 0.4         |
| Indirect customer deposits                                     | 516,614        | 54.8         | 518,443        | 55.0         | -1,829                        | -0.4        |
| Netting (a)  | -151,665       | -16.1        | -151,092       | -16.0        | 573                           | 0.4         |
| <b>Customer financial assets</b>                               | <b>942,263</b> | <b>100.0</b> | <b>943,228</b> | <b>100.0</b> | <b>-965</b>                   | <b>-0.1</b> |

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).

Customer financial assets exceeded 942 billion euro as at 31 March 2018, essentially stable compared with the beginning of the year, due to the increases in direct deposits from banking business and from insurance business that offset the moderate decline in indirect funding generated by assets under administration. The decline in the aggregate during the quarter should be viewed against the backdrop of the significant annual performance: financial assets were up by over 22 billion euro compared with the aggregate figure as at 31 March 2017.

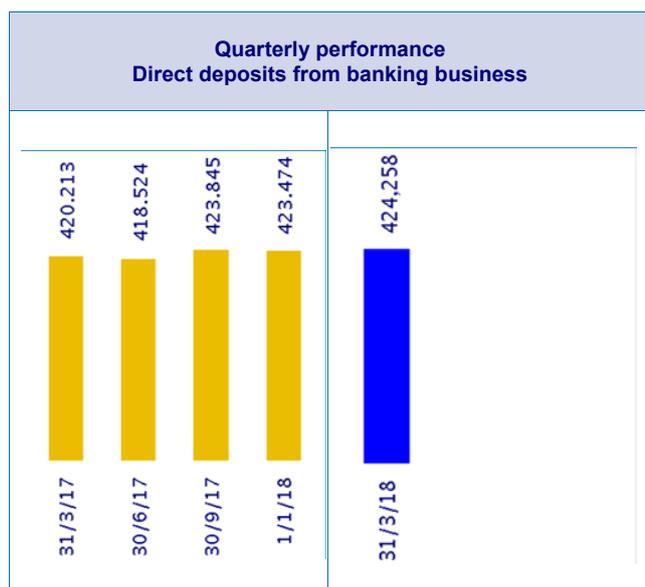
**Direct deposits from banking business**

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

|  | 31.03.2018     |              | 01.01.2018     |              | (millions of euro)<br>Changes |            |
|--|----------------|--------------|----------------|--------------|-------------------------------|------------|
|  | breakdown      | %            | breakdown      | %            | amount                        | %          |
| Current accounts and deposits                | 290,511        | 68.5         | 288,635        | 68.2         | 1,876                         | 0.7        |
| Repurchase agreements and securities lending | 25,254         | 6.0          | 21,303         | 5.0          | 3,951                         | 18.5       |
| Bonds  | 67,091         | 15.8         | 68,773         | 16.2         | -1,682                        | -2.4       |
| Certificates of deposit                      | 5,294          | 1.2          | 4,913          | 1.2          | 381                           | 7.8        |
| Subordinated liabilities                     | 13,190         | 3.1          | 13,411         | 3.2          | -221                          | -1.6       |
| Other deposits                               | 22,918         | 5.4          | 26,439         | 6.2          | -3,521                        | -13.3      |
| <i>of which designated at fair value (*)</i> | 6,836          | 1.6          | 7,103          | 1.7          | -267                          | -3.8       |
| <b>Direct deposits from banking business</b> | <b>424,258</b> | <b>100.0</b> | <b>423,474</b> | <b>100.0</b> | <b>784</b>                    | <b>0.2</b> |

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.



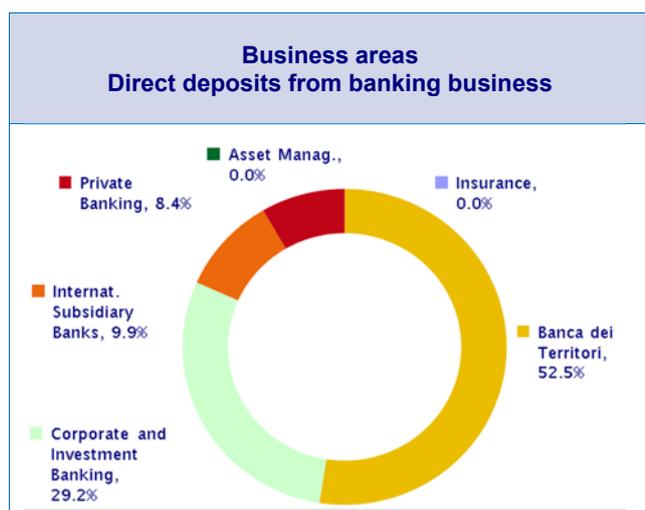
Direct deposits from banking business exceeded 424 billion euro: the aggregate was up by 0.8 billion euro (+0.2%) during the quarter, with diverging performances by the main deposit types.

In particular, there were increases in repurchase agreements (+4 billion euro) and current accounts and deposits (+1.9 billion euro), which together more than offset the decline in bonds (-1.7 billion euro) and other funding (-3.5 billion euro), inclusive of commercial paper.

As at 31 March 2018, the Group's direct deposits in the form of deposits and bonds represented an estimated share of the domestic market of 18.3%. As described above in reference to loans, this estimate is based on the sample deriving from the ten-day report produced by the Bank of Italy.

|                                  | 31.03.2018     | 01.01.2018     | (millions of euro) |            |
|----------------------------------|----------------|----------------|--------------------|------------|
|                                  |                |                | Changes            |            |
|                                  |                |                | amount             | %          |
| Banca dei Territori              | 193,503        | 191,925        | 1,578              | 0.8        |
| Corporate and Investment Banking | 107,529        | 107,160        | 369                | 0.3        |
| International Subsidiary Banks   | 36,340         | 35,774         | 566                | 1.6        |
| Private Banking                  | 31,043         | 31,146         | -103               | -0.3       |
| Asset Management                 | 6              | 6              | -                  | -          |
| Insurance                        | -              | -              | -                  | -          |
| <b>Total business areas</b>      | <b>368,421</b> | <b>366,011</b> | <b>2,410</b>       | <b>0.7</b> |
| Corporate Centre                 | 55,837         | 57,463         | -1,626             | -2.8       |
| <b>Intesa Sanpaolo Group</b>     | <b>424,258</b> | <b>423,474</b> | <b>784</b>         | <b>0.2</b> |

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



An analysis of the aggregate attributable to the business areas shows an overall increase compared with the beginning of the year (+0.7%). At the division level, the Banca dei Territori Division, which accounts for over 50% of the aggregate, reported an increase of 1.6 billion euro (+0.8%), driven by the rise in amounts due to customers. The Corporate and Investment Banking Division recorded slight growth (+0.4 billion euro or +0.3%) driven by amounts due to customers, most markedly in repurchase agreements attributable to Banca IMI and business with financial institutions. The progress achieved by the International Subsidiary Banks Division (+1.6%) should be viewed in conjunction with the performance of the amounts due to customers of the subsidiaries operating in Hungary, Croatia and Slovakia.

**Direct deposits from insurance business and technical reserves**

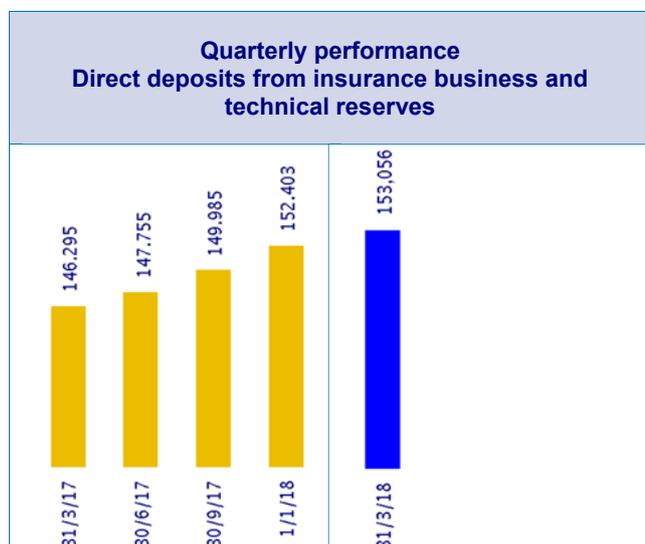
|   | 31.03.2018     |                | 01.01.2018     |                | (millions of euro)<br>Changes |             |
|---|----------------|----------------|----------------|----------------|-------------------------------|-------------|
|   |                | %<br>breakdown |                | %<br>breakdown | amount                        | %           |
| <b>Financial liabilities of the insurance business designated at fair value (*)</b>                                   | <b>69,009</b>  | <b>45.1</b>    | <b>68,166</b>  | <b>44.8</b>    | <b>843</b>                    | <b>1.2</b>  |
| Index-linked products   | 1              | -              | 1              | -              | -                             | -           |
| Unit-linked products  | 69,008         | 45.1           | 68,165         | 44.8           | 843                           | 1.2         |
| <b>Technical reserves</b>   | <b>82,656</b>  | <b>54.0</b>    | <b>82,926</b>  | <b>54.3</b>    | <b>-270</b>                   | <b>-0.3</b> |
| Life business   | 81,953         | 53.5           | 82,248         | 53.9           | -295                          | -0.4        |
| Mathematical reserves   | 70,613         | 46.1           | 71,320         | 46.8           | -707                          | -1.0        |
| Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds | 5,988          | 3.9            | 5,843          | 3.8            | 145                           | 2.5         |
| Other reserves  | 5,352          | 3.5            | 5,085          | 3.3            | 267                           | 5.3         |
| Non-life business   | 703            | 0.5            | 678            | 0.4            | 25                            | 3.7         |
| <b>Other insurance deposits (***)</b>   | <b>1,391</b>   | <b>0.9</b>     | <b>1,311</b>   | <b>0.9</b>     | <b>80</b>                     | <b>6.1</b>  |
| <b>Direct deposits from insurance business and technical reserves</b>   | <b>153,056</b> | <b>100.0</b>   | <b>152,403</b> | <b>100.0</b>   | <b>653</b>                    | <b>0.4</b>  |

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

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

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

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



Direct deposits from insurance business came to 153 billion euro as at 31 March 2018, up by 0.4% compared with the beginning of the year. The more performing component is represented by the financial liabilities of the insurance business designated at fair value, which grew by 0.8 billion euro (+1.2%), entirely as a result of the contribution from unit-linked products. Technical reserves, which constitute the amounts owed to customers subscribing to traditional policies or policies with significant insurance risk, decreased by 0.3% since the beginning of the year, due to the decrease in the mathematical reserves of the life insurance business.

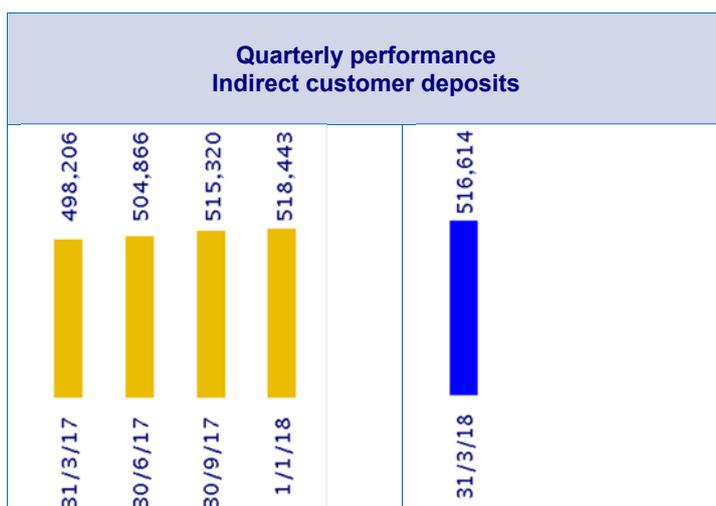
**Indirect customer deposits**

|  | 31.03.2018     |                | 01.01.2018     |                | (millions of euro)<br>Changes |             |
|--|----------------|----------------|----------------|----------------|-------------------------------|-------------|
|  | amount         | %<br>breakdown | amount         | %<br>breakdown | amount                        | %           |
| Mutual funds (a)   | 120,474        | 23.3           | 119,387        | 23.0           | 1,087                         | 0.9         |
| Open-ended pension funds and individual pension plans                  | 8,442          | 1.6            | 8,221          | 1.6            | 221                           | 2.7         |
| Portfolio management (b)   | 56,266         | 10.9           | 57,928         | 11.2           | -1,662                        | -2.9        |
| Technical reserves and financial liabilities of the insurance business | 140,642        | 27.2           | 140,567        | 27.1           | 75                            | 0.1         |
| Relations with institutional customers                                 | 12,674         | 2.5            | 11,895         | 2.3            | 779                           | 6.5         |
| <b>Assets under management</b>   | <b>338,498</b> | <b>65.5</b>    | <b>337,998</b> | <b>65.2</b>    | <b>500</b>                    | <b>0.1</b>  |
| <b>Assets under administration and in custody</b>                      | <b>178,116</b> | <b>34.5</b>    | <b>180,445</b> | <b>34.8</b>    | <b>-2,329</b>                 | <b>-1.3</b> |
| <b>Indirect customer deposits</b>                                      | <b>516,614</b> | <b>100.0</b>   | <b>518,443</b> | <b>100.0</b>   | <b>-1,829</b>                 | <b>-0.4</b> |

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

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

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



As at 31 March 2018, the Group's indirect customer deposits amounted to approximately 517 billion euro, down slightly (-0.4%) compared with the beginning of the year. The decline was due to the decline in assets under administration, whereas assets under management remained essentially stable.

Assets under management, which account for nearly two-thirds of the total aggregate, were up by half a billion euro during the quarter (+0.1%), due to placement by the distribution networks. The product for which investors showed the strongest preference was investment funds, which were up by over 1 billion euro, whereas portfolio management schemes declined (-1.7 billion euro). Volumes of insurance products remained at levels similar to those of the beginning of the year, whereas there was an increase in open-end pension funds and individual pension policies, as well as in business with institutional customers. In the period, the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life)

and Fideuram Vita, including pension products, amounted to 5.5 billion euro.

Assets under administration declined by 2.3 billion euro (-1.3%), attributable to the securities and third-party products in customers' portfolios.

## Other financial assets and liabilities – Excluding insurance companies

|   | 31.03.2018     | 01.01.2018     | (millions of euro)<br>Changes |             |
|---|----------------|----------------|-------------------------------|-------------|
|   |                |                | amount                        | %           |
| Financial assets held for trading   | 39,648         | 39,650         | -2                            | -           |
| <i>of which financial derivatives at fair value</i>                                       | 22,952         | 23,613         | -661                          | -2.8        |
| <i>of which credit derivatives at fair value</i>  | 1,041          | 1,160          | -119                          | -10.3       |
| Financial assets designated at fair value   | 213            | 214            | -1                            | -0.5        |
| Financial assets mandatorily measured at fair value                                       | 2,250          | 2,294          | -44                           | -1.9        |
| <b>Other financial assets designated at fair value through profit or loss</b>             | <b>42,111</b>  | <b>42,158</b>  | <b>-47</b>                    | <b>-0.1</b> |
| <b>Other financial assets designated at fair value through other comprehensive income</b> | <b>60,398</b>  | <b>59,860</b>  | <b>538</b>                    | <b>0.9</b>  |
| <b>Instruments measured at amortised cost which do not constitute loans</b>               | <b>11,688</b>  | <b>11,557</b>  | <b>131</b>                    | <b>1.1</b>  |
| <b>Total financial assets</b>   | <b>114,197</b> | <b>113,575</b> | <b>622</b>                    | <b>0.5</b>  |
| <b>Financial liabilities held for trading (*)</b>   | <b>-32,919</b> | <b>-34,356</b> | <b>-1,437</b>                 | <b>-4.2</b> |
| <i>of which financial derivatives at fair value</i>                                       | -23,584        | -24,660        | -1,076                        | -4.4        |
| <i>of which credit derivatives at fair value</i>  | -1,144         | -1,243         | -99                           | -8.0        |

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 composition of other financial assets and liabilities, excluding insurance companies. Financial liabilities held for trading do not include protected capital certificates, which are included in the direct funding from the banking business aggregates.

Total financial assets, excluding insurance companies, were up by 0.5% compared with the beginning of the year, whereas financial liabilities held for trading declined by 4.2%.

## Net financial assets and liabilities designated at fair value through profit or loss – Excluding insurance companies

|  | 31.03.2018    | 01.01.2018    | (millions of euro)<br>Changes |             |
|--|---------------|---------------|-------------------------------|-------------|
|  |               |               | amount                        | %           |
| Bonds and other debt securities designated at fair value through profit or loss                                | 14,534        | 13,952        | 582                           | 4.2         |
| <i>of which designated at fair value (fair value option)</i>   | 213           | 214           | -1                            | -0.5        |
| Equities and quotas of UCI designated at fair value through profit or loss                                     | 3,584         | 3,433         | 151                           | 4.4         |
| Other assets designated at fair value through profit or loss   | -             | -             | -                             | -           |
| <i>of which designated at fair value (fair value option)</i>   | -             | -             | -                             | -           |
| <b>Other financial assets designated at fair value through profit or loss (excluding derivative contracts)</b> | <b>18,118</b> | <b>17,385</b> | <b>733</b>                    | <b>4.2</b>  |
| <b>Financial liabilities held for trading (excluding derivative contracts) (*)</b>                             | <b>-8,191</b> | <b>-8,453</b> | <b>-262</b>                   | <b>-3.1</b> |
| Net value of financial derivatives   | -632          | -1,047        | -415                          | -39.6       |
| Net value of credit derivatives  | -103          | -83           | 20                            | 24.1        |
| Net value of trading derivatives   | -735          | -1,130        | -395                          | -35.0       |
| <b>Financial assets / liabilities, net designated at fair value through profit or loss</b>                     | <b>9,192</b>  | <b>7,802</b>  | <b>1,390</b>                  | <b>17.8</b> |

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 designated at fair value through profit or loss, excluding insurance companies, exceeded 9 billion euro, up by 17.8% compared with 1 January 2018. This trend was determined largely by the increase in the stock of debt securities and, to a lesser extent, equity securities and units of UCI measured at fair value.

**Other financial assets designated at fair value through other comprehensive income – Excluding insurance companies**

|   | 31.03.2018    | 01.01.2018    | (millions of euro)<br>Changes |            |
|---|---------------|---------------|-------------------------------|------------|
|   |               |               | amount                        | %          |
| Equities at fair value through other comprehensive income                                 | 3,006         | 3,163         | -157                          | -5.0       |
| Debt instruments designated at fair value through other comprehensive income              | 57,392        | 56,697        | 695                           | 1.2        |
| of which Stage 3  | 1             | 1             | -                             | -          |
| of which Stage 2  | 381           | 604           | -223                          | -36.9      |
| of which Stage 1  | 57,010        | 56,092        | 918                           | 1.6        |
| <b>Other financial assets designated at fair value through other comprehensive income</b> | <b>60,398</b> | <b>59,860</b> | <b>538</b>                    | <b>0.9</b> |

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

Other financial assets designated at fair value through other comprehensive income, excluding insurance companies, exceeded 60 billion euro, up by 0.9% during the quarter due to debt securities, particularly those classified to Stage 1. The equity securities component, which has a marginal weight, declined moderately.

**Securities measured at amortised cost other than loans – Excluding insurance companies**

|   | 31.03.2018    | 01.01.2018    | (millions of euro)<br>Changes |            |
|---|---------------|---------------|-------------------------------|------------|
|   |               |               | amount                        | %          |
| <b>Instruments measured at amortised cost which do not constitute loans</b> | <b>11,688</b> | <b>11,557</b> | <b>131</b>                    | <b>1.1</b> |
| of which Stage 3  | -             | -             | -                             | -          |
| of which Stage 2  | 3,335         | 3,374         | -39                           | -1.2       |
| of which Stage 1  | 8,353         | 8,183         | 170                           | 2.1        |

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

Securities measured at amortised cost other than loans, excluding insurance companies, amounted to approximately 12 billion euro, of which over 70% was classified to Stage 1.

**Financial assets and liabilities pertaining to insurance companies in accordance with IAS 39**

|   | 31.03.2018     | 01.01.2018     | (millions of euro) |              |
|---|----------------|----------------|--------------------|--------------|
|   |                |                | Changes            |              |
|   |                |                | amount             | %            |
| Financial assets held for trading   | 440            | 490            | -50                | -10.2        |
| <i>of which financial derivatives at fair value</i>                                       | 8              | 10             | -2                 | -20.0        |
| <i>of which credit derivatives at fair value</i>  | -              | -              | -                  | -            |
| Financial assets designated at fair value   | 75,780         | 74,715         | 1,065              | 1.4          |
| Financial assets available for sale   | 77,330         | 77,377         | -47                | -0.1         |
| Investments held to maturity  | -              | -              | -                  | -            |
| Loans to Banks  | 458            | 405            | 53                 | 13.1         |
| Loans to customers  | 18             | 18             | -                  | -            |
| <b>Total Financial assets of insurance companies pursuant to IAS 39</b>                   | <b>154,026</b> | <b>153,005</b> | <b>1,021</b>       | <b>0.7</b>   |
| Financial liabilities held for trading (*)  | 49             | 67             | -18                | -26.9        |
| <i>of which financial derivatives at fair value</i>                                       | 48             | 65             | -17                | -26.2        |
| <i>of which credit derivatives at fair value</i>  | 1              | 2              | -1                 | -50.0        |
| Due to Banks  | 3              | 1              | 2                  |              |
| <b>Financial liabilities pertaining to insurance companies measured pursuant to IAS39</b> | <b>52</b>      | <b>68</b>      | <b>-16</b>         | <b>-23.5</b> |

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"

Financial assets and liabilities pertaining to insurance companies in accordance with IAS 39, summarised in the table above, amounted to 154 billion euro and 52 million euro, respectively.

**Net interbank position**

The net interbank position as at 31 March 2018 stood at net debt of 26.5 billion euro, down compared to 1 January 2018 (net debt of 28.4 billion euro). Amounts due to banks, equal to 96.9 billion euro, include a 63.5 billion euro exposure to the ECB, following participation in the TLTRO II refinancing operations.

**Shareholders' equity**

As at 31 March 2018, the Group's shareholders' equity, including the net income for the period, came to 54,552 million euro compared to the 53,268 million euro at the beginning of the year. The increase in shareholders' equity was due to the net income accrued during the quarter.

**Valuation reserves**

|   | (millions of euro)    |                         |  |                    |               |
|---|-----------------------|-------------------------|--|--------------------|---------------|
|   | Reserve<br>01.01.2018 | Change<br>of the period | Release to<br>Retained earnings<br>(in case of sale) | Reserve 31.03.2018 | incidence %   |
| Financial assets designated at fair value through other comprehensive income (debt instruments)               | 186                   | -13                     | -  | 173                | 40.3          |
| Financial assets designated at fair value through other comprehensive income (equities)                       | 6                     | 54                      | -  | 60                 | 14.0          |
| Property and equipment  | -                     | -                       | -  | -                  | -             |
| Intangible assets   | -                     | -                       | -  | -                  | -             |
| Foreign investment hedges   | -                     | -                       | -  | -                  | -             |
| Cash flow hedges  | -916                  | 46                      | -  | -870               | -202.8        |
| Foreign exchange differences  | -1,000                | 12                      | -  | -988               | -230.3        |
| 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                  | 14                      | -  | -661               | -154.1        |
| Portion of the valuation reserves connected with investments carried at equity                                | -63                   | 4                       | -  | -59                | -13.8         |
| Fair value measurement of property and equipment and legally-required revaluations                            | 1,584                 | 1                       | -  | 1,585              | 369.5         |
| <b>Valuation reserves (excluding valuation reserves pertaining to insurance companies pursuant to IAS 39)</b> | <b>-878</b>           | <b>118</b>              | <b>-</b>   | <b>-760</b>        | <b>-177.2</b> |
| <b>Valuation reserves pertaining to insurance companies</b>   | <b>417</b>            | <b>12</b>               | <b>-</b>   | <b>429</b>         | <b>-141.9</b> |

During the quarter valuation reserves underwent marginal changes, chiefly relating to changes in the fair value of equity securities and derivative contracts entered into for cash flow hedging purposes.

## Own funds and capital ratios

| Own funds and capital ratios                                      | (millions of euro)      |                         |                |
|---|-------------------------|-------------------------|----------------|
|   | 31.03.2018              |                         | 31.12.2017     |
|   | IFRS9<br>"Fully loaded" | IFRS9<br>"Transitional" |                |
| <b>Own funds</b>  |                         |                         |                |
| Common Equity Tier 1 capital (CET1) net of regulatory adjustments | 34,330                  | 37,509                  | 38,051         |
| Additional Tier 1 capital (AT1) net of regulatory adjustments     | 5,432                   | 5,432                   | 5,414          |
| <b>TIER 1 CAPITAL</b>   | <b>39,762</b>           | <b>42,941</b>           | <b>43,465</b>  |
| Tier 2 capital net of regulatory adjustments                      | 8,631                   | 7,726                   | 7,908          |
| <b>TOTAL OWN FUNDS</b>  | <b>48,393</b>           | <b>50,667</b>           | <b>51,373</b>  |
| <b>Risk-weighted assets</b>                                       |                         |                         |                |
| Credit and counterparty risks                                     | 245,449                 | 247,375                 | 249,784        |
| Market and settlement risk  | 15,753                  | 15,753                  | 17,833         |
| Operational risks   | 18,617                  | 18,617                  | 18,597         |
| Other specific risks (a)  | 685                     | 685                     | 611            |
| <b>RISK-WEIGHTED ASSETS</b>                                       | <b>280,504</b>          | <b>282,430</b>          | <b>286,825</b> |
| <b>% Capital ratios</b>   |                         |                         |                |
| Common Equity Tier 1 capital ratio                                | 12.2%                   | 13.3%                   | 13.3%          |
| Tier 1 capital ratio  | 14.2%                   | 15.2%                   | 15.2%          |
| Total capital ratio   | 17.3%                   | 17.9%                   | 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 March 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 and transitional consolidated figures (as if the transitional treatment had not been applied) 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 March 2018, taking account of the transitional treatment adopted to mitigate the impact of IFRS 9, Own Funds came to 50,667 million euro, against risk-weighted assets of 282,430 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 48,393 million euro, compared to risk-weighted assets of 280,504 million euro.

Common Equity Tier 1 capital includes the net income for the first quarter of 2018, 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).

On the basis of the foregoing, solvency ratios as at 31 March 2018, calculated taking account of the transitional treatment of the impact of IFRS 9 (IFRS 9 Transitional), amounted to a Common Equity ratio of 13.3%, a Tier 1 ratio of 15.2% and a total capital ratio of 17.9%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 Fully Loaded), solvency ratios as at 31 March 2018 were as follows: a Common Equity ratio of 12.2%, a Tier 1 ratio of 14.2% and a total capital ratio of 17.3%. You are reminded that, on 22 December 2017, Intesa Sanpaolo received the ECB's final decision regarding the capital requirements to be observed with effect from 1 January 2018, in light of the results of the Supervisory Review and Evaluation Process (SREP). The capital requirement at consolidated level in terms of Common Equity Tier 1 ratio is 8.145% under the transition arrangements in force for 2018 and 9.33% on a fully loaded basis.

**Reconciliation of Shareholders' equity and Common Equity Tier 1 capital**

| Captions   | (millions of euro) |                |
|--|--------------------|----------------|
|  | 31.03.2018         | 31.12.2017     |
| Group Shareholders' equity   | 54,552             | 56,205         |
| Minority interests   | 342                | 399            |
| <b>Shareholders' equity as per the Balance Sheet</b>   | <b>54,894</b>      | <b>56,604</b>  |
| <b>Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period</b> |                    |                |
| - Capital of savings shares eligible for inclusion in AT1  | -485               | -485           |
| - Other equity instruments eligible for inclusion in AT1   | -4,121             | -4,121         |
| - Minority interests eligible for inclusion in AT1   | -5                 | -9             |
| - Minority interests eligible for inclusion in T2  | -3                 | -5             |
| - Ineligible minority interests on full phase-in   | -305               | -335           |
| - Ineligible net income for the period (a)   | -1,102             | -3,500         |
| - Treasury shares included under regulatory adjustments  | 94                 | 94             |
| - Other ineligible components on full phase-in (b)   | -3,452             | -24            |
| <b>Common Equity Tier 1 capital (CET1) before regulatory adjustments</b>                             | <b>45,515</b>      | <b>48,219</b>  |
| <b>Regulatory adjustments (including transitional adjustments) (c)</b>                               | <b>-8,006</b>      | <b>-10,168</b> |
| <b>Common Equity Tier 1 capital (CET1) net of regulatory adjustments</b>                             | <b>37,509</b>      | <b>38,051</b>  |

(a) Common Equity Tier 1 capital as at 31 March 2018 includes the net income for the first quarter of 2018, less the related dividend, calculated according to the payout envisaged in the 2018-2021 Business Plan (85% for 2018) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) The amount as at 31 March 2018 primarily includes the dividend and the portion intended for charitable donations relating to 2017 net income, as approved by the Shareholders' Meeting on 27 April 2018.

(c) Adjustments for the transitional period as at 31 March 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.

## Breakdown of consolidated results by business 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 the first quarter of 2018.

The following itemised analysis of the business areas illustrates the 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 material.

## Report on operations – Breakdown of consolidated results by business area

|  | (millions of euro)  |                                  |                                |                 |                  |           |                  |         |
|--|---------------------|----------------------------------|--------------------------------|-----------------|------------------|-----------|------------------|---------|
|  | Banca dei Territori | Corporate and Investment Banking | International Subsidiary Banks | Private Banking | Asset Management | Insurance | Corporate Centre | Total   |
| <b>Operating income</b>                      |                     |                                  |                                |                 |                  |           |                  |         |
| 31.03.2018                                   | 2,387               | 1,164                            | 469                            | 480             | 192              | 324       | -210             | 4,806   |
| 31.03.2017                                   | 2,135               | 819                              | 461                            | 464             | 178              | 319       | -167             | 4,209   |
| 31.03.2017 Aggregate                         | 2,307               | 826                              | 463                            | 468             | 178              | 319       | -211             | 4,350   |
| % change (a)                                 | 3.5                 | 40.9                             | 1.3                            | 2.6             | 7.9              | 1.6       | -0.5             | 14.2    |
| <b>Operating costs</b>                       |                     |                                  |                                |                 |                  |           |                  |         |
| 31.03.2018                                   | -1,347              | -254                             | -232                           | -137            | -38              | -41       | -249             | -2,298  |
| 31.03.2017                                   | -1,176              | -240                             | -215                           | -130            | -34              | -40       | -220             | -2,055  |
| 31.03.2017 Aggregate                         | -1,397              | -241                             | -223                           | -131            | -34              | -40       | -262             | -2,328  |
| % change (a)                                 | -3.6                | 5.4                              | 4.0                            | 4.6             | 11.8             | 2.5       | -5.0             | 11.8    |
| <b>Operating margin</b>                      |                     |                                  |                                |                 |                  |           |                  |         |
| 31.03.2018                                   | 1,040               | 910                              | 237                            | 343             | 154              | 283       | -459             | 2,508   |
| 31.03.2017                                   | 959                 | 579                              | 246                            | 334             | 144              | 279       | -387             | 2,154   |
| 31.03.2017 Aggregate                         | 910                 | 585                              | 240                            | 337             | 144              | 279       | -473             | 2,022   |
| % change (a)                                 | 14.3                | 55.6                             | -1.3                           | 1.8             | 6.9              | 1.4       | -3.0             | 16.4    |
| <b>Net income (loss)</b>                     |                     |                                  |                                |                 |                  |           |                  |         |
| 31.03.2018                                   | 415                 | 671                              | 183                            | 242             | 121              | 199       | -579             | 1,252   |
| 31.03.2017                                   | 400                 | 358                              | 362                            | 226             | 115              | 195       | -755             | 901     |
| 31.03.2017 Aggregate                         | 367                 | 363                              | 356                            | 228             | 115              | 195       | -723             | 901     |
| % change (a)                                 | 13.1                | 84.8                             | -48.6                          | 6.1             | 5.2              | 2.1       | -19.9            | 39.0    |
| <b>Loans to customers</b>                    |                     |                                  |                                |                 |                  |           |                  |         |
| 31.03.2018                                   | 214,602             | 115,645                          | 28,807                         | 8,249           | 361              | 22        | 33,347           | 401,033 |
| 01.01.2018                                   | 212,547             | 114,317                          | 28,594                         | 7,912           | 361              | 22        | 35,710           | 399,463 |
| % change (b)                                 | 0.97                | 1.16                             | 0.74                           | 4.26            | -                | -         | -6.62            | 0.39    |
| <b>Direct deposits from banking business</b> |                     |                                  |                                |                 |                  |           |                  |         |
| 31.03.2018                                   | 193,503             | 107,529                          | 36,340                         | 31,043          | 6                | -         | 55,837           | 424,258 |
| 01.01.2018                                   | 191,925             | 107,160                          | 35,774                         | 31,146          | 6                | -         | 57,463           | 423,474 |
| % change (b)                                 | 0.82                | 0.34                             | 1.58                           | -0.33           | -                | -         | -2.83            | 0.19    |
| <b>Risk-weighted assets</b>                  |                     |                                  |                                |                 |                  |           |                  |         |
| 31.03.2018                                   | 95,355              | 80,196                           | 31,087                         | 9,972           | 867              | -         | 64,953           | 282,430 |
| 01.01.2018                                   | 86,963              | 78,510                           | 30,926                         | 10,138          | 914              | -         | 79,374           | 286,825 |
| % change (b)                                 | 9.65                | 2.15                             | 0.52                           | -1.64           | -5.14            | -         | -18.17           | -1.53   |
| <b>Absorbed capital</b>                      |                     |                                  |                                |                 |                  |           |                  |         |
| 31.03.2018                                   | 8,897               | 7,484                            | 3,399                          | 972             | 95               | 3,886     | 6,060            | 30,793  |
| 01.01.2018                                   | 8,044               | 7,264                            | 3,347                          | 987             | 102              | 4,198     | 7,352            | 31,294  |
| % change (b)                                 | 10.60               | 3.03                             | 1.55                           | -1.52           | -6.86            | -7.43     | -17.57           | -1.60   |

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 31.03.2018 and 31.03.2017 Aggregate.

(b) The change expresses the ratio between 31.03.2018 and 31.03.2017 where not specified otherwise.

## BUSINESS AREAS

## Banca dei Territori

| Income statement  | 31.03.2018    | 31.03.2017    | Changes vs 31.03.2017 |             | 31.03.2017<br>Aggregate | Changes vs 31.03.2017 |             |
|---|---------------|---------------|-----------------------|-------------|-------------------------|-----------------------|-------------|
|   |               |               | amount                | %           |                         | amount                | %           |
| Net interest income   | 1,181         | 1,087         | 94                    | 8.6         | 1,171                   | 10                    | 0.9         |
| Net fee and commission income   | 1,188         | 1,016         | 172                   | 16.9        | 1,103                   | 85                    | 7.7         |
| Income from insurance business  | -             | -             | -                     | -           | -                       | -                     | -           |
| Profits (Losses) on financial assets and liabilities designated at fair value | 12            | 17            | -5                    | -29.4       | 17                      | -5                    | -29.4       |
| Other operating income (expenses)   | 6             | 15            | -9                    | -60.0       | 16                      | -10                   | -62.5       |
| <b>Operating income</b>   | <b>2,387</b>  | <b>2,135</b>  | <b>252</b>            | <b>11.8</b> | <b>2,307</b>            | <b>80</b>             | <b>3.5</b>  |
| Personnel expenses  | -829          | -736          | 93                    | 12.6        | -872                    | -43                   | -4.9        |
| Other administrative expenses   | -516          | -439          | 77                    | 17.5        | -522                    | -6                    | -1.1        |
| Adjustments to property, equipment and intangible assets                      | -2            | -1            | 1                     |             | -3                      | -1                    | -33.3       |
| <b>Operating costs</b>  | <b>-1,347</b> | <b>-1,176</b> | <b>171</b>            | <b>14.5</b> | <b>-1,397</b>           | <b>-50</b>            | <b>-3.6</b> |
| <b>Operating margin</b>   | <b>1,040</b>  | <b>959</b>    | <b>81</b>             | <b>8.4</b>  | <b>910</b>              | <b>130</b>            | <b>14.3</b> |
| Net adjustments to loans  | -361          | -297          | 64                    | 21.5        | -297                    | 64                    | 21.5        |
| Other net provisions and net impairment losses on other assets                | -22           | 2             | -24                   |             | -                       | 22                    | -           |
| Other income (expenses)   | -             | -             | -                     | -           | -                       | -                     | -           |
| Income (Loss) from discontinued operations                                    | -             | -             | -                     | -           | -                       | -                     | -           |
| <b>Gross income (loss)</b>  | <b>657</b>    | <b>664</b>    | <b>-7</b>             | <b>-1.1</b> | <b>613</b>              | <b>44</b>             | <b>7.2</b>  |
| Taxes on income   | -240          | -260          | -20                   | -7.7        | -242                    | -2                    | -0.8        |
| Charges (net of tax) for integration and exit incentives                      | -2            | -2            | -                     | -           | -2                      | -                     | -           |
| Effect of purchase price allocation (net of tax)                              | -             | -2            | -2                    |             | -2                      | -2                    |             |
| Levies and other charges concerning the banking industry (net of tax)         | -             | -             | -                     | -           | -                       | -                     | -           |
| Impairment (net of tax) of goodwill and other intangible assets               | -             | -             | -                     | -           | -                       | -                     | -           |
| Minority interests  | -             | -             | -                     | -           | -                       | -                     | -           |
| <b>Net income (loss)</b>  | <b>415</b>    | <b>400</b>    | <b>15</b>             | <b>3.8</b>  | <b>367</b>              | <b>48</b>             | <b>13.1</b> |

(millions of euro)

|                                       | 31.03.2018 | 01.01.2018 | changes |      |
|---------------------------------------|------------|------------|---------|------|
|                                       |            |            | amount  | %    |
| Loans to customers                    | 214,602    | 212,547    | 2,055   | 1.0  |
| Direct deposits from banking business | 193,503    | 191,925    | 1,578   | 0.8  |
|                                       | 31.03.2018 | 31.12.2017 | changes |      |
|                                       |            |            | amount  | %    |
| Risk-weighted assets                  | 95,355     | 86,963     | 8,392   | 9.7  |
| Absorbed capital                      | 8,897      | 8,044      | 853     | 10.6 |

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.

**Banca dei Territori's** operating income was 2,387 million euro in the first quarter of 2018, equal to around half of the Group's consolidated operating income, up 3.5% on a like-for-like basis compared to the same period of the previous year. In further detail, there was an increase in net fee and commission income (+7.7%), mostly attributable to the asset management segment, which benefited from greater placement and volume growth, and to bancassurance products. Fee and commission income generated by commercial banking services, in particular for current accounts and deposits, also had a positive impact. Net interest income was up slightly on the first three months of 2017 (+0.9%), driven by growth in customer dealing. Among the other revenue components, which however provide a marginal contribution to the Division's income, there was a decline both in other net operating income and in profits (losses) on financial assets and liabilities at fair value. Operating costs, equal to 1,347 million euro, were down compared to the first three months of 2017 (-3.6%) mainly due to the savings on personnel and administrative expenses. The operating margin amounted to 1,040 million euro, up 14.3% on the same period of the

previous year. Gross income, amounting to 657 million euro, showed an improvement of 7.2% despite higher adjustments to loans and provisions. Net income, after allocation to the Division of charges for integration of 2 million euro, amounted to 415 million euro, up 13.1%.

In quarterly terms, the operating margin and the other income margins improved compared with the fourth quarter of 2017, thanks to the reduction in operating costs, which largely offset the lower revenues.

The balance sheet figures at the end of March 2018 showed loans to customers of 214,602 million euro, up (+2.1 billion euro, or +1%) compared to the beginning of the year, essentially as a result of the increase in medium-/long-term loans to individuals and loans to businesses. Direct deposits from banking business, amounting to 193,503 million euro, showed an increase (+1.6 billion euro, +0.8%), driven by amounts due to customers.

**Corporate and Investment Banking**

| Income statement  | (millions of euro) |             |                       |             |                      |                                 |             |
|---|--------------------|-------------|-----------------------|-------------|----------------------|---------------------------------|-------------|
|   | 31.03.2018         | 31.03.2017  | Changes vs 31.03.2017 |             | 31.03.2017 Aggregate | Changes vs 31.03.2017 Aggregate |             |
|   |                    |             | amount                | %           |                      | amount                          | %           |
| Net interest income   | 406                | 392         | 14                    | 3.6         | 397                  | 9                               | 2.3         |
| Net fee and commission income   | 213                | 248         | -35                   | -14.1       | 248                  | -35                             | -14.1       |
| Income from insurance business  | -                  | -           | -                     | -           | -                    | -                               | -           |
| Profits (Losses) on financial assets and liabilities designated at fair value | 543                | 177         | 366                   |             | 179                  | 364                             |             |
| Other operating income (expenses)   | 2                  | 2           | -                     | -           | 2                    | -                               | -           |
| <b>Operating income</b>   | <b>1,164</b>       | <b>819</b>  | <b>345</b>            | <b>42.1</b> | <b>826</b>           | <b>338</b>                      | <b>40.9</b> |
| Personnel expenses  | -101               | -96         | 5                     | 5.2         | -96                  | 5                               | 5.2         |
| Other administrative expenses   | -151               | -142        | 9                     | 6.3         | -142                 | 9                               | 6.3         |
| Adjustments to property, equipment and intangible assets                      | -2                 | -2          | -                     | -           | -3                   | -1                              | -33.3       |
| <b>Operating costs</b>  | <b>-254</b>        | <b>-240</b> | <b>14</b>             | <b>5.8</b>  | <b>-241</b>          | <b>13</b>                       | <b>5.4</b>  |
| <b>Operating margin</b>   | <b>910</b>         | <b>579</b>  | <b>331</b>            | <b>57.2</b> | <b>585</b>           | <b>325</b>                      | <b>55.6</b> |
| Net adjustments to loans  | -28                | -65         | -37                   | -56.9       | -64                  | -36                             | -56.3       |
| Other net provisions and net impairment losses on other assets                | -5                 | -9          | -4                    | -44.4       | -10                  | -5                              | -50.0       |
| Other income (expenses)   | -                  | -           | -                     | -           | -                    | -                               | -           |
| Income (Loss) from discontinued operations                                    | -                  | -           | -                     | -           | -                    | -                               | -           |
| <b>Gross income (loss)</b>  | <b>877</b>         | <b>505</b>  | <b>372</b>            | <b>73.7</b> | <b>511</b>           | <b>366</b>                      | <b>71.6</b> |
| Taxes on income   | -206               | -147        | 59                    | 40.1        | -148                 | 58                              | 39.2        |
| Charges (net of tax) for integration and exit incentives                      | -                  | -           | -                     | -           | -                    | -                               | -           |
| Effect of purchase price allocation (net of tax)                              | -                  | -           | -                     | -           | -                    | -                               | -           |
| Levies and other charges concerning the banking industry (net of tax)         | -                  | -           | -                     | -           | -                    | -                               | -           |
| Impairment (net of tax) of goodwill and other intangible assets               | -                  | -           | -                     | -           | -                    | -                               | -           |
| Minority interests  | -                  | -           | -                     | -           | -                    | -                               | -           |
| <b>Net income (loss)</b>  | <b>671</b>         | <b>358</b>  | <b>313</b>            | <b>87.4</b> | <b>363</b>           | <b>308</b>                      | <b>84.8</b> |

|   | (millions of euro) |            |         |     |
|---|--------------------|------------|---------|-----|
|   | 31.03.2018         | 01.01.2018 | changes |     |
|   |                    |            | amount  | %   |
| Loans to customers                        | 115,645            | 114,317    | 1,328   | 1.2 |
| Direct deposits from banking business (a) | 107,529            | 107,160    | 369     | 0.3 |
|   | 31.03.2018         | 31.12.2017 | changes |     |
|   |                    |            | amount  | %   |
| Risk-weighted assets                      | 80,196             | 78,510     | 1,686   | 2.1 |
| Absorbed capital                          | 7,484              | 7,264      | 220     | 3.0 |

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 item includes capital protected certificates.

In the first quarter of 2018, the **Corporate and Investment Banking Division** recorded operating income of 1,164 million euro (representing over 20% of the Group's consolidated total), up 40.9% on a like-for-like basis compared to the same period of last year.

In detail, net interest income of 406 million euro was up (+2.3%), mainly as a result of the growth in customer dealing. Net fee and commission income, amounting to 213 million euro, fell by 14.1%, mainly due to the performance of the commercial banking segment, particularly on loans and guarantees, and of the investment banking segment. Profits on financial assets and liabilities at fair value trebled, reaching 543 million euro, partly due to the positive effect of 264 million euro resulting from the fair value measurement of the investment in NTV. Operating costs amounted to 254 million euro, up on the first three

months of 2017 (+5.4%), due to higher administrative and personnel expenses, driven by the increase in the average workforce related to business development. As a result of the above revenue and cost trends, the operating margin rose by 55.6% to 910 million euro. Gross income, amounting to 877 million euro, was up 71.6% due to lower adjustments and provisions. Lastly, net income came to 671 million euro, compared to 363 million for the same period of the previous year (+84.8%).

In the first quarter of 2018, the Corporate and Investment Banking Division recorded an increase in revenues and in the main income results compared to the fourth quarter of 2017, mainly due to net profits (losses) on financial assets and liabilities at fair value.

The Division's intermediated volumes increased compared to the beginning of the year (+0.8%). In detail, loans to customers, amounting to 115,645 million euro, increased by 1.3 billion euro (+1.2%), mainly due to the increase in operations with large groups and international customers, and direct deposits from banking business, amounting to 107,529 million euro, posted a slight increase (+0.4 billion euro, +0.3%), attributable to amounts due to customers, including in particular the Banca IMI repurchase agreements and transactions with financial institutions.

**International Subsidiary Banks**

| Income statement  | 31.03.2018  | 31.03.2017  | Changes vs 31.03.2017 |              | 31.03.2017 Aggregate | (millions of euro) changes vs 31.03.2017 Aggregate |              |
|---|-------------|-------------|-----------------------|--------------|----------------------|--|--------------|
|   |             |             | amount                | %            |                      | amount   | %            |
|   |             |             |                       |              |                      |  |              |
| Net interest income   | 314         | 321         | -7                    | -2.2         | 321                  | -7   | -2.2         |
| Net fee and commission income   | 120         | 115         | 5                     | 4.3          | 116                  | 4  | 3.4          |
| Income from insurance business  | -           | -           | -                     | -            | -                    | -  | -            |
| Profits (Losses) on financial assets and liabilities designated at fair value | 50          | 32          | 18                    | 56.3         | 33                   | 17   | 51.5         |
| Other operating income (expenses)   | -15         | -7          | 8                     |              | -7                   | 8  |              |
| <b>Operating income</b>   | <b>469</b>  | <b>461</b>  | <b>8</b>              | <b>1.7</b>   | <b>463</b>           | <b>6</b>   | <b>1.3</b>   |
| Personnel expenses  | -126        | -116        | 10                    | 8.6          | -120                 | 6  | 5.0          |
| Other administrative expenses   | -85         | -81         | 4                     | 4.9          | -84                  | 1  | 1.2          |
| Adjustments to property, equipment and intangible assets                      | -21         | -18         | 3                     | 16.7         | -19                  | 2  | 10.5         |
| <b>Operating costs</b>  | <b>-232</b> | <b>-215</b> | <b>17</b>             | <b>7.9</b>   | <b>-223</b>          | <b>9</b>   | <b>4.0</b>   |
| <b>Operating margin</b>   | <b>237</b>  | <b>246</b>  | <b>-9</b>             | <b>-3.7</b>  | <b>240</b>           | <b>-3</b>  | <b>-1.3</b>  |
| Net adjustments to loans  | 12          | -25         | 37                    |              | -26                  | 38   |              |
| Other net provisions and net impairment losses on other assets                | -10         | 5           | -15                   |              | 6                    | -16  |              |
| Other income (expenses)   | 1           | 196         | -195                  | -99.5        | 196                  | -195   | -99.5        |
| Income (Loss) from discontinued operations                                    | -           | -           | -                     | -            | -                    | -  | -            |
| <b>Gross income (loss)</b>  | <b>240</b>  | <b>422</b>  | <b>-182</b>           | <b>-43.1</b> | <b>416</b>           | <b>-176</b>  | <b>-42.3</b> |
| Taxes on income   | -55         | -57         | -2                    | -3.5         | -57                  | -2   | -3.5         |
| Charges (net of tax) for integration and exit incentives                      | -3          | -3          | -                     | -            | -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  | 1           | -           | 1                     | -            | -                    | 1  | -            |
| <b>Net income (loss)</b>  | <b>183</b>  | <b>362</b>  | <b>-179</b>           | <b>-49.4</b> | <b>356</b>           | <b>-173</b>  | <b>-48.6</b> |

|                                       | 31.03.2018 |   | 01.01.2018 |   | changes |     |
|---------------------------------------|------------|---|------------|---|---------|-----|
|                                       | amount     | % | amount     | % | amount  | %   |
|                                       |            |   |            |   |         |     |
| Loans to customers                    | 28,807     |   | 28,594     |   | 213     | 0.7 |
| Direct deposits from banking business | 36,340     |   | 35,774     |   | 566     | 1.6 |
|                                       | 31.03.2018 |   | 31.12.2017 |   | changes |     |
|                                       |            |   |            |   | amount  | %   |
| Risk-weighted assets                  | 31,087     |   | 30,926     |   | 161     | 0.5 |
| Absorbed capital                      | 3,399      |   | 3,347      |   | 52      | 1.6 |

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.

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 shown above and commented on below include the non-performing assets of CIB Bank (FUT), previously under the scope of the Capital Light Bank, as well as the Bucharest branch (former Venetian banks). Conversely, 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 the first quarter of 2018, the Division's operating income came to 469 million euro, up 1.3% on a like-for-like basis compared to the same period of the previous year (+2.8% at like-for-like exchange rates). A detailed analysis shows that net

interest income came to 314 million euro, compared to 321 million euro in the first three months of 2017 (-2.2%), mainly due to the performance reported by PBZ, including Intesa Sanpaolo Banka Bosna i Hercegovina and Intesa Sanpaolo Bank Slovenia (-6 million euro), by VUB Banka (-5 million euro), and by CIB Bank (-4 million euro), which were partly offset by Banca Intesa Beograd (+4 million euro) and by Bank of Alexandria (+2 million euro). Net fee and commission income, amounting to 120 million euro, were up (+3.4%). The profits (losses) on financial assets and liabilities at fair value, amounting to a profit of 50 million euro, were up (+51.5%) thanks to the higher contribution from VUB Banka (+20 million euro), which benefited from the gain realised on the sale of government securities.

Operating costs of 232 million euro increased by 4% compared with the same period of 2017 (+5.3% at like-for-like exchange rates). As a result of the above revenue and cost trends, the operating margin came to 237 million euro, down 1.3%. Gross income, amounting to 240 million euro, was down on 416 million euro for the first three months of last year (-42.3%), which had benefited from the positive effect deriving from the measurement at fair value of the investment in Bank of Qingdao as a consequence of the reclassification of the investment, no longer included among the entities subject to significant influence. Excluding this effect there was an increase of 6.2%. The Division closed the first quarter of 2018 with net income of 183 million euro (-48.6%).

The operating margin for the first quarter was up compared to the fourth quarter of 2017, thanks to the savings in operating costs. Gross income and net income were positively influenced by the improvement in net adjustments to loans.

The Division's intermediated volumes increased compared to the beginning of the year (+1.2%) due to the positive performance of loans to customers (+0.7%) as well as amounts due to customers within the direct deposits from banking business (+1.6%).

**Private Banking**

| Income statement  | 31.03.2018  | 31.03.2017  | Changes vs 31.03.2017 |            | 31.03.2017<br>Aggregate | changes vs 31.03.2017<br>Aggregate |            |
|---|-------------|-------------|-----------------------|------------|-------------------------|------------------------------------|------------|
|   |             |             |                       |            |                         |                                    |            |
|   |             |             | amount                | %          |                         | amount                             | %          |
| Net interest income   | 39          | 43          | -4                    | -9.3       | 43                      | -4                                 | -9.3       |
| Net fee and commission income   | 432         | 405         | 27                    | 6.7        | 409                     | 23                                 | 5.6        |
| Income from insurance business  | -           | -           | -                     | -          | -                       | -                                  | -          |
| Profits (Losses) on financial assets and liabilities designated at fair value | 6           | 13          | -7                    | -53.8      | 13                      | -7                                 | -53.8      |
| Other operating income (expenses)   | 3           | 3           | -                     | -          | 3                       | -                                  | -          |
| <b>Operating income</b>   | <b>480</b>  | <b>464</b>  | <b>16</b>             | <b>3.4</b> | <b>468</b>              | <b>12</b>                          | <b>2.6</b> |
| Personnel expenses  | -82         | -76         | 6                     | 7.9        | -76                     | 6                                  | 7.9        |
| Other administrative expenses   | -53         | -50         | 3                     | 6.0        | -52                     | 1                                  | 1.9        |
| Adjustments to property, equipment and intangible assets                      | -2          | -4          | -2                    | -50.0      | -3                      | -1                                 | -33.3      |
| <b>Operating costs</b>  | <b>-137</b> | <b>-130</b> | <b>7</b>              | <b>5.4</b> | <b>-131</b>             | <b>6</b>                           | <b>4.6</b> |
| <b>Operating margin</b>   | <b>343</b>  | <b>334</b>  | <b>9</b>              | <b>2.7</b> | <b>337</b>              | <b>6</b>                           | <b>1.8</b> |
| Net adjustments to loans  | -           | -           | -                     | -          | -                       | -                                  | -          |
| Other net provisions and net impairment losses on other assets                | -2          | -9          | -7                    | -77.8      | -9                      | -7                                 | -77.8      |
| Other income (expenses)   | 8           | -           | 8                     | -          | -                       | 8                                  | -          |
| Income (Loss) from discontinued operations                                    | -           | -           | -                     | -          | -                       | -                                  | -          |
| <b>Gross income (loss)</b>  | <b>349</b>  | <b>325</b>  | <b>24</b>             | <b>7.4</b> | <b>328</b>              | <b>21</b>                          | <b>6.4</b> |
| Taxes on income   | -103        | -94         | 9                     | 9.6        | -95                     | 8                                  | 8.4        |
| Charges (net of tax) for integration and exit incentives                      | -4          | -5          | -1                    | -20.0      | -5                      | -1                                 | -20.0      |
| 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               | -           | -           | -                     | -          | -                       | -                                  | -          |
| Minority interests  | -           | -           | -                     | -          | -                       | -                                  | -          |
| <b>Net income (loss)</b>  | <b>242</b>  | <b>226</b>  | <b>16</b>             | <b>7.1</b> | <b>228</b>              | <b>14</b>                          | <b>6.1</b> |

|                             | 31.03.2018 | 01.01.2018 | changes |      |
|-----------------------------|------------|------------|---------|------|
|                             |            |            |         |      |
|                             |            |            | amount  | %    |
| Assets under management (1) | 114,053    | 114,660    | -607    | -0.5 |

|                      | 31.03.2018 | 31.12.2017 | changes |      |
|----------------------|------------|------------|---------|------|
|                      |            |            |         |      |
|                      |            |            | amount  | %    |
| Risk-weighted assets | 9,972      | 10,138     | -166    | -1.6 |
| Absorbed capital     | 972        | 987        | -15     | -1.5 |

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 excellent products and services. The Division coordinates the operations of Fideuram, Fideuram Investimenti, Intesa Sanpaolo Private Banking, Sirefid, Fideuram Fiduciaria, Intesa Sanpaolo Private Bank (Suisse), Fideuram Asset Management Ireland, Fideuram Bank (Luxembourg) and Financière Fideuram.

In the first quarter of 2018, the Division generated gross income of 349 million euro, up on a like-for-like basis (+21 million euro, +6.4%) compared with the same period of 2017, mainly as a result of the increase in revenues (+12 million euro), lower provisions (-7 million euro) and a gain of 8 million euro realised on the sale of a bond from the loan portfolio. On the other hand, there was an increase in operating costs (+6 million euro) and, in particular, in personnel expenses, related to the

qualitative and quantitative strengthening of the workforce primarily in the commercial area, as well as administrative expenses, particularly for IT and costs for services provided by third parties.

The operating income performance was mainly attributable to the increase in net fee and commission income (+23 million euro), only partly offset by the reduction in profits (losses) on financial assets and liabilities at fair value (-7 million euro) and in net interest income (-4 million euro). The increase in fee and commission income was related to the growth in average assets under management, which generate recurring fee and commission income, and the positive contribution from the advanced advisory services. Net income was 242 million euro (+14 million euro, or +6.1%).

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 March 2018, assets under administration, which also include the contribution of the trust mandates for Sirefid, amounted to 181.9 billion euro (-0.9 billion euro compared to the beginning of the year). This was attributable to the negative performance of assets with respect to positive net inflows. The assets under management component amounted to 114.1 billion euro and was also slightly down on 31 December 2017.

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

On 10 April 2018, the acquisition of 94.6% of the share capital of Morval Vonwiller Holding by Fideuram was completed, following the issue of the necessary authorisations by the competent Supervisory Authorities in March. 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.

**Asset Management**

| Income statement  | 31.03.2018 | 31.03.2017 | (millions of euro) |             |
|---|------------|------------|--------------------|-------------|
|   |            |            | Changes<br>amount  | %           |
| Net interest income   | -          | -          | -                  | -           |
| Net fee and commission income   | 185        | 157        | 28                 | 17.8        |
| Income from insurance business  | -          | -          | -                  | -           |
| Profits (Losses) on financial assets and liabilities designated at fair value | -1         | -          | 1                  | -           |
| Other operating income (expenses)   | 8          | 21         | -13                | -61.9       |
| <b>Operating income</b>   | <b>192</b> | <b>178</b> | <b>14</b>          | <b>7.9</b>  |
| Personnel expenses  | -19        | -16        | 3                  | 18.8        |
| Other administrative expenses   | -19        | -18        | 1                  | 5.6         |
| Adjustments to property, equipment and intangible assets                      | -          | -          | -                  | -           |
| <b>Operating costs</b>  | <b>-38</b> | <b>-34</b> | <b>4</b>           | <b>11.8</b> |
| <b>Operating margin</b>   | <b>154</b> | <b>144</b> | <b>10</b>          | <b>6.9</b>  |
| Net adjustments to loans  | -          | -          | -                  | -           |
| Other net provisions and net impairment losses on other assets                | -          | -          | -                  | -           |
| Other income (expenses)   | -          | -          | -                  | -           |
| Income (Loss) from discontinued operations                                    | -          | -          | -                  | -           |
| <b>Gross income (loss)</b>  | <b>154</b> | <b>144</b> | <b>10</b>          | <b>6.9</b>  |
| Taxes on income   | -30        | -25        | 5                  | 20.0        |
| Charges (net of tax) for integration and exit incentives                      | -          | -          | -                  | -           |
| Effect of purchase price allocation (net of tax)                              | -          | -          | -                  | -           |
| Levies and other charges concerning the banking industry (net of tax)         | -          | -          | -                  | -           |
| Impairment (net of tax) of goodwill and other intangible assets               | -          | -          | -                  | -           |
| Minority interests  | -3         | -4         | -1                 | -25.0       |
| <b>Net income (loss)</b>  | <b>121</b> | <b>115</b> | <b>6</b>           | <b>5.2</b>  |

|                         | 31.03.2018 | 01.01.2018 | (millions of euro) |     |
|-------------------------|------------|------------|--------------------|-----|
|                         |            |            | changes<br>amount  | %   |
| Assets under management | 253,369    | 253,161    | 208                | 0.1 |

|                      | 31.03.2018 | 31.12.2017 | changes |      |
|----------------------|------------|------------|---------|------|
|                      |            |            | amount  | %    |
| Risk-weighted assets | 867        | 914        | -47     | -5.1 |
| Absorbed capital     | 95         | 102        | -7      | -6.9 |

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.

Overall, the total assets managed by the Asset Management Division at the end of March 2018 came to 253.4 billion euro, up slightly (+0.2 billion euro) on the beginning of the year, as a result of net inflows (+2.1 billion euro). The trend in inflows is attributable to the contribution of mutual funds (+1.5 billion euro) and institutional mandates (+1.5 billion euro), which more than offset the outflows relating to the retail sale of portfolio management schemes (-0.9 billion euro).

As at 31 March 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 March rose to 15.3%.

Operating income came to 192 million euro in the first quarter of 2018, up 7.9% compared to the same period of the previous year, due to the positive performance of net fee and commission income (+17.8%), driven in particular by management fees, related to the growth in average assets under management, and by placement commissions. Operating costs rose (+11.8%) due to personnel and administrative expenses, as a result of the change in the operational structures triggered by the

increase in volumes under management. As a result of the above revenue and cost trends, the operating margin came to 154 million euro, up 6.9%. The Division closed the first quarter of 2018 with net income, gross of minority interests, of 121 million euro (+5.2%).

**Insurance**

| Income statement  | 31.03.2018 | 31.03.2017 | (millions of euro) |            |
|---|------------|------------|--------------------|------------|
|   |            |            | Changes<br>amount  | %          |
| Net interest income   | -          | -          | -                  | -          |
| Net fee and commission income   | -          | -          | -                  | -          |
| Income from insurance business  | 326        | 320        | 6                  | 1.9        |
| Profits (Losses) on financial assets and liabilities designated at fair value | -          | -          | -                  | -          |
| Other operating income (expenses)   | -2         | -1         | 1                  |            |
| <b>Operating income</b>   | <b>324</b> | <b>319</b> | <b>5</b>           | <b>1.6</b> |
| Personnel expenses  | -20        | -19        | 1                  | 5.3        |
| Other administrative expenses   | -20        | -20        | -                  | -          |
| Adjustments to property, equipment and intangible assets                      | -1         | -1         | -                  | -          |
| <b>Operating costs</b>  | <b>-41</b> | <b>-40</b> | <b>1</b>           | <b>2.5</b> |
| <b>Operating margin</b>   | <b>283</b> | <b>279</b> | <b>4</b>           | <b>1.4</b> |
| Net adjustments to loans  | -          | -          | -                  | -          |
| Other net provisions and net impairment losses on other assets                | -          | -          | -                  | -          |
| Other income (expenses)   | -          | -          | -                  | -          |
| Income (Loss) from discontinued operations                                    | -          | -          | -                  | -          |
| <b>Gross income (loss)</b>  | <b>283</b> | <b>279</b> | <b>4</b>           | <b>1.4</b> |
| Taxes on income   | -79        | -79        | -                  | -          |
| Charges (net of tax) for integration and exit incentives                      | -1         | -1         | -                  | -          |
| Effect of purchase price allocation (net of tax)                              | -4         | -4         | -                  | -          |
| Levies and other charges concerning the banking industry (net of tax)         | -          | -          | -                  | -          |
| Impairment (net of tax) of goodwill and other intangible assets               | -          | -          | -                  | -          |
| Minority interests  | -          | -          | -                  | -          |
| <b>Net income (loss)</b>  | <b>199</b> | <b>195</b> | <b>4</b>           | <b>2.1</b> |

|                             | 31.03.2018 | 01.01.2018 | (millions of euro) |      |
|-----------------------------|------------|------------|--------------------|------|
|                             |            |            | changes<br>amount  | %    |
| Assets under management (1) | 153,057    | 152,691    | 366                | 0.2  |
|                             | 31.03.2018 | 31.12.2017 | changes<br>amount  | %    |
| Risk-weighted assets        | -          | -          | -                  | -    |
| Absorbed capital            | 3,886      | 4,198      | -312               | -7.4 |

(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.

The Division's income from insurance business for the first quarter of 2018 came to 326 million euro, up by 6 million euro (+1.9%) on the same period of 2017. This positive performance was driven both by the technical margins for life insurance products and the margins for the protection business.

Gross income, amounting to 283 million euro, increased by 4 million euro (+1.4%) compared to the same period of the previous year, thanks to higher operating income (+5 million euro), offset by a slight rise in costs (+1 million euro) attributable to the increase in the workforce.

The cost/income ratio, at 12.7%, remained at excellent levels, in line with those seen in the first three months of the previous year.

Lastly, net income, after allocation of the income effects of the acquisition costs of 4 million euro, amounted to 199 million euro (+2.1%).

Direct deposits from insurance business, amounting to 153,057 million euro, showed a slight increase (+0.4 billion euro, +0.2%) compared to the beginning of the year, essentially as a result of higher financial liabilities for the insurance segment designated at fair value.

The Division's collected premiums for life policies and pension products amounted to 5.6 billion euro, down slightly on the same period of the previous year. Collected premiums for the life insurance business were concentrated in unit linked products (51%) and multi-line products (35%). Collected premiums for pension products reached 172 million euro, an improvement of 10% on the first quarter of 2017, thanks to the positive performance of the open pension funds and the individual pension plans.

Collected premiums for the protection business totalled 115 million euro, in line with the same period of the previous year, but with strong performance for non-motor products, which are the focus of the 2018-2021 Business Plan. In particular, health and accident products increased by almost 100% and home and household products by 40%.

## Corporate Centre

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

The Corporate Centre Departments generated a gross loss of 583 million euro in the first quarter of 2018, compared to -777 million euro in the corresponding period of the previous year. The operating costs of the Corporate Centre, 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 the first three months of 2017. The quarter ended with a net loss of 579 million euro, lower than the -723 million euro recorded in the first three months of 2017. The income statement of the Corporate Centre was penalised by the charges imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. These charges were higher in the first quarter of 2017 (296 million euro related to the Atlante Fund and the European Resolution Fund) compared to those recorded for the current quarter (117 million euro, mainly for ordinary contributions to the European Resolution Fund estimated for the full year 2018).

## Capital Light Bank

In the first quarter of 2018 the ordinary and extraordinary transactions carried out on the assets held by the Capital Light Bank continued with the aim of reducing the non-core assets. With the new 2018-2021 Business Plan, the bad loans and lease receivables up to 31 December 2017 were transferred to the Capital Light Bank, while several minor assets, for which the deleveraging and derisking envisaged by the previous 2014-2017 Business Plan had been completed, left the scope of the Business Unit. The new scope managed for deleveraging purposes amounted to around 36 billion euro as at December 2017, of which around 33 billion euro of bad loans and lease receivables, which are accompanied by financial equity investments and minor companies. A reduction in assets of around 1.6 billion euro was achieved from the beginning of the year on the new scope established by the 2018-2021 Business Plan. With regard to the bad loan portfolio under management, recovery operations continued, both internally and through external servicers, with collections of almost 400 million euro in the first quarter, up slightly on the first quarter of 2017. In terms of extraordinary transactions, the Business Unit was involved in negotiations with Intrum Justitia for the creation of a national operator for the servicing of non-performing loans. These negotiations resulted in an agreement, approved by the Board of Directors of Intesa Sanpaolo on 17 April, which involved the transfer, to an investee company, of Intesa Sanpaolo's credit recovery business line and the disposal via securitisation of a sizeable portfolio of bad loans. This strategic partnership will enable the creation of a specialist hub for credit recovery, through the integration of the platforms of Intesa Sanpaolo, which will transfer around 600 people, with the Italian structures of Intrum. The new operator will service 40 billion euro of bad loans, which will be accompanied, according to the contractual provisions, by most of the new bad loans and lease receivables arising within the Group's Italian operations over the next 10 years. Intesa Sanpaolo's recovery platform has been valued at around 500 million euro and the Group will hold a minority interest of 49% in the new company. The transaction also envisages the disposal and securitisation of a portfolio of bad loans of a gross amount of 10.8 billion euro at a price of 3.1 billion euro. The notes issued will be subscribed by a group of leading banks for the senior notes (60%), and the remaining junior and mezzanine notes (40%) will be subscribed with a majority interest by a vehicle owned by Intrum and other investors (51%) and for the remainder by Intesa Sanpaolo (49%). The structure will ensure the accounting and prudential derecognition of the portfolio sold, reducing the Group's gross NPL ratio to single digit (figure as at December 2017) and allowing it to move towards the deleveraging targets set by the Business Plan. The transaction, subject to the necessary authorisations from the competent authorities, will have an overall estimated positive impact on the income statement of 400 million euro and will be completed by November 2018. 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 the first quarter, driven by supporting action and direct participation in auctions for about 90 properties, approximately 6 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. With regard to those assets, the Business Unit participated in the sale of the equity investment in Nuovo Trasporto Viaggiatori to the US fund GIP – Global Infrastructure Partners.

## Treasury services

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

In the first quarter of 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 Target2 Securities) and cooperating in relation to "Instant Payments". With regard to the instant payments product, the Bank completed the roll-out phase, extending the service to the Parent Company's customers to become one of the leading Italian and European banks in the instant payments market. The major project that will lead to the creation of a single Central Bank platform has now entered the research and development phase scheduled to end in mid-2019. Intesa Sanpaolo, in addition to participating in the ECB work groups, officially launched a Group internal project in March.

In the first three months of 2018, the main European money-market curves showed very short-term yields that remained close to the deposit facility rate. The Eonia swap curve showed higher, but still moderate, volatility compared to the previous quarter, in the 12 to 24 months curve segment, ranging from -0.11% to -0.19%. The fluctuations were caused by changes in

market expectations about a possible acceleration in the ECB's normalisation of official rates, justified by increasingly widespread economic growth. These expectations were however contained and directed by President Mario Draghi, despite the removal, in the official statement of March, of the words relating to the possibility of increasing monthly purchases within the Quantitative Easing. In the United States, the Federal Reserve raised official rates by 25 basis points, bringing them into the 1.50%-1.75% corridor, signalling its intention to continue at the same pace over the next few years.

With regard to the Intesa Sanpaolo's euro and foreign currency short-term securities funding programmes, the overall outstanding at the end of the quarter remained in line with the figure recorded at the end of 2017, with investor interest still concentrated on the 12-month maturity.

For the government bond portfolio, the first quarter of 2018 saw an increase in volatility of the equity and credit markets. However, the continued quantitative easing by the ECB kept European government spreads stable despite concerns related to the Italian elections.

The portfolio transactions were aimed at the active management of the credit risk to optimise the risk/return profile and net interest income.

The exposure to non-government securities was reduced as a result of the extremely small spreads reached in January.

With regard to the repo market, volumes remained essentially unchanged in the first quarter of 2018. There were no significant changes in the spread between the rates of the core countries and Italian government bonds during the first three months of the year. The spreads did, however, widen at the end of the quarter, although less than in the previous quarters, with the exception of the end of the previous year. Italian repo rates were stable during the quarter, at levels just below that of the depo facility.

In terms of medium/long-term funding operations, in the first quarter of 2018, the total amount of Group securities placed on the domestic market via its own networks and direct listings was 671 million euro. Among the securities placed, there was a prevalence of the component consisting of structured financial instruments at 94% (primarily consisting of equity-linked structures), while the share of plain-vanilla instruments amounted to 6%. A breakdown by average maturity shows that 57% is comprised of financial instruments with 2-, 3- and 4-year maturities, 33% is represented by 5-, 6- and 7-year securities and the remaining 10% by 8- and 10-year securities.

On the international markets, in the first quarter of 2018, institutional unsecured funding transactions were completed for a total of around 3.7 billion euro through the issue of senior bonds as well as, to a minimum extent, certificates placed with institutional investors. Specifically, 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. A senior fixed-rate security was also issued for 46.6 billion JPY (corresponding to around 354 million euro), aimed at 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. This security represents the first "Tokyo Pro Bond" issued by the Bank. Lastly, a senior fixed-rate security was issued for 1.25 billion euro with a 10-year duration, aimed at European institutional investors.

During the first quarter of the year, within the multi-originator programme guaranteed by ISP OBG, the 11<sup>th</sup> series matured for an amount of 1.375 billion euro and the 12<sup>th</sup> series maturing in August 2018 was redeemed in advance for an amount of 2.154 billion euro, for a total of 3.529 billion euro. In March, the 25<sup>th</sup> and 26<sup>th</sup> series of floating-rate securities were issued for a total of 3.900 billion euro with a duration of 7 and 10 years respectively. 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 on the Eurosystem.

With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, in January the 11<sup>th</sup> series was partially redeemed for an amount of 600 million euro bringing the nominal amount to 500 million euro.

Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 23<sup>rd</sup> 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.

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 March 2018, the outstanding amount of loans (gross of applicable hair-cuts) lodged as pledge by the Group was about 13.5 billion euro.

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# Risk management

## MAIN RISKS AND UNCERTAINTIES

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

Group liquidity remains high: as at 31 March 2018, both regulatory indicators LCR and NSFR, also adopted as internal liquidity risk measurement metrics, were well above fully phased-in requirements established by Regulation 575/2013 and Directive 2013/36/EU. At the end of March, the Central Banks eligible liquidity reserves came to 166 billion euro (171 billion euro at the end of December 2017), of which 87 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017).

The loan to deposit ratio at the end of March 2018, calculated as the ratio of loans to customers to direct deposits from banking business, including the components relating to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, is 95%.

In terms of funding, the widespread branch network remains a stable, reliable source: 74% of direct deposits from banking business come from retail operations (314 billion euro). In addition, 2.5 billion euro of unsecured senior bonds, 4.6 billion Yen of unsecured senior bonds and 1.25 billion euro of unsecured senior bonds were placed during the quarter.

With regard to the targeted refinancing operation TLTRO II, at the end of March 2018, the Group's participation amounted to 57 billion euro, equal to the maximum amount that can be requested. Including the components relating to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, the amount as at 31 March 2018 is equal to approximately 64 billion euro.

The Intesa Sanpaolo Group's leverage was 6.3% as at 31 March 2018.

The capital base also remains high. Own funds, risk weighted assets and the capital ratios at 31 March 2018 are calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which have transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.

At the end of the first quarter, total Own Funds came to 50,667 million euro, against risk-weighted assets of 282,430 million euro, which reflected primarily the credit and counterparty risk and, to a lesser extent, the operational and market risk.

The Total Capital Ratio stood at 17.9%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.2%. The ratio of Common Equity Tier 1 capital.

(CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 13.3%.

Having met the regulatory requirements for its inclusion pursuant to article 26(2) of the CRR, the Common Equity Tier 1 Capital as at 31 March 2018 took account of the figure of 15% of the net income for the period (net of foreseeable costs), in consideration of the payout ratio established for 2018 in the dividend policy of the 2018-2021 Business Plan.

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 during the first three months of 2018 was approximately 48 million euro, compared to an average amount of approximately 85 million euro in the same period of 2017. The trend in the Group's VaR in the first three months - mainly determined by Banca IMI - is described in greater detail later in this chapter. The macroeconomic environment and the 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 2,411 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 were assessed using the usual criteria of prudence, as highlighted by the substantial average coverage percentages for bad loans (68.6%) and unlikely to pay positions (33.6%).

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 designated at fair value through profit and loss was carried out as follows: around 59% using level 1 inputs, around 33% using level 2 inputs and only around 8% using level 3 inputs.

Investment levels in structured credit products and hedge funds remained low. The structured credit products generated a positive contribution of 4 million euro during the period, whereas the hedge funds generated a loss of 8 million euro over the nine months, as described in more detail in the specific paragraphs of this chapter.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly delicate. No problematic issues requiring the remeasurement of the recoverable values of intangible assets and goodwill were identified during the period. In particular, with regard to goodwill, the analyses conducted showed no significant changes to the main parameters and macroeconomic aggregates which could have an impact on the Group's expected cash flows and on the discounting rates thereof based on the models used to verify the retention of the recognition value of the intangible asset in the financial statements.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly delicate. However, with regard to intangible assets and goodwill, no problem issues were identified during the quarter – also in consideration of the short length of time since the last impairment test – requiring the remeasurement of their recoverable values. In particular, with regard to goodwill, the analyses conducted showed no significant changes to the main parameters and macroeconomic aggregates which could have an impact on the Group's expected cash flows and on the discounting rates thereof based on the models used to verify the retention of the recognition value of the intangible asset in the financial statements.

## THE BASIC PRINCIPLES OF RISK MANAGEMENT

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 Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risks Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.

The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.

The Bodies also benefit from the action of some Management Committees on risk management. These Committees, which include the Steering Committee, operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of corporate control functions, and in particular the risk control function.

The Chief Risk Officer is responsible for: (i) 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; (ii) setting the Group's risk management guidelines and policies in accordance with the company's strategies and objectives; (iii) coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments; (iv) ensuring the management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies.

The Parent Company performs a guidance and coordination role with respect to the Group companies, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Corporate Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.

Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the group controls.

The risk measurement and management tools contribute to defining a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss the Group might incur over a year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risk Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord. 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.

## BASEL 3 REGULATIONS AND THE INTERNAL PROJECT

In view of compliance with the reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.

With respect to 31 December 2017, there were no changes in the scope of the internal models for credit risk.

The development of the IRB systems is proceeding according to the plan presented to the Supervisory Authority.

There were no changes in the scope of application of the internal models concerning counterparty risk for OTC derivatives and operational risks compared to 31 December 2017.

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 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 ([group.intesasanpaolo.com](http://group.intesasanpaolo.com)) on a quarterly basis.

## CREDIT RISK

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.

In particular, with regard to loans to customers, risk measurement is performed by means of different internal rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.

Ratings and credit-risk mitigating factors (guarantees, loan types and covenants) play a key role in the loan granting and managing process.

There were no changes relating to the authorisations for the models to be applied to the specific portfolios with respect to 31 December 2017.

### Credit quality

| Captions  | 31.03.2018     |                   |                | 01.01.2018     |                   |                | Change       |
|---|----------------|-------------------|----------------|----------------|-------------------|----------------|--------------|
|   | Gross exposure | Total adjustments | Net exposure   | Gross exposure | Total adjustments | Net exposure   |              |
| Bad loans   | 33,598 (*)     | -23,043 (*)       | 10,555 (*)     | 34,192 (**)    | -23,630 (**)      | 10,562 (**)    | -7           |
| Unlikely to pay   | 16,523         | -5,551            | 10,972         | 17,390         | -5,798            | 11,592         | -620         |
| Past due loans  | 509            | -110              | 399            | 475            | -101              | 374            | 25           |
| <b>Non-Performing Loans</b>   | <b>50,630</b>  | <b>-28,704</b>    | <b>21,926</b>  | <b>52,057</b>  | <b>-29,529</b>    | <b>22,528</b>  | <b>-602</b>  |
| <i>Non-performing loans in Stage 3 (subject to impairment)</i>              | 50,549         | -28,695           | 21,854         | 51,939         | -29,483           | 22,456         | -602         |
| <i>Non-performing loans designated at fair value through profit or loss</i> | 81             | -9                | 72             | 118            | -46               | 72             | -            |
| <b>Performing loans</b>   | <b>375,604</b> | <b>-2,411</b>     | <b>373,193</b> | <b>373,493</b> | <b>-2,417</b>     | <b>371,076</b> | <b>2,117</b> |
| Stage 2   | 54,673         | -1,547            | 53,126         | 51,684         | -1,573            | 50,111         | 3,015        |
| Stage 1   | 320,473        | -864              | 319,609        | 321,494        | -844              | 320,650        | -1,041       |
| <i>Performing loans designated at fair value through profit or loss</i>     | 458            | -                 | 458            | 315            | -                 | 315            | 143          |
| <b>Performing loans represented by securities</b>                           | <b>5,898</b>   | <b>-16</b>        | <b>5,882</b>   | <b>5,913</b>   | <b>-54</b>        | <b>5,859</b>   | <b>23</b>    |
| Stage 2   | 432            | -9                | 423            | 662            | -23               | 639            | -216         |
| Stage 1   | 5,466          | -7                | 5,459          | 5,251          | -31               | 5,220          | 239          |
| <b>Loans held for trading</b>   | <b>32</b>      | <b>-</b>          | <b>32</b>      | <b>-</b>       | <b>-</b>          | <b>-</b>       | <b>32</b>    |
| <b>Total loans to customers</b>   | <b>432,164</b> | <b>-31,131</b>    | <b>401,033</b> | <b>431,463</b> | <b>-32,000</b>    | <b>399,463</b> | <b>1,570</b> |
| <i>of which forbore performing</i>  | <b>8,451</b>   | <b>-360</b>       | <b>8,091</b>   | <b>7,954</b>   | <b>-328</b>       | <b>7,626</b>   | <b>465</b>   |
| <i>of which forbore non-performing</i>                                      | <b>11,034</b>  | <b>-4,330</b>     | <b>6,704</b>   | <b>11,134</b>  | <b>-4,430</b>     | <b>6,704</b>   | <b>-</b>     |

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

(\*) of which disposable bad loans: gross exposure 22,477, total adjustments -16,214, net exposure 6,264, coverage 72.1%.

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

As at 31 March 2018, the Group's gross non-performing loans amounted to 50.6 billion euro, down by 1.4 billion euro from the beginning of the year, mainly due to lower unlikely-to-pay loans, which fell by 5%, and, to a lesser extent, to bad loans, which were also down by 1.7%. Gross past due loans, amounting to 509 million euro, were up by 7.2% (+34 million euro).

Net non-performing loans amounted to 21.9 billion euro at the end of the quarter and were down by 2.7% since the beginning of the year, continuing the progressive decline already recorded in the previous year. Non-performing assets decreased slightly as a percentage of total net loans to customers, down to 5.5%. As a result of the strategic agreement with Intrum currently being finalised, the stock of gross non-performing loans should decrease by over 10 billion euro and the non-performing loan ratio should be further reduced to 4.7%.

In further detail, bad loans amounted to 10.6 billion euro, net of adjustments, in the first quarter of 2018, stable from the beginning of the year, and represented 2.6% of total loans. During the same period, the coverage ratio was 68.6%. Loans

included in the unlikely to pay category amounted to almost 11 billion euro, down by 5.3%, accounting for 2.7% of total loans to customers, with a coverage ratio of 33.6%. Past due loans amounted to 399 million euro, down 6.7% since the beginning of the year, with a coverage ratio of 21.6%. Within the non-performing loan category, forbore exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 6.7 billion euro, with a coverage ratio of 39.2%, while forbore exposures in the performing loans category amounted to 8.1 billion euro. Overall, the coverage ratio of performing loans was 0.6%, sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios. More specifically, the performing loans in the Stage 2 portfolio amounted to 53.1 billion euro, representing an increase of 3 billion euro, partly due to technical defaults related to the renewal timing of credit lines. This change, together with the improvement in the riskiness of several customer segments, resulted in a slight reduction in the coverage ratio to 2.8% from 3% at the beginning of the year.

## MARKET RISKS

### TRADING BOOK

During the first quarter of 2018, the market risks generated by Intesa Sanpaolo and Banca IMI decreased compared to the average values of the fourth quarter of 2017. The average VaR for the period totalled 48.1 million euro compared to 58.6 million euro in the fourth quarter of 2017.

#### Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI<sup>(a)</sup>

|                 | (millions of euro)     |                                |                        |                        |                                |                        |                        |
|-----------------|------------------------|--------------------------------|------------------------|------------------------|--------------------------------|------------------------|------------------------|
|                 | average<br>1st quarter | 2018<br>minimum<br>1st quarter | maximum<br>1st quarter | average<br>4th quarter | 2017<br>average<br>3rd quarter | average<br>2nd quarter | average<br>1st quarter |
| Intesa Sanpaolo | 7.8                    | 6.9                            | 9.5                    | 8.0                    | 8.9                            | 11.6                   | 11.5                   |
| Banca IMI       | 40.3                   | 24.6                           | 52.0                   | 50.5                   | 52.6                           | 58.4                   | 73.7                   |
| <b>Total</b>    | <b>48.1</b>            | <b>33.7</b>                    | <b>59.9</b>            | <b>58.6</b>            | <b>61.5</b>                    | <b>70.0</b>            | <b>85.3</b>            |

(a) Each line in the table sets out past estimates of daily VaR calculated on the quarterly historical time-series of Intesa Sanpaolo and Banca IMI, respectively; minimum and maximum values for the two companies are recalculated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

In the first three months of 2018, the Group's average VaR was 48.1 million euro, down from 85.3 million euro in the same period of 2017.

|                 | (millions of euro)     |                                |                        |                        |                                |                        |
|-----------------|------------------------|--------------------------------|------------------------|------------------------|--------------------------------|------------------------|
|                 | average<br>1st quarter | 2018<br>minimum<br>1st quarter | maximum<br>1st quarter | average<br>1st quarter | 2017<br>minimum<br>1st quarter | maximum<br>1st quarter |
| Intesa Sanpaolo | 7.8                    | 6.9                            | 9.5                    | 11.5                   | 10.1                           | 12.5                   |
| Banca IMI       | 40.3                   | 24.6                           | 52.0                   | 73.7                   | 60.7                           | 93.2                   |
| <b>Total</b>    | <b>48.1</b>            | <b>33.7</b>                    | <b>59.9</b>            | <b>85.3</b>            | <b>72.1</b>                    | <b>104.8</b>           |

(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first three months of the year of Intesa Sanpaolo and Banca IMI, respectively; minimum and maximum values for the two companies are recalculated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

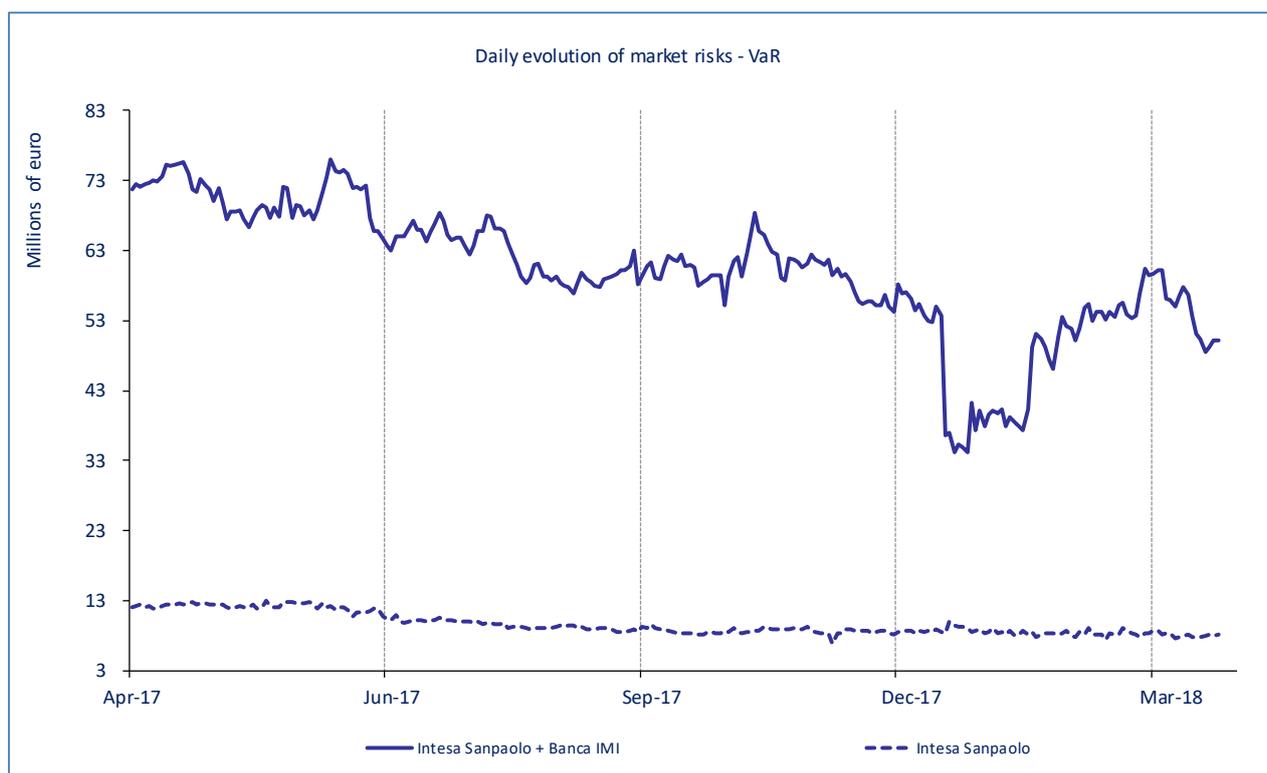
For Intesa Sanpaolo, the breakdown of risk profile in the first quarter of 2018 with regard to the various factors shows the prevalence of credit spread risk, equal to 43% of total operational VaR; for Banca IMI too credit spread risk was the most significant, representing 79% of total VaR.

#### Contribution of risk factors to total VaR<sup>(a)</sup>

| 1st quarter 2018 | Shares    | Hedge funds | Interest rates | Credit spreads | Foreign exchange rates | Other parameters | Commodities |
|------------------|-----------|-------------|----------------|----------------|------------------------|------------------|-------------|
| Intesa Sanpaolo  | 4%        | 5%          | 29%            | 43%            | 18%                    | 1%               | 0%          |
| Banca IMI        | 5%        | 0%          | 8%             | 79%            | 1%                     | 6%               | 1%          |
| <b>Total</b>     | <b>5%</b> | <b>1%</b>   | <b>11%</b>     | <b>72%</b>     | <b>4%</b>              | <b>6%</b>        | <b>1%</b>   |

(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 first quarter of 2017, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

The trend in VaR is mainly attributable to Banca IMI. With effect from 1 January 2018, Banca IMI's market risk decreased due to the reclassification, upon IFRS 9 FTA, of part of the securities held in the portfolio from HTCS (former AFS) to HTC. During the first quarter of 2018, the HTCS book was reconstructed, retaining the focus on government securities.



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 March is summarised in the following table: The shocks applied to the portfolio were updated annually.

| (millions of euro) |        |         |                |            |                |       |                        |      |             |         |
|--------------------|--------|---------|----------------|------------|----------------|-------|------------------------|------|-------------|---------|
|                    | EQUITY |         | INTEREST RATES |            | CREDIT SPREADS |       | FOREIGN EXCHANGE RATES |      | COMMODITIES |         |
|                    | Crash  | Bullish | +40bp          | lower rate | -25bp          | +25bp | -10%                   | +10% | Crash       | Bullish |
| Total              | -9     | 16      | -43            | 34         | 333            | -330  | 28                     | -2   | 0           | -1      |

In particular:

- on stock market positions, a 15% decrease in stock prices with a resulting 70% increase in volatility would have led to a loss of approximately 9 million euro;
- on interest rate exposures, a rise of the curves of 40 basis points would have had a negative impact of 43 million euro;
- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 330 million euro loss;
- on foreign exchange exposures, in the event of the euro appreciating against the US dollar by 10% and a reduction in volatility of -25%, a loss of approximately 2 million euro would be recorded;
- lastly, for commodity exposures a loss of 1 million euro would be recorded in the event of a bullish scenario (rising energy prices, falling precious metal prices and a general decrease in volatility).

### Backtesting

The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting such as commissions and intraday activities.

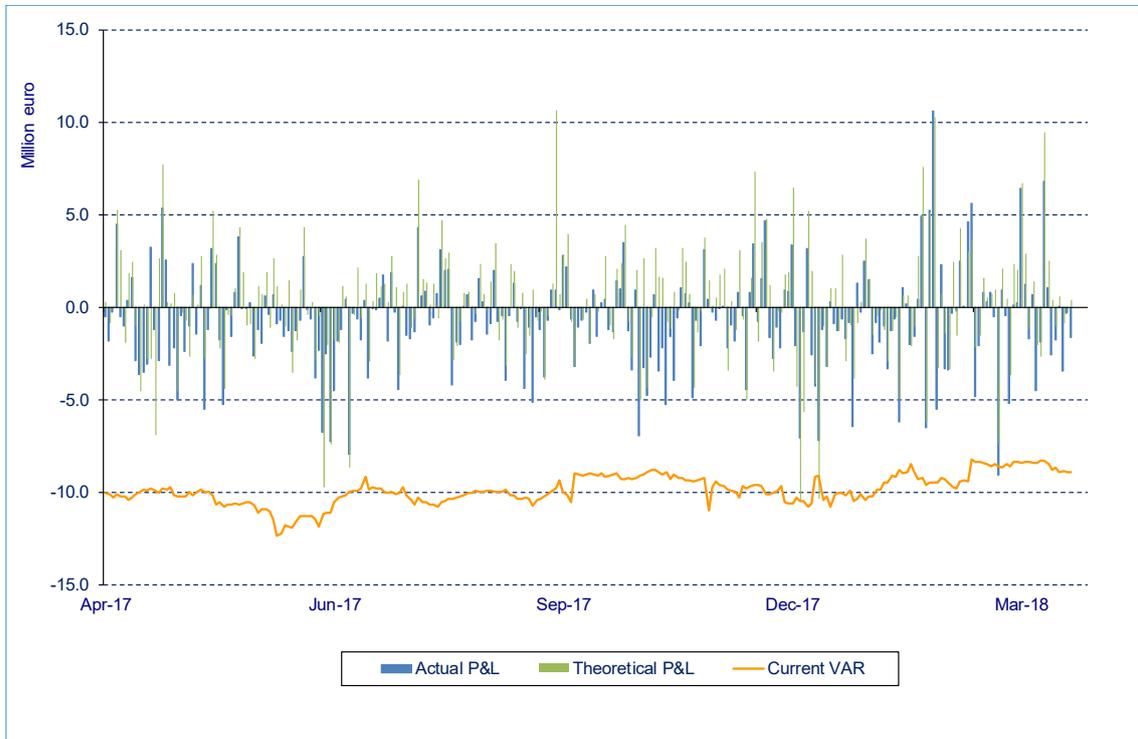
Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the Internal Model are represented by situations in which daily profits/losses based on backtesting highlight more than three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual P&L series recorded and the theoretical series. The latter is based on revaluation of the portfolio value through the use of pricing models

adopted for the VaR measurement calculation. The number of significant backtesting exceptions is determined as the maximum between those for actual P&L and theoretical P&L.

**Backtesting in Intesa Sanpaolo**

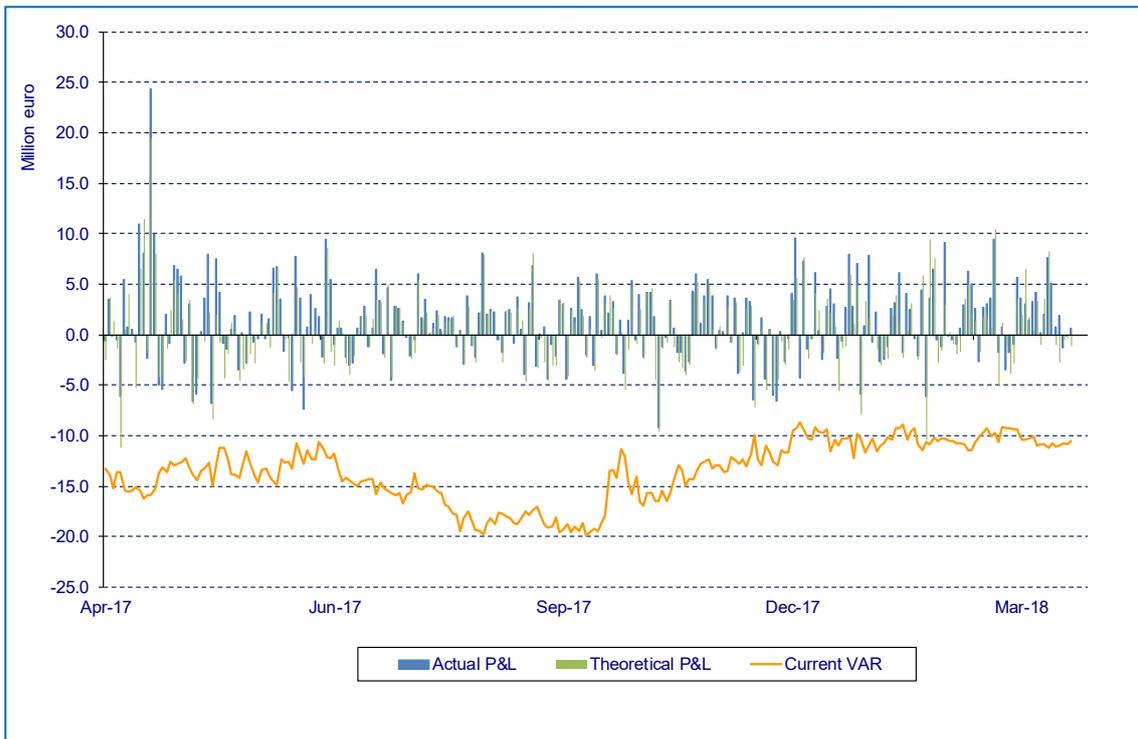
On 28 December 2017, there was theoretical backtesting exception on Intesa Sanpaolo’s trading portfolio. The risk factor that contributed to almost all of the loss was the rate: specifically, strong short-term shocks were observed on the USD Basis and Forex curves, mainly due to year-end rolling.

On 6 March 2018, the adverse movement of the short-term segment of the Euro-Dollar curve, together with the movement of credit spreads, resulted in an overshooting of the effective backtesting.



**Backtesting in Banca IMI**

In the past twelve months, there were no backtesting exceptions.



**BANKING BOOK**

In the first three months of 2018, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, recorded an average value of 1,657 million euro, settling at 1,628 million euro at the end of March 2018, almost entirely concentrated on the euro; this figure compares with 1,615 million euro at the end of 2017.

The sensitivity of net interest income – assuming a +100, +50 and -50 basis point change in interest rates – amounted to 1,693 million euro, 854 million euro and -917 million euro respectively, at the end of March 2018 (1,563 million euro, 794 million euro and -872 million euro at the end of 2017).

Interest rate risk, measured in terms of VaR, recorded an average of 138 million euro in the first three months of 2018 (153 million euro at the end of 2017), with a maximum value of 145 million euro and a minimum value of 127 million euro; the latter figure is the same as the value at the end of the quarter.

Price risk generated by minority stakes in listed companies, mostly classified in the HTCS category (formerly AFS), recorded an average level of 56 million euro, measured in terms of VaR, in the first three months of 2018 (64 million euro at the end of 2017), with a maximum and minimum value of 56 million euro; the latter figure is the same as the value at the end of March 2018.

Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above mentioned listed assets held in the HTCS category (formerly AFS), shows sensitivity to a 10% negative shock equal to 56 million euro at the end of March 2018.

## LIQUIDITY RISK

In the first three months of 2018, the Group's liquidity position remained within the risk limits provided for in the Group's Liquidity Policy: both the LCR and NSFR indicators were largely respected, as they reached a level well above the regulatory requirements. In 2018, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) n. 2015/61, amounted to an average of 176%, in line with the average figure for 2017. At the end of March 2018, the eligible liquidity reserves for the Central Banks, including the reserves held with Central Banks (Cash and Deposits), amounted to a total of 166 billion euro (171 billion euro at the end of December 2017), of which 87 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017). The HQLA component represented 64% of the reserves in own portfolio and 93% of the unencumbered reserves. The other eligible reserves mainly consist of retained self-securitisations.

The stress tests, when considering the high availability of liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

## INFORMATION ON FAIR VALUE, PRUDENT VALUATION AND INDEPENDENT PRICE VERIFICATION

### Fair value of financial instruments

The methodologies for the fair value measurement of financial instruments are governed by the Fair Value Policy of Intesa Sanpaolo Group and they are described in detail in the 2017 Annual Report.

This chapter provides a summary of the most significant changes during the first quarter of 2018.

In particular, the Group has aligned its Fair Value Policy to IFRS 9, introducing a methodology for the fair valuation of loans measured at fair value required by the business model classification or by the failure of the Solely Payment of Principal and Interest (SPPI) Test. The Fair Value Policy also establishes rules for the quantitative methods supporting the SPPI Test (Benchmark Cash Flow Test and Credit Risk Assessment) for the financial instruments that require them

### Prudent value of financial instruments

Following the introduction of IFRS 9, the Group has also updated its Prudent Valuation Policy, which governs the measurement of the prudent value of the financial instruments, as described in detail in the 2017 Annual Report.

With respect to 31 December 2017, the calculation rules for the Additional Value Adjustments (AVAs) have been extended to measure the prudent value of the loans at fair value and the prudential filters have been updated after the end of the transitional period established by the Bank of Italy with the issue of Circular 285.

### Independent price verification (IPV)

In the first quarter of 2018, the Group has formalised the Independent Price Verification Process through its IPV Policy.

According to the provisions of Regulation EU 575/2013, Article 4, par. 1.70 and Article 105, par. 8, the IPV process consists of the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the managers of the business, at a frequency commensurate with the trading carried out and the nature of the market. The IPV process is integrated with the risk management processes, in compliance with the regulations on the measurement of financial instruments (IFRS) and the measurement of risk (CRR).

The IPV Policy formalises in a single framework at Group level a series of already existing controls that have been developed over time..

## FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

## Fair value hierarchy – Without insurance companies

| Financial assets / liabilities at fair value                                    | 31.03.2018    |               |              | 01.01.2018    |               |              |
|---|---------------|---------------|--------------|---------------|---------------|--------------|
|   | Level 1       | Level 2       | Level 3      | Level 1       | Level 2       | Level 3      |
| (millions of euro)  |               |               |              |               |               |              |
| 1. Financial assets designated at fair value through profit or loss             | 13,441        | 26,738        | 2,510        | 12,723        | 27,275        | 2,561        |
| a) <i>Financial assets held for trading</i>                                     | 13,157        | 25,815        | 708          | 12,125        | 26,778        | 748          |
| <i>of which: Equities</i>   | 618           | -             | 1            | 625           | -             | 1            |
| <i>of which: quotas of UCI</i>  | 810           | 2             | 68           | 983           | 3             | 93           |
| b) <i>Financial assets designated at fair value</i>                             | -             | 149           | 64           | -             | 150           | 64           |
| c) <i>Other financial assets mandatorily designated at fair value</i>           | 284           | 774           | 1,738        | 598           | 347           | 1,749        |
| <i>of which: Equities</i>   | 8             | 455           | 187          | 24            | 186           | 187          |
| <i>of which: quotas of UCI</i>  | 263           | 5             | 1,167        | 264           | 8             | 1,060        |
| 2. Financial assets designated at fair value through other comprehensive income | 52,753        | 6,890         | 808          | 53,093        | 6,079         | 688          |
| <i>of which: Equities</i>   | 471           | 2,087         | 448          | 519           | 2,208         | 435          |
| 3. Hedging derivatives  | -             | 3,569         | 13           | -             | 4,199         | 14           |
| 4. Property and equipment   | -             | -             | 5,864        | -             | -             | 5,890        |
| 5. Intangible assets  | -             | -             | -            | -             | -             | -            |
| <b>Total</b>  | <b>66,194</b> | <b>37,197</b> | <b>9,195</b> | <b>65,816</b> | <b>37,553</b> | <b>9,153</b> |
| 1. Financial liabilities held for trading                                       | 15,199        | 24,356        | 196          | 15,556        | 25,811        | 89           |
| 2. Financial liabilities designated at fair value through profit or loss        | -             | 4             | -            | -             | 3             | -            |
| 3. Hedging derivatives  | -             | 7,025         | 5            | -             | 7,251         | -            |
| <b>Total</b>  | <b>15,199</b> | <b>31,385</b> | <b>201</b>   | <b>15,556</b> | <b>33,065</b> | <b>89</b>    |

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

## Fair value hierarchy – Insurance companies

| Financial assets / liabilities at fair value                             | 31.03.2018     |               |               | 31.12.2017     |               |               |
|--|----------------|---------------|---------------|----------------|---------------|---------------|
|  | Level 1        | Level 2       | Level 3       | Level 1        | Level 2       | Level 3       |
| 1. Financial assets held for trading                                     | 380            | 11            | 49            | 428            | 13            | 49            |
| <i>of which: Equities</i>  | -              | -             | -             | -              | -             | -             |
| <i>of which: quotas of UCI</i>   | 187            | -             | 49            | 205            | -             | 49            |
| 2. Financial assets designated at fair value through profit or loss      | 75,573         | 111           | 96            | 74,221         | 157           | 337           |
| <i>of which: Equities</i>  | 1,560          | -             | -             | 1,606          | -             | -             |
| <i>of which: quotas of UCI</i>   | 69,309         | -             | 19            | 68,628         | -             | 19            |
| 3. Financial assets available for sale                                   | 75,508         | 711           | 1,111         | 75,571         | 786           | 1,016         |
| <i>of which: Equities</i>  | 1,544          | -             | -             | 1,608          | -             | -             |
| <i>of which: quotas of UCI</i>   | 9,134          | 20            | 998           | 8,578          | 61            | 818           |
| 4. Hedging derivatives   | -              | -             | -             | -              | -             | -             |
| 5. Property and equipment  | -              | -             | 9             | -              | -             | 9             |
| 6. Intangible assets   | -              | -             | -             | -              | -             | -             |
| <b>Total</b>   | <b>151,461</b> | <b>833</b>    | <b>1,265</b>  | <b>150,220</b> | <b>956</b>    | <b>1,411</b>  |
| 1. Financial liabilities held for trading                                | -              | 49            | -             | -              | 67            | -             |
| 2. Financial liabilities designated at fair value through profit or loss | -              | 44,480        | 24,529        | -              | 43,210        | 24,956        |
| 3. Hedging derivatives   | -              | -             | -             | -              | -             | -             |
| <b>Total</b>   | <b>-</b>       | <b>44,529</b> | <b>24,529</b> | <b>-</b>       | <b>43,277</b> | <b>24,956</b> |

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

## STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,201 million euro as at 31 March 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 regarding the portfolio in question 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, which is now managed by Capital Light Bank, on the other.

The exposure to funded and unfunded ABSs/CDOs designated at fair value decreased from 2,034 million euro in December 2017 to 1,946 million euro in March 2018. This reduction was 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 of Banca IMI (part of which were classified in the assets measured at fair value through other comprehensive income portfolio) and to European ABSs acquired 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 an increase (from 245 million euro in December 2017 to 255 million euro in March 2018), attributable to the higher investments made by Banca IMI, only partially offset by the sales by the Parent Company.

From the perspective of the income statement, a profit of 4 million euro was posted for the first three months of 2018, compared to 28 million euro for 2017.

As at 31 March 2018, the "Profits (losses) on trading – caption 80" of the exposure to funded and unfunded ABSs/CDOs came to a profit of 2 million euro (17 million euro in 2017), generated by the positions in funded European and US ABSs/CDOs, while positions in multi-sector CDOs had a nil result (4 million in 2017).

The exposure to funded and unfunded ABSs/CDOs in securities classified by the subsidiary Banca IMI in the portfolio of assets designated at fair value through other comprehensive income recorded a net increase in fair value of less than 1 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 substantially similar positive reserve as at March 2018). Securities classified in the portfolio of assets measured at amortised cost recorded a net gain of 2 million euro as at 31 March 2018 (nil impact in 2017) essentially related to valuation components.

With regard to the monoline and non-monoline packages, there were no positions in 2018 because they had been disposed of in 2017.

## INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPES)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective (raising funds on the market, acquiring/selling/managing assets both for asset securitisations, acquisition of funding through self-securitisations and the issue of covered bonds, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity's portfolio) are considered Special Purpose Entities.

The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above.

For the SPE categories identified as not consolidated structured entities, no amendments are recorded to the criteria based on which the Intesa Sanpaolo Group decides on whether to include the companies in the scope of consolidation, compared to the information already provided in the 2017 financial statements.

During the first quarter of the year, within the multi-originator programme guaranteed by ISP OBG, the 11<sup>th</sup> series matured for an amount of 1,375 million euro and the 12<sup>th</sup> series maturing in August 2018 was redeemed in advance for an amount of 2,154 million euro, for a total of 3,529 million euro.

In March, the 25<sup>th</sup> and 26<sup>th</sup> series of floating-rate securities were issued for a total of 3,900 million euro with a duration of 7 and 10 years respectively.

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 on the Eurosystem.

With regard to the covered bond issue programme guaranteed by ISP CB Pubblico, in January the 11<sup>th</sup> series was partially redeemed for an amount of 600 million euro, bringing the nominal amount to 500 million euro.

Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the 23<sup>rd</sup> 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.

## LEVERAGED FINANCE TRANSACTIONS

Since 2008 Intesa Sanpaolo has represented in this category exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long-term) to legal entities in which the majority of share capital is held by private equity funds.

These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels.

Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.

None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.

As at 31 March 2018, 105 transactions for a total amount granted of 2,643 million euro met the above definition.

These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication.

Moreover, it is noted that – as stated in the 2017 Annual Report – in May 2017 the ECB published specific Guidance on Leveraged Transactions, which applies to all significant entities subject to direct supervision by the ECB. The purpose of the new regulations is to strengthen company controls over “leveraged” transactions, where such transactions increase globally and in the context of a highly competitive market, marked by a long period of low interest rates and the resulting search for yields.

The guidance covers, *inter alia*, the following issues with regard to leveraged transactions: definition, risk appetite and governance, syndication activities, policies and procedures for new deal approval, longer-term monitoring and management of longer-term transactions, secondary market activities and internal reporting requirements, while it does not explicitly regulate public disclosure.

In particular, the scope identified by the ECB is larger than the one currently surveyed by Intesa Sanpaolo in that it includes – in addition to exposures to parties whose majority of capital is held by one or more financial sponsors – also exposures in which the borrower’s level of leverage, measured as the ratio of total debt to EBITDA, is greater than 4.

The guidance requires that Banks set up the instruments necessary to apply the new rules, and an internal audit report, describing how the expectations of the Regulator have been endorsed and implemented, must be sent to the specific Joint Supervisory Team of the ECB by November 2018.

Intesa Sanpaolo thus launched a specific project with the purpose of gradual alignment with the ECB guidance on leveraged transactions.

### INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio held for trading as at 31 March 2018 totalled 112 million euro, compared to 270 million euro recorded as at December 2017, the majority of which was held in the MAP platform.

The reduction of the portfolio is attributable to the distributions and redemptions that started at the end of 2015 (when this portfolio amounted to 760 million euro) aimed at reducing the risk level of the exposure.

In particular, the most significant redemptions in 2018 concerned the MAP 1A Fund for 46 million euro, the MAP 17A Fund for 36 million euro, the MAP 4A Fund for almost 33 million euro, and the Charity Investment Fund for 13 million euro.

The profit or loss result for the first quarter was a loss of 8 million euro, compared to a profit of 5 million euro recorded in the Profits (Losses) on trading in March 2017. The profit or loss result was mainly attributable to the write-down of the Matrix Pve Map 6A fund by over 5 million euro, due to the particularly conservative policies (worst case scenarios) used by the servicer for the valuation of the underlying assets, and of the Halcyon fund by almost 3 million euro, whose NAV, linked to the revaluation of the sole underlying position in Nextdecade (listed on Nasdaq), underwent a repositioning after the excellent performance posted in 2017.

The overall strategy of the portfolio continues to be geared towards the progressive liquidation of the portfolio, by seeking to benefit from the occurrence of specific corporate events that are largely independent from the general market trend.

### INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 March 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 7,000 million euro (7,011 million euro as at 31 December 2017). The notional value of these derivatives totalled 41,473 million euro (50,488 million euro as at 31 December 2017).

The positive fair value of the structured contracts in existence with the 10 customers with the highest exposures was 4,904 million euro.

Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,075 million euro as at 31 March 2018 (1,082 million euro as at 31 December 2017).

The notional value of these derivatives totalled 35,348 million euro (22,846 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 March 2018, this led to a positive effect of 18 million euro being recorded under “Profits (Losses) on trading” in the income statement.

As regards the different methodologies used in determining the fair value of financial instruments, see the specific paragraphs in this chapter.

## OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to 1,489 million euro as at 31 March 2018, up slightly from 1,488 million euro as at 31 December 2017.

### Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions are 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.

No new significant legal disputes were initiated during the first quarter of 2018.

Except as discussed below with regard to the ENPAM case, there have been no significant developments with regard to the disputes indicated in the Notes to the 2017 financial statements, to which reference is made.

*ENPAM case* - By order of 15 February 2018, the judge rejected part of the preliminary objections raised, while reserving judgment on the others (including those relating to the claimant's lack of standing to sue and the defendants' lack of standing to be sued), to be decided together with the decision on the merits. The judge also 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 continued until the hearing of 18 April 2019 for a review of the expert's report, which will be prepared during the year.

### Tax litigation

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.

The Parent Company has 166 pending litigation proceedings (144 as at 31 December 2017) for a total amount of 223 million euro (214 million euro as at 31 December 2017), calculated considering proceedings in both administrative and judicial venues at various instances. In relation to these circumstances, the actual risks were quantified at 64 million euro at 31 March 2018 (65 million euro as at 31 December 2017).

In the first quarter of 2018, there was no new litigation involving Intesa Sanpaolo in which significant amounts were at issue, nor were there any significant developments in ongoing litigation. Accordingly, the Notes to the 2017 financial statements should be consulted for further information.

## INSURANCE RISKS

### Life business

The typical risks of a life insurance portfolio 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).

Actuarial and demographic risks are monitored 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 monitored through the exact calculation of mathematical reserves, with a series of detailed checks as well as overall verifications, by comparing results with the estimates produced on a monthly basis.

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.

### Non-life business

The risks of the non-life insurance portfolio are essentially premium risk and reserve risk.

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.

### Financial risks

In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives has been launched with the objective of both strengthening risk governance and managing and controlling financial risks.

With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Framework Resolution is the main control and monitoring instrument for market and credit risks.

The Resolution defines the goals and the operating limits that are needed to distinguish the investments in terms of eligible assets and asset allocation, breakdown by rating classes and credit risk, concentration risk by issuer and sector, and market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk (VaR).

### 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 March 2018, the investment portfolios of Group companies, recorded at book value, amounted to 156,921 million euro. Of these, a part amounting to 81,710 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 75,211 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.

In terms of breakdown by asset class, net of derivative financial instruments, 84.5 % of assets, i.e. approximately 69,036 million euro, were bonds, whereas assets subject to equity risk represented 2.1 % of the total and amounted to 1,740 million euro. The remainder (10,965 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (13.4%). The carrying value of derivatives came to approximately -31 million euro, of which -41 million euro relating to effective management derivatives<sup>3</sup>, and the remaining portion (10 million euro) is attributable to hedging derivatives.

At the end of the first three months of 2018, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 1,491 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 46 million euro.

The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 3,839 million euro.

The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 3.4% of total investments and A bonds approximately 8.5%. Low investment grade securities (BBB) were approximately 85.8% of the total and the portion of speculative grade or unrated was minimal (approximately 2.3%).

A considerable portion of the BBB area is made up of securities issued by the Italian Republic.

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central Banks approximately made up 75.3% of the total investments, while financial companies (mostly banks) contributed approximately 13.3% of exposure and industrial securities made up approximately 11.4%.

<sup>3</sup> 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.

At the end of the first quarter of 2018, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was 3,909 million euro, with 3,065 million euro due to government issuers and 844 million euro to corporate issuers (financial institutions and industrial companies).



## **Accounting policies**



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# Criteria for the preparation of the Interim Statement

## General preparation principles

As known, with Legislative Decree . 25 of 15 February 2016, Directive 2013/50/EU, amending Directive 2004/109/EC (i.e. “Transparency Directive”), has been transposed into the Italian legal system. By transposing the European regulation, the provisions concerning financial reports were changed, among others, innovating the rules regarding the publication, by the listed issuers with Italy as Member State of origin, of additional periodic information other than the annual report and half-yearly report. The new wording of Article 154-ter (Financial reports), paragraphs 5 and 5-bis, of the Consolidated Law on Finance, allows CONSOB to arrange, towards the issuers stated above, the obligation to publish the additional periodic information. However, in exercising its duties – and following a consultation process – CONSOB has given the issuers the choice on publishing the Interim Statements.

In this context, as already announced to the market on 29 December 2017, Intesa Sanpaolo publishes – on a voluntary basis – financial information as at 31 March and 30 September of each financial year, in addition to the annual report and half-yearly report. This information consists of interim statements on operations approved by the Board of Directors, basically providing continuity with the interim statements published in the past.

The Interim Statement as at 31 March 2018 has been prepared, in consolidated form, in compliance with the recognition and measurement criteria required by 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 Community Regulation 1606 of 19 July 2002.

The accounting standards adopted in preparation of this Consolidated interim report on operations, 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”.

In view of the above, this Interim Statement provides details of the new accounting policies of the Intesa Sanpaolo Group and an analysis of the main captions in the financial statements.

With regard to IFRS 9, in view of the particular significance of its impacts, before analysing the new accounting policies, it is worth noting the 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 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 5<sup>th</sup> 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 5<sup>th</sup> update to 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;
- 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 - 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. Net income from financial assets and liabilities pertaining to insurance companies in accordance with 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 is reported together with the similar banking entries, and the "net adjustments/recoveries pertaining to insurance companies in accordance with IAS 39", which are recognised in the specifically created caption 135;
- Income Statement: Caption 135. "Net adjustments/recoveries pertaining to insurance companies in accordance with 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 5<sup>th</sup> update to the Bank of Italy Circular no. 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:
  - o the previous captions relating to loans to customers, loans to banks and financial assets held to maturity are all classified under caption "40. Financial assets measured at amortised cost";
  - o those relating to financial assets held for trading and financial assets at fair value are classified in caption "20. Financial assets designated at fair value through profit or loss";
  - o those relating to financial assets available for sale are classified in caption "30. Financial assets designated at fair value through other comprehensive income";
  - o 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".

Attached to this Interim Report are the reconciliation statements that show the details of the allocations made from the previous captions of the official financial statement layouts to the new financial statement layouts established by Circular 262.

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.

The main effects for the Group will consist of greater disclosure requirements – since the standard requires a wide range of information on the nature, amount, timing and degree of uncertainty of revenues, as well as the cash flows arising from the contracts with customers – whereas there will be no quantitative impacts. In this regard, the Intesa Sanpaolo Group is preparing itself to be able to provide the more detailed disclosure in the 2018 Annual Report, as required by the standard and by the instructions issued by the Bank of Italy in the 5<sup>th</sup> update of Circular no. 262.

The Interim Statement as at 31 March 2018, drawn up in euro as the functional currency, contains the Balance sheet, the Income statement, the Statement of comprehensive income for the period, the Changes in shareholders' equity, and the explanatory notes. They are also complemented by information on significant events which occurred in the period, and on the main risks and uncertainties to be faced in the remaining months of the year.

The amounts indicated in the financial statements and explanatory notes are expressed in millions of euro, unless otherwise specified.

Lastly, the Discontinued operations include 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 establishes the option for Intesa Sanpaolo to transfer them to the Banks in compulsory administrative liquidation, up to the date of approval of the financial statements as at 31 December 2020, in exchange for a consideration corresponding to the gross carrying amount of the high-risk loans reclassified net of (i) provisions at the date of execution and (ii) 50% of the adjustments that, based on the IAS/IFRS, Intesa Sanpaolo would have been required to make if the Banks in compulsory administrative liquidation had not had the obligation to purchase the loans.

The Interim Statement as at 31 March 2018 is accompanied by certification of the Manager responsible for preparing the Company's financial reports pursuant to Article 154-bis of the Consolidated Law on Finance, and the consolidated financial statements are subject to a limited review by the Independent Auditors KPMG for the sole purpose of issuing the certification required by Art. 26 (2) of European Union Regulation no. 575/2013 and European Central Bank Decision no. 2015/656.

## Scope of consolidation and consolidation methods

### Scope of consolidation

The Consolidated Interim Statement includes Intesa Sanpaolo and the companies that it directly and indirectly controls, jointly controlled or subject to significant influence, also including – as specified by IAS/IFRS – companies operating in sectors different from that of the Parent Company and private equity investments. Similarly, structured entities are included when the requisite of effective control recurs, even if there is no stake in 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 asset 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.

There were no significant changes in the scope of consolidation with respect to 31 December 2017 other than the inclusion within the scope of consolidation, from 31 March 2018, of Eximbank s.a. (Moldova). For the latter, 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.

Since the acquisition of control took place at the end of the quarter, for the purposes of the Interim Report as at 31 March 2018 the consolidation of Eximbank only involved the balance sheet figures and not the income statement.

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.

The intragroup company transactions during the quarter included the merger of VUB Factoring into VUB, the total demerger of Consumer Finance Holding into VUB and VUB Leasing and the transfer of a business line (including the equity investment in Neva Finventures) from Intesa Sanpaolo to Servizi Bancari Scpa.

### Consolidation methods

The methods used for line-by-line consolidation of subsidiaries and consolidation by the equity method of associates and companies subject to joint control have remained unchanged with respect to those adopted for the 2017 Intesa Sanpaolo Group Annual Report, to which reference should therefore be made.

The financial statements of the Parent Company and of other companies used to prepare the Interim Statement as at 31 March 2018 refer to the same date.

In certain limited cases, for subsidiaries which are not material, the latest official figures are used.

Where necessary – and only in wholly marginal cases – the financial statements of consolidated companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.

The financial statements of non-Eurozone companies are translated into euro by applying the spot exchange rate at period-end to assets and liabilities in the Balance sheet, and the average exchange rate for the period to Income statement captions.

## The 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, 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 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;
- units of UCIs.

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 chapter 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” of the Notes to the consolidated financial statements in the 2017 Annual Report, as there were no significant changes in this regard following the introduction of IFRS 9.

**Derecognition criteria**

Financial assets are derecognised solely if the disposal 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 disposed and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, 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 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 chapter 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 designated at fair value through profit or loss.

For the equities 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” of the Notes to the consolidated financial statements in the 2017 Annual Report, as there were no significant changes in this regard following the introduction of IFRS 9.

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 chapter 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 sold financial assets is maintained, they continue to be recorded in 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 disposed and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, 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 in the paragraph above;
- loans to customers in their various forms that meet the requirements referred to in the paragraph above;
- debt securities that meet the requirements referred to in the paragraph 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 rate 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 chapter "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:
  - o 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;
  - o 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 disposal 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 disposed assets and to variations in the relevant cash flows.

Lastly, financial disposed 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 designated 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 derivative instruments, like all derivatives, are initially recognised and subsequently measured at fair value.

**Measurement criteria**

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (as concerns the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 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 macro-hedging 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, instrumental properties, 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 financial lease contracts, even though the ownership remains in the books of the lessor.

#### **Recognition criteria**

Property and equipment are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and required for them to be operational. Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.

#### **Measurement criteria**

Property and equipment are measured at cost, net of depreciation and impairment losses, except for instrumental 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 value of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement. If the reasons for impairment cease to exist, a value recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

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 value and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.

#### **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 and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset's specific risks, of the income margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. For asset management relations, they are amortised on a straight-line basis over the period of greater significance of the expected economic benefits in case of relations which do not have a predetermined duration and, for relations from insurance contracts, in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry (residual lives of the policies);
- marketing related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.

With respect to business combinations, goodwill may be recorded when the positive difference between the consideration transferred and the fair value recognition, if any, of minority interests, and the fair value of shareholders' equity acquired is representative of the future income-generation potential of the equity investment.

If this difference should be negative (badwill) or if goodwill may not be attributed considering future income-generation potential of the equity investments, the same difference is directly recorded in the income statement.

Once a year (or every time that there is evidence of impairment losses), an impairment test is carried out for goodwill. This requires the identification of the cash-generating unit to which goodwill is allocated. The cash-generating units of the Intesa Sanpaolo Group correspond to the operating divisions presented in segment reporting. Any impairment losses are determined on the basis of the difference between the recognition value of goodwill and its recoverable amount, if lower. The recoverable amount is equal to the higher between the fair value of the cash-generating unit, less any cost to sell, and the relative value in use. The consequent adjustments are posted in the income statement.

#### ***Derecognition criteria***

Intangible assets are derecognised from the balance sheet on disposal and if no future economic benefits are expected.

#### **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.

#### **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) 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**

Income tax, calculated according to domestic tax regulations, is accounted for as a cost in compliance with the accruals concept, in line with the method followed to include, in the financial statements, the costs and income that generated it. Therefore, it represents the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the tax balances of the Group companies due to the relevant Italian and foreign tax authorities. More specifically, these captions include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of

the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes borne or tax credits of previous years that the Group companies claimed against taxes payable in future years.

Current tax assets also include tax credits in respect of which the Group companies have requested reimbursement from the applicable fiscal authorities, as well as the sums disbursed on a preliminary basis in the course of disputes with the Tax Authority. The risk inherent in such proceedings and the risks inherent in proceedings where preliminary disbursements have not been requested are evaluated in applying the principles contained in IAS 37 regarding the best estimate of the economic resources required.

Considering the Group's adoption of the national fiscal consolidation provisions, tax positions which may be referred to the Group companies are managed separately from an administrative standpoint.

Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years.

Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are offset.

If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by income taxes.

Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders' equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, 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).

Deferred taxation on equity reserves that will become taxable "however used" is charged against shareholders' equity. Deferred taxation relating to revaluations arising on conversion to the euro, credited directly to a specific reserve named "Reserve pursuant to Article 21 of Legislative Decree 213/98", which qualify for deferred taxation, is charged directly against this reserve. No provision is made for reserves subject to taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that the Bank will not undertake any transactions which may cause taxation of the untaxed reserves.

Deferred tax liabilities referred to companies included in the fiscal consolidation are reported in their financial statements, in application of the accrual basis principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.

Deferred taxation on shareholders' equity items of consolidated companies is not recorded in the financial statements if it is unlikely that any tax liability will actually arise, also bearing in mind the permanent nature of the investment.

## 11. Allowances for risks and charges

### *Post-employment benefits*

Company post-employment benefits are based on agreements and qualify as defined benefit plans. Liabilities related to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected Unit Credit Method. This method sets out that future obligations are forecast using past time-series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each year of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The discounting rate is determined on the basis of market returns, surveyed as at the date of measurement, on high-quality corporate bonds, taking account of the residual average life of the liability. The present value of the liability at the reference date of the financial statements is also adjusted by the fair value of any plan assets.

Actuarial profits and losses (namely the changes in the current value of the obligation resulting from changes in the actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

### *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.

**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 financial lease transactions.

**Recognition criteria**

Initial recognition of these financial liabilities occurs at the date of subscription of the contract, which usually coincides with the time of collection of the sums deposited or the issue of debt securities.

Initial recognition is based on the fair value of the liabilities, normally equal to the amount collected or the issue price, increased by any additional charges/revenues directly attributable to the single funding or issuing transaction. Internal administrative costs are excluded.

**Measurement criteria**

After initial recognition, financial liabilities are measured at amortised cost with the effective interest method.

An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

**Derecognition criteria**

Financial liabilities are derecognised from the balance sheet when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued bonds. The difference between book value of the liability and amount paid for repurchase is recorded in the income statement.

Placement of own securities, after their repurchase, is considered a new issue with recognition at the new placement price.

**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 with the substantial transfer of all the risks and rewards connected to it.

**14. Financial liabilities designated at fair value****Classification criteria**

Financial liabilities designated at fair value are recorded under this caption, on the basis of the fair value option given to companies by IFRS 9 and in compliance with the cases contemplated in the reference regulations.

#### **Recognition criteria**

These liabilities are recorded at fair value as at the date of issue, including the value of any embedded derivatives, net of placement fees paid.

#### **Measurement criteria**

These liabilities are measured at fair value according to the following rules established by IFRS 9:

- changes in fair value attributable to changes in own credit risk must be recognised in the statement of comprehensive income (shareholders' equity);
- the remaining changes in fair value must be recognised in the income statement.

The amounts recognised in the statement of comprehensive income are not subsequently recycled to the income statement. This method of accounting must not be applied when recognition of the effects of own credit risk on shareholders' equity results in or accentuates an accounting mismatch in the income statement. In this case, gains and losses associated with the liability, including those resulting from changes in own credit risk, must be recognised in the income statement.

#### **Derecognition criteria**

The financial liabilities designated at fair value are derecognised when the contractual rights to the related cash flows expire or when the financial liability is disposed with the substantial transfer of all the risks and rewards connected to it.

### **15. Foreign currency transactions**

#### **Initial recognition**

Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction.

#### **Subsequent measurement**

At every close of annual or interim financial statements, captions in foreign currency are measured as follows:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction;
- non-monetary items that are measured at fair value in a foreign currency are translated using the closing rates.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised through profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity. Conversely, when a gain or loss on a non-monetary item is recognised through profit or loss, any exchange component of that gain or loss is recognised through profit or loss.

#### **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 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 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 are 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 instruments quotes (levels 1 and 2 of the fair value hierarchy). When such reference parameters are not observable on the market (level 3), or the instruments present a reduced liquidity, the financial instrument is recognised at a value equal to the price of the transaction; the difference with respect to the fair value is recorded in the income statement during the life of the transaction;
- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, 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.

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 quantification of the fair value of property 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:
  - o determination of the parameters for a significant increase in credit risk, essentially based on models for measuring the probability of default (PD) upon origination of the financial assets and at the reporting date;
  - o the inclusion of forward-looking factors, including macroeconomic factors, for the determination of the PD and LGD;
  - o the determination of the likelihood of sale of impaired financial assets, through the realisation of market positions;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash-Generating Units (CGU) comprising the Group, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. Also the cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising the Group, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- to determine the fair value of the properties and valuable art assets specific appraisals have been conducted by qualified and independent companies. Lease rentals, selling prices, discount rates and capitalisation rates were estimated in order to conduct the appraisals of the properties, while to conduct the appraisals on the valuable art assets, the estimate of the value was gathered from the performance of the exchanges of similar works (in terms of technique, size, subject) by the same author or regional movements and schools that are close with regard to style and technique;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;
- to measure provisions for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences).

### **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 consisting of 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:
  - o 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;
  - o for loans, if they are sales of non-performing loans or loans classified as stage 2;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, thresholds of frequency and significance have been set:
  - o frequency is defined as the percentage ratio between the number of positions sold (ISINs or relationships) over the observation period and the total of the portfolio positions over the observation period;
  - o significance is defined as the percentage ratio between the nominal value of the sales and the 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 designated 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 (SPP1 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 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 issued 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 the their lifetime expected credit losses.

### Impairment of performing financial assets

For financial assets for which there is no evidence of impairment (performing financial instruments), on the other hand, 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 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 – place performing exposures above a certain level of risk within a particular range (or identify them with a specific colour). Since, in general, these systems tend to adopt an “absolute” approach to assessing the counterparty’s current riskiness (without therefore placing emphasis on monitoring the credit quality of exposures over time) and since very often no distinction is made between disbursements pertaining to the same counterparty, watch-lists have not been considered suitable for use – on broad scope – for stage assignment, but are adopted on a complementary basis and only in cases where, for particular exposures/portfolios, the information necessary for determining the staging is missing or only partially available.

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 above-mentioned “relative” change in 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 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.

This methodology essentially involves the following:

- each exposure (credit line/securities tranche) is classified in a single stage;
- both the stage assignment and the ECL calculation are made by considering a single forecast macroeconomic scenario (the one considered most likely, and used for other purposes within the Group, including, as already mentioned, for the preparation of the budget and the business plan). The risk parameters of the scenario are adjusted by a specific add-on that takes into account the presence of non-linear effects in the relationship between the risk parameters themselves and the macroeconomic variables. In fact, there is rarely a direct correlation between the macroeconomic forecast trends implicit in the scenario used, on the one hand, and the magnitude of credit losses, on the other, and, consequently, the effects of the single scenario identified must be “corrected” by a specific factor (“Add-On”), which is modelled separately. This add-on is determined based on alternative scenarios (upside or downside scenarios) with respect to the baseline scenario, identified based on benchmark variables, such as the annual average GDP growth rate of several countries

(Italy, United States, Germany, France, Spain and the United Kingdom), European and US stock exchange indices, and residential real estate prices in the United States and Italy.

#### *Impairment of non-performing financial assets*

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;
- analytical-specific assessment, 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);
- inclusion of sales scenarios for disposable bad loans: 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 additional components relating to future sales scenarios are included in the measurement of disposable bad loans.

The measurement of unlikely-to-pay loans (UTPs) is also performed based on two different approaches:

- analytical-statistical measurement, for on-balance sheet 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;
- 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.

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:

- o nature of the credit, whether preferential or unsecured;
- o net asset value of the borrowers/third party collateral providers;
- o complexity of existing or potential litigation and/or the underlying legal issues;
- o exposure of the borrowers to the banking system and other creditors;
- o last available financial statements;
- o 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 historical recoveries and the forward-looking information in accordance with IFRS 9, an approach has been established 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 a 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:

- o 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;
  - o 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 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.

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 this year, 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.

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 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 granted by Italian banks 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 the usual households and business (e.g. non-profit organisations);
- 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 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.

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/deletion 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 loan. With regard to the full or partial write-offs without waiver of the loan, 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 must be 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.

#### Impairment of investments in associates or companies subject to joint control

At each balance sheet date the investments in associates or companies subject to joint control are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative and quantitative indicators.

Qualitative indicators include:

- the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market;
- the announcement/initiation of insolvency proceedings or restructuring plans;
- the downgrading by more than two rating classes;
- failure to discharge payment obligations for debt securities issued fully and in a timely manner;
- use of industrial policy tools aimed at responding to a serious crisis or allowing companies to face restructuring/reorganisation processes.

Quantitative indicators include:

- a reduction in fair value of over 30% below the carrying value or for a period of over 24 months;
- a market capitalisation lower than the company's net book value, in the case of securities listed on active markets, or a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill, or distribution by the investee of a dividend that is higher than its total income.

The presence of impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.

The recoverable amount consists of the higher of the fair value net of sales costs and the value in use.

For an illustration of the valuation techniques used to determine fair value, see the chapter A.4 – Information on fair value.

Value in use is the present value of expected future cash flows from the asset; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, time value of money, the price able to repay the risk of the asset and other factors, which may affect the appreciation by market participants of expected future cash flows from the asset.

Value in use is determined by discounting future cash flows.

#### Impairment of non-financial assets

Property, equipment and intangible assets with definite useful life are subject to impairment testing if there is the indication that the book value of the asset may no longer be recovered. The recoverable amount is determined with reference to the fair value of the property and equipment or intangible assets less costs to sell or the value in use, if determinable and if it is higher than fair value.

In order to test its real-estate assets for signs of impairment, the Group conducts an annual analysis of the various real-estate market scenarios. If such analyses bring to light signs of impairment, an appraisal is prepared for the properties for which such signs of impairment have been found.

For other property, equipment and intangible assets (other than those recognised following business combinations) it is assumed that the carrying value normally corresponds to the value in use, since it is determined by a depreciation or amortisation process estimated on the basis of the effective contribution of the asset to the production process and since the determination of fair value is extremely subjective. The two values diverge, and lead to impairment, in case of damages, exit from the production process or other similar non-recurring circumstances.

Intangible assets recognised following a business combination and in application of IFRS 3 are subjected to an impairment test at each balance sheet date to assess whether there is objective evidence that the asset may have been impaired.

Intangible assets with a finite life, represented by the value of the asset management portfolio and the value of the insurance portfolio, in the presence of impairment indicators are subjected to a new valuation process to assess the recoverability of the book values. The recoverable amount is determined on the basis of the value in use, namely the present value estimated using a rate representing the time value of money and the asset's specific risks, of the income margins generated by the existing relations as at the valuation date over a period which expresses their expected residual life.

Intangible assets with an indefinite life, represented by the valuation of the brand name and goodwill, do not have independent cash flows and therefore annually undergo an assessment of the adequacy of the value recorded under the assets with reference to the Cash-Generating Unit (CGU) to which the values are attributed at the time of the business combinations. The amount of any impairment is determined on the basis of the difference between the CGU's book value and its recoverable amount represented by the higher of the fair value, less costs to sell, and the value in use.

The book value of the CGUs must be determined in a manner consistent with the criterion used to determine their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these form part of the core business.

In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs' book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.

On this basis, the book value of Intesa Sanpaolo's CGUs may be determined in terms of contribution to consolidated shareholders' equity including the minority interest.

Thus, the carrying value of the CGUs consisting of companies that belong to a single operating division (Asset Management, Private Banking, Insurance and International Subsidiary Banks) is determined by summing the individual book values of each company in the consolidated financial statements, namely the contribution to consolidated shareholders' equity and corresponding to their net book value, taking into account any goodwill and intangibles recorded upon acquisition (net of subsequent amortisations and any write-downs) and the consolidation entries. With regard to the determination of the carrying value of the other two divisions (Banca dei Territori and Corporate and Investment Banking), given that the Parent Company and other banks contribute to the management of these divisions, and this subdivision is not represented in the accounting information, the overall carrying value of the CGUs cannot be determined on the basis of book values. As a consequence, the use of operational factors is required to make the subdivision following a detailed allocation of the intangibles and goodwill to the two CGUs in accordance with the available accounting information. The operational driver is identified as the "regulatory capital" determined by the Financial and Market Risks Department structures for each operating division: it represents the capital absorption necessary to handle the types of risk envisaged by the regulatory supervision rules. The resulting book values already take into account the effects of any impairment of the individual assets, including those relating to intangible assets with a finite life.

For an illustration of the valuation techniques used to determine fair value, see the chapter A.4 – Information on fair value.

The value in use of a CGU is determined by estimating the present value of future cash flows that may be expected to be generated by the CGU. These cash flows are determined by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan or other external information available. The forecasting period for the analysis usually consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity, using an appropriate growth rate "g" for the purposes of the so-called Terminal value. The "g" rate is determined by assuming that the growth factor is the lower of the average growth rate for the forecasting period of the analysis and the average rate of increase in the Gross Domestic Product in the countries where the cash flows are generated.

For the determination of the value in use, the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset's specific risks. Specifically, the discount rates used incorporate the risk free component and the premiums for the risk associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles. 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 the 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, the fair value is represented by the 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 the 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.

### **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, units of UCIs and derivative instruments which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value according to the guidelines listed above, are maintained at cost.

## 2. Financial assets available for sale

### *Classification criteria*

This category includes the financial assets that do not fall within any of the other categories such as Loans, Financial assets held for trading, Investments held to maturity or Financial assets designated at fair value through profit or loss. In particular, this caption is made up of i) bonds which are not held for trading and which are not included in Loans and Receivables, in Investments held to maturity or designated at fair value through profit or loss, ii) equity investments which are not held for trading and do not qualify as investments in subsidiaries, associates or entities subject to joint control, including private equity investments and private equity funds as well as iii) the portions of syndicated loans that, from inception, are destined for sale.

In the cases provided for by the accounting standards, reclassifications are only permitted towards the category Investments held to maturity. Moreover, debt securities may be reclassified into the category Investments held to maturity as well as under Loans, when there is the intention to hold them in the foreseeable future and when the recognition criteria are met. The transfer value is the fair value at the time of the reclassification.

### *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 units of UCIs 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. However, the size of the recovery must not lead the carrying amount of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

### 3. Investments held to maturity

#### **Classification criteria**

Quoted debt securities with fixed or determinable payments and fixed maturity, which the entity has the positive intention and ability to hold to maturity, are classified in this category.

In the cases provided for by the accounting standards, reclassifications are only permitted towards the category of Financial assets available for sale. If during a year, prior to expiry, more than an insignificant amount classified under this category is sold or reclassified, the remaining investments held to maturity are reclassified as Financial assets available for sale and the portfolio in question may not be used for the next two years, unless the sales and reclassifications:

- are so close to maturity or the financial asset's call date that changes in the market interest rate would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

#### **Measurement criteria**

After the initial recognition, Investments held to maturity are measured at amortised cost, using the effective interest method. Profits or losses referred to investments held to maturity are recorded in the income statement when assets are derecognised or impaired, and through the amortisation process of the difference between book value and the value reimbursable at maturity.

Investments held to maturity are assessed to identify if they show objective evidence of an impairment loss.

If such evidence exists, the loss is measured as the difference between the carrying value of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The loss is recorded in the income statement.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement. The size of the recovery must not lead the carrying value of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

### 4. Loans

#### **Classification criteria**

Loans include loans to customers and due from banks, both disbursed directly and acquired from third parties, which entail fixed or in any case determinable payments, which are not quoted on an active market and which are not classified at inception in Financial assets available for sale.

The caption Loans to customers also includes commercial loans, repurchase agreements with the obligation to resell at a later date, and securities subscribed 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 impairment 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 designated at fair value through profit or loss

### *Classification criteria*

The IAS/IFRS endorsed by the European Commission enable the classification as financial instruments designated at fair value through profit or 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 financial 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

### *Classification criteria*

Financial liabilities designated at fair value through profit or loss are recorded under this caption, on the basis of the fair value option given to companies by IAS 39, in compliance with the cases contemplated in the reference regulations.

The Group exercised the fair value option for liabilities, designating insurance products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary profit-sharing features. Investments relating to such forms of deposits, as already reported, were also designated at fair value, thereby eliminating or considerably reducing "accounting biases" that would otherwise have arisen from measuring assets and liabilities on the basis of different accounting criteria.

### *Measurement criteria*

These liabilities are designated at fair value through profit or loss.

## 9. Insurance products

Products for which insurance risk is deemed significant include: temporary first class death policies and income and mixed policies with guaranteed fixed conversion rates at the time of issue, and certain types of unit-linked policies and damage cover. As regards these products, the IAS/IFRS substantially confirm the national accounting standards concerning insurance.

In brief, IFRS 4 sets forth that:

- gross premiums are to be recorded in the income statement under income; they include all amounts matured during the year as a result of insurance contracts signed, net of cancellations; likewise, all premiums ceded to reinsurers are recorded under current year costs;

- with respect to gross premiums, the corresponding commitment towards the insured is accrued in technical reserves, such amount being calculated on a contract-by-contract basis in accordance with applicable local accounting principles. 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. These principles may be summarised as:

- the products are shown in the financial statements according to principles that essentially reflect those locally in force on the subject, any premiums, payments and changes in technical reserves being recorded in the income statement;
- as stated in the previous paragraph, shadow accounting is applied to the insurance products entered under separate management which, therefore, have discretionary participation features;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

#### 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.

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For details of the “Criteria for the preparation of segment reporting” and the “Information on Fair Value” see Part A “Accounting policies” of the Notes to the consolidated financial statements of the 2017 Annual Report, as there were no significant changes in this regard following the introduction of the new IFRS 9 and IFRS 15.

The Board of Directors

Milan, 8 May 2018

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# Declaration of the Manager responsible for preparing the Company's financial reports

Pursuant to art. 154-bis, subsection 2 of the Italian Consolidated Law on Finance, the Manager responsible for preparing the Company's financial reports, Fabrizio Dabbene, hereby declares that the accounting information contained in this Interim Statement as at 31 March 2018 corresponds to corporate records, books and accounts.

Milan, 8 May 2018

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



# Attachments

## **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 the period ended 31 March 2017 and consolidated income statement for the period ended 31 March 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 consolidated financial statements and reclassified consolidated financial statements**

Reconciliation between consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between 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   |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  |                             |                        |                 |   | TOTAL ASSETS      |                |
|--|-------------------------------|---------------------------------------|---|---|----------------------------------|--------------------|------------------------|-------------------------|--|---|--|-----------------------------|------------------------|-----------------|---|-------------------|----------------|
| 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          |
| 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 value                                     |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  |                             |                        |                 |   |                   | -              |
| Financial assets measured at fair value through other comprehensive income                       |                               |                                       |   | 64,968                                  |                                  |                    |                        |                         |  |   |  |                             |                        |                 |   |                   | 64,968         |
| Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39    |                               | 490                                   | 74,715  | 77,373                                  |                                  |                    |                        | 4                       |  |   |  |                             |                        |                 |   |                   | 152,582        |
| 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        |
| Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39 |                               |                                       |   |   |                                  | 405                | 18                     |                         |  |   |  |                             |                        |                 |   |                   | 423            |
| Hedging derivatives  |                               |                                       |   |   |                                  |                    |                        | 4,213                   |  |   |  |                             |                        |                 |   |                   | 4,213          |
| Fair value change of financial assets in hedged portfolios (+/-)                                 |                               |                                       |   |   |                                  |                    |                        |                         | -204   |   |  |                             |                        |                 |   |                   | -204           |
| Investments in associates and companies subject to joint control                                 |                               |                                       |   |   |                                  |                    |                        |                         |  | 678   |  |                             |                        |                 |   |                   | 678            |
| Technical insurance reserves reassured with third parties  |                               |                                       |   |   |                                  |                    |                        |                         |  |   | 16   |                             |                        |                 |   |                   | 16             |
| Property and equipment   |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  | 6,678                       |                        |                 |   |                   | 6,678          |
| Intangible assets  |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  |                             | 7,741                  |                 |   |                   | 7,741          |
| of which: goodwill   |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  |                             | 4,056                  |                 |   |                   | 4,056          |
| Tax assets   |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  |                             |                        | 16,887          |   |                   | 16,887         |
| a) current   |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  |                             |                        | 3,688           |   |                   | 3,688          |
| b) deferred  |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  |                             |                        |                 | 13,199  |                   | 13,199         |
| Non-current assets held for sale and discontinued operations                                     |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  |                             |                        |                 | 627   |                   | 627            |
| Other assets   |                               |                                       |   |   |                                  |                    |                        |                         |  |   |  |                             |                        |                 |   | 9,358             | 9,358          |
| <b>TOTAL ASSETS</b>  | <b>9,353</b>                  | <b>39,518</b>                         | <b>75,269</b>   | <b>142,341</b>                          | <b>1,174</b>                     | <b>72,462</b>      | <b>410,746</b>         | <b>4,217</b>            | <b>-204</b>  | <b>678</b>  | <b>16</b>  | <b>6,678</b>                | <b>7,741</b>           | <b>16,887</b>   | <b>627</b>  | <b>9,358</b>      | <b>796,861</b> |

(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          |
| Financial liabilities measured at amortised cost  |                            |                      |                       |  |  |                         |   |                     |  |                        |                                       |                                       |                         |                |
| 10.   | 99,989                     | 323,386              | 92,985                |  |  |                         |   |                     |  |                        |                                       |                                       |                         | 516,360        |
| <i>a) due to banks</i>  | 99,989                     |                      |                       |  |  |                         |   |                     |  |                        |                                       |                                       |                         | 99,989         |
| <i>b) due to customers</i>  |                            | 323,386              |                       |  |  |                         |   |                     |  |                        |                                       |                                       |                         | 323,386        |
| <i>c) securities issued</i>   |                            |                      | 92,985                |  |  |                         |   |                     |  |                        |                                       |                                       |                         | 92,985         |
| Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 |                            |                      |                       |  |  |                         |   |                     |  |                        |                                       |                                       |                         |                |
| 15.   | 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              |
| Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39     |                            |                      |                       |  |  |                         |   |                     |  |                        |                                       |                                       |                         |                |
| 35.   |                            |                      |                       | 67   | 68,166   |                         |   |                     |  |                        |                                       |                                       |                         | 68,233         |
| 40. Hedging derivatives   |                            |                      |                       |  |  | 7,489                   |   |                     |  |                        |                                       |                                       |                         | 7,489          |
| Fair value change of financial liabilities in hedged portfolios (+/-)                                 |                            |                      |                       |  |  |                         | 478   |                     |  |                        |                                       |                                       |                         | 478            |
| 60. Tax liabilities   |                            |                      |                       |  |  |                         |   | 2,509               |  |                        |                                       |                                       |                         | 2,509          |
| <i>a) current</i>   |                            |                      |                       |  |  |                         |   | 364                 |  |                        |                                       |                                       |                         | 364            |
| <i>b) deferred</i>  |                            |                      |                       |  |  |                         |   | 2,145               |  |                        |                                       |                                       |                         | 2,145          |
| Liabilities associated with non-current assets held for sale and discontinued operations              |                            |                      |                       |  |  |                         |   |                     | 264  |                        |                                       |                                       |                         | 264            |
| 70.   |                            |                      |                       |  |  |                         |   |                     | 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          |
| <i>a) commitments and guarantees given</i>  |                            |                      |                       |  |  |                         |   |                     |  | 327                    | -                                     |                                       |                         | 327            |
| <i>b) post-employment benefits</i>  |                            |                      |                       |  |  |                         |   |                     |  |                        | 1,104                                 |                                       |                         | 1,104          |
| <i>c) other allowances for risks and charges</i>  |                            |                      |                       |  |  |                         |   |                     |  |                        | 4,377                                 |                                       |                         | 4,377          |
| 110. Technical reserves   |                            |                      |                       |  |  |                         |   |                     |  |                        |                                       |                                       | 82,926                  | 82,926         |
| <b>TOTAL</b>  | <b>99,990</b>              | <b>323,443</b>       | <b>94,239</b>         | <b>41,285</b>                              | <b>68,169</b>  | <b>7,489</b>            | <b>478</b>  | <b>2,509</b>        | <b>264</b>   | <b>12,574</b>          | <b>1,410</b>                          | <b>5,481</b>                          | <b>82,926</b>           | <b>740,257</b> |

(millions of euro)

|   | 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          |
|---|-------------------------|------------------------|-------------------------|---------------|----------------------------|--------------------|--------------------------|-------------------------------|------------------------|----------------|
| <b>31 December 2017 published</b>                         |                         |                        |                         |               |                            |                    |                          |                               |                        |                |
| <b>31 December 2017 new 262</b>                           |                         |                        |                         |               |                            |                    |                          |                               |                        |                |
| 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          |
| <b>TOTAL</b>  | <b>-789</b>             | <b>-</b>               | <b>4,103</b>            | <b>10,921</b> | <b>26,006</b>              | <b>8,732</b>       | <b>-84</b>               | <b>399</b>                    | <b>7,316</b>           | <b>56,604</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>         |                         |                        |                         |               |                            |                    |                          |                               |                        | <b>796,861</b> |

## Reconciliation between published consolidated income statement for the period ended 31 March 2017 and consolidated income statement for the period ended 31 March 2017 according to the new Circular 262

(millions of euro)

|   | 31.3.2017 published             |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              |              |
|---|---------------------------------|----------------------------------|---------------------|-------------------------------|--------------------------------|-----------------------------------|---------------------------------|---------------------------------|--|---|----------|--|---------------------------------|--------------------------|--|--|--|-------------|--|---------------------------------|-------------------------------|---|--------------|--------------|--------------|
| 31.3.2017 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 other 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   | 2,613                           |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              | 2,613        |              |
| 20. Interest and similar expense  |                                 | -946                             |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | -946         |
| <b>30. Interest margin</b>  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | <b>1,667</b> |
| 40. Fee and commission income   |                                 |                                  |                     | 2,216                         |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | 2,216        |
| 50. Fee and commission expense  |                                 |                                  |                     |                               | -480                           |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | -480         |
| <b>60. Net fee and commission income</b>  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | <b>1,736</b> |
| 70. Dividend and similar income   |                                 |                                  |                     |                               |                                |                                   | 7                               |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | 7            |
| 80. Profits (Losses) on trading   |                                 |                                  |                     |                               |                                |                                   |                                 | 139                             |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | 139          |
| 90. Fair value adjustments in hedge accounting  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 | -4   |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | -4           |
| 100. Profits (Losses) on disposal or repurchase of:   |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  | 76  |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | 76           |
| a) financial assets measured at amortised cost  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   | 7        | 1                                      |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | 8            |
| b) financial assets measured at fair value through other comprehensive income                             |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          | 85                                     |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | 85           |
| c) financial liabilities  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 | -17                      |  |  |  |             |  |                                 |                               |   |              |              | -17          |
| Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  | 2  |  |             |  |                                 |                               |   |              |              | 2            |
| 110. a) financial assets and liabilities designated at fair value   |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  | 2  |  |             |  |                                 |                               |   |              |              | 2            |
| b) other financial assets mandatorily measured at fair value  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  | 2  |  |             |  |                                 |                               |   |              |              | 2            |
| Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39 |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              |              |
| 115.  | 472                             | -17                              |                     |                               |                                |                                   | 43                              | 11                              |  | 105   |          | 105                                    |                                 |                          | 309  |  |  |             |  |                                 |                               |   |              |              | 923          |
| <b>120. Net interest and other banking income</b>   |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              | <b>4,546</b> |
| Net losses/recoveries for credit risks associated with:   |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              |              |
| 130. a) financial assets measured at amortised cost   |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  | -767                                       |             |  |                                 |                               |   |              |              | -767         |
| b) financial assets measured at fair value through other comprehensive income                             |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  | -503        |  |                                 | -1                            |   |              |              | -504         |
| Net losses/recoveries pertaining to insurance companies pursuant to IAS39                                 |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              |              |
| 135.  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              |              |
| Profits (Losses) on changes in contracts without derecognition  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              |              |
| 140.  |                                 |                                  |                     |                               |                                |                                   |                                 |                                 |  |   |          |  |                                 |                          |  |  |  |             |  |                                 |                               |   |              |              |              |
| <b>150. Net income from banking activities</b>  | <b>3,085</b>                    | <b>-963</b>                      | <b>2,122</b>        | <b>2,216</b>                  | <b>-480</b>                    | <b>1,736</b>                      | <b>50</b>                       | <b>150</b>                      | <b>-4</b>                                      | <b>181</b>  | <b>7</b> | <b>190</b>                             | <b>1</b>                        | <b>-17</b>               | <b>311</b>   | <b>4,546</b>                               | <b>-768</b>                                | <b>-503</b> | <b>-264</b>                            | <b>-</b>                        | <b>-</b>                      | <b>-</b>                                | <b>3,778</b> | <b>3,778</b> |              |

**Reconciliation between published consolidated income statement for the period ended 31 March 2017 and consolidated income statement for the period ended 31 March 2017 according to the new Circular 262 - (Continued)**

(millions of euro)

| 31.3.2017 published  |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          | TOTAL  |  |   |   |   |                        |                         |   |            |            |               |
|--|-----------------------------|---|---|-------------------------------|-----------------------|----------------------------------|---|--|---|--|-------------------------|---|--|--------------------------|--|--|---|---|---|------------------------|-------------------------|---|------------|------------|---------------|
| 31.3.2017 new 262  | 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  | 1,799                       |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            | 1,799      |               |
| 170. Other net insurance income (expense)  |                             | -2,346                                    |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | -2,346        |
| <b>Net income from banking and insurance activities</b>  |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | <b>3,231</b>  |
| 190. Administrative expenses:  |                             |   | -2,222  |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | -2,222        |
| a) personnel expenses  |                             |   |   | -1,302                        |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | -1,302        |
| b) other administrative expenses   |                             |   |   |                               |                       | -920                             |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | -920          |
| 200. Net provisions for risks and charges  |                             |   |   |                               |                       |                                  | -1  |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | -1            |
| a) commitments and guarantees given  |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            |               |
| b) other net provisions  |                             |   |   |                               |                       |                                  | -1  |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | -1            |
| Net adjustments to / recoveries on property and equipment                                      |                             |   |   |                               |                       |                                  |   | -84  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | -84           |
| 210. Net adjustments to / recoveries on intangible assets                                      |                             |   |   |                               |                       |                                  |   |  | -115  |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | -115          |
| 220. Other operating expenses (income)   |                             |   |   |                               |                       |                                  |   |  |   | 178                                    |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | 178           |
| <b>230. Operating expenses</b>   |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | <b>-2,244</b> |
| 240. Profits (Losses) on investments in associates and companies subject to joint control      |                             |   |   |                               |                       |                                  |   |  |   |  | 221                     |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | 221           |
| 250. Valuation differences on property, equipment and intangible assets measured at fair value |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            |               |
| 260. Goodwill impairment   |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            |               |
| 270. Profits (Losses) on disposal of investments   |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          | 2  |  |   |   |   |                        |                         |   |            |            | 2             |
| <b>Income (Loss) before tax from continuing operations</b>                                     |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  | 2  |   |   |   |                        |                         |   |            |            | <b>1,210</b>  |
| 290. Taxes on income from continuing operations  |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   | -303  |   |                        |                         |   |            |            | -303          |
| <b>Income (Loss) after tax from continuing operations</b>                                      |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   | -303  |                        |                         |   |            |            | <b>907</b>    |
| 310. Income (Loss) after tax from discontinued operations                                      |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            |               |
| <b>320. Net income (loss)</b>  |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | <b>907</b>    |
| 340. Minority interests  |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   | -6         |            | -6            |
| <b>350. Parent Company's net income (loss)</b>   |                             |   |   |                               |                       |                                  |   |  |   |  |                         |   |  |                          |  |  |   |   |   |                        |                         |   |            |            | <b>901</b>    |
| <b>TOTAL</b>   | <b>1,799</b>                | <b>-2,346</b>                             | <b>3,231</b>  | <b>-2,222</b>                 | <b>-1,302</b>         | <b>-920</b>                      | <b>-1</b>                                 | <b>-84</b>   | <b>-115</b>   | <b>178</b>                             | <b>-2,244</b>           | <b>221</b>  | <b>-</b>   | <b>-</b>                 | <b>2</b>   | <b>1,210</b>   | <b>-303</b>                                     | <b>907</b>  | <b>-</b>  | <b>907</b>             | <b>-6</b>               | <b>-</b>                                | <b>901</b> | <b>901</b> |               |

## 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)

|   | TOTAL ASSETS as at<br>31.12.2017                      | Financial instruments reclassifications<br>from IFRS 9 transition          |  |                                     |                    |                                       | TOTAL ASSETS as<br>at 31.12.2017 | Changes in<br>carrying amounts<br>due to IFRS 9<br>transition |               | TOTAL<br>ASSETS<br>01.01.2018 |
|---|---|--|--|-------------------------------------|--------------------|---------------------------------------|----------------------------------|---|---------------|-------------------------------|
|   |   | 30. Financial assets<br>designated at fair value<br>through profit or loss | 40. Financial assets<br>available for sale | 50. Investments held to<br>maturity | 60. Due from banks | 70. Loans to customers                |                                  | Change in<br>measurement basis                                | Impairment    |                               |
|   | AFTER<br>RECLASSIFICATIONS<br>AS PER NEW CIRC.<br>262 |  |  |                                     |                    | AFTER IFRS 9 FTA<br>RECLASSIFICATIONS |                                  |   |               |                               |
| 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        |                               |
| Financial assets measured at fair value through other<br>comprehensive income                       | 64,968  | 206  | -5,749                                     | 379                                 |                    | 5                                     | 59,809                           | 51  | 59,860        |                               |
| Financial assets pertaining to insurance companies, measured at<br>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                       |
| Financial assets pertaining to insurance companies measured at<br>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         |                               |
| <b>TOTAL ASSETS</b>   | <b>796,861</b>  | <b>-</b>   | <b>-</b>                                   | <b>-</b>                            | <b>-</b>           | <b>-</b>                              | <b>796,861</b>                   | <b>195</b>  | <b>-2,959</b> | <b>794,097</b>                |

(millions of euro)

|   | TOTAL<br>LIABILITIES AND<br>SHAREHOLDERS'<br>EQUITY as at<br>31.12.2017 | Financial instruments<br>reclassifications<br>from IFRS 9 transition |                        | TOTAL LIABILITIES<br>as at 31.12.2017 | Effect of transition to IFRS9 | TOTAL<br>LIABILITIES<br>01.01.2018 |
|---|---|--|------------------------|---------------------------------------|-------------------------------|------------------------------------|
|   |   | 60. Hedging derivatives  | 100. Other liabilities |                                       |                               |                                    |
|   | AFTER<br>RECLASSIFICATIONS<br>AS PER NEW<br>CIRC. 262                   |  |                        |                                       |                               |                                    |
| 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                              |
| <b>TOTAL</b>  | <b>796,861</b>  | <b>-</b>   | <b>-</b>               | <b>796,861</b>                        | <b>-2,764</b>                 | <b>794,097</b>                     |

## **Reconciliation between consolidated financial statements and reclassified consolidated financial statements**

Reconciliation between consolidated balance sheet and reclassified consolidated balance sheet

(millions of euro)

| Assets  | 31.03.2018     | 1.1.2018       |
|---|----------------|----------------|
| <b>Due from banks</b>   | <b>70,451</b>  | <b>71,576</b>  |
| Caption 40a (partial) Financial assets measured at amortised cost - Due from banks  | 70,435         | 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  | 16             | 14             |
| Caption 30 (partial) Financial assets measured at fair value through other comprehensive income - Due from banks                          | -              | -              |
| <b>Loans to customers</b>   | <b>401,033</b> | <b>399,463</b> |
| <b>Loans to customers measured at amortised cost</b>  |                |                |
| Caption 40b (partial) Financial assets measured at amortised cost - Loans to customers  | 400,419        | 399,076        |
| Caption 40b (partial) Financial assets measured at amortised cost - Debt securities (public entities, non-financial companies and others) | 5,925          | 5,900          |
| <b>Loans to customers designated at fair value through other comprehensive income and through profit or loss</b>                          |                |                |
| Caption 20a (partial) Financial assets held for trading - Loans to customers  | 614            | 387            |
| Caption 20b (partial) Financial assets designated at fair value - Loans to customers  | 32             | -              |
| Caption 20c (partial) Other financial assets mandatorily measured at fair value - Loans to customers                                      | 529            | 387            |
| Caption 30 (partial) Financial assets measured at fair value through other comprehensive income - Loans to customers                      | 53             | -              |
| <b>Financial assets measured at amortised cost which do not constitute loans</b>  | <b>11,688</b>  | <b>11,557</b>  |
| Caption 40a (partial) Financial assets measured at amortised cost - Debt securities (banks)   | 536            | 546            |
| Caption 40b (partial) Financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)      | 11,152         | 11,011         |
| <b>Financial assets designated at fair value through profit or loss</b>   | <b>42,111</b>  | <b>42,158</b>  |
| Caption 20a (partial) Financial assets held for trading   | 39,648         | 39,651         |
| Caption 20b (partial) Financial assets designated at fair value - Debt securities   | 213            | 214            |
| Caption 20c (partial) Other financial assets mandatorily measured at fair value   | 2,250          | 2,293          |
| <b>Financial assets designated at fair value through other comprehensive income</b>   | <b>60,398</b>  | <b>59,860</b>  |
| Caption 30 (partial) Financial assets measured at fair value through other comprehensive income   | 60,398         | 59,860         |
| <b>Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39</b>                                       | <b>153,550</b> | <b>152,582</b> |
| Caption 35 Financial assets pertaining to insurance companies measured at fair value pursuant to IAS 39                                   | 153,550        | 152,582        |
| <b>Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39</b>                                   | <b>476</b>     | <b>423</b>     |
| Caption 45 Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39                               | 476            | 423            |
| <b>Investments in associates and companies subject to joint control</b>   | <b>654</b>     | <b>678</b>     |
| Caption 70 Investments in associates and companies subject to joint control   | 654            | 678            |
| <b>Property, equipment and intangible assets</b>  | <b>14,367</b>  | <b>14,419</b>  |
| Caption 90 Property and equipment   | 6,695          | 6,678          |
| Caption 100 Intangible assets   | 7,672          | 7,741          |
| <b>Tax assets</b>   | <b>17,174</b>  | <b>18,018</b>  |
| Caption 110 Tax assets  | 17,174         | 18,018         |
| <b>Non-current assets held for sale and discontinued operations</b>   | <b>751</b>     | <b>627</b>     |
| Caption 120 Non-current assets held for sale and discontinued operations  | 751            | 627            |
| <b>Other assets</b>   | <b>20,074</b>  | <b>22,736</b>  |
| Caption 10 Cash and cash equivalents  | 7,507          | 9,353          |
| Caption 50 Hedging derivatives  | 3,582          | 4,213          |
| Caption 60 Fair value change of financial assets in hedged portfolios (+/-)   | -246           | -204           |
| Caption 80 Technical insurance reserves reassured with third parties  | 16             | 16             |
| Caption 130 Other assets  | 9,215          | 9,358          |
| <b>Total assets</b>   | <b>792,727</b> | <b>794,097</b> |

|  |  | (millions of euro) |                |
|--|--|--------------------|----------------|
| Liabilities  |  | 31.03.2018         | 1.1.2018       |
| <b>Due to banks at amortised cost</b>  |  | 96,905             | 99,989         |
|  | Caption 10 a) Financial liabilities measured at amortised cost - Due to banks                                    | 96,905             | 99,989         |
| <b>Due to customers at amortised cost and securities issued</b>  |  | 417,422            | 416,371        |
|  | Caption 10 b) Financial liabilities measured at amortised cost - Due to customers                                | 326,724            | 323,386        |
|  | Caption 10 c) Financial liabilities measured at amortised cost - Securities issued                               | 90,698             | 92,985         |
| <b>Financial liabilities held for trading</b>  |  | 39,751             | 41,456         |
|  | Caption 20 Financial liabilities held for trading  | 39,751             | 41,456         |
| <b>Financial liabilities designated at fair value</b>  |  | 4                  | 3              |
|  | Caption 30 Financial liabilities designated at fair value  | 4                  | 3              |
| <b>Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39</b> |  | 1,394              | 1,312          |
|  | Caption 15 Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39 | 1,394              | 1,312          |
| <b>Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39</b>     |  | 69,058             | 68,233         |
|  | Caption 35 Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39     | 69,058             | 68,233         |
| <b>Tax liabilities</b>   |  | 2,548              | 2,509          |
|  | Caption 60 Tax liabilities   | 2,548              | 2,509          |
| <b>Liabilities associated with non-current assets held for sale and discontinued operations</b>              |  | 266                | 264            |
|  | Caption 70 Liabilities associated with non-current assets held for sale and discontinued operations              | 266                | 264            |
| <b>Other liabilities</b>   |  | 20,590             | 19,954         |
|  | Caption 40 Hedging derivatives   | 7,030              | 7,251          |
|  | Caption 50 Fair value change of financial liabilities in hedged portfolios (+/-)                                 | 453                | 478            |
|  | Caption 80 Other liabilities   | 13,107             | 12,225         |
| <b>Technical reserves</b>  |  | 82,656             | 82,926         |
|  | Caption 110 Technical reserves   | 82,656             | 82,926         |
| <b>Allowances for risks and charges</b>  |  | 7,240              | 7,426          |
|  | Caption 90 Employee termination indemnities  | 1,386              | 1,410          |
|  | Caption 100 a) Allowances for risks and charges - Commitments and guarantees given                               | 503                | 535            |
|  | Caption 100 b) Allowances for risks and charges - Post-employment benefits                                       | 1,116              | 1,104          |
|  | Caption 100 c) Allowances for risks and charges - Other allowances for risks and charges                         | 4,235              | 4,377          |
| <b>Share capital</b>   |  | 8,732              | 8,732          |
|  | Caption 170 Share capital  | 8,732              | 8,732          |
| <b>Reserves</b>  |  | 40,796             | 33,578         |
|  | Caption 130 Redeemable shares  | -                  | -              |
|  | Caption 150 Reserves   | 14,874             | 7,656          |
|  | Caption 160 Share premium reserve  | 26,006             | 26,006         |
|  | - Caption 180 Treasury shares  | -84                | -84            |
| <b>Valuation reserves</b>  |  | -760               | -878           |
|  | Caption 120 Valuation reserves   | -760               | -878           |
| <b>Valuation reserves pertaining to insurance companies</b>  |  | 429                | 417            |
|  | Caption 125 Valuation reserves pertaining to insurance companies   | 429                | 417            |
| <b>Equity instruments</b>  |  | 4,103              | 4,103          |
|  | Caption 140 Equity instruments   | 4,103              | 4,103          |
| <b>Minority interests</b>  |  | 342                | 386            |
|  | Caption 190 Minority interests   | 342                | 386            |
| <b>Net income (loss)</b>   |  | 1,252              | 7,316          |
|  | Caption 200 Net income (loss) (+/-)  | 1,252              | 7,316          |
| <b>Total liabilities and shareholders' equity</b>  |  | <b>792,728</b>     | <b>794,097</b> |

## Reconciliation between consolidated income statement and reclassified consolidated income statement

|  |  | (millions of euro) |              |
|--|--|--------------------|--------------|
| Captions   |  | 31.03.2018         | 31.03.2017   |
| <b>Net interest income</b>   |  | 1,855              | 1,805        |
|  | Caption 30 Interest margin   | 1,855              | 1,667        |
|  | - Caption 30 (partial) Interest margin (Effect of purchase price allocation)   | 41                 | 2            |
|  | + Caption 80 (partial) Components of the profits (losses) on trading relating to net interest  | -2                 | 1            |
|  | + Caption 130 a (partial) Net losses/recoveries on impairment of loans (Time value loans)  | -                  | 171          |
|  | + Caption 190 a (partial) Personnel expenses (Time value employee termination indemnities and other)   | -11                | -11          |
|  | + Caption 200 (partial) Net provisions for risks and charges (Time value allowances for risks and charges)   | -1                 | -            |
|  | - Caption 30 (partial) Intragroup transactions between Banks/Other companies and the Insurance Segment   | -27                | -25          |
| <b>Net fee and commission income</b>   |  | 2,008              | 1,855        |
|  | Caption 60 Net fee and commission income   | 1,917              | 1,736        |
|  | - Caption 60 (partial) Contribution of insurance business  | 101                | 122          |
|  | Components of net fee and commission income related to profits (losses) on financial assets and liabilities designated at fair value   | -                  | 5            |
|  | - Caption 60 (partial) fair value  | -                  | 5            |
|  | + Caption 190 b (partial) Other administrative expenses (Recovery of other expenses)   | -10                | -8           |
| <b>Income from insurance business</b>  |  | 294                | 283          |
|  | Caption 160 Net insurance premiums   | 1,799              | 1,799        |
|  | Caption 170 Other net insurance income (expense)   | -2,246             | -2,346       |
|  | Other net insurance income (expense) - changes in technical reserves due to impairment of securities designated at fair value through other comprehensive income   | -                  | -1           |
|  | - Caption 170 (partial)  | -                  | -1           |
|  | + Caption 60 (partial) Contribution of insurance business  | -101               | -122         |
|  | Caption 115 Profits (Losses) on financial assets and liabilities pertaining to insurance companies pursuant to IAS 39  | 828                | 923          |
|  | Caption 135 Net losses/recoveries pertaining to insurance companies pursuant to IAS39  | -1                 | -            |
|  | + Caption 30 (partial) Intragroup transactions between Banks/Other companies and the Insurance Segment   | 27                 | 25           |
|  | - Caption 80 (partial) Intragroup transactions between Banks/Other companies and the Insurance Segment   | -12                | 5            |
| <b>Profits (Losses) on financial assets and liabilities designated at fair value</b> |  | 621                | 226          |
|  | + Caption 80 Profits (Losses) on trading   | 139                | 139          |
|  | + Caption 90 Fair value adjustments in hedge accounting  | -12                | -4           |
|  | Profits (Losses) on other financial assets and liabilities designated at fair value through profit or loss (a) financial assets and liabilities designated at fair value   | -2                 | 2            |
|  | + Caption 110 a)   | -2                 | 2            |
|  | Profits (Losses) on other financial assets and liabilities designated at fair value through profit or loss (b) other financial assets mandatorily designated at fair value   | 255                | -            |
|  | + Caption 110 b)   | 255                | -            |
|  | + Caption 100 b) Profits (Losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income  | 257                | 85           |
|  | + Caption 100 c) Profits (Losses) on disposal or repurchase of financial liabilities   | -29                | -17          |
|  | Components of net fee and commission income related to profits (losses) on financial assets and liabilities measured at fair value   | -                  | -5           |
|  | + Caption 60 (partial) fair value  | -                  | -5           |
|  | 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) | 10                 | 7            |
|  | + Caption 70 (partial)   | 10                 | 7            |
|  | Net losses/recoveries for credit risk - Financial assets measured at amortised cost (specific credit positions related to derivatives)   | -                  | 27           |
|  | + Caption 130 a (partial)  | -                  | 27           |
|  | - Caption 80 (partial) Components of profits (losses) on trading relating to net interest  | 2                  | -1           |
|  | - Caption 80 (partial) Intragroup transactions between Banks/Other companies and the Insurance Segment   | 12                 | -5           |
|  | Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss (b) other financial assets mandatorily designated at fair value (Charges concerning the banking industry)   | -1                 | -            |
|  | - Caption 110 b)   | -1                 | -            |
|  | + Caption 190 b (partial) Other administrative expenses (storage costs)  | -                  | -2           |
|  | + Caption 200 b (partial) Net provisions for risks and charges (Charges related to the sale of NTV)  | -10                | -            |
| <b>Other operating income (expenses)</b>   |  | 28                 | 40           |
|  | Caption 70 Dividend and similar income   | 11                 | 7            |
|  | + Caption 230 Other operating expenses (income)  | 207                | 178          |
|  | 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) | -10                | -7           |
|  | - Caption 70 (partial)   | -10                | -7           |
|  | - Caption 230 (partial) Other operating expenses (income) (Recovery of expenses)   | -2                 | -2           |
|  | - Caption 230 (partial) Other operating expenses (income) (Recovery of indirect taxes)   | -185               | -164         |
|  | - Caption 230 (partial) Other operating expenses (income) (Profits (losses) on disposal of repurchased property and equipment)   | -                  | -2           |
|  | + Caption 250 (partial) Profits (losses) on investments in associates and companies subject to joint control (carried at equity)   | 7                  | 30           |
| <b>Operating income</b>  |  | <b>4,806</b>       | <b>4,209</b> |

|   | (millions of euro) |               |
|---|--------------------|---------------|
| Captions  | 31.03.2018         | 31.03.2017    |
| <b>Personnel expenses</b>   | -1,436             | -1,286        |
| Caption 190 a) Personnel expenses   | -1,449             | -1,302        |
| - Caption 190 a) (partial) Personnel expenses (Charges for integration and exit incentives)   | 2                  | 5             |
| - Caption 190 a) (partial) Personnel expenses (Time value employee termination indemnities and other)   | 11                 | 11            |
| <b>Other administrative expenses</b>  | -658               | -583          |
| Caption 190 b) Other administrative expenses  | -1,027             | -920          |
| - Caption 190 b) (partial) Other administrative expenses (Charges for integration)  | 2                  | 7             |
| - Caption 190 b) (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)   | 170                | 154           |
| - Caption 190 b) (partial) Other administrative expenses (storage costs)  | -                  | 2             |
| - Caption 190 b) (partial) Other administrative expenses (Recovery of other expenses)   | 10                 | 8             |
| + Caption 230 (partial) Other operating expenses (income) (Recovery of indirect taxes)  | 185                | 164           |
| + Caption 230 (partial) Other operating expenses (income) (Recovery of expenses)  | 2                  | 2             |
| <b>Adjustments to property, equipment and intangible assets</b>   | -204               | -186          |
| Caption 210 Net adjustments to / recoveries on property and equipment   | -85                | -84           |
| + Caption 220 Net adjustments to / recoveries on intangible assets  | -138               | -115          |
| - Caption 210 (partial) Net adjustments to / recoveries on property and equipment (Charges for integration)   | 5                  | 2             |
| - Caption 220 (partial) Net adjustments to / recoveries on intangible assets (Charges for integration)  | 6                  | 4             |
| - Caption 220 (partial) Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)  | 8                  | 7             |
| <b>Operating costs</b>  | <b>-2,298</b>      | <b>-2,055</b> |
| <b>Operating margin</b>   | <b>2,508</b>       | <b>2,154</b>  |
| <b>Net adjustments to loans</b>   | -483               | -695          |
| + Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Loans  | -6                 | 8             |
| + 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)  | 6                  | -             |
| - 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  | -529               | -504          |
| + 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)                                  | 11                 | -             |
| + Caption 130 b) (partial) Net losses/recoveries for credit risk associated with financial assets designated at fair value through other comprehensive income - Loans   | -                  | -             |
| - Caption 130 a) (partial) Net losses/recoveries on impairment of loans (Time value loans)  | -                  | -171          |
| + Caption 130 a) (partial) Net losses/recoveries for credit risk - Financial assets measured at amortised cost (specific credit positions related to derivatives)   | -                  | -27           |
| Caption 140 Profits /losses on changes in contracts without derecognition   | -1                 | -             |
| Caption 200 a) Net provisions for risks and charges for credit risk related to commitments and guarantees given   | 36                 | -             |
| <b>Other net provisions and net impairment losses on other assets</b>   | -51                | -3            |
| + 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)                                       | 4                  | -             |
| + 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 designated at fair value through other comprehensive income - Debt securities   | -14                | -263          |
| - Caption 130 b) (partial) Net losses/recoveries for credit risk associated with financial assets designated at fair value through other comprehensive income - Debt securities (Investments for the stability of the banking system) | -                  | 261           |
| Caption 135 Net losses/Recoveries pertaining to insurance companies in accordance with IAS 39   | -1                 | -1            |
| Caption 200 b) Net provisions for risks and charges - Other net provisions  | -65                | -1            |
| + Caption 170 (partial) Other net insurance income (expense) - changes in technical reserves due to impairment of securities designated at fair value through other comprehensive income  | -                  | 1             |
| - Caption 200 b) (partial) Net provisions for risks and charges (Time value allowances for risks and charges)   | 1                  | -             |
| - Caption 200 b) (partial) Net provisions for risks and charges - Other net provisions (Investments for the stability of the banking system)  | -                  | -             |
| - Caption 135 Net losses/Recoveries pertaining to insurance companies in accordance with IAS 39   | 1                  | -             |
| - 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)  | 12                 | -             |
| + Caption 250 (partial) Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)   | -                  | -             |

## Attachments

| Captions   | (millions of euro) |              |
|--|--------------------|--------------|
|  | 31.03.2018         | 31.03.2017   |
| <b>Other income (expenses)</b>   | 2                  | 196          |
| Profits (Losses) on disposal or repurchase of financial assets measured at amortised cost - Debt securities (governments, financial and insurance companies)   |                    |              |
| Caption 100 a (partial)  | 3                  | 1            |
| Caption 250 Profits (Losses) on investments in associates and companies subject to joint control   | 7                  | 221          |
| Caption 280 Profits (Losses) on disposal of investments  | -                  | 2            |
| + Caption 230 (partial) Other operating expenses (income) (Profits (losses) on disposal of repurchased property and equipment)   | -                  | 2            |
| - Caption 250 (partial) Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)   | -7                 | -30          |
| Profits (Losses) on investments in associates and companies subject to joint control (Adjustments/recoveries due to impairment of associates)  |                    |              |
| - Caption 250 (partial)  |                    |              |
| - Caption 280 (partial) Profits (Losses) on disposal of investments (Effect of purchase price allocation)  | -1                 | -            |
| <b>Income (loss) from discontinued operations</b>  | 1                  | -            |
| Caption 320 Income (Loss) after tax from discontinued operations   | 1                  | -            |
| + Caption 300 (partial) Taxes on income from continuing operations (Discontinued operations)   | -                  | -            |
| <b>Gross income (loss)</b>   | <b>1,977</b>       | <b>1,652</b> |
| <b>Taxes on income</b>   | -544               | -445         |
| Caption 300 Taxes on income from continuing operations   | -480               | -303         |
| - Caption 300 (partial) Taxes on income from continuing operations (Discontinued operations)   |                    |              |
| - Caption 300 (partial) Taxes on income from continuing operations (Charges for integration)   | -8                 | -6           |
| - Caption 300 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)   | -4                 | -3           |
| - Caption 300 (partial) Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)  | -52                | -47          |
| Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)   |                    |              |
| - Caption 300 (partial)  | -                  | -86          |
| <b>Charges (net of tax) for integration and exit incentives</b>  | -19                | -12          |
| + Caption 190 a (partial) Personnel expenses (Charges for integration and exit incentives)   | -2                 | -5           |
| + Caption 190 b (partial) Other administrative expenses (Charges for integration)  | -2                 | -7           |
| + Caption 200 (partial) Net provisions for risks and charges (Charges for integration)   | -12                | -            |
| + Caption 210 (partial) Net adjustments to / recoveries on property and equipment (Impairment - Charges for integration)   | -5                 | -2           |
| + Caption 220 (partial) Net adjustments to / recoveries on intangible assets (Impairment - Charges for integration)  | -6                 | -4           |
| + Caption 300 (partial) Taxes on income from continuing operations (Charges for integration)   | 8                  | 6            |
| <b>Effect of purchase price allocation (net of tax)</b>  | -44                | -6           |
| + Caption 30 (partial) Interest margin (Effect of purchase price allocation)   | -41                | -2           |
| + Caption 220 (partial) Adjustments to / recoveries on intangible assets (Effect of purchase price allocation)   | -8                 | -7           |
| + Caption 280 (partial) Profits (Losses) on disposal of investments (Effect of purchase price allocation)  | 1                  | -            |
| + Caption 300 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)   | 4                  | 3            |
| <b>Levies and other charges concerning the banking industry (net of tax)</b>   | -117               | -282         |
| 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) |                    |              |
| + Caption 110 b)   | 1                  | -            |
| Net losses/recoveries for credit risk associated with financial assets designated at fair value through other comprehensive income - Debt securities (Investments for the stability of the banking system)       |                    |              |
| + Caption 130 b (partial)  | -                  | -261         |
| + Caption 190 b (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)   | -170               | -154         |
| + Caption 300 (partial) Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)  | 52                 | 47           |
| Taxes on income from continuing operations (Impairment losses on financial assets - investments for the stability of the banking system)   |                    |              |
| + Caption 300 (partial)  | -                  | 86           |
| <b>Impairment (net of tax) of goodwill and other intangible assets</b>   | -                  | -            |
| Caption 270 Goodwill impairment  | -                  | -            |
| <b>Minority interests</b>  | -1                 | -6           |
| Caption 340 Minority interests   | -1                 | -6           |
| <b>Net income (loss)</b>   | <b>1,252</b>       | <b>901</b>   |

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## Glossary



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**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.

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**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

 **$\beta$** 

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:  $(\text{Ending value}/\text{Beginning value})^{(1/n)} - 1$ .

**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.

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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.

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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).

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**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.

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**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).

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**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.

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**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

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(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 CMBs.

**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 ( $\lambda$ )**

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

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**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

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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.

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**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).

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**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.

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**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  $(K_e - g)$ .

**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.

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**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.

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**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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# Contacts



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# Financial calendar



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Approval of the half-yearly report as at 30 June 2018:

1 August 2018

Approval of the Interim Statement as at 30 September 2018:

6 November 2018