

**INTESA**  **SANPAOLO**

# **Annual Report 2016**

**Consolidated Financial Statements**

**Parent Company's Draft Financial Statements**



*This is an English translation of the Italian original "Bilanci 2016" that has been prepared solely for the convenience of the reader. 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.*



# Shareholders' Meeting of 27 april 2017

## Report and consolidated financial statements of the Intesa Sanpaolo Group 2016

## Report and Parent Company's financial statements 2016

**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 |
| 1,156           | Fideuram              | 89       |
|                 | Banca Prossima        | 29       |
|                 | Mediocredito Italiano | 2        |
|                 | Banca IMI             | 1        |

#### NORTH EAST

| INTESA SANPAOLO | Subsidiaries                 |          |
|-----------------|------------------------------|----------|
| Branches        | Company                      | Branches |
| 204             | CR del Veneto                | 305      |
|                 | CR in Bologna                | 156      |
|                 | CR del Friuli Venezia Giulia | 92       |
|                 | CR di Forlì e della Romagna  | 78       |
|                 | Fideuram                     | 57       |
|                 | Banca Prossima               | 16       |
|                 | Mediocredito Italiano        | 2        |

#### CENTRE

| INTESA SANPAOLO | Subsidiaries          |          |
|-----------------|-----------------------|----------|
| Branches        | Company               | Branches |
| 493             | Banca CR Firenze      | 302      |
|                 | Fideuram              | 42       |
|                 | Banca Prossima        | 9        |
|                 | Banco di Napoli       | 4        |
|                 | Mediocredito Italiano | 2        |
|                 | Banca IMI             | 1        |

#### SOUTH

| INTESA SANPAOLO | Subsidiaries          |          |
|-----------------|-----------------------|----------|
| Branches        | Company               | Branches |
| 94              | Banco di Napoli       | 559      |
|                 | Fideuram              | 27       |
|                 | Banca Prossima        | 20       |
|                 | Mediocredito Italiano | 2        |

#### ISLANDS

| INTESA SANPAOLO | Subsidiaries          |          |
|-----------------|-----------------------|----------|
| Branches        | Company               | Branches |
| 216             | Fideuram              | 10       |
|                 | Banca Prossima        | 9        |
|                 | Mediocredito Italiano | 1        |



Figures as at 31 December 2016

## 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

## INTESA SANPAOLO



### AMERICA

| Direct Branches | Representative Offices |
|-----------------|------------------------|
| George Town     | Santiago               |
| New York        | Washington D.C.        |

| Country | Subsidiaries           | Branches |
|---------|------------------------|----------|
| Brazil  | Intesa Sanpaolo Brasil | 1        |

### OCEANIA

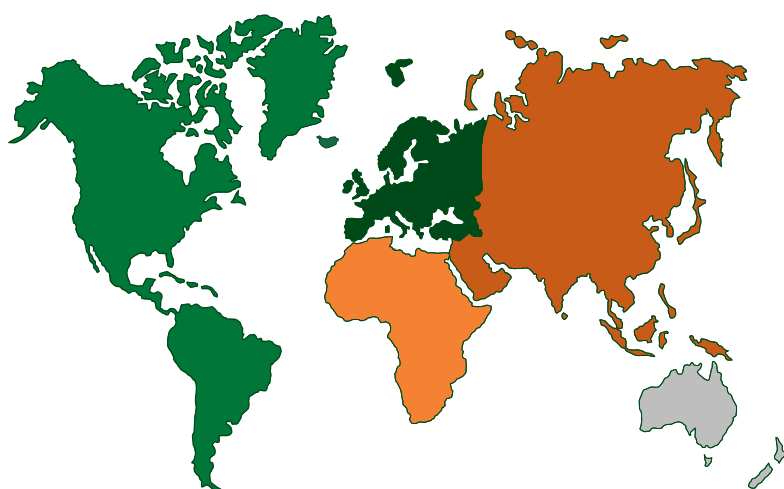
| Representative Offices |
|------------------------|
| Sydney                 |

### 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        | Istanbul                |
| London          | Moscow                  |
| Madrid          |                         |
| Paris           |                         |
| Warsaw          |                         |



| Country                | Subsidiaries                              | Branches |
|------------------------|---|----------|
| Albania                | Intesa Sanpaolo Bank Albania              | 32       |
| Bosnia and Herzegovina | Intesa Sanpaolo Banka Bosna i Hercegovina | 53       |
| Croatia                | Privredna Banka Zagreb                    | 195      |
| Czech Republic         | VUB Banka                                 | 1        |
| Hungary                | CIB Bank                                  | 82       |
| Ireland                | Intesa Sanpaolo Bank Ireland              | 1        |
| Luxembourg             | Fideuram                                  | 1        |
|                        | Intesa Sanpaolo Bank Luxembourg           | 1        |
| Romania                | Intesa Sanpaolo Bank Romania              | 45       |
| Russian Federation     | Banca Intesa                              | 36       |
| Serbia                 | Banca Intesa Beograd                      | 166      |
| Slovakia               | VUB Banka                                 | 233      |
| Slovenia               | Intesa Sanpaolo Bank                      | 52       |
| Switzerland            | Intesa Sanpaolo Private Bank (Suisse)     | 1        |
| The Netherlands        | Intesa Sanpaolo Bank Luxembourg           | 1        |
| Ukraine                | Pravex-Bank                               | 95       |
| United Kingdom         | Banca IMI                                 | 1        |
|                        | Intesa Sanpaolo Private Banking           | 1        |

Figures as at 31 December 2016  
(1) International and Regulatory Affairs

### AFRICA

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

## Product Companies



Consumer Credit, E-money and Payment Systems



Leasing



Insurance



Asset Management



Factoring



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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  
Franco CERUTI  
Francesca CORNELLI  
Giovanni COSTA  
Edoardo GAFFEO <sup>(\*)</sup>  
Giorgina GALLO  
Giovanni GORNO TEMPINI  
Rossella LOCATELLI  
Marco MANGIAGALLI <sup>(\*\*)</sup>  
Maria MAZZARELLA  
Milena Teresa MOTTA <sup>(\*)</sup>  
Bruno PICCA  
Alberto Maria PISANI <sup>(\*)</sup>  
Livia POMODORO  
Daniele ZAMBONI  
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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## Letter from the Chairman

Dear Shareholders,

2016 was uncertain at times, especially as regards politics. The growing nationalist sentiment and discontent among the middle class in developed countries has led to unexpected election results; a role was played by the intensification of migration and dramatic acts of terrorism. From an economic point of view, the signs of growth consolidating in the USA strengthened, while in Europe fears of a deflationary process gradually ended. In this scenario, Intesa Sanpaolo achieved impressive economic milestones.

The global economic situation was essentially unchanged compared to 2015, with a global growth rate of approximately 3% and a slight slowdown in international trade. The main central banks of industrialised countries continued to adopt expansive monetary policies, while national inflation rates remained under control.

The ECB's monetary policy, becoming more expansive since March 2016 due to the implementation of enhanced measures of Quantitative Easing, contributed to dispelling fears of deflation. Towards the end of the year a debate on the future stance was started by those fearing a significant recovery in price changes.

In Italy, after a long recession, the latest statistics have confirmed a recovery. For the first time in 5 years, GDP grew by 1% in 2016, supported by domestic demand, especially due to the investment component, driven by incentives to purchase machinery and equipment. In 2016, Italy recorded a record trade surplus, equalling 51.6 billion euro (+23% compared to 2015), the highest since 1991, when the historical series began, thanks in particular to a sharp increase in sales to Japan and China.

In this context, your bank continued to run its business according to the guidelines defined in the 2014-17 Business Plan.

With resolution of the Extraordinary Shareholders' Meeting of February 2016, the new corporate governance system was implemented. By replacing the two-tier system with a one-tier corporate governance system, which is the most widely used in large financial markets, we improved management efficiency and the effectiveness of controls, addressing the growing complexity of business, the changes in regulations and the greater diversification and internationalisation of the Bank's shareholding structure. We are glad to share with you our satisfaction for the choices made and their effects.

In order to contribute to developing an efficient market of non-performing loans, which is essential to help Italian banks transferring the non-performing loans inherited from the financial crisis, your Bank participated in the establishment of the Atlante Fund, involving a commitment of 1 billion euro. The Fund recognised the opportunity of investing a significant amount of its resources in supporting Popolare di Vicenza and Veneto Banca, as institutions operating in a highly important area from an economic and systemic point of view. The recovery of our bad loans was entrusted primarily to our operational structures, using a broad range of skills. The number of non-performing loans to businesses reclassified as performing rose to 24,000 in 2016 alone.

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We ended 2016 with consolidated net income of 3,111 million euro, up more than 13% compared to 2015. Important positive contributions came from trading, the reduction of operating costs (with a *cost-income* ratio equal to 51.2%, among the best of the leading European banks) and the capital gains realised with the sales of Setefi and Intesa Sanpaolo Card; in addition, the results of the international subsidiaries contributed significantly to the growth in net income this year. Net income seems even more impressive when considering the burden of the charges for the contribution to resolution funds and for the deposit guarantee scheme.

Investments in structures, new products, IT technology and mobile banking continued. The renovation of branches, which will offer higher professional-content services, is still ongoing, while a new method to extensively attract retail customers, within the framework of the Banca 5@ project, will be provided by the recent purchase of ITB (about 20,000 contact points with the general public). The Capital Light Bank is proving hugely satisfactory, drawing value from non-core assets also through the management of non-performing loans and the sale of non-strategic investments. The new hub created in 2015 with the integration of Fideuram and Intesa Sanpaolo Private Banking acquired a new leading positioning in Italy and is at the top of the *private banking* sector at a European level. This will help the company focus on new developments in the future.

The results achieved in 2016 are accompanied by the soundness of the capital ratios (after the distribution of the proposed dividend, the fully loaded pro-forma CET 1 ratio is equal to 12.9%), the adequacy of liquidity indicators (already in line with Basel 3 requirements for 2018) and the low risk profile of our *business model*. We increased the contribution to the growth of the economy, despite the persisting situation of uncertainty: in 2016 your Bank granted about 48 billion euro in medium-long term loans to fund the investments of Italian households and businesses, up about 16% compared to 2015.

The Intesa Sanpaolo Group participated in the 2016 EU-wide stress test. The test is based on the simulation of the impact of two scenarios – baseline and adverse – in a time horizon of three years (2016-2018). Your Bank's extremely positive outcome highlights for 2018 a *Common Equity Tier 1* ratio equal to 12.8% in the baseline scenario, and to 10.2% in the adverse scenario. These results confirm the excellence of our positioning compared to our *peers*, both in Italy and on the international markets.

The economic results are only one component of the constructive relations we have developed with our *stakeholders*: our shareholders, customers, investors and employees. Our firm commitment to support culture, and towards environmental issues and financial education initiatives is acknowledged and positively viewed by civil society. These are elements of our corporate culture that we share with you and make us proud.

Considering a Group consolidated net income equal to 3,111 million euro and a Parent Company net income equal to 1,760 million euro, a proposal was made to the Ordinary Shareholders' Meeting to distribute cash dividends amounting to 2,999 million euro, equal to 17.8 eurocents per ordinary share and 18.9 eurocents per savings share, before tax.

Gian Maria Gros-Pietro



**Intesa Sanpaolo Group  
Report on operations and consolidated  
financial statements**



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# Introduction

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

The Consolidated financial statements as at 31 December 2016 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Art. 43 of Legislative Decree 136/2015, with Regulation of 22 December 2005, which issued Circular 262/05, and subsequent updates. These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.

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

In support of the comments on the results for the year, the Report on operations also presents and illustrates reclassified income statement and balance sheet schedules. The reconciliation with the financial statements, as required by Consob in its communication 6064293 of 28 July 2006, is included in the Attachments. The Report on operations contains financial information taken from or attributable to the Consolidated financial statements, as well as other information – for example, figures on quarterly trends, and other alternative performance measures – not taken from or directly attributable to the Consolidated financial statements.

Information on corporate governance and ownership structures required by Art. 123 bis of the Consolidated Law on Finance is set forth, as permitted, in a separate report, approved by the Board of Directors and published together with these financial statements. This report also contains the information on remuneration as provided for by Art. 123 ter of the Consolidated Law on Finance. The "Report on Corporate Governance and Ownership Structures - Report on Remuneration" can be viewed in the Governance section of the Intesa Sanpaolo internet site, at [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com). This same section of the site provides the disclosure required by Basel Pillar 3, as well as press releases published during the year and other financial documentation.



# Report on operations

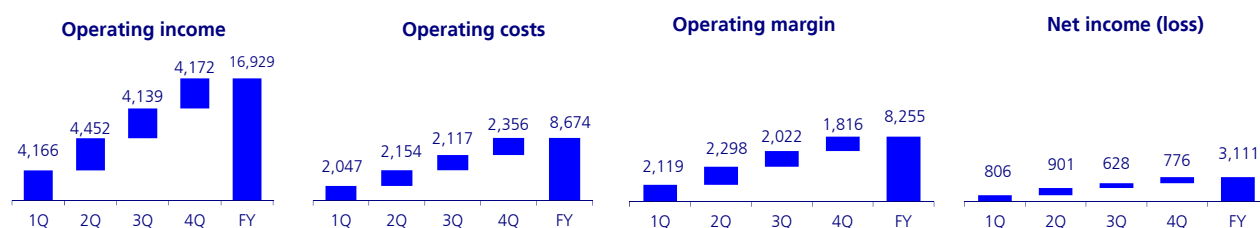


# Overview of 2016

# Income statement figures and alternative performance measures

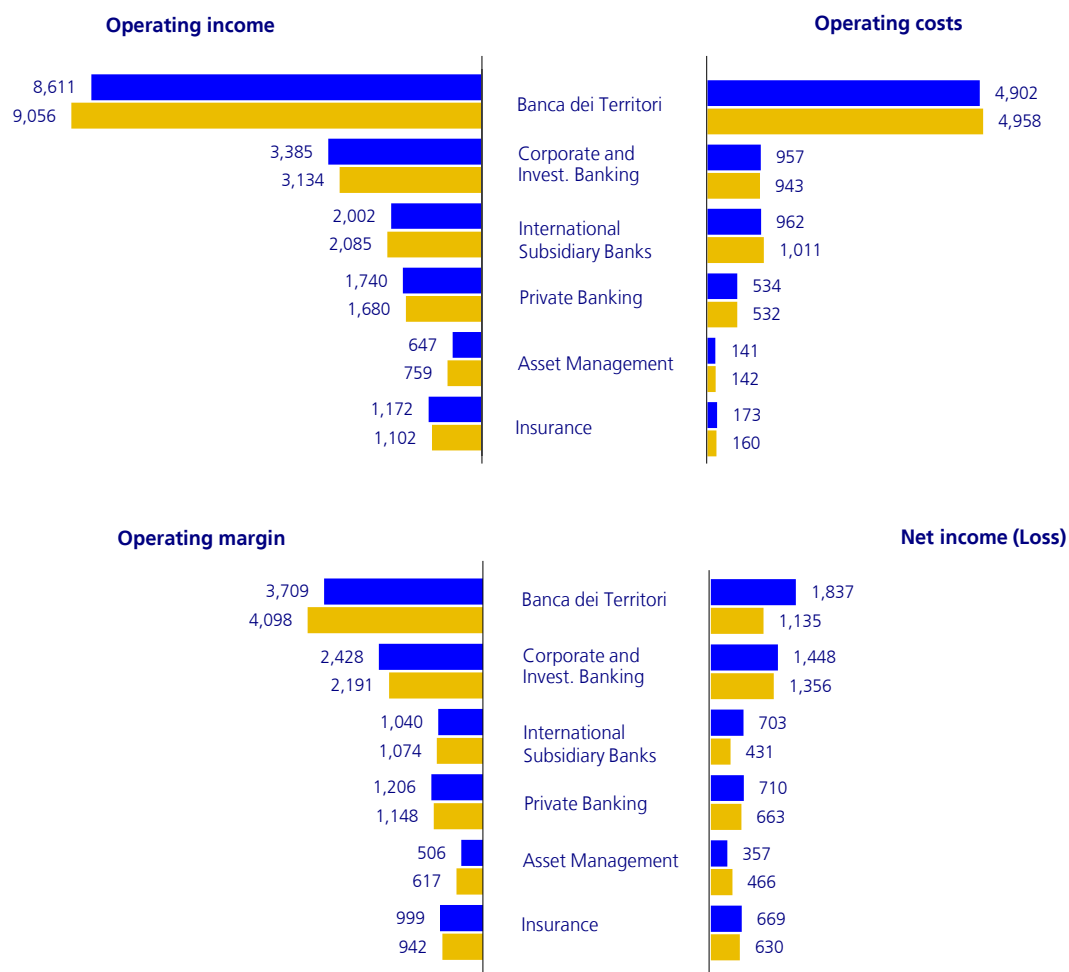
| Consolidated income statement figures (millions of euro) |                  | Changes |      |
|--|------------------|---------|------|
|  |                  | amount  | %    |
| Net interest income                                      | 7,293<br>7,717   | -424    | -5.5 |
| Net fee and commission income                            | 7,287<br>7,342   | -55     | -0.7 |
| Income from insurance business                           | 995<br>997       | -2      | -0.2 |
| Profits (Losses) on trading                              | 1,190<br>1,034   | 156     | 15.1 |
| Operating income   | 16,929<br>17,186 | -257    | -1.5 |
| Operating costs  | -8,674<br>-8,734 | -60     | -0.7 |
| Operating margin   | 8,255<br>8,452   | -197    | -2.3 |
| Net adjustments to loans                                 | -3,708<br>-3,306 | 402     | 12.2 |
| Income (Loss) from discontinued operations               | 952<br>87        | 865     |      |
| Net income (loss)  | 3,111<br>2,739   | 372     | 13.6 |

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





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



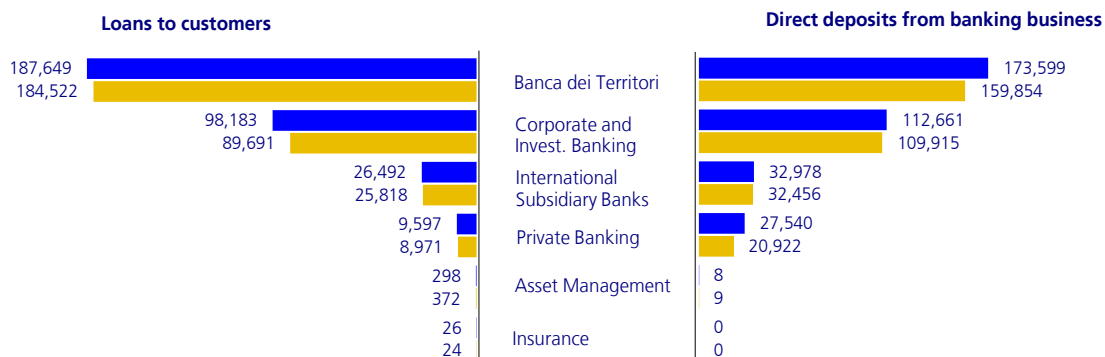
Figures restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents.



## Balance sheet figures and alternative performance measures

| Consolidated balance sheet figures (millions of euro)          |                    | Changes<br>amount | %    |
|--|--------------------|-------------------|------|
| Financial assets   | 255,411<br>237,980 | 17,431            | 7.3  |
| <i>of which: Insurance Companies</i>                           | 142,543<br>128,893 | 13,650            | 10.6 |
| Loans to customers   | 364,713<br>347,333 | 17,380            | 5.0  |
| Total assets   | 725,100<br>676,568 | 48,532            | 7.2  |
| Direct deposits from banking business                          | 393,798<br>372,200 | 21,598            | 5.8  |
| Direct deposits from insurance business and technical reserves | 144,098<br>132,948 | 11,150            | 8.4  |
| Indirect deposits:   | 468,855<br>468,425 | 430               | 0.1  |
| <i>of which: Assets under management</i>                       | 314,081<br>302,514 | 11,567            | 3.8  |
| Shareholders' equity   | 48,911<br>47,776   | 1,135             | 2.4  |

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



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

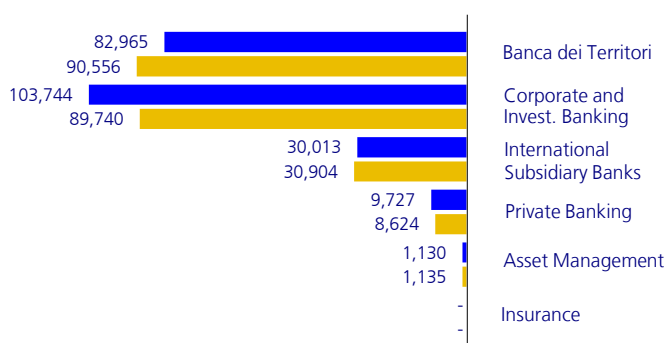
31.12.2016

31.12.2015

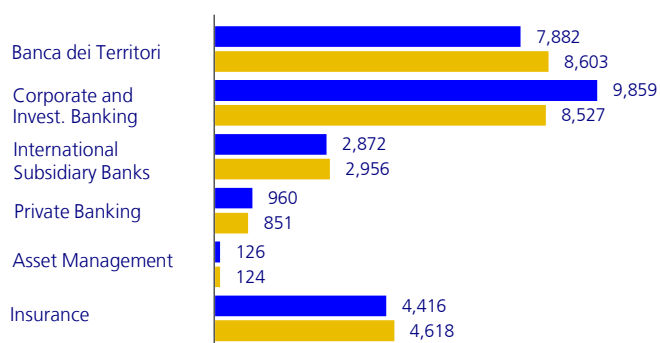
## Other alternative performance measures

| Consolidated capital ratios (%)   |                    |
|---|--------------------|
| Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio) | 12.7<br>13.0       |
| TIER 1 Capital / Risk-weighted assets   | 13.9<br>13.8       |
| Total own funds / Risk-weighted assets  | 17.0<br>16.6       |
| Risk-weighted assets (millions of euro)   | 283,918<br>284,319 |
| Absorbed capital (millions of euro)   | 31,472<br>31,706   |

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



### Absorbed capital by sector (millions of euro)



| Information on the stock                                   | 2016       | 2015       |
|--|------------|------------|
| Number of ordinary shares (thousands)                      | 15,859,787 | 15,859,576 |
| Share price at period-end - ordinary share (euro)          | 2.426      | 3.088      |
| Average share price for the period - ordinary share (euro) | 2.220      | 3.109      |
| Average market capitalisation (million)                    | 37,152     | 51,903     |
| Shareholders' equity (million)                             | 48,911     | 47,776     |
| Book value per share (euro) <sup>(a)</sup>                 | 2.941      | 2.897      |

| Long-term rating  | 2016   | 2015   |
|-------------------|--------|--------|
| Moody's           | Baa1   | Baa1   |
| Standard & Poor's | BBB-   | BBB-   |
| Fitch             | BBB+   | BBB+   |
| DBRS              | A(low) | A(low) |

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

<sup>(a)</sup> Book value per share does not consider treasury shares.

31.12.2016   
 31.12.2015 

### Consolidated profitability ratios (%)

|  |              |
|--|--------------|
| Cost / Income  | 51.2<br>50.8 |
| Net income / Average shareholders' equity (ROE) <sup>(a)</sup> | 6.4<br>5.9   |
| Net income / Total assets (ROA)                                | 0.4<br>0.4   |

### Earnings per share (euro)

|   |              |
|---|--------------|
| Basic earnings per share (basic EPS) <sup>(b)</sup>     | 0.18<br>0.16 |
| Diluted earnings per share (diluted EPS) <sup>(c)</sup> | 0.18<br>0.16 |

### Consolidated risk ratios (%)

|  |              |
|--|--------------|
| Net bad loans / Loans to customers                                   | 4.1<br>4.3   |
| Cumulated adjustments on bad loans /<br>Gross bad loans to customers | 60.6<br>61.8 |

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

<sup>(a)</sup> Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves

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

| Operating structure                      | 2016          | 2015          | Changes amount |
|--|---------------|---------------|----------------|
| <b>Number of employees</b>               | <b>89,126</b> | <b>90,134</b> | <b>-1,008</b>  |
| Italy                                    | 64,322        | 64,114        | 208            |
| Abroad                                   | 24,804        | 26,020        | -1,216         |
| <b>Number of financial advisors</b>      | <b>5,032</b>  | <b>5,050</b>  | <b>-18</b>     |
| <b>Number of branches</b> <sup>(d)</sup> | <b>5,163</b>  | <b>5,386</b>  | <b>-223</b>    |
| Italy                                    | 3,978         | 4,144         | -166           |
| Abroad                                   | 1,185         | 1,242         | -57            |

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

<sup>(d)</sup> Including Retail Branches, Private Banking Branches, SME Branches and Corporate Branches.

31.12.2016

31.12.2015

# Executive summary

## Intesa Sanpaolo in 2016

### Economic trends in 2016

The global economy continued along a path of moderate expansion in 2016. The prices of commodities recovered. The outcome of the referendum in the United Kingdom on whether to remain in the European Union caused sterling to fall sharply. In the United States, employment and income continued to grow at a rapid pace. In December, the Federal Reserve raised official rates again, by 25 basis points. Among emerging economies, Asia was confirmed as the most dynamic region, even though growth rates slowed in India and China, while Latin America and CIS area countries once again saw a decrease in GDP. In the Eurozone, the annual change in GDP remained slightly above 1.5%, sufficient to promote a gradual absorption of the unemployment rate. Inflation gradually rose up to 1.1%. In Central and South Eastern Europe, GDP growth slowed down in the CEE countries, in Hungary and in Slovakia, while it accelerated in the EEA countries, in Romania, Croatia and Serbia.

In March, the ECB reduced the deposit rate to -0.40%. The rate on main refinancing operations was cut to zero, while the marginal lending rate was reduced to 0.25%. The ECB increased the amount of the purchase programme to 80 billion euro per month and extended its duration to the entire year 2017. In addition, a new long-term refinancing program called TLTRO II was launched. The euro/US dollar exchange rate fluctuated widely during 2016: a period of appreciation was followed by a gradual weakening, to end the year at 1.05.

In Italy, economic growth almost came to a standstill in the second quarter, but then picked up pace during the rest of the year. The annual change in GDP estimated by ISTAT on preliminary data came to 1.0% for all of 2016 on values corrected due to calendar effects and to +0.9% on raw data. Industrial production continued to grow, while the growth in employment lost ground. On the external front, the Italian economy maintained a large current account surplus in the balance of payments. With regard to fiscal policy, the ratio of the public deficit to GDP remained more or less unchanged, however, it is estimated that the debt/GDP ratio grew marginally. Spreads against German debt yields rose during the year, especially due to the uncertainty surrounding the referendum on 4 December and the tensions on the banking system. Afterwards, the rapid resolution of the government crisis and the extension of the ECB purchase programme reassured investors, although several rating agencies revised their outlook to negative. The BTP-Bund spread, on the ten-year maturity, closed the year at 162bps, up by 68bps compared to June. Yields on Italian government debt reported a record low of 1.05% on 14 August, to then end the year at 1.83%.

As regards the Italian banking system, the reduction of the total cost of funding continued, as a result of the downwards adjustments of rates on deposits and the fall in the cost of bond stock, as well as due to the smaller weight of more costly components. The rates on new loans continued to decline, reaching new record lows, to then stabilise towards the end of the year. Due to a sharper decline in the average lending rate than in the cost of funding, the banking spread further decreased.

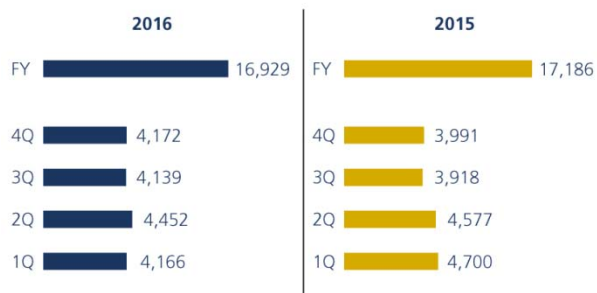
The year 2016 marked the return to growth in bank lending to the private sector, at a modest pace. The recovery was driven by the performance of loans to consumer households, boosted by the considerable strength in disbursements of residential mortgages, specifically fixed-rate mortgages. The increase in new loans reflected the resumption of sales of residential properties. Consumer credit also grew. In contrast, total loans to non-financial companies remained stagnant. The growth of medium-term loans continued to be offset by the negative trend of the short-term ones. The credit quality indices showed a clear improvement. The stock of gross bad loans started to decrease in the final part of the year, as a result of disposals and securitisations. As a ratio of total loans, the stock of bad loans stabilised. The formation of new non-performing loans slowed visibly.

As regards funding, 2016 confirmed the trends seen in the previous year, specifically the growth in deposits, driven by the significant growth in current accounts, and the collapse in bank bonds, the performance of which was affected by customer portfolio reallocation processes. At the same time, the double-digit decline in time deposits intensified. On the whole, customer deposits continued to decline slightly. The asset management sector demonstrated soundness, with positive inflows and increasing stock, despite the fact that it was negatively affected by the volatility and uncertainty on the financial markets.

### The results for 2016

In the economic scenario described above, the Intesa Sanpaolo Group closed the income statement of 2016 with a net income of 3,111 million euro (+13.6%). This was achieved despite the considerable charges borne by the Group relating to the stability of the banking system, represented by ordinary, extraordinary and additional contributions to resolution funds and deposit protection and guarantee schemes, as well as value adjustments to related investments, which came to a total of 820 million euro (559 million euro net of taxes). Adjustments to loans grew significantly on 2015 (+402 million euro), as a result of the increase in coverage. The year also benefited from the capital gain of 881 million euro deriving from the sales of Setefi and Intesa Sanpaolo Card.

**Operating income**  
(millions of euro)



More in detail, the income statement for 2016 recorded net interest income of 7,293 million euro, affected by interest rates at historic lows and down by 5.5% on the previous year, as a result of the decreased contribution of customer dealing and lower interest on financial assets, in addition to the effects of the depreciation of the Egyptian currency.

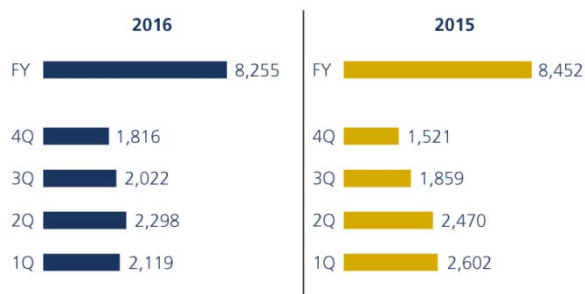
The services segment generated net fee and commission income of 7,287 million euro, down marginally on 2015 (-0.7%), in relation to the downwards trend both in commercial banking activities and in management and dealing activity, almost fully offset by higher commissions on M&A operations and on loans.

Income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, provided a contribution of 995 million euro, in line with the previous year. On the other hand, profits on trading showed significant growth (+15.1% to 1,190 million euro),

attributable to the considerable contribution of trading.

Other operating income, which, in addition to income and costs from continuing operations, also includes the contribution of the companies carried at equity, increased (+68 million euro) thanks to the greater contribution of the latter (+107 million euro).

**Operating margin**  
(millions of euro)



As a result of the trends described above, operating income in 2016 amounted to 16,929 million euro, down 1.5%.

Operating costs came to 8,674 million euro, a marginal decrease compared to the previous year (-0.7%). In greater detail, personnel expenses increased fractionally (+0.4% to 5,308 million euro), while administrative expenses declined (-3.7% to 2,620 million euro) mainly thanks to savings achieved in property management, general expenses, legal and professional fees and advertising and promotional expenses.

Conversely, amortisation and depreciation increased (+2.5%), due to amortisation of intangible assets.

The cost/income ratio came to 51.2% up from the 50.8% of 2015, solely as a result of lower revenues.

Operating margin was thus 8,255 million euro, down 2.3% compared to 2015.

Net adjustments to loans reported growth (approximately +12%)

compared to the previous year, attributable to the impairment of bad and unlikely to pay loans, which permitted an increase in the coverage of non-performing loans of 1.2 percentage points.

Net provisions for risks and charges and net impairment losses on other assets decreased on the whole compared to 2015 (-26%). More specifically, against lower provisions, net impairment losses on other assets increased, mainly due to the valuation effects concerning equity investments.

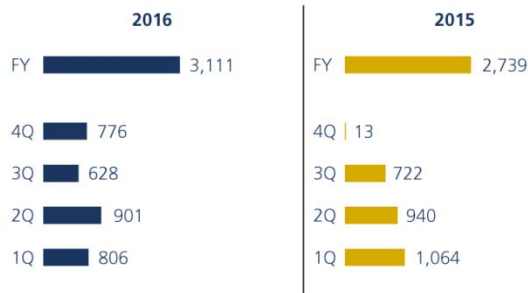
Other income (expenses) showed marginal growth (+0.9%). This caption comprises realised profits (losses) on investments and income and expenses not strictly linked to operations. For 2016, the latter include the income deriving from the sale of Visa Europe (170 million euro), the transaction to realise the value of a portfolio of real-estate assets used in operations (314 million euro) and the charges for the civil penalty resulting from the public supervisory action in the areas of anti-money laundering controls, policies and procedures at the New York branch (225 million euro), while for 2015, this caption included the positive amount recorded in that year pertaining to the IMI-Sir dispute (211 million euro).

Income on discontinued operations, which amounted to 952 million euro, was substantially comprised of the profit realised in the fourth quarter on the sales of Setefi and Intesa Sanpaolo Card (881 million euro) and the income realised by these companies prior to their transfers (73 million euro).

As a result of the trends illustrated above, gross income amounted to 5,432 million euro, compared to 5,015 million euro in the previous year (+8.3%).

### Net income (loss)

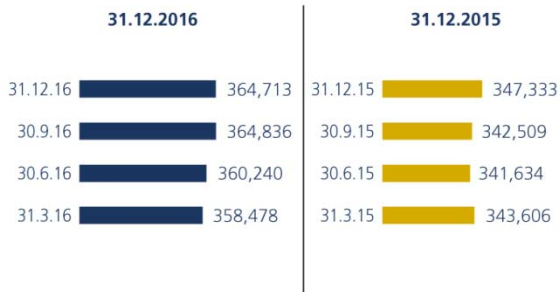
(millions of euro)



Income taxes amounted to 1,422 million euro (approximately - 18%), at a tax rate of 26.2% compared to 34.4% in 2015. Charges for integration and exit incentives were recorded for 150 million euro as well as income statement effects of purchase price allocation for 112 million euro. As previously mentioned and described in greater detail below, the expenses aimed at maintaining the stability of the banking system had an extensive impact. These amounted to 559 million euro, net of taxes, and were represented by ordinary and extraordinary contributions to resolution funds (316 million euro) and deposit protection and guarantee schemes (81 million euro), as well as the write-downs and allowances relating to investments for the stability of the banking system (162 million euro for the Atlante Fund and the voluntary fund set up with the FITD). After recording minority interests of 78 million euro, the income statement for 2016 closed, as stated, with net income of 3,111 million euro, compared to 2,739 million euro in 2015.

### Loans to customers

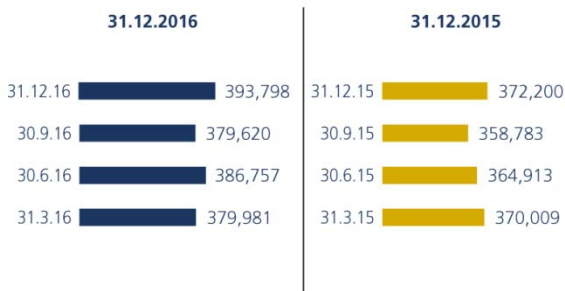
(millions of euro)



As to balance sheet aggregates, loans to customers amounted to 365 billion euro (+5% compared to the end of 2015). The positive trend in commercial banking loans, up 4% overall, due to the positive performance of advances, loans and mortgages, and loans represented by securities (+7.8%) was in addition to the higher amount of short-term financial loans represented by outstanding repurchase agreements (approximately +39.6%).

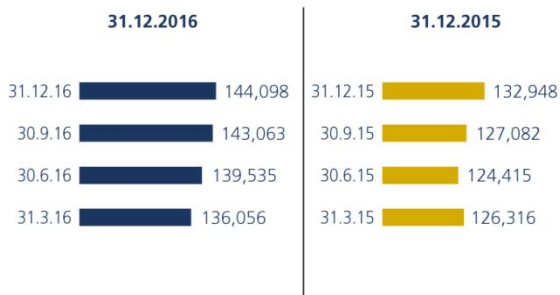
### Direct deposits from banking business

(millions of euro)



On the funding side, direct deposits from banking business came to approximately 394 billion euro (+5.8% compared to the end of 2015). The downturn in funding through bonds (approximately -16%) and the fall in certificates of deposit (approximately -35.3%), was offset by the positive performance of current accounts and deposits (+14.4%), subordinated liabilities (+3.6%) and other types of funding (+3.3%), in addition to a significant increase (+20.3%) in repurchase agreements.

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



Direct deposits from insurance business, which include technical reserves, also increased (+8.4% to over 144 billion euro). The overall increase was attributable both to the technical reserves (+1.2%), which represent the amount owed to customers who have bought traditional insurance policies, and to the higher value of financial liabilities of the insurance segment designated at fair value (approximately +21.6%), particularly of unit-linked products. The new business of Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to almost 24 billion euro for the year.

Indirect customer deposits at the end of the year amounted to 469 billion euro (substantially stable compared to the end of 2015), affected by the decline in prices that reduced the value of securities under management and administration.

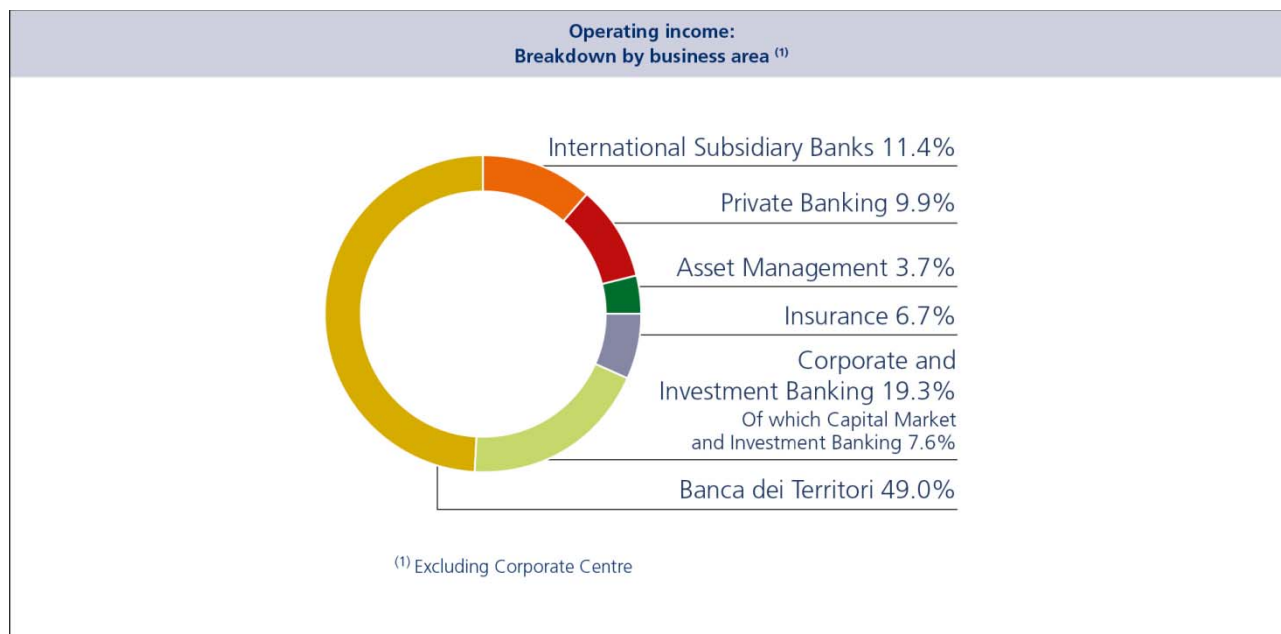
In detail, assets under management grew (+11.6 billion euro to over 314 billion euro), due to the increase in deposits from insurance business, with an increase in technical reserves and financial liabilities in the insurance segment (+10 billion euro) and assets under management for mutual funds (1.9 billion euro), pension funds and individual pension policies (+1.2 billion euro).

Assets under administration conversely decreased sharply (-11.1 billion euro, down to approximately 155 billion euro), attributable to the heightened market volatility, which had an impact on securities prices and to a decline in operations by both institutional operators and retail customers.

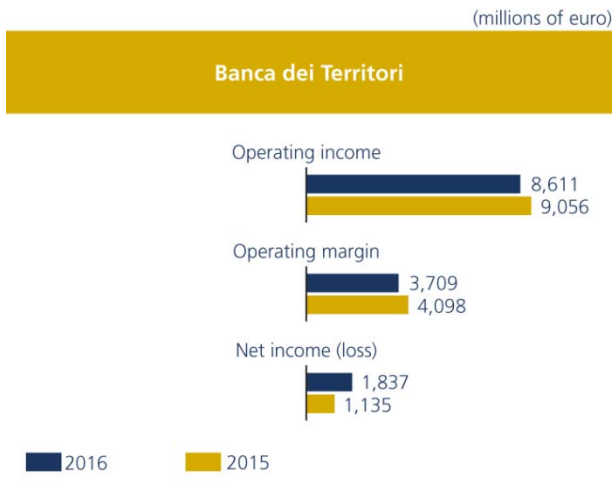
**Results of the Business Units**

The Intesa Sanpaolo Group organisational structure is based on six business segments: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition, there is the Corporate Centre - which is responsible for guidance, coordination and control of the entire Group - as well as for the Capital Light Bank (CLB) business unit, the Treasury and ALM operations.

The share of operating income attributable to each business area confirms that commercial banking activities in Italy continue to account for the majority (approximately 49% of the operating income of the business areas), although significant contributions were also provided by corporate and investment banking (approximately 19%), commercial banking activity abroad (approximately 11%), private banking activity (10%), insurance activity (approximately 7%) and asset management (approximately 4%).



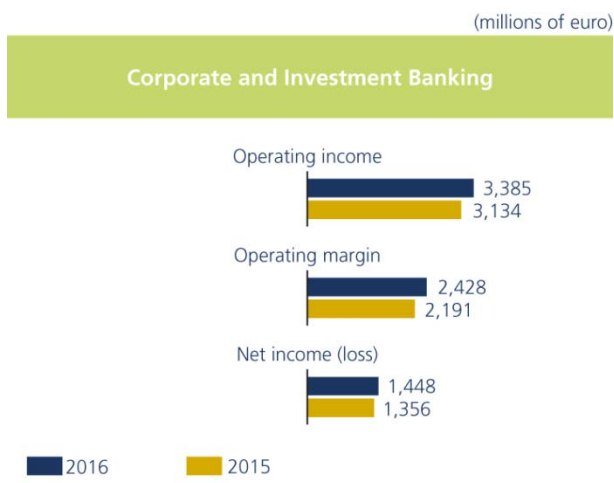




net income stands at 1,837 million euro (+61.9%).

The balance sheet figures at the end of 2016 showed loans to customers increasing from the end of 2015 (+1.7% to 188 billion euro), mainly as a result of the increase in medium/long-term loans. Direct deposits from banking business showed an increase (+8.4% to 173.6 million euro), attributable to higher liquidity on customer deposits.

Indirect customer deposits reached 224 billion euro, up by 1.9 billion euro (+0.9%) from the end of 2015, due to the good performance of assets under management, which more than offset the decrease in assets under administration attributable to the repositioning of customer assets into forms of professional asset management.



from banking business increased by 2.5% as the decrease in customers.

In 2016, Banca dei Territori Division – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income of 8,611 million euro, down 4.9% compared to the previous year.

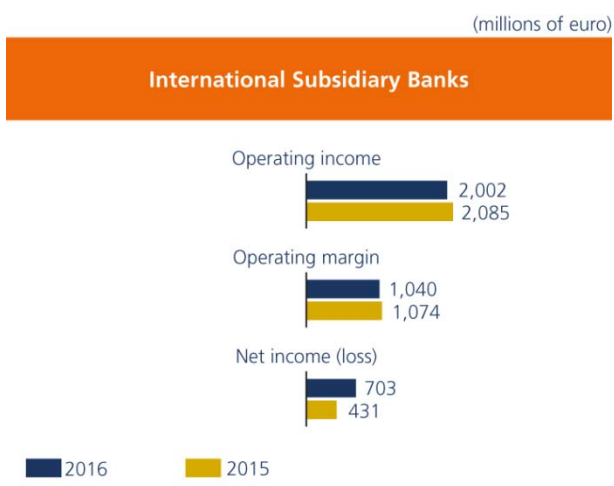
In detail, there was a decrease in net interest income compared to 2015 (-5.7%), affected by the scenario of market rates, and net fee and commission income (-4.2%), particularly that on asset management products. Increases were reported in profits on trading (+6.1%) and in other operating income (from 21 to 23 million euro). Operating costs decreased slightly on 2015 (-1.1% to 4,902 million euro).

As a result of the trends described above, operating margin fell (-9.5% to 3,709 million euro) compared to 2015. Conversely, gross income, amounting to 2,614 million euro, reported growth (+27.8%), due to the profits on the sales of Setefi and Visa Europe, as well as lower adjustments and provisions.

After accounting for the Division's taxes of 725 million euro (approximately -17%), charges for integration (44 million euro) and the economic effects of purchase price allocation (8 million euro),

The Corporate and Investment Banking Division – which deals with corporate banking, investment banking and public finance in Italy and abroad – achieved operating income higher than 2015 (+8% to 3,385 million euro). In detail, net interest income declined (-6.3%), primarily as a result of smaller margins and of a lower contribution from the Luxembourg subsidiary and capital markets activity. Conversely, net fee and commission income showed an increase (+28%) due to the investment banking sector. Profits on trading also increased (+13.5%), mainly due to capital markets activity. Operating costs recorded slight growth (+1.5%). As a result of the performance outlined above, the operating margin grew (+10.8% to 2,428 million euro). Gross income also showed an increase (+7.6% to 2,118 million euro), as well as net income (+6.8% to 1,448 million euro).

The Division's intermediated volumes increased compared to the end of 2015 (+4.6%). Specifically, loans to customers grew significantly (+9.5% to 98,183 million euro) in relation to increased operations in repurchase agreements by Banca IMI as well as loan transactions by the Luxembourg subsidiary, while direct deposits of securities issued absorbed the positive trend in amounts due to

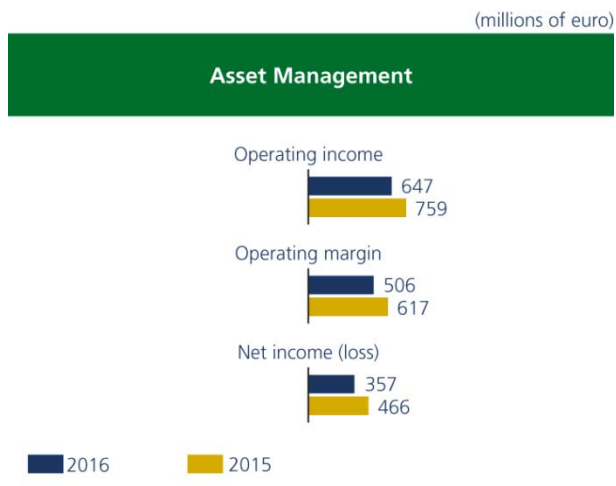


In 2016, the operating income of the Division – which oversees the Group's commercial operations on international markets through subsidiary and affiliated banks primarily involved in retail banking – stood at 2,002 million euro, down compared to 2015 (-4%), as the result of the declines in net interest income (-4.5%, in relation to the depreciation of the Egyptian currency), net fee and commission income (-5.7%) and other operating income (-22.7%), only partially offset by the positive trend in profits on trading (+8%).

The revenue trends described and the decrease in operating costs (-4.8%) kept the downturn in operating margin contained at 3.2%. Gross income rose significantly (approximately +57.7%), also favoured by the lower requirement for adjustments and provisions, as well as the income deriving from the sales of ISP Card and Visa Europe.

The Division closed 2016 with net income of 703 million euro (+63.1%).

The Division's intermediated volumes grew compared to the end of 2015 (+2.1%) owing to the positive performance by both loans to customers (+2.6%) and direct deposits from banking business (+1.6%), in the securities issued component.



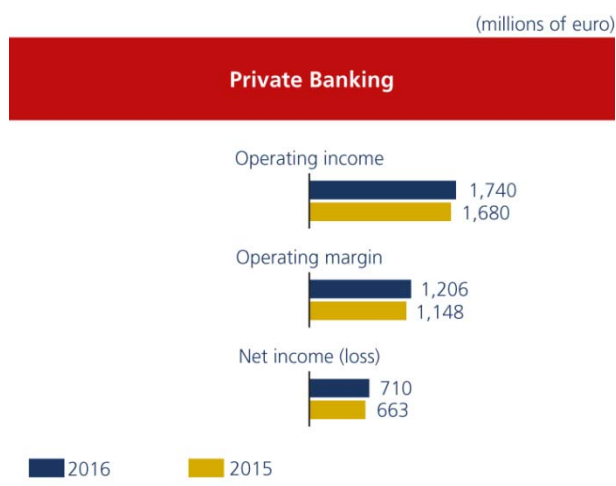
The Asset Management Division is tasked with developing asset management solutions aimed at the Group's customers, non-Group distribution networks and institutional customers, through the subsidiary Eurizon Capital.

Operating income for 2016 was down by 14.8% (to 647 million euro) compared to 2015, mainly due to the negative performance of net fee and commission income (-15.4%), attributable to the reduction in incentive commissions collected on the products managed. Operating costs were confirmed at the previous year's level.

In relation to those revenue and cost trends, the operating margin fell by 18% to 506 million euro.

The Division closed 2016 with net income of 357 million euro (-23.4%).

The total assets managed by the Asset Management Division at the end of 2016 came to 239 billion euro, growing (+5.3%) since the end of 2015, as a result of net inflows and a favourable performance.



The Private Banking Division serves the top customer segment (Private and High Net Worth Individuals) by offering excellent products and services.

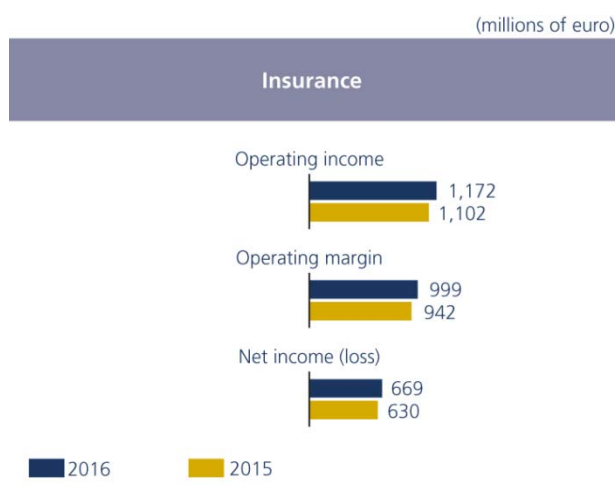
The Division coordinates the operations of Fideuram, Fideuram Investimenti, Intesa Sanpaolo Private Banking, Sirefid, Fideuram Fiduciaria, Intesa Sanpaolo Private Bank (Suisse) and Fideuram Asset Management Ireland.

In 2016, in a scenario of high market volatility, the Division generated gross income up 5.3% (to 1,168 million euro) compared to 2015, mainly attributable to the growth in net fee and commission income (+78 million euro) and profits on trading and other operating income (+8 million euro in total), which absorbed the reduction in net interest income (-26 million euro). Marginal increases were recorded in operating costs and provisions and adjustments as a whole.

Net income came to 710 million euro (+7.1%).

As at 31 December 2016, assets under administration, which also include the contribution of the trust mandates for Sirefid, amounted to 166 billion euro, increasing (+3.1 billion euro

compared to the end of 2015) due to the favourable trend in net inflows. The assets under management component amounted to 104 billion euro, up by 5.4 billion euro, primarily due to the strong performance of life insurance.



The Insurance Division oversees management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and Fideuram Vita, with the mission of further developing the insurance product mix targeting Group customers. In 2016 the Division reported an increase in income from insurance business (+7.2% to 1,179 million euro) compared to 2015, mainly due to an improvement in the technical margin. As a result, the operating margin also increased (+6.1% to 999 million euro), benefiting from greater operating income, against moderate growth in costs. Gross income also improved (+9.2% to 1,008 million euro), as well as net income, which stood at 669 million euro, an increase of 6.2% compared to the same period in 2015, which moreover had benefited from the capital gain generated by the sale of the equity investment in Union Life.

Direct deposits from insurance business, amounting to 144,321 million euro, increased 8.4% from the end of 2015, largely attributable to the increase in financial liabilities designated at fair value and the development of technical reserves.

## Highlights

### Highlights in the year

On 26 February 2016, the Extraordinary Shareholders' Meeting of Intesa Sanpaolo approved the new Articles of Association which relate to the adoption of the one-tier corporate governance system, based on a Board of Directors composed of a minimum of 15 to a maximum of 19 members, five of whom will be part of the Management Control Committee.

The dual corporate governance model previously adopted by Intesa Sanpaolo has confirmed its concrete operation and consistency with respect to the Bank's overall structure, demonstrating its capacity to meet the efficiency and effectiveness needs of governance and of the control system of a structured and complex Group. Nine years on from its adoption, however, it was considered appropriate to evaluate a change, especially in light of the results of the last self-assessment process carried out by the two Corporate Bodies which, while showing the full and extensive adequacy of each Board with regard to all the aspects under examination, identified some areas for improvement. Aside from the external factors, other factors suggested a wide-ranging assessment: first and foremost, the amendments introduced in the regulatory framework as well as the ongoing developments at Supervision level (with the transition of prudential supervision to the ECB, with a view to the Single Supervisory Mechanism) and the shareholder base of Intesa Sanpaolo (with the strong growth of foreign investors). The relevant assessments were entrusted to a Commission set up ad hoc within the Supervisory Board - whose composition reflected the (legal and business) expertise and the (academic and professional) experiences that appeared to be best suited to meet the relevant requirements - with the task of analysing the benefits and advantages underlying the different governance models, in order to identify possible areas for improvement in Intesa Sanpaolo's dual corporate governance system or, alternatively, possible reasons leading to its replacement.

Having taken into account all the factors and considerations outlined above, the Commission identified the one-tier system - characterised by the presence of a board of directors and a management control committee established within it - as the most suitable model to ensure actual management efficiency and control effectiveness at Intesa Sanpaolo. Thus, in the Commission's opinion, the centralisation within a single body of strategic supervision and management functions - together with a balanced system of powers and fair debate within the board - is conducive to pursue the dual objective of greater efficiency in the performance of the governance function and of safeguarding, in line with the dual system, the immediacy, incisiveness and effectiveness of the control function, centralised within the Management Control Committee.

The Ordinary Shareholders' Meeting on 27 April 2016 then decided to set the number of members of the Board of Directors at 19 for financial years 2016-/2017-/2018 and subsequently appointed the members of the Board of Directors and the Management Control Committee for said years, on the basis of slates of candidates submitted by shareholders. The 19 members appointed are listed in the "Corporate Offices" Section of this reporting package. The Board of Directors' meeting of 28 April then appointed Carlo Messina Managing Director and CEO, granting him the powers necessary and appropriate to ensure consistent management of the Company.

On 4 May 2016 the deed relating to the merger by incorporation of Banca dell'Adriatico, fully-owned by the Parent Company, into Intesa Sanpaolo was entered into. The legal effects of the transaction were valid from 16 May 2016, while the accounting and tax effects were valid from 1 January 2016.

On the 9 May 2016 Intesa Sanpaolo and the other A4 Holding shareholders reached an agreement with the Spanish Abertis Group for the sale of 51.4% of the equity investment at a price of 594 million euro. The agreement concerned, in particular, the disposal of Oldequiter S.p.A. and Re Consult Infrastrutture S.p.A. which respectively hold 6.5% and 44.9% of the share capital of the A4 Holding Group. Oldequiter was 100% controlled by Intesa Sanpaolo while Re Consult Infrastrutture was a jointly controlled interest held by ISP through its subsidiary Infra.

The sale was subject to some conditions precedent which occurred in August 2016. Consequently, on 7 September 2016 the transaction was completed and Intesa Sanpaolo's equity investments in Reconsult and Oldequiter were sold to the Abertis Infraestructuras Group.

Also in May, through Accedo - a consumer credit company and wholly owned subsidiary dedicated to consumer credit distribution over external channels to the Group, whose merger by incorporation into the parent company has already been approved - Intesa Sanpaolo sold the performing loan portfolios, without recourse and *en-bloc*, related to the businesses dealing in assignment of one-fifth of salary and pension (approximately 1.6 billion euro) and consumer credit (one billion approximately). The two portfolios were assigned to two specially incorporated special purpose vehicles (Towers CQ Srl and Towers Consumer Srl), independent of the Intesa Sanpaolo Group and managed by the third-party servicer Zenith Service. The transferees financed the payment of the consideration by issuing senior, mezzanine and junior class securities only partly underwritten by the Intesa Sanpaolo Group, through Accedo, which has maintained a net economic interest of 5%, in compliance with the rules for recognition of securitisation transactions for prudential purposes, Banca IMI and Duomo (a vehicle company controlled by the Intesa Sanpaolo Group). Christofferson Robb & Company, a U.S. company operating in the acquisition of loan portfolios, has underwritten 95% of the junior tranche. Overall, the Intesa Sanpaolo Group has underwritten 34% of the securities issued by the transferee vehicle of the one-fifth of salary loans portfolio and 20% of those issued by the vehicle that acquired the consumer credit portfolio.

On 21 June, the Intesa Sanpaolo Group sold VISA Inc. the 15 ordinary shares, equal to 0.49% of the relevant share capital, held in VISA Europe, the association between banks and financial institutions belonging to the VISA circuit in Europe.

The sale generated net gains of approximately 150 million euro for the Intesa Sanpaolo Group's consolidated income statement, recorded in the second quarter of 2016.

During 2016 the disposal continued of the stake in Bank of Italy's capital which began in 2015. Indeed, an additional 3.83% of the stake was sold, for a total consideration of approximately 287 million euro. The sales were made at nominal value, which coincides with the carrying value (25,000 euro per share). As at 31 December 2016, therefore, 9.58% of the Bank of Italy's capital was sold for a price of 718 million euro. At the end of 2016 the residual stake held by the Intesa Sanpaolo Group in the Bank of Italy's capital

amounted to 32.85%. In this regard, following the end of the year, further stakes equal to a total of approximately 5.34% of the Bank of Italy's share capital were sold - at nominal value, coinciding with the carrying value - for a price of approximately 401 million euro. Following the completion of the transaction, the Group's stake in the Bank of Italy's share capital decreased to 27.50%.

On 1 July 2016 Eurizon Capital SGR acquired a 65% equity investment in SLJ Macro Partners, subsequently renamed Eurizon SLJ Capital, a British company primarily engaged in macroeconomic research, currencies and the advisory business on investments and portfolio management. The purchase of the equity investment was made with a payment of approximately GBP 19 million (approximately 23 million euro).

A deed was signed on 9 November 2016 relating to the merger by incorporation of Casse di Risparmio dell'Umbria into Intesa Sanpaolo, with a share capital increase of the surviving company totalling 109,617.56 euro, through the issue of ordinary shares.

The merger came into legal effect from 21 November 2016, while the accounting and tax effects were valid from 1 January 2016. Thus, 210,803 Intesa Sanpaolo ordinary shares were issued, with regular dividend entitlement, and a nominal value of 0.52 euro each, with a resulting share capital increase from 8,731,874,498.36 euro to 8,731,984,115.92 euro, now broken down into 15,859,786,585 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro each.

On 16 November Intesa Sanpaolo launched and concluded the ordinary share buy-back programme for the plan of assignment to employees of the Group, free of charge, as part of the share-based incentive plan for 2015, reserved for the so-called "risk takers" as well as managers or professionals accruing a "relevant bonus", as approved by the Shareholders' Meeting of Intesa Sanpaolo on 27 April 2016. The Bank's subsidiaries indicated in the press release have also terminated their purchase programmes of the Parent Company's shares to be assigned, free of charge, to their employees. The programmes were approved by their respective corporate bodies within their remits and are analogous to the programme approved by the Parent Company's Shareholders' Meeting.

On the day of execution of the programme, the Intesa Sanpaolo Group totally purchased - through Banca IML, in charge of the programme execution - 8,440,911 Intesa Sanpaolo ordinary shares representing approximately 0.05% of the ordinary share capital and of the entire share capital (ordinary plus savings shares) of the Parent Company, at an average purchase price of 2.149 euro per share, for a total value of 18,139,446 euro. The Parent Company alone purchased 3,582,633 shares at an average purchase price of 2.149 euro per share for a total of 7,697,307 euro.

Also in November, Intesa Sanpaolo entered a process aimed at the possible sale of its stake, equal to 50% of the capital, held through the subsidiary Eurizon Capital SGR in Allfunds Bank, a multimanager distribution platform of asset management products targeted at institutional investors. The finalisation of the transaction is subject, in particular, to the definition of terms and conditions of the possible sale and the subsequent required authorisations being received from competent authorities.

In December, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement at consolidated level to be met starting from 1 January 2017, following the results of the Supervisory Review and Evaluation Process (SREP).

The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio, including the combined buffer, is 7.25% under the transitional arrangements for 2017 and 9.25% on a fully loaded basis.

In mid-December the sale of the total share capital of the subsidiaries Setefi and Intesa Sanpaolo Card, which process payment instruments, was finalised to a wholly owned subsidiary of Mercury UK Holdco Limited (Mercury) for a cash consideration of 1,035 million euro. Mercury, which already owns Istituto Centrale delle Banche Popolari Italiane (ICBPI), is controlled by a consortium composed of Advent, Bain Capital and Clessidra.

Setefi and Intesa Sanpaolo Card carry out processing activities relating to payment instruments and operate, respectively, in Italy and in the other countries where the Group has a presence. The sale agreement provides for a ten-year service contract, the commitment by Intesa Sanpaolo to use the processing services provided by Setefi and Intesa Sanpaolo Card and specific undertakings regarding the maintenance of a high service quality. The transaction will enable the Intesa Sanpaolo Group:

- to focus on the core activities of issuing and acquiring relating to payment instruments, following the partial demerger of Setefi in favour of its Parent Company, with the aim of maximising effectiveness of commercial activities and optimising relationships with Group customers;
- to adequately enhance, by way of this disposal, the non-core processing activities, also taking into account that growing investment needs and economies of scale are necessary in order to operate efficiently in this sector;
- to further strengthen the technological platform by entering into a partnership with players of proven experience in the payment sector in Italy and Europe.

The finalisation of the transaction resulted in a positive contribution of around 860 million euro to the Intesa Sanpaolo Group's consolidated net income for the fourth quarter of 2016.

Also in December, a transaction was realised for the value enhancement of a portfolio of real-estate assets used in operations, with a total surface area of around 130,000 square metres and a carrying value of around 170 million euro. The transaction had a positive impact of around 260 million euro on the net income for 2016.

In December, a final settlement was reached with the New York State Department of Financial Services (a New York State banking supervisor) in relation to a civil penalty imposed on the Bank following a public supervisory action related to certain weaknesses and deficiencies in the anti-money laundering controls, policies and procedures at the New York branch.

In the second half of 2016 the Supervisory Authority specified the alleged violations incurred by the branch.

Negotiations were then initiated between the Bank and Supervisory Authority, resulting in a penalty being imposed on the Bank. The penalty - expensed to the income statement in 2016 - was 235 million dollars (225 million euro). As previously disclosed, the supervisory action was initiated in 2007 and the Bank was also subject to a criminal investigation initiated in 2008 by the New York District Attorney's Office and the Department of Justice into the methods used by the Bank for clearing through the United States payments in dollars to/from countries subject to U.S. economic sanctions in the years from 2001 to 2008. The criminal investigation

was concluded in 2012, when both law enforcement agencies determined to terminate their investigation and not to take any action against the Bank.

Also in December, Intesa Sanpaolo acquired 90% of Banca ITB for a consideration of 153 million euro. The share acquired, added to the 10% already held, resulted in the Group owning 100% of the company. Banca ITB is an online bank operating in the payment system sector and dedicated exclusively to the licensed points of sale that distribute postage stamps, postmarks, tax and similar stamps and carry out certain payment and collection services. The bank is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted, including investment services and the related ancillary services.

The integration of Banca ITB into the Intesa Sanpaolo Group, and its allocation to the Banca dei Territori Division, is in line with the strategic objectives set out in the Group's 2014-2017 Business Plan as part of the initiatives of growth. It is consistent with the development of a multichannel bank, as well as the Banca 5<sup>®</sup> model, which focuses on customers with potential for growth in the use of banking services, as it specifically enables the Group to leverage the current network of over 22,000 points of sale with agreements with Banca ITB, to acquire and expand the customer base not covered to date by the Banca 5<sup>®</sup> model and create a "network of proximity" focused on instant banking, in addition to the current branch network, which will be increasingly focused on advisory and value-added services.

During the year, the Intesa Sanpaolo Group was subject to the 2016 EU-wide stress test, the exercise conducted by the European Banking Authority on the financial statements of European banks as at 31 December 2015.

The test consisted of the simulation of the impact of two scenarios – baseline and adverse – and covers a time horizon of three years (2016-2018). The 2016 EU-wide stress test provides crucial information as part of the prudential review process of 2016. The results thus allowed the competent authorities to assess banks' ability to comply with the established minimum and additional own funds requirements in stress scenarios based on shared methodology and assumptions.

Intesa Sanpaolo acknowledges the results of the 2016 EU-wide stress test announced by the EBA on 29 July 2016, which were extremely positive for the Group. The Common Equity Tier 1 ratio (CET1 ratio) for Intesa Sanpaolo resulting from the stress test for 2018, the final year considered in the exercise, was 12.8% under the baseline scenario and 10.2% under the adverse scenario, compared to the starting-point figure of 13% recorded as at 31 December 2015, and included a 50 basis-point reduction - under both scenarios - for the transition from the calculation criteria applicable in 2015 to those applicable in 2018.

The Transparency Exercise will henceforth be executed annually, published along with the Risk Assessment Report (RAR) and will be based solely on COREP/FINREP data, on the form and scope, to ensure that the market is provided with a sufficient, and appropriate level of disclosure.

In January 2017, Intesa Sanpaolo launched a 1.25 billion euro Additional Tier 1 issue targeted at professional investors and international financial intermediaries, with characteristics in line with the CRD IV regulation. It is listed on the Luxembourg Stock Exchange as well as the usual Over-the-Counter market.

The Additional Tier 1 is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and can be early redeemed by the issuer after 10 years from the issue date and on every coupon payment date thereafter. The issuer will pay a fixed rate coupon of 7.75% per annum, payable semi-annually in arrears every 11 January and 11 July of each year, with the first coupon payment on 11 July 2017. The compounded yield to maturity is 7.90% per annum, equivalent to the 5-year Mid Swap Rate in Euro reckoned at the moment of issuance plus a spread equal to 719.2 basis points. In the event that the early redemption rights are not utilised on 11 January 2027, a new coupon at fixed rate will be determined by adding the original spread to the 5-year Mid Swap Rate reckoned at the reset date. Such new annual coupon will be fixed for the following 5 years (until the next reset date). As envisaged in the regulations applicable to Additional Tier 1, coupon payment is discretionary and subject to certain limitations. The trigger of 5.125% of Common Equity Tier 1 (CET1) provides that, if the CET1 ratio of the Intesa Sanpaolo Group or Intesa Sanpaolo S.p.A. falls below such trigger, the nominal value of AT1 will be temporarily reduced for the amount needed to restore the trigger level, taking into account also the other instruments with similar characteristics.

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

#### *Measures for stability of the banking system*

The Single Resolution Mechanism Regulation (2014/806/EU) came into force on 1 January 2016, in order to manage banking crises of member states in the Eurozone at centralised level, by establishing and managing the Single Resolution Fund (SRF). Starting from that date, the National Funds of all member states of the monetary union, established in 2015 pursuant to the European Directive BRRD ("Bank Recovery and Resolution Directive", 2014/59/EU), flowed into the Single Resolution Fund. This Fund is managed at centralised level by the new Single Resolution Board (SRB), headquartered in Brussels.

Starting from 1 January 2016, and by 31 December 2023 (time frame of 8 years), the Single Resolution Fund (SRF) must reach a target level of resources of at least 1% of the amount of protected deposits at all authorised entities of the Banking Union. The target level of the SRF is estimated at 55 billion euro.

Therefore, banks in the member states of the Banking Union, which paid their contributions to the National Resolution Fund in 2015, from 2016 (up to 2023) contribute to the Single Resolution Fund. Banks not belonging to the Banking Union will continue to pay contributions to the National Resolution Funds of their respective home countries.

As regards the contribution of the Intesa Sanpaolo Group, the total charge came to approximately 148 million euro (103 million euro net of taxes).

As the national resolution authority, the Bank of Italy set up the National Resolution Fund, which collects ordinary and extraordinary contributions from banks with registered offices in Italy, in line with the provisions of articles 82 and 83 of Legislative Decree

180/2015. At the end of 2015 the National Resolution Fund called up ordinary and extraordinary contributions, in an amount equal to three times the annual amount of ordinary contributions, to finance the measures to resolve the crises of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara. The total amount of contributions called up from the banking system thus came to 2,352 million euro, out of a total measure of the National Resolution Fund of approximately 3.7 billion euro.

As part of the resolution measures for those banks, four good banks were established for the purpose of ensuring the continuity of the essential functions previously carried out by the banks under resolution measures, as well as an intermediary (REV Gestione Crediti) to take over the bad loans acquired from the latter.

The liquidity needed by the Fund to carry out said measures was provided in advance by a pool of banks, including Intesa Sanpaolo, through a bridge loan at market rates with a maximum maturity of 18 months, subsequently partially repaid using the amounts deriving from the ordinary and extraordinary contributions mentioned above. At the end of 2016, the residual on-balance sheet exposure of Intesa Sanpaolo amounted to 235 million euro.

As the disposal of assets envisaged in the resolution plan was not carried out, and considering that the financial resources are insufficient to support the resolution measures executed over time, at the end of December 2016 the Fund called up additional contributions, equal to two annual amounts, for a total amount for Group banks of 316 million euro (1,524 million euro for the banking system). This is due to the fact that, according to Law Decree 183/2015 (known as the "Decreto Salvabanche", converted by Law 208/2015), if the financial resources available to the Fund are insufficient to support the resolution measures implemented over time, the contributions may be increased, only for 2016, by twice the annual amount of contributions determined in line with art. 70 of Regulation (EU) no. 806/2014 and Implementing Regulation (EU) no. 2015/81.

Consistently with the provisions of the DGS Directive on protecting deposits, the Articles of Association of the National Interbank Deposit Guarantee Fund (FITD), provide that the Fund shall establish available financial resources so the target level of 0.8% of the total deposits protected is reached by 3 July 2024, through ordinary contributions of the member banks. The target level of the FITD is estimated at approximately 5.4 billion euro.

In particular, pursuant to the terms of article 10 of the Appendix to the Articles of Association, the banks belonging to the fund as at 30 September of each year are obliged to pay the annual ordinary contribution. Contribution quotas are calculated by referring to the contributory base recognised as at 30 September of the current year and are adjusted to the risk on the basis of operating indicators referred to the last half-yearly report available.

The Board of the Fund set the amount of the total ordinary contribution for 2016 at 449 million euro, to be divided among the member banks based only on the amount of protected deposits, save for subsequent adjustments triggered by correction based on risk. However, the Board decided to allocate the amount of 100 million euro to the Solidarity Fund, established by the Stability Law 2016 for the compensation of subordinate bondholders impacted by the resolution measures of the four banks in November 2015 and, subsequently, governed by Law Decree 59/2016, converted by Law 119/2016. That regulation assigns FITD to manage and fund the Solidarity Fund. As a result, the difference of 100 million euro needed to reach the target of 449 million euro will be divided over the subsequent years, by 2024.

Thus, in total, the overall (ordinary and additional) contributions by the banks for 2016, including the resources to be allocated to the Solidarity Fund, amount to 449 million euro. At the level of the Intesa Sanpaolo Group, the total contribution comes to over 114 million euro, gross of taxes.

In order to overcome the negative stance taken by the European Commission with regard to the use of compulsory contributions in support measures in favour of banks in crisis, at the end of 2015, a Voluntary Scheme was created as part of the Interbank Deposit Guarantee Fund, as an additional tool not subject to the constraints of EU legislation and the European Commission.

After the restructuring of the intervention in Tercas, the reinstatement of a provision of the Voluntary Scheme was envisaged for a maximum amount of 700 million euro to use to provide support in favour of small banks in difficulty and subject to extraordinary administration proceedings, if there are real prospects of a turnaround and in order to avoid higher charges for the banking system as a result of winding up or dissolution orders.

The resources are not subject to immediate payment by the member banks, which simply assume the commitment to pay them when called upon to do so for specific interventions, up to the established maximum amount.

All the banks in the Intesa Sanpaolo Group joined the voluntary scheme and consequently had recognised a commitment, in the Half-yearly Report, for their own relevant share of the approved 700 million euro (approximately 150 million euro).

Drawing on this sum, on 15 June 2016 the Management Board of the FITD approved the participation in the recapitalisation of CR Cesena. With a decision of 15 September 2016, the ECB authorised the purchase of the equity investment by the Voluntary Scheme and on 20 September 2016 all the member banks paid their pro-rata amount of the total sum called up of 281 million euro, including 280 million euro for the capital increase (60 million euro of which was the ISP Group's initial share, written down by a gross amount of 15 million euro in the 2016 Financial Statements) and 1 million for expenses relating to the intervention and to operating the Voluntary Scheme. Consequently, the total commitment in the Voluntary Scheme was brought to the pro-rata amount of the remaining 420 million euro, approximately 90 million euro for ISP Group.

The contributions paid by the banks participating in the Voluntary Scheme are classified as assets, posted in the balance sheets of the member banks. The recognition of the asset is also supported by the explicit provision in the Articles of Association of the FITD regarding the Voluntary Scheme which states that any gains deriving from the purchase of the equity investment shall be reattributed to the banks participating in the scheme.

On 15 April 2016 the Bank's Management Board and Supervisory Board, within their respective remits, authorised the participation in an investment fund created for the dual purpose of investing in banks with inadequate capital which, thus, on request by the Supervisory Authorities, carry out capital strengthening measures, through capital increases, and enhancement of Non Performing Loans (NPL).

Intesa Sanpaolo has participated in the creation of an alternative investment fund called Atlante, managed by Quaestio Capital Management, an autonomous asset management company (SGR) - subscribing a commitment to invest 845 million euro in the fund (equal to 19.89% of the fund), out of a total capital endowment of Atlante of 4.249 billion euro, supplied by banks and private-sector investors.

During 2016 the asset management company Quaestio Capital initially called up resources of 2.5 billion euro, of which 503 million euro from Intesa Sanpaolo, to subscribe the capital increases of Banca Popolare di Vicenza and Veneto Banca.

In particular, the capital increase of Banca Popolare di Vicenza, amounting in total to 1.5 billion euro, was underwritten in full by the Atlante fund which thus acquired a stake of 99.33% in the bank's share capital.

The capital increase of Veneto Banca, amounting in total to 1 billion euro, was underwritten for approximately 989 million euro by the Atlante fund, which thus acquired a stake of 97.64% in the bank's capital. Subsequently, in December 2016, the Fund requested additional resources totalling 754 million euro for investment in the Atlante II Fund which, in turn, had called up funds for a possible investment in the securitisation of NPLs of Banca Monte dei Paschi di Siena. As the operation in question was not finalised, in December 2016 the Atlante Fund returned the amounts paid in.

Lastly, on 19 December 2016, Quaestio made a fourth request for payment from subscribers of a total of 917 million euro, of which 182 million euro from Intesa Sanpaolo, which paid in these resources on 3 January 2017. The amount was called up by the asset management company for the capital increases it will subscribe in Banca Popolare di Vicenza and Veneto Banca, which it paid in advance to said banks through a payment for future capital increases at the end of the year (310 million euro to Banca Popolare di Vicenza and 628 million euro to Veneto Banca). Following this additional payment, 81.2% of the initial resources were called up. Also considering the payment of January 2017, Intesa Sanpaolo has paid in a total of 686 million euro to the Fund and maintains a commitment for an additional 159 million euro.

For the purpose of measuring the equity investment in the Fund, in a public note the asset management company specified that, as it does not manage and coordinate the investee banks, it had to base its measurements on objective data in the public domain, taking account of the long-term outlook (as the Fund has a five-year duration) and was unable to refer to market prices, as its investees are not listed. Also considering that the latest financial statements date back to 30 June 2016, the fact that the shareholders' equity of the banks at that date was significantly higher than the value of the total investment made, and considering the last payment for future capital increases in December 2016 and the short time which has passed since the investment was made, the asset management company decided that there were no elements recommending the deviation from measuring the investments at historical cost. Therefore, in compliance with the AIF (Alternative Investment Fund) regulations, the asset management company decided that the historical cost was the best criterion applicable and estimated a net asset value (NAV) of the Fund of 3.48 billion euro. Lastly, for the purpose of full transparency, the asset management company noted that the report of Deloitte Financial Advisory Srl, independent valuer which was assigned to appraise the assets of the Fund, noted a current valuation of the investees which shows a total NAV of the Fund of 2.63 billion euro. As stated by the valuer, this valuation is subject to significant uncertainty deriving from the limited availability of objective data and a calculation method which is based only on equity market multiples, though the companies are unlisted, and at the start of an extensive process of restructuring and merger.

In the Intesa Sanpaolo Financial Statements as at 31 December 2016, as the Fund is classified under financial assets available for sale, based on the international accounting standards, it must be measured at fair value. Lacking additional information aside from the public information already available to the independent valuer assigned by the asset management company, to be used to conduct a financial/income measurement, for the purposes of determining the fair value reference was made to the measurements of Banca Popolare di Vicenza and Veneto Banca made by the assigned expert and published by the asset management company. The net asset value determined by the expert was prudently adjusted to also take account of the current value of the payment made by Intesa Sanpaolo on 3 January 2017 which, in the Intesa Sanpaolo 2016 Financial Statements, is posted under commitments. The fair value of Intesa Sanpaolo's units of the Fund as at 31 December 2016 came to 336 million euro which, compared with the related carrying amount of 503 million euro, resulted in a value adjustment of 167 million euro posted to the income statement. The measurement conducted also returned a current value of the payment made by Intesa Sanpaolo in January 2017 of 122 million euro. The difference from the amount paid, equal to 60 million euro, was posted as a charge to the 2016 income statement through an allocation to allowances for risks and charges. As a result, the total amount of the charge generated by the Atlante Fund to the Group's 2016 income statement was 227 million euro gross of taxes (equal to approximately 33% of the total amount paid by Intesa Sanpaolo) and 152 million euro net of taxes. In the reclassified statement, the entire amount as attributed to the caption "Levies and other charges concerning the banking industry".

As previously mentioned, in July 2016 the asset management company Quaestio Capital Management launched a new closed-end alternative investment fund named "Atlante II", reserved exclusively for professional investors for the purpose of investing in enhancing the non-performing loans of numerous Italian banks. The duration of the Fund is set until 31 March 2021, with possibility for the asset management company to extend it a further three years through binding decision of the Investors' Committee.

The total amount of the Fund has been set by the regulations from a minimum of 1,250 million euro to a maximum of 5,000 million euro.

The underwriting commitments may be collected until 31 July 2017. As at 31 December 2016, the fund had collected commitments of 2.15 billion euro.

Intesa Sanpaolo underwrote a commitment to pay in 155 million euro. The share Intesa Sanpaolo directly holds in the Atlante II Fund amounts to 7.2%. Also considering the share Intesa Sanpaolo holds in the Atlante Fund (19.89%), a unitholder of Atlante II with 37.1%, the Group's total commitment to the Atlante II Fund comes to approximately 14.6%.

On 2 December 2016, the Fund requested a payment from Intesa Sanpaolo of around 109 million euro, for the Fund to invest in the securitisation of NPLs of Banca Monte dei Paschi di Siena. As this operation was not concluded, the Fund returned the payments made by unitholders, with the exception of the share retained by the Fund to reimburse the expenses incurred to structure the operation. For Intesa Sanpaolo, this share amounted to approximately 1 million euro and was recognised in the income statement. As at 31 December, therefore, Intesa Sanpaolo had no exposure to the Atlante II Fund, but only a commitment of 154 million euro.

On 27 January 2017, Quaestio Capital Management SGR announced that it had signed a Memorandum of Understanding, on behalf of the Atlante II Fund, for the acquisition of 2.2 billion euro of the portfolio of non-performing loans of Nuova Banche Marche S.p.A., Nuova Banca dell'Etruria S.p.A. and Nuova Cassa di Risparmio di Chieti di S.p.A. Atlante II's intervention will consist of acquiring the Mezzanine tranche and part of the Junior tranche issued by a securitisation vehicle that will acquire the portfolio of non-performing loans from said banks, arising from the contribution to REV Gestione Crediti S.p.A. of bad loans in November 2015. The investment of the Atlante II Fund will come to a maximum of 515 million euro net of at least 200 million euro of loans.

## The 2014-2017 Business Plan

With the Business Plan approved in March 2014, the Intesa Sanpaolo Group has introduced the 2014-2017 objective to pursue a new growth phase based on an innovative strategy which, focusing on the individuals and adopting a clear and effective business model, aims at increasing profitability in a sustainable manner, optimising capital and liquidity.

The new strategy hinges on a number of priorities that are now part of the inheritance of Intesa Sanpaolo, which aims to become:

- A real-economy bank, which supports households and businesses and, leveraging a strong balance sheet and leadership, matches healthy credit demand and manages the financial wealth of customers with care;
- a Bank with sustainable profitability, in which operational performance, productivity, risk profile, liquidity and solidity/leverage are carefully balanced;
- a leader in retail and corporate banking in Italy and a few other key countries;
- a European leader Bank in a number of high growth/high value businesses (Private banking, Asset management, Insurance);
- a Bank structured according to a divisional model and engaged in strengthening and further simplifying the current business model of Banca dei Territori, taking into account the evolution in customers' demands;
- an international Bank that acts as "Local bank abroad" for Italian companies;
- a simple yet innovative Bank, acting with a truly multi-channel model.

The Plan envisages measures in the following areas:

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

A number of initiatives were implemented from both the organisational standpoint as well as with regard to product innovation, improvement of customer service and development of Intesa Sanpaolo's human capital.

### a) New Growth Bank

The Banca 5<sup>®</sup> project caters to approximately five million low profitability customers and relies on an ad hoc offer and on a dedicated commercial value chain of approximately 3,600 people. As a result of the commitment to them, these customers have continuously increasing profitability. In addition to the development of targeted products and the launch of commercial initiatives calibrated for their specific needs, particular attention was given to disseminating mortgages (specifically to young people), to designing customer journey-based campaigns, to promoting the use of the integrated multi-channel platform as well as training managers, which is fundamental to continuously improve the service offered. Constant product and process innovation resulted in an improvement in the Bank's competitive positioning in terms of quality of the commercial offering.

The Multichannel Bank Project aims on the one hand to provide customers with a simple, convenient and cheap service and on the other to release managers from the more repetitive tasks so they can devote more time to customer dialogue. The aim is not to create an alternative channel to the branch, but to achieve full integration between the branch office and all the bank's other channels, offering customers a "seamless" multichannel relationship. During the year, developments occurred in the project regarding both the dematerialisation of the forms used in the branch and in expanding commercial operations online with the launch of the Group's single showcase site, new internet banking and new apps. All the remote channels have been completely redesigned by listening to our customers, and are based on cutting-edge technologies which meet the highest security standards.

With regard to the "new jobs" envisaged in the 2014-17 Business Plan, Intesa Sanpaolo Casa, a new company that operates in residential real estate brokerage between individuals (including non-customers) and between individuals and the Group's construction company customers, became fully operational. In synergy with the banking core business and in compliance with the principle of separating the real estate business from banking, the new company offers customers an evolved service. Customers registered in the reserved section of the Intesa Sanpaolo Casa website can use the new interior design and renovation services and check-up and planning services for energy redevelopment measures offered by specialised partners (Habitissimo, Cocontest, CasaClima). During the year, the scope of the innovative accessory services related to the housing need was also expanded with the introduction of "2 steps from home", an interactive guide to steer potential customers in all phases of a sale. At the end of 2016, 31 physical branches were already operational, located in leading Italian real estate markets, with a total workforce of approximately 220 real estate agents (a portion of which were Group employees who decided to use their experience in the service of the new initiative). The Online Branch pilot project was launched to cover the territories not manned by physical agencies. During the year, approximately 1,000 sales mandates were collected, with approximately 290 agreements completed/in course of completion.

The e-commerce site Mercato Metropolitano is a showcase for companies of excellence that make the landscape and food and wine traditions of Italy the distinctive elements of their businesses.

In September, the new start-up "Destination Italia" was formally established, an investee of Intesa Sanpaolo and an ambitious project for Italian tourism, which aims to enhance and promote Italian tourism abroad, both directly to consumers and through foreign operators. As regards the service aimed at consumers, the work aimed at creating the B2C platform continued.

The SME Finance Hub is aimed at business customers of the Banca dei Territori. The purpose of the project is to supplement the Division's operations with specialised skills in advisory services and loans to SMEs. During the year, the reorganisation of Mediocredito Italiano continued. Also as a result of the transfer of Governance activities to the Parent Company and to Intesa Sanpaolo Group Services, this reorganisation will enable the company to focus on developing its core business in line with the Group's service model.

Within the framework of the offer dedicated to "supply chains", the pilot scheme continues on the "Confirming" product, a platform to which the lead company can upload invoices, thus allowing its suppliers to finance the relative accounts receivable.

The project "Insieme per la Crescita" (Together for Growth), consisting of management change measures and new methods of securing employee involvement, including by sharing "best practices", continued over the entire Banca dei Territori Network. The idea of the project is to target commercial behaviour with the aim of improving the network's performance and increasing customer satisfaction through a stronger focus on relationships. The year 2016 was particularly full of activities supporting the programme and its dissemination. These included the "Annual Check-up" scheme, the creation of the "Team of Change" within the Regional Governance Centres, issue-based focus groups with network staff, initiatives to manage the new layout change for branches and continuation of the "Awards" initiative for colleagues who distinguish themselves in applying the method. Innovative tools for internal communication and monitoring of the initiative were also introduced.



Global Transaction Banking project assigns to a single product company the strategic coordination of Group activities in this business area. During the year development continued of the organisational model, the product catalogue, specialist support to the networks and of our coverage of geographical priority areas, including through partnerships with international players, with the aim of becoming a Group ready to compete on a global level.

The project aimed at extending Banca IMI's product range is being developed in three main areas: asset-backed trading in the commodities market for Corporate customers, the launch of new risk-hedging products and, lastly, the commercial offering dedicated to Ultra High Net Worth Individuals (UHNWI) which, as a result of the assistance from resources seconded by Banca IMI to Intesa Sanpaolo Private Banking, has become operational, offering this type of customer a complete range of products and services usually reserved to professional investors. The activities carried out during the year include the initiatives to move forward with the process of participating in the MGAS market of Borsa Italiana, and the sale of NPLs to third party banks through the multi-originator programme, which has been participated in by almost 100 banks.

On the international front, further progress was made on the development of the International Network, with a view to strengthening the Group's competitive edge in terms of commercial offering and geographical coverage. In particular, business development continued in Turkey and Brazil, new branches were opened in Abu Dhabi (United Arab Emirates) and Doha (Qatar), the Representative Office in Jakarta (Indonesia) was expanded and, lastly, the ISP Bank Luxembourg unit (former SEB) was reinforced, for the purpose of expanding commercial penetration in Benelux.

The companies operating in Private Banking (Banca Fideuram, ISPB, Sirefid and ISB Suisse) were aggregated into a single hub, which aims to strengthen leadership in Italy and consolidate the Group's status as a big player in Europe through the continuous evolution of the product range, the service model and the technological instruments supporting advisory activities as well as extending and intensifying international operations. On the commercial front, the first placement of "alternative" funds was highly successful. As regards the service model, a revision of the branch model is under way, which will allow staff to have a greater focus on higher value added activities, and the first five Credit Hubs were opened, to expand the range of products and services in the credit field. Work continued to strengthen oversight of High Net Worth Individuals, which currently have a network of specialised branches in Roma, Milano, Torino, Bologna and Padova. In the international field the activities regarding the revitalisation of ISPB Suisse and the expansion of the operations of the London Branch continued.

The Asset Management Division has set itself three main objectives: ensuring the excellence of the support to the Group networks through the prompt creation of products that are always in line with the market situation, becoming a centre of reference for institutional customers and promoting extra-captive distribution on the domestic as well as international markets. During the year, the Division operated on all fronts. Work for the Banca dei Territori, Private Banking and Insurance Divisions has materialised in the development of the offer and of IT tools to support commercial activity, in improving the quality of after-sales support and in contributing to sales networks' training programmes on the basis of specific requirements of the individual structures. Improvement of the product catalogue as well as the strengthening of the sales action on institutional customers and extra-captive customers continued. Finally, work on developing international business was no less intense. The valorisation of the best expertise range and the strengthening of the sales team have allowed the acquisition of new institutional customers in Europe and in Latin America. The work on the reorganisation of the international structures also continues. Specifically, as regards the Hong Kong subsidiary, the licences authorising advisory and investment activities were obtained and the start of operations has been planned. Qingdao YiT'ai Wealth Management Co. Ltd. was established in the People's Republic of China to provide financial advice and distribute and promote wealth management products.

As regards the expansion of the international network of Eurizon Capital S.A., the Paris branch was set up, while the authorisation process for the opening of the Frankfurt branch continued. In terms of the UK market, the new company Eurizon SLJ Capital Ltd, 65%-owned by Eurizon Capital SGR, works on developing specific products and has currently been entrusted with the management of two funds promoted by Eurizon Capital.

The Insurance Division worked on both organisation, strengthening the coordination of the Group structures operating in the insurance business, and on sales, steering business towards capital-efficient life policies (Class III and combined policies), developing new insurance products and working towards more effective use of the Division's wealth of IT data. In the non-life class, specific attention was focused on the distribution strategy and the segment of under-insured customers.

#### *b) Core Growth Bank*

With regard to the "Core Growth Bank" initiatives, Banca dei Territori continued three projects aimed at optimising the service model for Retail customers ("Full Potential"), Personal customers ("Investment House") and Business customers ("Business-Entrepreneur"). In detail, as regards the "Full Potential" project, the rationalisation measures for the network and development of the "Counter Service Development" initiative (introduction of branches with counter closures at 1 p.m. and branches fully dedicated to financial advisory services) continue. The transformation of the layout of the branches also continued.

As regards "Investment House", during the year activities focused on developing the product range, on reviewing the "Recommended Portfolios", on "Advanced Advisory", on developing the multi-channel and Out-of-Branch offering (in the areas of savings, insurance and pensions), on continuing investment projects in safe haven assets and on training financial advisors.

Regarding the "Business-Entrepreneur" project, in addition to continuously finalising the service model and product catalogue, the initiative to increase awareness by and transfer knowledge to customers on the digitalisation and internationalisation of business continued. In 2016, more than 200 visits to customers were organised to give advice on internationalisation and more than 30 events were also held on the same subject. In addition, B2B events were promoted to facilitate meetings and the development of business opportunities between our customers and foreign counterparties. The "Sviluppo Filiera" programme has already seen 268 production chains launched for commercial development, for a total of over 7,000 suppliers involved. Finally, a new company was formed to propose non-financial services to businesses. These activities confirm Intesa Sanpaolo increasingly as a key partner in defining the strategic decisions of its customer companies.

The "Commercial Excellence" project aimed at improving the level of service provided to high added-value customers, through a different organisation of the work, leveraging of leads generated by the multi-channel platform and the use of technologies capable of increasing the effectiveness and efficiency of commercial processes. During the year, work continued on developing the mortgages offering and the offerings relating to dematerialisation and simplification of agreements. Furthermore, the technological upgrade of equipment continues for customer transactions in self-service mode.

The service improvement projects for the various customer segments are supported by the new organisational model of the Banca dei Territori Division: in all of the regional governance centres, three specialised “commercial areas” have been identified – Retail, Personal and Business – to maximise the specific skills of personnel.

The Corporate & Investment Banking Division continued developing an Asset Light model aiming to make the credit assets of Italian and foreign customers marketable.

The implementation of the programme aimed at increasing business with high potential international customers continued. The creation of the International Department guarantees adequate organisational support to the increase in the sales activities of a selection of target products and the expansion of the foreign customer base. Among the various initiatives, implementation of the service model by Industry and development of operations in synergy with the ISP Bank Luxembourg project continued, as well as the registration of Intesa Sanpaolo as a swap-dealer (Dodd-Frank) for full Capital Markets operations in the USA and the development of guaranteed loans structured in synergy with Banca IMI.

The selective growth project involving the Italian Corporate area translates into a selection of customers based on industrial growth prospects and capital and financial soundness, with the aim of optimising asset allocation and further improving the risk-return profile. During the year, the expansion of the offering to existing customers as well as the acquisition of new customers continued through commercial campaigns dedicated to/focused on cross-selling, repricing and Global Transaction Banking. With regard to Financial Institutions customers, in addition to commercial development on segments and products already covered (Italian Banks and Trade Finance) and on segments and products with greater margins for growth (International Subsidiary Banks, Asset Management/Insurance, Capital Markets, Investment Banking and Transaction Banking), those aimed at achievement of the factors that will enable the full realisation of the segment’s potential continued.

The International Subsidiary Banks Division is engaged in a vast programme of reviewing the operational model that envisages harmonising the service model, commercial offering and IT systems, strengthening governance and optimising the monitoring processes and support for extending best practices. During the year, the implementation of the target organisational model was completed at all international subsidiary banks of the Group, and the activities regarding standardisation of the Credit and Risk areas were finalised.

The Nexus project (aimed at the simplification of Governance and optimisation of the synergies between PBZ and ISP BiH) and the International Subsidiary Banks loans programme (agreed with the ECB) are continuing according to the established plans. The go live for the Cooperation project, which involves the centralisation of the data centres of the international subsidiary banks at the Parma branch, has already been carried out at ISP Albania and ISP Romania, while it is planned for the beginning of 2017 at VUB and the feasibility studies have been completed for Alex Bank (only DR) and CIB Bank. The implementation of the Small Business model duly continues and has entered the final stage at CIB, ISP Albania and PBZ. Development of the multi-channel platform continued in the various subsidiaries, as well as the Wealth Management & MiFID II project, aimed at defining and implementing the target model for the Mass/Affluent/Private segments in line with the MiFID II regulations. The extension of the target CRM solution for International Subsidiary Banks continued. Lastly, the sale of ISP Card was concluded.

The activities regarding pro-active credit management continue. The ongoing monitoring of customer positions, prompt identification of situations at risk and immediate activation of measures to keep or reposition customers in performing status contributed to stemming the deterioration of credit quality. During the year, also owing to these loan management programmes, 23,817 businesses returned their loans to performing status from non-performing status (52,362 since 2014), a success that confirms Intesa Sanpaolo’s intention to be a bank that supports the real economy and which is always committed to seeking sustainable growth.

The Business Plan envisages an important simplification in the corporate breakdown of Banca dei Territori. The objective is to achieve a gradual and significant reduction in the number of legal entities, from 17 banks at the end of 2013 to just 6 banks.

The first corporate transaction involved the merger of Banca di Credito Sardo and CR Venezia, 100%-owned, into Intesa Sanpaolo (effective for legal purposes from 10 November 2014). The mergers by incorporation of Banca di Trento e Bolzano and Banca Monte Parma into Intesa Sanpaolo took effect on 20 July 2015. The merger by incorporation of Cassa di Risparmio di Rieti, Cassa di Risparmio di Civitavecchia and Cassa di Risparmio della provincia di Viterbo into Intesa Sanpaolo concluded with effect from 23 November 2015. The merger by incorporation of Banca dell’Adriatico into Intesa Sanpaolo was completed (taking legal effect on 16 May 2016). The Casse di Risparmio dell’Umbria banks were incorporated into Intesa Sanpaolo on 21 November. Finally, it should be noted that the rationalisation of the local presence banks led to the closure of 162 branches since the start of the year (for a total of 727 closures since 2014).

### *c) Capital Light Bank*

In addition to growth in revenues, reduction in operating costs and optimisation of credit and risk management, the Business Plan is based on a clear strategy for optimisation of capital and liquidity, as well as deleveraging of the Group’s non-core assets, implemented through the Capital Light Bank Division. In particular, the assets contributed with the definition of the 2014-2017 Business Plan were reduced by approximately 6.8 billion euro compared to the beginning of the year, bringing the total deleveraging since 2013 to approximately 17.2 billion euro.

In Ukraine, the sale of a package of NPLs was finalised during the year for ~15 million euro, while organisational rationalisation resulted in a reduction of the workforce by ~700 resources. In Hungary, within the framework of the Bad Bank, the sale of a package of NPLs was finalised for approximately 170 million GBV. Concurrently, the ordinary collection/sale of individual positions continue which, along with the repayment of Growth Bank positions, brings the deleverage to ~720 million euro since the start of the year. Again, since the beginning of the year, the business activity of Intesa Sanpaolo REOCO, the Group company which has the mission of extracting the most value from repossessed properties and safeguarding the bank’s assets, generated a total benefit for the Group of approximately 17 million euro drawn from over 120 properties. Since it became fully operational, Provis has deleveraged a total of ~285 million euro. During the year, the sale without recourse of around 2.6 billion euro in performing consumer loans was finalised through the subsidiary Accedo, whose merger by incorporation into Intesa Sanpaolo has been launched. Sales operations of non-strategic equity investments continued, among which Reconsult, A4 Holding, Funivie Folgarida, Sotrafin and Italfondario should be noted.

#### *d) People and investments as key enablers*

At the end of 2013, following development of technology and customer trends, the Bank had an excess capacity of about 4,500 people, equal to about 5% of the total employees of the Group. However, there has been a strong desire to involve all colleagues in the new Business Plan right from the beginning, fostering the sense of belonging to the Bank. In line with these values, as opposed to the measures of its main competitors, the Bank decided to maintain the current employment levels, preserving know-how and the professional expertise within the company. To this end, a major project for professional re-allocation has been initiated in order to support development of the new business initiatives under the Plan. In December 2016, all of the staff initially identified had been re-allocated to priority initiatives. The Chief Innovation Officer Governance Area has pursued the promotion and acceleration of innovation within the Group.

With regard to investments as enablers, the project initiatives that have shown the greatest developments in the year are briefly described in the following chapter, with particular reference to projects with cross-cutting impacts across the Group.

## **Projects**

In 2016 expenses for Group investments exceeded 1 billion euro, resulting in an increase on the previous year. Projects concerned the following macro-areas:

- Regulatory Projects, to meet regulatory requirements, which represent approximately 25% of total expenses;
- Maintenance, IT Transformation and Operating Excellence Projects, to adjust/upgrade systems to next-generation technologies, which represent approximately 25%;
- Large Transformation Projects linked to Data Management, Multi-Channel Platforms and Process Digitisation, equal to approximately 30%;
- Other Business initiatives, representing approximately 10%;
- Projects aimed at extending/integrating the target model to all Group entities (systems, processes and procedures), which have an impact of approximately 10%.

The component of innovation, which is transversal across all the areas mentioned above, includes development initiatives regarding:

- customers, including through new digital distribution channels;
- the country's economic activity, facilitating its growth and sustainability using approaches differentiated by industry, which capture and stimulate the production and technological innovation under way;
- the bank, reconsidering the traditional operating model, promoting new professions and new models of cooperation.

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

#### *Integrated Multi-channel Platform*

The aim of the Group's multi-channel strategy is to redefine "customer experience" and offer customers the possibility of choosing which channel to use to interact with the bank, making them simple, immediate and interconnected. The main objectives of the Integrated Multichannel Platform are:

- the redefinition of the role of the channels, distinguishing between "assisted" channels (Branches and Contact Units) and self-service channels (home banking, tablet, mobile and ATMs);
- the enabling of a multi-channel approach, in line with customers' preferences, on selected priority products;
- the exploitation of contact points with customers and data available to the Bank to trigger and take advantage of new commercial opportunities and monitor customer satisfaction.

During 2016 the sales processes were dematerialised for Personal Loans, Portfolio Management, Life Policies and the new Conto per Me, whose process was activated in September with the launch of the New Transactional Platform. As a result, Retail and Personal Banking operations relating to products in the multichannel area are only carried out electronically, from the displaying of the proposal to the signing of the contract documentation, up to delivery and storage of the signed documents.

During the year the new Internet Banking site was released, as well as the new version of the "Everyday Banking" app and the single showcase site for all Group Banks, which comprises an additional sales channel to acquire new customers.

The online sales processes were defined (both on the showcase site and through Internet Banking) for opening current accounts and applying for personal loans. To support these processes, it was also necessary to define the innovative process of remote identification for new customers. The solution, agreed on with the Agency for a Digital Italy, was also subject to validation by the ECB.

#### *Digitisation of Group Core Processes*

The digitisation of the Core Processes was launched through the "Digital Factory" in the second half of 2015 with the goal of upgrading the operating model, accelerating innovation and digitising processes, disseminating a new way of working based on internal and external cooperation and co-creation, starting from customers.

In 2016 Digital Factory completed the activities on the Granting Retail Mortgages, Inheritance Planning and Mortgage Renegotiations processes, finalising their roll out to the Network. Activities were also begun for the creation of nine additional processes.

In 2016 the Digital Factory program was awarded the National Innovation Award, presented by the President of the Republic to initiatives that best represent Italy.

#### *Programma Filiere*

Thanks to the building of innovative approaches, the Programma Filiere allows the Bank to support suppliers that are part of production chains through larger loan disbursements, at more favourable conditions and with a dedicated commercial offer. New rules on managing production chains and specific internal regulatory processes for granting loans were also defined during the year.

### *Big (Financial) Data*

The operational phases of the project were launched, with the primary goal of structurally improving the management of all the Bank's data by defining and implementing technological and organisational interventions; it is divided into several phases with a multi-year time frame (conclusion scheduled in late 2018).

During 2016, a new phase of the project known as Big Data Factory was also launched, which uses innovative processes that require the cooperation of the various corporate functions involved in specific interdepartmental groups in a co-location environment.

### *Risk Aggregated Data and Reporting (RADAR)*

The goal of the project is implementing the necessary measures to adopt the principles set out by the Basel Committee, aimed at increasing the robustness of data aggregation and reporting capabilities relating to all "significant risks" managed by the Bank, including in situations of tension or crisis.

During the second half of 2016 the BFD project created the data layer to be used as input in the Risk line for Wave 1, 2 and 3 environments, whose completion will guarantee that input will be provided for the initial calculations planned by the regulatory deadlines.

### *Money Market Statistical Reporting (MMSR)*

The project is aimed at defining the measures required to comply with EU Regulation no. 1333/2014, which requires the processing of statistics on the money markets.

In the first part of the year, the analysis of the products within the scope was concluded and the phase of transitional reporting (April-June) was launched and concluded, by sending reporting flows to the ECB, also receiving positive feedback from the Authority concerning the level of quality of the data provided. The main project activities for adjustment to the regulatory provisions were successfully concluded, in line with the planning defined and with the start of the target reporting phase, which occurred in July. With the implementation of the subsequent remaining IT measures, the "basket" of products in the scope, subject to reporting, was completed.

### *Prudent Valuation*

The European CRR Regulation<sup>1</sup>, requires that financial institutions apply prudent rules in the valuation of assets and liabilities designated at fair value (Prudent Valuation), for the purpose of reaching an appropriate level of certainty in valuation, and, for the purposes of capital requirements, deducting the amount of supplementary value adjustments from Common Equity Tier 1 (CET1). This prudent valuation of regulatory capital aims to incorporate the impact of the uncertainty in valuation of the bank's capital. A project was launched under the Chief Risk Officer for adaptation to the regulatory demands by the Group. The calculation methods were defined and the support tools were developed, and in January 2017 the Guidelines on the matter were issued.

### *IFRS 9*

At the end of 2015 the IFRS 9 project was launched in order to implement the new accounting standard which will replace IAS 39, currently in force, as from 1 January 2018. The new standard will impact the methods of classification and measurement of financial assets, calculation logics and methods of value adjustments and the hedge accounting model (currently with regard to micro hedging). The project choices made to date have been consolidated and in particular the process architecture has been defined that combines the accounting sphere with the management one.

For more detailed information on the project, refer to the Chapter Accounting Policies in this package.

### *Cyber Security Program*

The program, which develops over the two-year period 2016/2017, aims to increase the Group's maturity through more efficient and effective threat management, as well as strengthen the capabilities and structures needed to mitigate the risk induced by cyber attacks.

The "Security Maturity Assessment" activities have been completed and the interventions master plan has been defined and started which also takes into account the provisions of both the Cyber Security National Framework and the NIS (Network and Information Security) Directive recently approved by the EU Parliament.

The activities set out in the defined master plan are under way, regarding elements aimed at preventing, detecting and responding to cyber threats pertaining to the area of the Group, such as Brand Monitoring, Adversary Simulation, Development of Global SOC and Global CERT.

### *New Group Register*

The project stems from the need to guarantee an ever greater alignment with the directives on credit risk management, but also from the desire to align the underlying architectures with the latest technological standards, so as to be able to fully reap the potential arising from the management of multiple channels of customer contact. Therefore its aims are to define a new operating model for the acquisition, management and control of the personal data of customers, economic groups and related parties at Group level, to make a new single infrastructure for the management of customers available with innovative features, actionable in the various companies of the Group, and to enable the unification of the view on a single customer in relation to all the existing contact channels.

The main activities already concluded regard selecting the new personal data platform, defining the target operating model, providing instructions for any corrections needed, for migration strategies, for integration strategies and identifying regulatory restrictions. The functional requirements and roll-out plan have also been defined.

Currently, the project is completing the functional analysis, defining the detailed planning of migration of the pilot companies and installing the IT platform.

<sup>1</sup> EU Regulation No. 575/2013 of the European Parliament and Council on prudential requirements for credit institutions and investment firms (known as CRR);

### Processes Integrated Governance

The project began in April, with the aim of redefining the processes tree from an end-to-end perspective, the management model in terms of being integrated with the risks and related controls, as well as simplifying the current body of regulations. The initiative also aims to define a method and implement a tool for measuring the performance of the processes, using three indicators (effectiveness, efficiency and quality) to which specific performance indicators are connected for each process being measured.

During the year, the consultation on the new processes tree with the control functions also concluded, while the process owners are implementing in-depth studies. The plan to revise the entire framework of regulations was consolidated, and the first 37 end-to-end processes were revised and released. The measurement of performance processes was launched concurrently with the plan to revise the framework of regulations and the redesign of processes in the digital factory area. Lastly, the graphics of the performance measurement dashboard were updated from a new banking platform viewpoint to simplify its consultation and use.

### New Concept Branches

The new branch model was created with the aim of optimising space and offering a better welcome and commercial relationship with customers. Moreover, the New Concept branches have been structured to integrate the multichannel strategies into the branch experience, steer cash transactions towards self-service systems, create spaces for the "new trades and professions" (for example ISP Casa) and allow the organisation of events. During 2016 the new branch model was extended to approximately 80 branches. This will continue in 2017.

The progressive substitution is also planned in the New Concept branches of the traditional cashier's desks with staff-assisted self-service points (CSA), automatic machines which, in addition to the traditional services, also allow the execution of payments and reservations of F24 authorisations, payments by notice (MAV) and payments of fines/taxes by notice (RAV), through optical reading of documents, and cash payments with any change due being given.

## Main risks and uncertainties

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

Group liquidity remains high: as at 31 December 2016, both regulatory indicators envisaged by Basel 3 (LCR and NSFR), adopted also as internal liquidity risk measurement metrics, were well above the requirements for 2018. At the end of December, the Central Banks eligible liquidity reserves came to 150 billion euro (117 billion euro at the end of December 2015), of which 96 billion euro, net of haircut, was unencumbered (78 billion euro at the end of December 2015) and unused. The loan to deposit ratio at the end of December 2016, calculated as the ratio of loans to customers to direct deposits from banking business, came to 93%.

In terms of funding, the widespread branch network remains a stable, reliable source: 73% of direct deposits from banking business come from retail operations (289 billion euro). Moreover, during the year, USD 1.5 billion in Tier 2 subordinated bonds, 1.25 billion euro in Additional Tier 1 instruments and 1.25 billion euro in bank covered bonds were placed on the international wholesale market.

In January 2017, a further 1.25 billion euro in Additional Tier 1 instruments were placed.

In June, the Group participated in the first TLTRO II programme for an amount of approximately 36 billion euro (against a maximum that can be requested of approximately 57 billion euro) after the repayment in full of the TLTRO I, outstanding at 27.6 billion euro. In September, the Group participated in the second TLTRO II operation for approximately 5 billion euro and in December, it participated in the third operation for 3.5 billion euro. As at 31 December 2016, the Group's participation in the refinancing programme therefore amounted to approximately 45 billion euro.

Intesa Sanpaolo Group leverage (6.3% as at 31 December 2016) continues to be at the top levels recorded in the sector.

The capital base also remains high. Own funds, risk weighted assets and the capital ratios at 31 December 2016 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 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 December, total Own Funds came to 48,274 million euro, against risk-weighted assets of 283,918 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 17.0%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 13.9%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 12.7%.

Common Equity Tier 1 capital does not include the net income for the year and, for consistency, the correlated dividend or the distribution of reserves proposed, or the other foreseeable charges.

With reference to the insurance sector, both for the consolidated/aggregate figures of the Companies in the Insurance Division and for the Intesa Sanpaolo Vita Insurance Group referred only to the companies subject to control (therefore excluding Fideuram Life), the Solvency Ratio measurements (Solvency II) as at 31 December 2016 show a ratio higher than 180%.

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. The trend in the Group's VaR in 2016, shown in the following chart, was mainly determined by Banca IMI and is attributable in the first quarter to an extension of the portfolio. In the second quarter, a reduction was recorded as a result of exiting scenarios of volatility. In correspondence to the outcome of the referendum in the UK, volatility of credit spreads was then recorded on the markets accompanied by lower interest rates and share prices. The new scenario generated an increase in the Group's VaR towards the end of the half-year. During the third quarter, in addition to further exclusions of volatile scenarios, there was also a decrease in positions in government and financial securities. Thereafter risk measures were stable. During the year, risk measures continued to be contained within the assigned limits.

The Group's average risk profile for the year was approximately 95 million euro, compared to an average amount of 94 million euro in 2015.



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

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of loans to customers and financial institutions, and of exposures subject to country risk.

Risk measurement is performed by means of different rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public sector entities and Financial institutions). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a uniform scale of reference.

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

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 (60.6%) and unlikely to pay (26.9%).

With regard to performing loans to customers, the "collective" adjustments, equal to 1,607 million euro, provide a coverage ratio of 0.5% (0.7% at the end of 2015).

Constant attention has been paid to the valuation of financial items. The majority of financial assets are measured at fair value, since classified as held for trading using the fair value option, under assets available for sale, or represented by hedging derivatives.

The fair value measurement of financial assets was carried out as follows: approximately 81% using level 1 inputs, around 17% using level 2 inputs and only close to 2% using level 3 inputs. Among the financial liabilities designated at fair value through profit and loss, most of the financial instruments (approximately 88%) were measured using the level 2 approach.

As regards the Intesa Sanpaolo Group's sovereign debt exposure, at the end of December exposure in securities to the Italian government amounted to a total of approximately 86 billion euro, in addition to receivables for approximately 15 billion euro. The Group banks' exposure in securities amounted to almost 35 billion euro, of which 8.3 billion euro up to 3 years (approximately 24%), with a duration of approximately 5.2 years. On the other hand, the duration of the insurance portfolio is longer, at 6.4 years, consistently with that of liabilities.

Investment levels in structured credit products and hedge funds remained low. The former generated a positive contribution of 13 million euro during the year. For the hedge funds, the economic result of the investments in this segment was negative for 35 million euro.

As regards taxes, deferred tax assets were posted in the consolidated financial statements for 11,131 million euro, of which 8,491 million euro can be converted into tax credits, and deferred tax liabilities for 1,541 million euro.

In compliance with IAS 12, the amount of deferred tax assets must be tested each year to determine whether there is a qualified probability that they will be recovered and, thus, to justify their recognition and maintenance in the financial statements ("probability test").

The analysis conducted indicated a taxable base that was more than sufficient and adequate to allow recovery of the deferred tax assets carried in the financial statements as at 31 December 2016.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly important. Intangible assets with finite useful lives (insurance portfolio), the amounts of which (a total of 213 million euro) are being gradually amortised (with 35 million euro of amortisation recognised in the income statement for 2016) were analysed with respect to their volume, profitability and discount rates in order to detect any impairment indicators. These analyses did not identify any critical positions. During the year, the last amount of amortisation (123 million euro) relating to intangible asset management was posted to the income statement. Therefore, as at 31 December 2016 the intangible asset had been fully amortised.

As regards intangible assets with an indefinite useful life, represented by goodwill (4,059 million euro) and brand name (1,882 million euro), for the 2016 Financial Statements the method for determining the value was the same used in previous years, based on the calculation of the value in use, i.e. the current value of future cash flows that the Group can expect to generate. Five years was adopted as the forecasting period for this purpose, i.e. the five-year period 2017-2021. This choice was dictated by the evolution of the macroeconomic scenario which, as a result of the continuing weakness of the scenario recovery observed in 2016 foresees - in line with the expectations repeatedly stated by the ECB - interest rates continuing to remain near zero also for 2017 and 2018. As a result, the interest rate scenario that banks will operate in during 2019 will still be "anomalous" and, therefore, cannot be projected in perpetuity. Only in the two subsequent years are the interest rates expected to return near more normal values, though much lower than the levels prior to the beginning of the financial market crisis.

For these reasons, in line with the provisions of the reference accounting standards, for the purpose of impairment testing, a cash flow projection period up to 2021 was defined, anchoring the determination of the terminal value, representing an income flow considered sustainable in the long term to the last year of that period.

It is believed that the exceptional market rate conditions resulting from the expansionary monetary policy tied to the contingent macroeconomic situation may gradually be removed during the period considered and thus it is deemed reasonable to consider a gradually normalised scenario when defining projections in perpetuity.

Specifically, for the period 2017-2021, the detailed estimates used take account of the development of the macroeconomic scenario and do not consider the effect of managerial levers, except for the initiatives already considered in the 2017 budget. With specific regard to 2021, which represents the basis of reference for the cash flows at "fully capacity" to be projected in perpetuity for the purposes of terminal value, the estimate was prepared, as stated, by defining a scenario of gradual normalisation of the macroeconomic parameters, using international sources (primarily the Ageing Report of the European Commission, an authoritative source for estimating medium/long-term macroeconomic projections). The purpose of this approach is to ensure that the reference scenario is as far as possible independent of subjective choices on the selection of estimate criteria or benchmarks.

The cash flows so determined have been discounted, net of the "g" long term growth rate, by applying a discount rate expressing the cost of capital and calculated as the sum of the returns on a risk-free investment and a risk premium, in turn dependent on the specific risks implicit in the business activities and in country risk. In defining the discount rates, given the extremely low market rates at present, associated with contingent expansionary monetary policies adopted by the ECB, for the purpose of the Terminal Value those rates were prudentially considered risk free and with country risk spreads globally higher by over 130 bps compared to the current year-end values used for the discounting of flows for the "explicit" horizon.

As this valuation method has yielded value in use for the various CGUs which are higher than their respective book values, no value adjustments have been made to intangible assets with indefinite useful life.

Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses were carried out to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses. In particular, the impact on the value in use of an increase in discounting rates of up to 50 bps and a decrease in the growth rate for Terminal value purposes of 50 bps was verified. In addition, analyses were conducted of changes in the value in use resulting from a 10% decrease in Terminal Value flows. These analyses show that such changes would not result in a value in use lower than the book value for any of the CGUs.

With regard to the values expressed by the market, it should be noted that the listing of the Intesa Sanpaolo (ordinary) shares decreased during 2016 (reduction of 21%). The sharp downturn of the share listing in the first half (-45%) was, in any case, offset by a recovery during the second half. The decrease in the price of Intesa Sanpaolo shares in 2016 exceeded the decline in the FTSE MIB index during the same period (-10%) but was less than the change in the index of Italian banking securities (-38%). The target prices published by the main investment houses, which were also decreasing on the end of 2015, were substantially in line with the Group's equity per share.

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

The risks associated with the trends in the global economy and financial markets are discussed in the introduction to the Report on operations, in the chapter on the macroeconomic scenario and in the following chapter on the forecast for 2016. The assumptions on which our valuations and forecasts are based with regards to the verification of the values of intangible assets and goodwill are described in Part B of the Notes to the consolidated financial statements, in the section on impairment tests.

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

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

With regard to the going concern assumption, the Directors of Intesa Sanpaolo re-affirm that they have a reasonable certainty that the company will continue in operational existence in the foreseeable future and consequently have prepared the financial statements for 2016 on a going concern basis. The Directors have not detected any uncertainties in the asset and financial structure or in the performance of operations that question the going concern assumption.





# The macroeconomic context and the banking system



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# The macroeconomic context and the banking system

## The macroeconomic context

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### The economy and the financial and currency markets

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The global economy continued along a path of moderate expansion in 2016. The prices of commodities, including oil, recovered after a long period of weakness. The outcome of the referendum in the United Kingdom on deciding whether to remain in the European Union caused sterling to fall sharply. The feared contagion effects over the other European markets did not materialise.

Economic growth in the US was lower than expected in the first half, but picked up pace in the second half of 2016. Employment and income continued to grow at a rapid pace. At the end of the year, the result of presidential elections favoured an increase in medium and long-term rates, partly linked to the expectation that the new administration will implement expansive fiscal policy measures. In December, the Federal Reserve raised official rates again by 25 basis points, stating that it intends to move them another three times in 2017.

Contrasting economic indications were seen in the Eurozone. Quarterly GDP growth was uneven, but the annual variation remained practically unchanged, just above 1.5%, a sufficient level to promote gradual improvement in the labour market with progressive absorption of the unemployment rate. In the fourth quarter, the economic surveys and industrial production figures were consistent with steady GDP growth. Inflation gradually rose back up to 1.1% during the year.

In March, the ECB announced new expansive measures. The deposit rate, which currently acts as the main benchmark rate, was reduced from -0.30% to -0.40%. The rate on the main refinancing operations was cut from 0.05% to zero, while the marginal refinancing rate dropped to 0.25%. The ECB also announced the inclusion of non-bank corporate bonds in the purchase programme, which rose from 60 billion euro to 80 billion euro per month. A new long-term refinancing programme was also launched, called TLTRO II, on the basis of which monetary and financial institutions may obtain 4-year secured loans from the ECB at favourable rates. Subsequently, the ECB announced that it would extend the purchase programme until the end of December 2017, although with a reduction in its monthly size to 60 billion from April of this year. In addition, the full allotment of refinancing operations will remain in force at least until the last reserve period of 2017.

The growth of the Italian economy almost came to a standstill in the second quarter, but then picked up pace in the rest of the year. According to preliminary ISTAT data, the change in GDP compared to a year before is estimated at 1.0% for 2016 as a whole, based on data adjusted for calendar effects, and at 0.9% based on raw data. In the fourth quarter, indications were mixed and overall in line with the slow pace of economic growth. Industrial production continued to grow, boosting the increase in GDP in the second half. Growth in employment, which was robust in 2015 due to reforms and incentives on contributions, lost ground during the year. Fiscal policy took on a prudent approach: the further reduction in the primary surplus offset the faster than expected decline in interest expenses, leaving the total deficit practically unchanged in relation to GDP. The debt/GDP ratio is estimated to have increased slightly also in 2016. On the external front, the Italian economy continued to report a large surplus in the current account of the balance of payments, alongside significant improvements in the net external financial position.

Spreads against German debt yields gradually rose during the year. The second half was particularly affected by the uncertainty about the referendum of 4 December, with its political and economic implications, the strains in the banking system, and the US elections. The peaks were reached shortly before the vote, in the wake of pre-referendum polls. Afterwards, the rapid resolution of the government crisis and the extension of the ECB purchase programme reassured investors, although several rating agencies changed their outlook on long-term debt to negative. The BTP-Bund spread, on the ten-year maturity, closed the year at 162bps, up by 68bps compared to the end of June. Yields on Italian government debt reached a record low at 1.05% on 14 August, to then end the year at 1.83% (23bps above the levels of a year before).

The euro/US dollar fluctuated widely during 2016: a period of appreciation, culminating at 1.15 on 2 May, was followed by a gradual weakening, which accelerated from October, to end the year at 1.05.

During 2016, performances of the global equity indices generally featured increased volatility, together with a rise in risk aversion by investors in the major international markets and, in particular, in the Eurozone and Asia. These trends had already emerged in the initial weeks of the year, penalising, in particular, the peripheral Eurozone markets (Italy, Spain and Greece).

The sharp fall in equity markets at the beginning of 2016 was primarily caused by a combination of macroeconomic factors: the heavy fluctuations in oil prices, the economic slowdown in China, emerging economies and oil-producing countries, the uncertainties about the timing of monetary policy in the US, and the UK referendum on Brexit.

These factors were accompanied by concerns about the quality of bank assets and the levels of coverage of NPEs, as well as the capital strength of some banks in the Eurozone. Moreover, the automotive industry was adversely affected by fears of additional costs for emission reductions.

After reaching a low in mid-February, equity markets were boosted by the ECB's monetary policy decisions at the beginning of March and the recovery in oil prices. In the second quarter, equity markets were widely influenced by expectations about the Brexit referendum, in conditions of high and unusual volatility. The unexpected victory of the Leave camp caused a violent downward adjustment of quoted prices, and a new surge in investor risk aversion.

During the third quarter, stock indices in the Eurozone, with the exception of Italy, gradually returned to pre-Brexit levels, backed as well by a season of half year results that was overall better than prudent market expectations.

The domestic market, on the other hand, was slowed down by macro factors (growth slowed down sharply in the second quarter), political factors (in view of the constitutional referendum) and factors connected to specific industry sectors, such as concerns about capitalisation in the banking sector and NPLs.

In the last quarter of 2016, equity markets in the Eurozone first consolidated the levels reached and then picked up in the final weeks of the year, in a situation of rising bond yields, and in view of a busy election schedule for this year. The season of the third quarter results in the Eurozone provided a boost to prices, resulting, on the whole, better than expected. The US equity indices reached new highs, following Donald Trump's election, on the expectation of more fiscally expansive policy.

The EuroStoxx index closed the year up slightly (+1.5%); the CAC 40 recorded an increase of 4.9% at the year end, while the Dax 30 posted a slightly higher rise (+6.9%); the IBEX 35 index ended the year down by 2%. Outside the Eurozone, the Swiss market index SMI fell by 6.8%, while the UK FTSE 100 index closed the year with a rise (+14.4%).

The S&P 500 index ended the period up by 9.5%. The overall performance of the main Asian stock markets was disappointing: the Chinese SSE A-Share benchmark index ended the year down by 12.3%, while the Nikkei 225 index remained substantially unchanged in the period (+0.4%).

In 2016, the Italian stock market underperformed against other international markets, due to the high weighting in the index of the financial sector, which was particularly penalised by investors during the period, as well as due to the renewed political risk. The FTSE MIB index ended the period in decline (-10.2%), although well above the lows recorded on 11 February (-26.4%); the FTSE Italia All Share index closed the period at -9.9%. Performance of mid-cap stocks was much more defensive, with the FTSE Italia STAR index slightly up by +4.2% at the end of the period.

The European corporate bond markets ended 2016 positively, with risk premiums (measured as ASW spread) down compared to the beginning of the year, although slightly higher than the lows reached in September. During the year the monetary policies of central banks (and in particular the ECB's corporate securities purchase programme) continued to be the most important factors supporting markets.

In the early months of 2016 the European market was characterized by high negativity. The combination of a number of factors such as sharp fluctuations in oil prices, renewed concerns about a possibly more extensive slowdown than forecasted in the Chinese economy and growing fears relating to profitability and stability in the banking sector weighed on the risk appetite of investors and caused a sudden expansion of spreads.

The situation changed drastically at the beginning of March, when the ECB announcement that it would also include non-financial, investment grade (IG) corporate bonds in its purchase programmes had a very positive impact on the markets. The "technical support" provided by the presence on the market of a buyer as ECB also continued in July and August, making it possible to limit the impact of the outcome of UK referendum.

From the end of September there were increases in volatility, and risk premiums, linked to a series of events that shaped the final months of 2016: US elections, expectations of a rate hike by FED, the constitutional referendum in Italy, and the ECB meeting. However, the search for yields, and the safety net provided by ECB, allowed markets to close in December with spreads that had returned near the lowest levels recorded during the year.

During 2016, in the IG segment, industrial securities outperformed financial securities, which were excluded from the assets eligible for purchase by ECB, with the former recording a narrowing of spreads of around 40%. The more speculative high-yield securities also performed strongly, benefiting from investor need to shift to riskier asset classes in search of yield.

The effect of the ECB's action on interest rates also had a positive impact on the primary market, with very strong volumes especially at IG issuer level, also thanks to the presence of US issuers seeking to take advantage of the low interest rates on the Euro. The favourable funding conditions also led to an increase in financial optimisation transactions, through the repurchase of issued securities and their replacement with longer-term securities at more favourable conditions.

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## The emerging economies and markets

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In 2016, according to preliminary IMF estimates, the average GDP growth in emerging countries was 4.1%, the same rate as in 2015.

Asia was again the strongest performing region (average GDP estimated at 6.3% from 6.7% in 2015) although the growth rate slowed down both in India (from 7.6% to 6.6%) and in China (from 6.9% to 6.7%). In Latin America (-0.7%) and the CIS countries (-0.1%) GDP continued to fall, although at a slower rate than the decline seen in both areas in 2015. In the MENA area (+3.8%) the slowdown in economic activity in some oil and gas exporting countries (such as Saudi Arabia) is considered to have been more than offset by the acceleration in others, particularly in Iran due to the removal of sanctions.

In Central and South Eastern Europe, according to the figures available for the first three quarters of 2016, GDP growth compared to the same period of 2015 slowed down in the CEE countries, Hungary (from 3.1% to 2.1%) and Slovakia (from 3.6% to 3.4%), while it accelerated in the EEA countries, Romania (from 3.8% to 4.8%), Croatia (1.5 % to 2.8%) and Serbia (from 0.6% to 2.8%). In Turkey, however, growth over the same period was adversely affected by regional and internal tensions (2% from 3.4%).

According to the preliminary IMF estimates, the average inflation rate in the emerging countries slowed down slightly to 4.5% in 2016, from 4.7% in 2015. However, the overall figure was made up of different trends in the various countries. A significant slowdown in some areas, above all Russia (from 15% to 7.1%) and Ukraine (from 48.5% to 14.9%), due to the absence of the impact on prices of the past currency depreciation, was accompanied by an (albeit limited) acceleration in other areas, such as China (1.4% to 2%) and South Africa (from 4.6% to 6.3%). In the CEE countries, average inflation remained negative in Slovakia and Slovenia (-0.5% and -0.2% respectively) but was in positive territory in Hungary (0.4%). In the EEA area, average inflation was negative in Bosnia, Croatia and Romania (-1.2%, -1.1% and -1.5% respectively), while prices rose in Albania (1.3%) and Serbia (1.1%).

In 2016, the reversal of currency strains, low inflation pressures and relatively weak economic growth rates enabled monetary easing actions in various areas. There were rate cuts by a number of central banks, including Brazil (from 14.25% to 13.75%), Russia (from 11% to 10%), Ukraine (from 22% to 14%), Turkey (maximum rate from 10.75% to 8.5%), India (from 6.75% to 6.25%) and Indonesia (7.5% to 4.75%). However, there were also rate increases, especially in the commodity exporting countries, in response to the increase in inflation, such as in Nigeria, South Africa, Mexico and Colombia. In the CEE and SEE countries, the fall in inflation below the target values of the respective central banks led to further rate cuts in Hungary, Albania, Romania and Serbia. On the other hand, to counter the current and expected price rise, Egypt increased the maximum rate several times, taking it from 10.25% to 15.75%.

In 2016, the US dollar continued its period of appreciation against the currencies of the emerging countries that began in 2013. The OITP index rose by 6.4% (following the 10.2% increase in 2015). The US dollar rose above all against the currencies of countries that could be most affected by a shift towards a protectionist US trade policy, such as the Chinese renminbi (+7%) and the Mexican peso (+19.7%). The Turkish lira lost about a fifth of its value in the presence of large external financing needs (and geopolitical tensions). With regard to the currencies of the countries where ISP subsidiaries are located, in the CIS area the Russian rouble appreciated by 17.3% following the recovery in oil prices, while the Ukrainian hryvnia depreciated by 12.8%, due to the presence of political difficulties. Currencies in CEE and SEE countries followed the depreciation in the Euro, which fell by approximately 3% against the US dollar. At the beginning of November, Egypt switched to a free floating exchange rate system. Following this decision, the value of the Egyptian pound against the dollar more than halved, taking it to over 18 EGP: 1 USD.

The MSCI composite index of emerging markets rose by 7.2% in 2016, while in 2015 it had lost 8% of its value. The weakness of the Asian markets (Shanghai index -12.3%, due to concerns about the outlook for the economy and financial stability in China), was more than offset by the recovery of other important markets subject to sharp sales in 2015. In particular, double-digit growth was recorded in the stock markets of Moscow (+53%), helped by the recovery in oil prices, and Sao Paulo (+39%). With regard to the countries where ISP subsidiaries are located, almost all CEE and SEE markets outperformed the EuroStoxx, which rose by a modest 1.5%, with double-digit growth in stock prices in Hungary (+33.8%), Croatia (+18%) and Serbia (+14.9%). The recovery of GDP boosted Ukraine's stock market (+18.6%) while the Egyptian stock index took off following the transition to the new currency regime (+76.2%).

The recovery in commodity prices, improved growth prospects and greater stability in financial markets led to a decrease in the average EMBI+ spread for emerging countries, which fell by 47bps to 363bps in 2016. The most significant reductions were seen in Latin American countries (-101bps) and Sub-Saharan Africa (-79%), all particularly vulnerable to the commodity cycle.

For the countries where ISP subsidiaries are located, the biggest reductions in spreads were in Russia, where the spread fell back down to the levels of 2014, in Hungary, upgraded to investment grade by S&P and by Fitch, and in Croatia and Serbia, which benefited from an outlook upgrade. Conversely, a higher risk premium was paid by Egypt due to the deterioration in the security situation in particular.

## The Italian banking system

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### Rates and spreads

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During 2016 there was a further decline in bank interest rates, followed by stabilisation, especially towards the end of the year. The reduction of the overall cost of funding continued without interruption. This trend was affected, on one hand, by the smaller weight of the costlier components and, on the other hand, by the downward adjustments in the rates on deposits and the fall in the stock of bonds cost. With regard to overnight deposits, the historic lows reached by interest rate levels justify the slowdown in the reduction trend. The average rate on new time deposits remained sticky, fluctuating throughout the year at around 1.1% and only occasionally dropping below 1%. In terms of annual average, it was just marginally lower than in 2015. For the average rate on the stock of bonds, there was a slightly sharper fall in the third quarter than before, followed by stabilisation towards the end of the year.

Interest rates on new loans followed a similar pattern. For rates on new loans to non-financial companies, the decline was particularly evident in the two middle quarters of the year, with a slowdown in the final part. Spreads with the Eurozone called off for smaller loans and were negative for loans above 1 million euro. Rates on new mortgage loans to households also reached new record lows, but then stabilised towards the end of the year. In this scenario, the reduction in interest rates on the stocks of loans continued, with the overall average rate dropping below 3% from midyear, to levels never seen before.

Due to a sharper decline in the average lending rate than in the cost of funding, the banking spread further decreased, interrupted by stabilisation in the third quarter and with a renewed decline towards the end of the year (2.05% the average for the fourth quarter from 2.08% in the third; 2.11% the average for 2016, from 2.24% in 2015).

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### Loans

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The year 2016 marked the return to growth in bank lending to the private sector, at a modest pace that reached approximately 1% during the autumn. The recovery was driven by the performance of loans to consumer households, which gradually speeded up to a pace of 1.9% yoy in December. The recovery in loans to households was driven by the very lively dynamic trend in residential mortgage disbursements, driven both by new mortgage loans and renegotiations of existing loans. Specifically, growth in the disbursement of fixed-rate mortgages continued, justified by the very low levels of interest rates applied and the small spread between fixed and floating rates. The increase in new loans reflected the recovery of residential property transactions, which recorded double-digit growth in the first nine months of the year. Consumer credit also grew, driven by purchases of durable goods.

In contrast, total loans to non-financial companies remained stagnant. The growth of medium-term loans continued to partly offset the negative trend in short-term loans, in a scenario of liquidity deemed sufficient or more than sufficient by a large majority of businesses. The overall trend is due to different dynamics depending on sector and company size. In particular, loans to the manufacturing sector weakened, after growing in the first half of the year, while the decline in loans to construction companies intensified. In contrast, loans to the services sector recovered during the year. Looking at the borrower size, loans to medium and large businesses stagnated, while loans to small businesses continued to decline.

The trend in loans to businesses has to be seen in light of a scenario of supply and demand that was still improving in the first half of the year and that settled down in the second half, with isolated boosts in demand from some segments, in a competitive environment that continued to push towards the reduction of margins, albeit gradually less markedly. According to the lending survey conducted by the Bank of Italy among banks, demand from businesses progressively weakened, after a particularly strong beginning of the year. Forecasts for the first quarter of 2017 are also cautious, with expectations of stable demand. In contrast, opinions and expectations regarding demand for loans from households remained very positive throughout 2016, indicating a sharp increase. Demand remained particularly lively for loans for house purchase and strengthened for consumer credit. Companies' opinions on credit access conditions also confirmed their improvement.

Credit quality indices showed a clear improvement. The stock of gross bad loans, after a gradual slowdown in growth, started to decrease in the final part of the year, as a result of sales and securitisations. As a ratio of total loans, the stock of bad loans stabilised. The formation of new non-performing loans slowed down visibly, to the extent that incoming flows compared to performing loans in the third quarter reached the lowest level since mid-2008.

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### Direct deposits

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As regards funding, in 2016 the trends recorded in the previous year were confirmed, particularly as regards deposits, which grew, driven by the significant increase in overnight deposits. At the same time, the double-digit decline in time deposits intensified. The performance of customer deposits continued to benefit from the liveliness of overnight deposits of non-financial companies and the solidity of household deposits, which showed a stronger annual increase from March onwards. The growth in deposits continued to be offset by the reduction in the stock of bank bonds, whose trend was affected by customer portfolio reallocation processes. Overall, customer deposits continued to decline slightly, in line with the previous year. Refinancing operations from the Eurosystem partially offset the reduction in bonds, resulting in a slowdown of the decline in total bank funding towards the end of the year. Indeed, total bank funding grew slightly in December.

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## Indirect deposits and asset management

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

The asset management industry remained strong in 2016, despite being adversely affected by volatility and uncertainty in financial markets. Indeed, the sector recorded positive flows, although more moderate than in 2015, and an increase in stocks. With regard to mutual funds, the unfavourable market conditions also influenced the composition of net inflows, impacted by the uneven performance of money market funds, which are highly affected by market fluctuations. Net inflows to mutual funds were driven by flexible and bond funds, whereas stocks were impacted by a negative performance effect in the first half of the year. Net inflows were led by banking operators, and, as regards the domiciliation of funds, "roundtrip" products (foreign funds promoted by Italian operators) recorded the highest figure.

Portfolio management net inflows, after a particularly strong beginning of the year, slowed down, recording a slightly negative figure for retail portfolios and a positive one for institutional mandates, although lower than the one of 2015.

Finally, in the insurance sector there was a slowdown in new life business compared to 2015. This was due to the combined effect of two factors: on one hand, very low rates held back traditional policies (branches I and V), and on the other hand the negative market trend made unit-linked products unattractive (branch III).





# **Income statement and balance sheet aggregates**



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# Economic results

## General aspects

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

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

The structure of the reclassified income statement has been amended compared to the previous format used, in order to provide a more coherent and concise presentation of the contribution of the different income components, with details of their nature. The main changes introduced, which have been adopted with effect from this document, are as follows:

- within operating income, the new caption “Other operating income (expenses)”, which only includes the operating income and expenses strictly connected to operations and, on a summary basis, also the income (loss) of investments consolidated at equity;
- the income (loss) from discontinued operations, which is accordingly reallocated, before tax, to “Gross income”;
- Within Gross income, the net provisions for risks and charges and the net impairment losses on assets other than loans are aggregated in the new caption “Net provisions and net impairment losses on other assets”. This caption therefore represents the summary of the effects of the measurement of risks and assets other than loans.
- also within Gross income, the caption “Other income (expenses)”, which incorporates the realised profits (losses) on investments held to maturity and on other investments and other income and expenses not strictly linked to operations. In addition to these items, the new caption also represents the summary of the effects from the realisation of assets other than loans;
- the new caption “Levies and other charges concerning the banking industry (net of tax)”, not included in Gross income, which consists of the expenses (other than tax expenses) imposed by legislative provisions or aimed at maintaining the stability of the banking system and are therefore outside the company management.

Consequently, the Gross income does not include income components outside the company management (taxes, levies and expenses aimed at maintaining the stability of the banking system), components of an “accounting” nature (income statement effects of the allocation of acquisition costs and goodwill impairment), as well as expenses related to restructuring/reorganization processes.

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

In summary, the reclassifications and aggregations are as follows:

- dividends on shares classified as assets available for sale and as assets held for trading have been reallocated to Profits (Losses) on trading;
- the portions of Net interest income, Dividend and similar income, Net fee and commission income and Profits (Losses) on trading related to the insurance business have been recorded under a specific caption, and the effect of the adjustment of the technical reserve – with respect to the component attributable to policyholders – associated with the impairment of securities available for sale held in the portfolios of the Group’s insurance companies was also attributed to this caption;
- differentials on derivatives, classified to the trading portfolio and contracted to hedge transactions in foreign currencies, have been allocated among Net interest income owing to the close correlation;
- fair value adjustments in hedge accounting (caption 90) have been reallocated to Profits (Losses) on trading;
- profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities have been reallocated to Profits (Losses) on trading;
- profits (Losses) on financial assets and liabilities designated at fair value are recorded in Profits (Losses) on trading;
- the recoveries of expenses, taxes and duties have been subtracted from Administrative expenses, instead of being included among Other income;
- profits and losses on disposal or repurchase of loans are posted in Net adjustments to loans;
- net impairment losses on other financial activities, related to guarantees, commitments and credit derivatives, have been recognised under Net adjustments to loans;
- the reversal in time value on loans is recorded in Net interest income instead of being allocated to Net adjustments to loans, since the phenomenon derives directly from the application of the amortised cost criterion in the absence of changes in expected future flows. A consistent approach is used for the time value of Employee termination indemnities and Allowances for risks and charges;
- net impairment losses on financial assets available for sale, held to maturity, on investments, as well as property and equipment and intangible assets (including property and other assets resulting from the enforcement of guarantees or purchase at auction and intended for sale on the market in the near future), which have been reclassified to Net impairment losses on other assets, which consequently includes – in addition to the provisions for risks and charges – the valuation effects of the assets other than loans, with the sole exception of impairment losses on intangible assets that have been reclassified, after tax, to impairment of goodwill and other intangible assets;

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

## Reclassified income statement

|   | (millions of euro) |               |             |             |
|---|--------------------|---------------|-------------|-------------|
|   | 2016               | 2015          | Changes     |             |
|   |                    |               | amount      | %           |
| Net interest income   | 7,293              | 7,717         | -424        | -5.5        |
| Net fee and commission income   | 7,287              | 7,342         | -55         | -0.7        |
| Income from insurance business  | 995                | 997           | -2          | -0.2        |
| Profits (Losses) on trading   | 1,190              | 1,034         | 156         | 15.1        |
| Other operating income (expenses)                                     | 164                | 96            | 68          | 70.8        |
| <b>Operating income</b>   | <b>16,929</b>      | <b>17,186</b> | <b>-257</b> | <b>-1.5</b> |
| Personnel expenses  | -5,308             | -5,286        | 22          | 0.4         |
| Other administrative expenses   | -2,620             | -2,720        | -100        | -3.7        |
| Adjustments to property, equipment and intangible assets              | -746               | -728          | 18          | 2.5         |
| <b>Operating costs</b>  | <b>-8,674</b>      | <b>-8,734</b> | <b>-60</b>  | <b>-0.7</b> |
| <b>Operating margin</b>   | <b>8,255</b>       | <b>8,452</b>  | <b>-197</b> | <b>-2.3</b> |
| Net adjustments to loans  | -3,708             | -3,306        | 402         | 12.2        |
| Net provisions and net impairment losses on other assets              | -422               | -570          | -148        | -26.0       |
| Other income (expenses)   | 355                | 352           | 3           | 0.9         |
| Income (Loss) from discontinued operations                            | 952                | 87            | 865         |             |
| <b>Gross income (loss)</b>  | <b>5,432</b>       | <b>5,015</b>  | <b>417</b>  | <b>8.3</b>  |
| Taxes on income   | -1,422             | -1,727        | -305        | -17.7       |
| Charges (net of tax) for integration and exit incentives              | -150               | -83           | 67          | 80.7        |
| Effect of purchase price allocation (net of tax)                      | -112               | -119          | -7          | -5.9        |
| Levies and other charges concerning the banking industry (net of tax) | -559               | -352          | 207         | 58.8        |
| Impairment (net of tax) of goodwill and other intangible assets       | -                  | -             | -           | -           |
| Minority interests  | -78                | 5             | -83         |             |
| <b>Net income (loss)</b>  | <b>3,111</b>       | <b>2,739</b>  | <b>372</b>  | <b>13.6</b> |

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

## Quarterly development of the reclassified income statement

(millions of euro)

|   | 2016           |               |                |               | 2015           |               |                |               |
|---|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
|   | Fourth quarter | Third quarter | Second quarter | First quarter | Fourth quarter | Third quarter | Second quarter | First quarter |
| Net interest income   | 1,748          | 1,859         | 1,831          | 1,855         | 1,926          | 1,887         | 1,954          | 1,950         |
| Net fee and commission income   | 2,018          | 1,745         | 1,848          | 1,676         | 1,878          | 1,748         | 1,941          | 1,775         |
| Income from insurance business  | 166            | 258           | 239            | 332           | 131            | 241           | 282            | 343           |
| Profits (Losses) on trading   | 247            | 248           | 467            | 228           | 57             | 1             | 380            | 596           |
| Other operating income (expenses)                                     | -7             | 29            | 67             | 75            | -1             | 41            | 20             | 36            |
| <b>Operating income</b>   | <b>4,172</b>   | <b>4,139</b>  | <b>4,452</b>   | <b>4,166</b>  | <b>3,991</b>   | <b>3,918</b>  | <b>4,577</b>   | <b>4,700</b>  |
| Personnel expenses  | -1,389         | -1,306        | -1,338         | -1,275        | -1,479         | -1,249        | -1,263         | -1,295        |
| Other administrative expenses   | -762           | -625          | -638           | -595          | -791           | -632          | -668           | -629          |
| Adjustments to property, equipment and intangible assets              | -205           | -186          | -178           | -177          | -200           | -178          | -176           | -174          |
| <b>Operating costs</b>  | <b>-2,356</b>  | <b>-2,117</b> | <b>-2,154</b>  | <b>-2,047</b> | <b>-2,470</b>  | <b>-2,059</b> | <b>-2,107</b>  | <b>-2,098</b> |
| <b>Operating margin</b>   | <b>1,816</b>   | <b>2,022</b>  | <b>2,298</b>   | <b>2,119</b>  | <b>1,521</b>   | <b>1,859</b>  | <b>2,470</b>   | <b>2,602</b>  |
| Net adjustments to loans  | -1,174         | -917          | -923           | -694          | -923           | -769          | -847           | -767          |
| Net provisions and net impairment losses on other assets              | -105           | -77           | -194           | -46           | -203           | -242          | -88            | -37           |
| Other income (expenses)   | 138            | 16            | 196            | 5             | 91             | 232           | 27             | 2             |
| Income (Loss) from discontinued operations                            | 881            | 23            | 28             | 20            | 22             | 22            | 21             | 22            |
| <b>Gross income (loss)</b>  | <b>1,556</b>   | <b>1,067</b>  | <b>1,405</b>   | <b>1,404</b>  | <b>508</b>     | <b>1,102</b>  | <b>1,583</b>   | <b>1,822</b>  |
| Taxes on income   | -313           | -319          | -359           | -431          | -195           | -346          | -525           | -661          |
| Charges (net of tax) for integration and exit incentives              | -83            | -16           | -38            | -13           | -37            | -15           | -25            | -6            |
| Effect of purchase price allocation (net of tax)                      | -30            | -26           | -27            | -29           | -33            | -27           | -33            | -26           |
| Levies and other charges concerning the banking industry (net of tax) | -377           | -69           | -11            | -102          | -248           | -2            | -48            | -54           |
| Impairment (net of tax) of goodwill and other intangible assets       | -              | -             | -              | -             | -              | -             | -              | -             |
| Minority interests  | 23             | -9            | -69            | -23           | 18             | 10            | -12            | -11           |
| <b>Net income (loss)</b>  | <b>776</b>     | <b>628</b>    | <b>901</b>     | <b>806</b>    | <b>13</b>      | <b>722</b>    | <b>940</b>     | <b>1,064</b>  |

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

Despite the continued modest economic growth, slowed down by political factors in the Eurozone and high volatility in stock prices, especially in Italy, the Intesa Sanpaolo Group ended 2016 with net income of 3,111 million euro. This result was achieved thanks to the strength of revenues, an attentive monitoring of operating costs and the overall stability of adjustments and provisions.

Net income was higher than in the previous year and was influenced by extraordinary events, including, on one hand, the levies and other charges concerning the banking industry and the settlement of the dispute with the Supervisory Body of the New York State and, on the other hand, the value generation project for a portfolio of non-investment properties and the proceeds from the sale of Visa Europe and Setefi and Intesa Sanpaolo Card.

## Operating income

Operating income amounted to 16,929 million euro, down 1.5% compared to 2015, primarily due to the reduction in net interest income (-5.5%) and, to a lesser extent, in net fee and commission income (-0.7%). Revenues for the fourth quarter of 2016 did not differ significantly from the revenues for the previous quarters, as a result of the strong performance of net fee and commission income which offset the decline in interest income and income from insurance business.

### Net interest income

|                                      |              |              | (millions of euro) |              |  |
|--------------------------------------|--------------|--------------|--------------------|--------------|--|
|                                      | 2016         | 2015         | Changes amount     | Changes %    |  |
| Relations with customers             | 7,362        | 8,275        | -913               | -11.0        |  |
| Securities issued                    | -3,226       | -3,800       | -574               | -15.1        |  |
| Differentials on hedging derivatives | 478          | 749          | -271               | -36.2        |  |
| <b>Customer dealing</b>              | <b>4,614</b> | <b>5,224</b> | <b>-610</b>        | <b>-11.7</b> |  |
| Financial assets held for trading    | 151          | 228          | -77                | -33.8        |  |
| Investments held to maturity         | 52           | 53           | -1                 | -1.9         |  |
| Financial assets available for sale  | 716          | 832          | -116               | -13.9        |  |
| <b>Financial assets</b>              | <b>919</b>   | <b>1,113</b> | <b>-194</b>        | <b>-17.4</b> |  |
| <b>Relations with banks</b>          | <b>98</b>    | <b>8</b>     | <b>90</b>          |              |  |
| <b>Non-performing assets</b>         | <b>1,555</b> | <b>1,377</b> | <b>178</b>         | <b>12.9</b>  |  |
| <b>Other net interest income</b>     | <b>107</b>   | <b>-5</b>    | <b>112</b>         |              |  |
| <b>Net interest income</b>           | <b>7,293</b> | <b>7,717</b> | <b>-424</b>        | <b>-5.5</b>  |  |

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

Net interest income amounted to 7,293 million euro, down 5.5% compared to the previous year due to the trend of customer dealing and, to a lesser extent, the decline in interest on financial assets.

With the spread at historically very low levels, customer dealing stood at 4,614 million euro, down 11.7% compared to 2015. The decline in interest related to relations with customers was essentially due to the further reduction of the spread, only partly offset by a recovery of intermediated volumes and the lower differentials on hedging derivatives (-271 million euro). The contribution from the international subsidiary banks was adversely affected by the depreciation of the Egyptian pound in the fourth quarter.

Interest on financial assets fell by 17.4%, due to the decline in interest on assets available for sale (-116 million euro) and interest on trading activities (-77 million euro).

Net interest income on the interbank market came to 98 million euro compared to 8 million euro recorded in 2015, due to the reduction in interest expense on interbank funding. Interest and similar income, of 78 million euro, on the exposure to the ECB, which amounted to an average of 34 billion euro in 2016, were included among other net interest income.

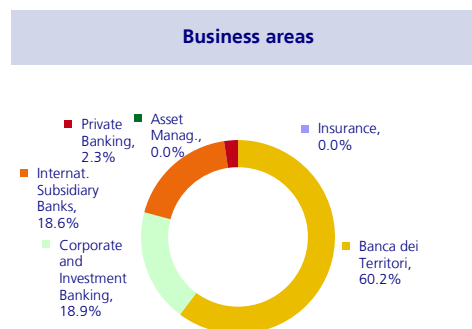
|                                      |                    |                   |                    |                   | (millions of euro) |             |             |
|--------------------------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------|-------------|
|                                      | 2016               |                   |                    |                   | Changes %          |             |             |
|                                      | Fourth quarter (A) | Third quarter (B) | Second quarter (C) | First quarter (D) | (A/B)              | (B/C)       | (C/D)       |
| Relations with customers             | 1,737              | 1,873             | 1,874              | 1,878             | -7.3               | -0.1        | -0.2        |
| Securities issued                    | -762               | -789              | -835               | -840              | -3.4               | -5.5        | -0.6        |
| Differentials on hedging derivatives | 81                 | 118               | 141                | 138               | -31.4              | -16.3       | 2.2         |
| <b>Customer dealing</b>              | <b>1,056</b>       | <b>1,202</b>      | <b>1,180</b>       | <b>1,176</b>      | <b>-12.1</b>       | <b>1.9</b>  | <b>0.3</b>  |
| Financial assets held for trading    | 36                 | 37                | 36                 | 42                | -2.7               | 2.8         | -14.3       |
| Investments held to maturity         | 10                 | 15                | 13                 | 14                | -33.3              | 15.4        | -7.1        |
| Financial assets available for sale  | 147                | 173               | 195                | 201               | -15.0              | -11.3       | -3.0        |
| <b>Financial assets</b>              | <b>193</b>         | <b>225</b>        | <b>244</b>         | <b>257</b>        | <b>-14.2</b>       | <b>-7.8</b> | <b>-5.1</b> |
| <b>Relations with banks</b>          | <b>34</b>          | <b>35</b>         | <b>19</b>          | <b>10</b>         | <b>-2.9</b>        | <b>84.2</b> | <b>90.0</b> |
| <b>Non-performing assets</b>         | <b>412</b>         | <b>349</b>        | <b>384</b>         | <b>410</b>        | <b>18.1</b>        | <b>-9.1</b> | <b>-6.3</b> |
| <b>Other net interest income</b>     | <b>53</b>          | <b>48</b>         | <b>4</b>           | <b>2</b>          | <b>10.4</b>        |             |             |
| <b>Net interest income</b>           | <b>1,748</b>       | <b>1,859</b>      | <b>1,831</b>       | <b>1,855</b>      | <b>-6.0</b>        | <b>1.5</b>  | <b>-1.3</b> |

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

Net interest income in the fourth quarter was lower than in the previous quarters, as a result of the lower contribution from customer dealing and financial assets available for sale. The further reduction in spreads, the decrease in hedging differentials, and the lower contribution from international subsidiary banks attributable to the exchange rate effect linked to the Egyptian pound, all had a negative impact on the fourth quarter. In the third and fourth quarter 2016, positive contributions were recorded from

the interest on the TLTRO II operation with the ECB, recognised according to the effective interest rate method required by the international accounting standards in relation to expected growth in loans over the period 1 February 2016 – 31 January 2018.

|                                  | 2016         | 2015         | Changes     |             |
|----------------------------------|--------------|--------------|-------------|-------------|
|                                  |              |              | amount      | %           |
| Banca dei Territori              | 4,623        | 4,903        | -280        | -5.7        |
| Corporate and Investment Banking | 1,447        | 1,544        | -97         | -6.3        |
| International Subsidiary Banks   | 1,428        | 1,495        | -67         | -4.5        |
| Private Banking                  | 175          | 201          | -26         | -12.9       |
| Asset Management                 | 1            | 1            | -           | -           |
| Insurance                        | -            | -            | -           | -           |
| <b>Total business areas</b>      | <b>7,674</b> | <b>8,144</b> | <b>-470</b> | <b>-5.8</b> |
| Corporate Centre                 | -381         | -427         | -46         | -10.8       |
| <b>Intesa Sanpaolo Group</b>     | <b>7,293</b> | <b>7,717</b> | <b>-424</b> | <b>-5.5</b> |

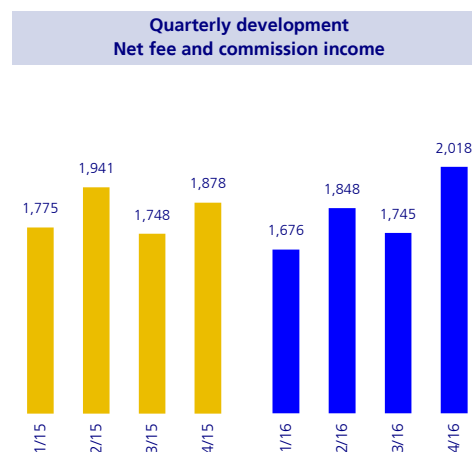


Figures also restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

The Banca dei Territori Division, which accounts for 60% of business area results, recorded a decline of 5.7% in net interest income, which was affected by the market scenario featuring negative rates. Interest attributable to the Corporate and Investment Banking Division declined (-6.3%), primarily as a result of smaller margins as well as the lower contribution from the capital market activities. The net interest income of the international subsidiary banks decreased by 4.5%, whereas that of private banking - which has a smaller relative impact on consolidated net income - declined by 12.9%.

### Net fee and commission income

|   | 2016         | 2015         | Changes     |             |
|---|--------------|--------------|-------------|-------------|
|   |              |              | amount      | %           |
| Guarantees given / received                           | 342          | 344          | -2          | -0.6        |
| Collection and payment services                       | 362          | 374          | -12         | -3.2        |
| Current accounts                                      | 1,007        | 1,032        | -25         | -2.4        |
| Credit and debit cards                                | 376          | 380          | -4          | -1.1        |
| <b>Commercial banking activities</b>                  | <b>2,087</b> | <b>2,130</b> | <b>-43</b>  | <b>-2.0</b> |
| Dealing and placement of securities                   | 524          | 655          | -131        | -20.0       |
| Currency dealing                                      | 41           | 44           | -3          | -6.8        |
| Portfolio management                                  | 2,055        | 2,220        | -165        | -7.4        |
| Distribution of insurance products                    | 1,386        | 1,232        | 154         | 12.5        |
| Other   | 215          | 184          | 31          | 16.8        |
| <b>Management, dealing and consultancy activities</b> | <b>4,221</b> | <b>4,335</b> | <b>-114</b> | <b>-2.6</b> |
| <b>Other net fee and commission income</b>            | <b>979</b>   | <b>877</b>   | <b>102</b>  | <b>11.6</b> |
| <b>Net fee and commission income</b>                  | <b>7,287</b> | <b>7,342</b> | <b>-55</b>  | <b>-0.7</b> |



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

Net fee and commission income for 2016, which makes up 43% of operating income, came to 7,287 million euro, slightly down (-0.7%) compared to 2015, mainly due to the performance of management and dealing activity, which was affected by the unfavourable market conditions despite the partial recovery in prices at the end of the year.

Fee and commission income on commercial banking activities amounted to 2,087 million euro, down 2% as a result of the moderate decline in fees and commissions on current accounts, collection and payment services and debit card and credit card services.

Management, dealing and financial consultancy activities, which provided the greatest contribution, generated net fee and commission income of 4,221 million euro, down 2.6% compared to 2015.

The significant commercial effort devoted by the Group's distribution network to asset management products, and in particular in the policies with financial content, the fees and commissions on which are partially included in income from insurance business, were undermined by the significant decline in equity prices, which was especially heavy on Italian stocks. This trend affected trading volumes, reducing security dealing and placement commissions and performance commissions on some asset management products. In contrast, there was strong growth in fees and commissions on insurance products (+12.5%), other management and dealing commissions (+16.8%) and other net fee and commission income (+11.6%), linked to M&A transactions and financing transactions.



(millions of euro)

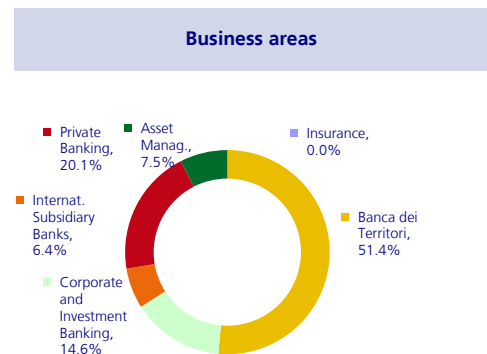
|   | 2016                  |                      |                       |                      | Changes %   |              |             |
|---|-----------------------|----------------------|-----------------------|----------------------|-------------|--------------|-------------|
|   | Fourth quarter<br>(A) | Third quarter<br>(B) | Second quarter<br>(C) | First quarter<br>(D) | (A/B)       | (B/C)        | (C/D)       |
| Guarantees given / received                           | 86                    | 90                   | 83                    | 83                   | -4.4        | 8.4          | -           |
| Collection and payment services                       | 96                    | 90                   | 91                    | 85                   | 6.7         | -1.1         | 7.1         |
| Current accounts                                      | 254                   | 251                  | 255                   | 247                  | 1.2         | -1.6         | 3.2         |
| Credit and debit cards                                | 94                    | 98                   | 94                    | 90                   | -4.1        | 4.3          | 4.4         |
| <b>Commercial banking activities</b>                  | <b>530</b>            | <b>529</b>           | <b>523</b>            | <b>505</b>           | <b>0.2</b>  | <b>1.1</b>   | <b>3.6</b>  |
| Dealing and placement of securities                   | 143                   | 137                  | 153                   | 91                   | 4.4         | -10.5        | 68.1        |
| Currency dealing                                      | 11                    | 10                   | 10                    | 10                   | 10.0        | -            | -           |
| Portfolio management                                  | 546                   | 504                  | 512                   | 493                  | 8.3         | -1.6         | 3.9         |
| Distribution of insurance products                    | 362                   | 335                  | 362                   | 327                  | 8.1         | -7.5         | 10.7        |
| Other   | 89                    | 47                   | 38                    | 41                   | 89.4        | 23.7         | -7.3        |
| <b>Management, dealing and consultancy activities</b> | <b>1,151</b>          | <b>1,033</b>         | <b>1,075</b>          | <b>962</b>           | <b>11.4</b> | <b>-3.9</b>  | <b>11.7</b> |
| <b>Other net fee and commission income</b>            | <b>337</b>            | <b>183</b>           | <b>250</b>            | <b>209</b>           | <b>84.2</b> | <b>-26.8</b> | <b>19.6</b> |
| <b>Net fee and commission income</b>                  | <b>2,018</b>          | <b>1,745</b>         | <b>1,848</b>          | <b>1,676</b>         | <b>15.6</b> | <b>-5.6</b>  | <b>10.3</b> |

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

Net fee and commission income for the fourth quarter of 2016 was up and reached higher values than in the previous quarters, in connection with the strong performance of other net fee and commission income, resulting from M&A transactions and financing transactions.

(millions of euro)

|                                  | 2016         | 2015         | Changes    |             |
|----------------------------------|--------------|--------------|------------|-------------|
|                                  |              |              | amount     | %           |
| Banca dei Territori              | 3,895        | 4,066        | -171       | -4.2        |
| Corporate and Investment Banking | 1,111        | 868          | 243        | 28.0        |
| International Subsidiary Banks   | 483          | 512          | -29        | -5.7        |
| Private Banking                  | 1,527        | 1,449        | 78         | 5.4         |
| Asset Management                 | 567          | 670          | -103       | -15.4       |
| Insurance                        | -            | -            | -          | -           |
| <b>Total business areas</b>      | <b>7,583</b> | <b>7,565</b> | <b>18</b>  | <b>0.2</b>  |
| Corporate Centre                 | -296         | -223         | 73         | 32.7        |
| <b>Intesa Sanpaolo Group</b>     | <b>7,287</b> | <b>7,342</b> | <b>-55</b> | <b>-0.7</b> |

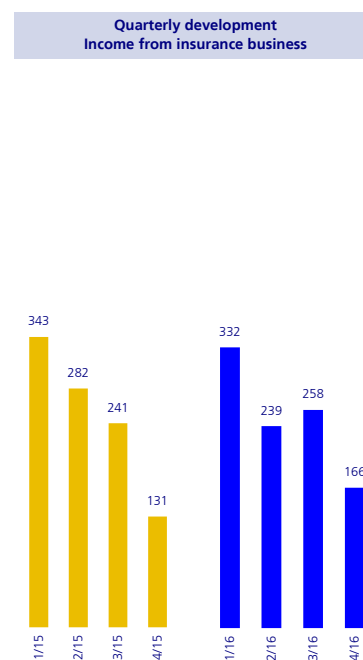


Figures also restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

With regard to business areas, the Banca dei Territori Division, which accounts over half the fee and commission income of the business units, recorded a decline (-4.2%, or -171 million euro), specifically for asset management and administration products, only partly offset by higher fees relating to loans and guarantees and protection products. Decreases were also recorded by the Asset Management Division (-15.4%), due to the reduced commissions on the assets under management, only partly absorbed by the increase in management fees related to the development of average assets under management, and by the International Subsidiary Banks (-5.7%). Conversely, an increase was reported by Corporate and Investment Banking (+28%), due to higher fee and commission income, recorded above all in the investment banking, and by Private Banking (+5.4%).

**Income from insurance business**

| Captions (a)  | 2016         |            |              | 2015         |           |              | (millions of euro)<br>Changes |             |
|---|--------------|------------|--------------|--------------|-----------|--------------|-------------------------------|-------------|
|   | Life         | Non-life   | Total        | Life         | Non-life  | Total        | amount                        | %           |
| <b>Technical margin</b>   | <b>45</b>    | <b>80</b>  | <b>125</b>   | <b>12</b>    | <b>56</b> | <b>68</b>    | <b>57</b>                     | <b>83.8</b> |
| Net insurance premiums (b)  | 8,135        | 301        | 8,436        | 12,177       | 250       | 12,427       | -3,991                        | -32.1       |
| Net charges for insurance claims and surrenders (c)   | -7,910       | -89        | -7,999       | -9,321       | -87       | -9,408       | -1,409                        | -15.0       |
| Net charges for changes in technical reserves (d)   | -1,550       | -1         | -1,551       | -4,511       | -         | -4,511       | -2,960                        | -65.6       |
| Gains (Losses) on investments pertaining to insured parties on insurance products (e)                       | 1,632        | -          | 1,632        | 1,940        | -         | 1,940        | -308                          | -15.9       |
| Net fees on investment contracts (f)  | 230          | 3          | 233          | 203          | -         | 203          | 30                            | 14.8        |
| Commission expenses on insurance contracts (g)  | -499         | -97        | -596         | -507         | -68       | -575         | 21                            | 3.7         |
| Other technical income and expense (h)  | 7            | -37        | -30          | 31           | -39       | -8           | 22                            |             |
| <b>Net investment result</b>  | <b>1,028</b> | <b>26</b>  | <b>1,054</b> | <b>1,008</b> | <b>31</b> | <b>1,039</b> | <b>15</b>                     | <b>1.4</b>  |
| Operating income from investments   | 4,097        | 26         | 4,123        | 3,810        | 31        | 3,841        | 282                           | 7.3         |
| <i>Net interest income</i>  | 1,991        | 7          | 1,998        | 2,045        | 9         | 2,054        | -56                           | -2.7        |
| <i>Dividends</i>  | 235          | 3          | 238          | 169          | 2         | 171          | 67                            | 39.2        |
| <i>Gains/losses on disposal</i>   | 564          | 16         | 580          | 1,652        | 20        | 1,672        | -1,092                        | -65.3       |
| <i>Valuation gains/losses</i>   | 1,380        | -          | 1,380        | 28           | -         | 28           | 1,352                         |             |
| <i>Portfolio management fees paid (i)</i>   | -73          | -          | -73          | -84          | -         | -84          | -11                           | -13.1       |
| Gains (Losses) on investments pertaining to insured parties   | -3,069       | -          | -3,069       | -2,802       | -         | -2,802       | 267                           | 9.5         |
| <i>Insurance products (j)</i>   | -1,482       | -          | -1,482       | -1,794       | -         | -1,794       | -312                          | -17.4       |
| <i>Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)</i> | -150         | -          | -150         | -146         | -         | -146         | 4                             | 2.7         |
| <i>Investment products (l)</i>  | -1,437       | -          | -1,437       | -862         | -         | -862         | 575                           | 66.7        |
| <b>Income from insurance business gross of consolidation effects</b>  | <b>1,073</b> | <b>106</b> | <b>1,179</b> | <b>1,020</b> | <b>87</b> | <b>1,107</b> | <b>72</b>                     | <b>6.5</b>  |
| Consolidation effects   | -182         | -2         | -184         | -103         | -7        | -110         | 74                            | 67.3        |
| <b>Income from insurance business</b>   | <b>891</b>   | <b>104</b> | <b>995</b>   | <b>917</b>   | <b>80</b> | <b>997</b>   | <b>-2</b>                     | <b>-0.2</b> |



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

(a) The table illustrates the economic components of the insurance business broken down into those regarding:

- 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.

In 2016, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was essentially stable, at 995 million euro, compared to the 997 million euro recorded in 2015. The life business benefited from growth in the technical margin, due to the combined effect of premiums and charges and the strong performance of net fee and commission income from investment products, while the net investment result remained stable. The non-life business recorded growth, amounting to 104 million euro compared to the profits of 80 million euro recorded in 2015. This performance was entirely due to the increase in the technical margin.

| Captions (a)  | 2016               |                   |                    |                   | (millions of euro) |             |              |
|---|--------------------|-------------------|--------------------|-------------------|--------------------|-------------|--------------|
|   | Fourth quarter (A) | Third quarter (B) | Second quarter (C) | First quarter (D) | Changes % (A/B)    | (B/C)       | (C/D)        |
| <b>Technical margin</b>   | <b>53</b>          | <b>-6</b>         | <b>48</b>          | <b>30</b>         |                    |             | <b>60.0</b>  |
| Net insurance premiums (b)  | 1,649              | 1,643             | 2,044              | 3,100             | 0.4                | -19.6       | -34.1        |
| Net charges for insurance claims and surrenders (c)   | -1,815             | -1,873            | -2,255             | -2,056            | -3.1               | -16.9       | 9.7          |
| Net charges for changes in technical reserves (d)   | -150               | -56               | -91                | -1,254            |                    | -38.5       | -92.7        |
| Gains (Losses) on investments pertaining to insured parties on insurance products (e)                       | 468                | 366               | 446                | 352               | 27.9               | -17.9       | 26.7         |
| Net fees on investment contracts (f)  | 45                 | 72                | 57                 | 59                | -37.5              | 26.3        | -3.4         |
| Commission expenses on insurance contracts (g)  | -138               | -147              | -149               | -162              | -6.1               | -1.3        | -8.0         |
| Other technical income and expense (h)  | -6                 | -11               | -4                 | -9                | -45.5              |             | -55.6        |
| <b>Net investment result</b>  | <b>153</b>         | <b>304</b>        | <b>259</b>         | <b>338</b>        | <b>-49.7</b>       | <b>17.4</b> | <b>-23.4</b> |
| Operating income from investments   | 1,317              | 1,554             | 1,162              | 90                | -15.3              | 33.7        |              |
| <i>Net interest income</i>  | 499                | 500               | 516                | 483               | -0.2               | -3.1        | 6.8          |
| <i>Dividends</i>  | 58                 | 56                | 83                 | 41                | 3.6                | -32.5       |              |
| <i>Gains/losses on disposal</i>   | 153                | 175               | 105                | 147               | -12.6              | 66.7        | -28.6        |
| <i>Valuation gains/losses</i>   | 624                | 841               | 477                | -562              | -25.8              | 76.3        |              |
| <i>Portfolio management fees paid (i)</i>   | -17                | -18               | -19                | -19               | -5.6               | -5.3        | -            |
| Gains (Losses) on investments pertaining to insured parties   | -1,164             | -1,250            | -903               | 248               | -6.9               | 38.4        |              |
| <i>Insurance products (j)</i>   | -362               | -394              | -394               | -332              | -8.1               | -           | 18.7         |
| <i>Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (k)</i> | -106               | 28                | -52                | -20               |                    |             |              |
| <i>Investment products (l)</i>  | -696               | -884              | -457               | 600               | -21.3              | 93.4        |              |
| <b>Income from insurance business gross of consolidation effects</b>  | <b>206</b>         | <b>298</b>        | <b>307</b>         | <b>368</b>        | <b>-30.9</b>       | <b>-2.9</b> | <b>-16.6</b> |
| Consolidation effects   | -40                | -40               | -68                | -36               | -                  | -41.2       | 88.9         |
| <b>Income from insurance business</b>   | <b>166</b>         | <b>258</b>        | <b>239</b>         | <b>332</b>        | <b>-35.7</b>       | <b>7.9</b>  | <b>-28.0</b> |

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

For notes, see the previous table.

The income from insurance business for the fourth quarter of 2016, including the life and non-life businesses, was lower than in the previous quarters of 2016, as a result of the lower net investment result, only partly offset by the increase in the technical margin.

|   | (millions of euro)   |                    |               |                             | 2015          |
|---|----------------------|--------------------|---------------|-----------------------------|---------------|
|   | 2016                 |                    | Total         | of which<br>new<br>business |               |
|   | Periodic<br>premiums | Single<br>premiums |               |                             |               |
| <b>Life insurance business</b>                  | <b>196</b>           | <b>7,940</b>       | <b>8,136</b>  | <b>7,941</b>                | <b>12,178</b> |
| Premiums issued on traditional products         | 170                  | 7,361              | 7,531         | 7,362                       | 11,667        |
| Premiums issued on unit-linked products         | 11                   | 11                 | 22            | 11                          | 32            |
| Premiums issued on capitalisation products      | -                    | 1                  | 1             | 1                           | 2             |
| Premiums issued on pension funds                | 15                   | 567                | 582           | 567                         | 477           |
| <b>Non-life insurance business</b>              | <b>66</b>            | <b>241</b>         | <b>307</b>    | <b>-66</b>                  | <b>251</b>    |
| Premiums issued                                 | 66                   | 325                | 391           | 100                         | 278           |
| Change in premium reserves                      | -                    | -84                | -84           | -166                        | -27           |
| <b>Premiums ceded to reinsurers</b>             | <b>-5</b>            | <b>-5</b>          | <b>-10</b>    | <b>-7</b>                   | <b>-9</b>     |
| <b>Net premiums from insurance products</b>     | <b>257</b>           | <b>8,176</b>       | <b>8,433</b>  | <b>7,868</b>                | <b>12,420</b> |
| Business on index-linked contracts              | -                    | -                  | -             | -                           | -             |
| Business on unit-linked contracts               | 93                   | 15,704             | 15,797        | 15,710                      | 15,346        |
| <b>Total business from investment contracts</b> | <b>93</b>            | <b>15,704</b>      | <b>15,797</b> | <b>15,710</b>               | <b>15,346</b> |
| <b>Total business</b>                           | <b>350</b>           | <b>23,880</b>      | <b>24,230</b> | <b>23,578</b>               | <b>27,766</b> |

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

In 2016, business in the insurance segment remained at high levels, 24.2 billion euro, although lower than in 2015 when premiums of 27.8 billion euro were collected. In 2016 there was a larger proportion of unit-linked investment contracts, with a smaller weighting of traditional life business policies.

New business was 23.6 billion euro, confirming the fact that the premiums of the Group's insurance companies relate almost entirely to new single-premium contracts.

### Profits (Losses) on trading

|  | (millions of euro) |              |                   |             | Quarterly development<br>Profits (Losses) on trading |  |  |  |
|--|--------------------|--------------|-------------------|-------------|--|--|--|--|
|  | 2016               | 2015         | Changes<br>amount | %           |  |  |  |  |
| Interest rates   | 145                | 13           | 132               |             |  |  |  |  |
| Equity instruments   | 106                | 178          | -72               | -40.4       |  |  |  |  |
| Currencies   | 211                | 141          | 70                | 49.6        |  |  |  |  |
| Structured credit products                                 | 19                 | -            | 19                | -           |  |  |  |  |
| Credit derivatives   | 12                 | -30          | 42                |             |  |  |  |  |
| Commodity derivatives                                      | 20                 | 23           | -3                | -13.0       |  |  |  |  |
| <b>Trading result</b>                                      | <b>513</b>         | <b>325</b>   | <b>188</b>        | <b>57.8</b> |  |  |  |  |
| <b>Trading on AFS securities and financial liabilities</b> | <b>677</b>         | <b>709</b>   | <b>-32</b>        | <b>-4.5</b> |  |  |  |  |
| <b>Profits (Losses) on trading</b>                         | <b>1,190</b>       | <b>1,034</b> | <b>156</b>        | <b>15.1</b> |  |  |  |  |

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

In 2016, trading activities yielded a profit of 1,190 million euro, up 15.1% compared to 2015, which had benefited from the launch of quantitative easing and more favourable market conditions, markedly in the first quarter, when significant capital gains were realised on portfolios of financial assets available for sale. The increase was attributable to the positive performance of trading, which more than offset the lower income from trading in AFS securities and financial liabilities.

|  | (millions of euro)    |                      |                       |                      |              |              |       |
|--|-----------------------|----------------------|-----------------------|----------------------|--------------|--------------|-------|
|  | 2016                  |                      |                       |                      | Changes %    |              |       |
|  | Fourth quarter<br>(A) | Third quarter<br>(B) | Second quarter<br>(C) | First quarter<br>(D) | (A/B)        | (B/C)        | (C/D) |
| Interest rates   | 119                   | -6                   | -2                    | 34                   |              |              |       |
| Equity instruments   | 34                    | 40                   | 56                    | -24                  | -15.0        | -28.6        |       |
| Currencies   | 33                    | 7                    | 117                   | 54                   |              | -94.0        |       |
| Structured credit products                                 | 4                     | 10                   | 6                     | -1                   | -60.0        | 66.7         |       |
| Credit derivatives   | -27                   | 26                   | -4                    | 17                   |              |              |       |
| Commodity derivatives                                      | 3                     | -3                   | 9                     | 11                   |              |              | -18.2 |
| <b>Trading result</b>                                      | <b>166</b>            | <b>74</b>            | <b>182</b>            | <b>91</b>            |              | <b>-59.3</b> |       |
| <b>Trading on AFS securities and financial liabilities</b> | <b>81</b>             | <b>174</b>           | <b>285</b>            | <b>137</b>           | <b>-53.4</b> | <b>-38.9</b> |       |
| <b>Profits (Losses) on trading</b>                         | <b>247</b>            | <b>248</b>           | <b>467</b>            | <b>228</b>           | <b>-0.4</b>  | <b>-46.9</b> |       |

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

The result for the fourth quarter of 2016, amounting to a profit of 247 million euro, benefited from the investment banking and private equity operations, which remained at stable levels compared to the previous quarter, despite the absence of profits on disposal of available for sale securities. In the second quarter, revenues were particularly high, partly as a result of the collection of the dividend on the stake held in the Bank of Italy (121 million euro). It should be noted that the sub-caption "Trading on AFS securities and financial liabilities" incorporates, in addition to dividends and proceeds on the trading of securities classified as available for sale, the effects of the measurement at fair value of financial liabilities issued associated with an assessment of creditworthiness in accordance with the fair value option.

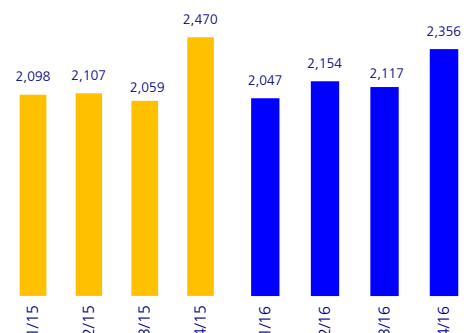
#### Other operating income (expenses)

In the new layout of the reclassified income statement, Other operating income and expenses, which amount to 164 million euro (96 million euro in 2015) include the income and expenses from continuing operations - except for recoveries of expenses, taxes and duties, which are deducted from the sub-captions of administrative expenses - as well as profits on investments carried at equity. In 2016, this aggregate totalled 203 million euro, more than double the 95 million euro posted for 2015, thanks to the stronger contributions from the companies consolidated at equity.

#### Operating costs

|   | 2016         | 2015         | Changes     |             |
|---|--------------|--------------|-------------|-------------|
|   |              |              | amount      | %           |
| Wages and salaries                        | 3,647        | 3,642        | 5           | 0.1         |
| Social security charges                   | 930          | 931          | -1          | -0.1        |
| Other                                     | 731          | 713          | 18          | 2.5         |
| <b>Personnel expenses</b>                 | <b>5,308</b> | <b>5,286</b> | <b>22</b>   | <b>0.4</b>  |
| Information technology expenses           | 626          | 612          | 14          | 2.3         |
| Management of real estate assets expenses | 529          | 586          | -57         | -9.7        |
| General structure costs                   | 399          | 406          | -7          | -1.7        |
| Professional and legal expenses           | 417          | 443          | -26         | -5.9        |
| Advertising and promotional expenses      | 132          | 141          | -9          | -6.4        |
| Indirect personnel costs                  | 91           | 97           | -6          | -6.2        |
| Other costs                               | 348          | 355          | -7          | -2.0        |
| Indirect taxes and duties                 | 877          | 908          | -31         | -3.4        |
| Recovery of expenses and charges          | -799         | -828         | -29         | -3.5        |
| <b>Administrative expenses</b>            | <b>2,620</b> | <b>2,720</b> | <b>-100</b> | <b>-3.7</b> |
| Property and equipment                    | 332          | 351          | -19         | -5.4        |
| Intangible assets                         | 414          | 377          | 37          | 9.8         |
| <b>Adjustments</b>                        | <b>746</b>   | <b>728</b>   | <b>18</b>   | <b>2.5</b>  |
| <b>Operating costs</b>                    | <b>8,674</b> | <b>8,734</b> | <b>-60</b>  | <b>-0.7</b> |

Quarterly development  
Operating costs



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

Operating costs for 2016 came to 8,674 million euro, down slightly on the figure recorded in 2015. Personnel expenses, at 5,308 million euro, showed a slight increase (+0.4%). Administrative expenses continued their positive performance, which has distinguished the Intesa Sanpaolo Group since its establishment, and stood at 2,620 million euro, down 3.7% compared to 2015, as a result of the savings achieved on property management expenses and legal and professional fees. Adjustments equaled 746 million euro, up 2.5% compared with 2015, with a greater incidence of amortisation of intangible assets.

The cost/income ratio for the period amounted to 51.2%, up on the 50.8% recorded for 2015 due to the downtrend in revenues, only partly offset by the containment of operating costs.

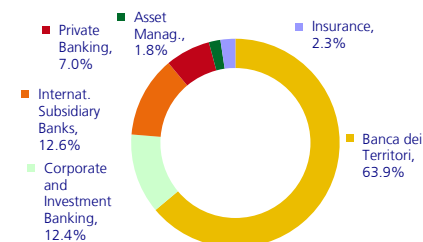
|   | (millions of euro)    |                      |                       |                      |             |             |            |
|---|-----------------------|----------------------|-----------------------|----------------------|-------------|-------------|------------|
|   | Fourth quarter<br>(A) | 2016                 |                       |                      | Changes %   |             |            |
|   |                       | Third quarter<br>(B) | Second quarter<br>(C) | First quarter<br>(D) | (A/B)       | (B/C)       | (C/D)      |
| Wages and salaries                        | 957                   | 897                  | 919                   | 874                  | 6.7         | -2.4        | 5.1        |
| Social security charges                   | 247                   | 229                  | 236                   | 218                  | 7.9         | -3.0        | 8.3        |
| Other                                     | 185                   | 180                  | 183                   | 183                  | 2.8         | -1.6        | -          |
| <b>Personnel expenses</b>                 | <b>1,389</b>          | <b>1,306</b>         | <b>1,338</b>          | <b>1,275</b>         | <b>6.4</b>  | <b>-2.4</b> | <b>4.9</b> |
| Information technology expenses           | 175                   | 152                  | 152                   | 147                  | 15.1        | -           | 3.4        |
| Management of real estate assets expenses | 128                   | 133                  | 134                   | 134                  | -3.8        | -0.7        | -          |
| General structure costs                   | 104                   | 93                   | 102                   | 100                  | 11.8        | -8.8        | 2.0        |
| Professional and legal expenses           | 141                   | 106                  | 93                    | 77                   | 33.0        | 14.0        | 20.8       |
| Advertising and promotional expenses      | 57                    | 28                   | 27                    | 20                   | 31.6        | -29.6       | 35.0       |
| Indirect personnel costs                  | 25                    | 19                   | 27                    | 20                   | 41.3        | -10.7       | 1.2        |
| Other costs                               | 106                   | 75                   | 84                    | 83                   | 5.2         | -8.2        | 9.5        |
| Indirect taxes and duties                 | 223                   | 212                  | 231                   | 211                  | 2.1         | -9.0        | 7.6        |
| Recovery of expenses and charges          | -197                  | -193                 | -212                  | -197                 | 6.4         | -2.4        | 5.1        |
| <b>Administrative expenses</b>            | <b>762</b>            | <b>625</b>           | <b>638</b>            | <b>595</b>           | <b>21.9</b> | <b>-2.0</b> | <b>7.2</b> |
| Property and equipment                    | 83                    | 85                   | 81                    | 83                   | -2.4        | 4.9         | -2.4       |
| Intangible assets                         | 122                   | 101                  | 97                    | 94                   | 20.8        | 4.1         | 3.2        |
| <b>Adjustments</b>                        | <b>205</b>            | <b>186</b>           | <b>178</b>            | <b>177</b>           | <b>10.2</b> | <b>4.5</b>  | <b>0.6</b> |
| <b>Operating costs</b>                    | <b>2,356</b>          | <b>2,117</b>         | <b>2,154</b>          | <b>2,047</b>         | <b>11.3</b> | <b>-1.7</b> | <b>5.2</b> |

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

At the level of quarterly analysis, operating costs for the fourth quarter reflected the customary seasonal factors and were up 11.3% on the costs for the third quarter. The increase was mainly attributable to administrative expenses, particularly those for legal and professional consultancy fees, IT services, advertising and promotional expenses and structure costs. Personnel expenses also increased to a lesser extent (+6.4%), due to the allocation of incentives for growth.

|                                  | (millions of euro) |              |            |             |
|----------------------------------|--------------------|--------------|------------|-------------|
|                                  | 2016               | 2015         | Changes    |             |
|                                  |                    |              | amount     | %           |
| Banca dei Territori              | 4,902              | 4,958        | -56        | -1.1        |
| Corporate and Investment Banking | 957                | 943          | 14         | 1.5         |
| International Subsidiary Banks   | 962                | 1,011        | -49        | -4.8        |
| Private Banking                  | 534                | 532          | 2          | 0.4         |
| Asset Management                 | 141                | 142          | -1         | -0.7        |
| Insurance                        | 173                | 160          | 13         | 8.1         |
| <b>Total business areas</b>      | <b>7,669</b>       | <b>7,746</b> | <b>-77</b> | <b>-1.0</b> |
| Corporate Centre                 | 1,005              | 988          | 17         | 1.7         |
| <b>Intesa Sanpaolo Group</b>     | <b>8,674</b>       | <b>8,734</b> | <b>-60</b> | <b>-0.7</b> |

#### Business areas



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

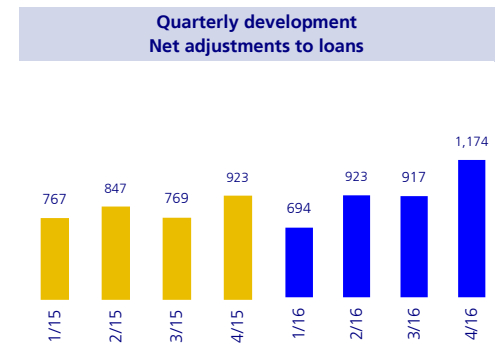
The performance of Group operating costs was the result of a differentiated dynamic amongst the business units. The Banca dei Territori Division, which accounts for 64% of all costs for the business areas, reported savings compared to 2015 (-1.1%) on personnel and administrative expenses, as a result of the constant focus on cost control. Operating costs also fell for the International Subsidiary Banks (-49 million euro, or -4.8%), due to the reduction in all expense captions, and, to a lesser extent, for Asset Management (-0.7%), as a result of lower personnel and administrative expenses. In contrast, increases were reported by the Corporate and Investment Banking (+1.5%), Insurance (+8.1%) and Private Banking (+0.4%) divisions, due to the higher personnel and administrative expenses.

### Operating margin

The operating margin was 8,255 million euro in 2016, down 2.3% compared to 2015, as a result of the decline in revenues only partly offset by the containment of costs. At the quarterly level, the operating margin recorded in the fourth quarter was lower than in the previous quarters.

**Net adjustments to loans**

|  | 2016          | 2015          | Changes    |              |
|--|---------------|---------------|------------|--------------|
|  |               |               | amount     | %            |
| Bad loans  | -2,489        | -1,815        | 674        | 37.1         |
| Unlikely to pay  | -1,347        | -1,551        | -204       | -13.2        |
| Past due loans   | -266          | -368          | -102       | -27.7        |
| Performing loans   | 342           | 298           | 44         | 14.8         |
| <b>Net losses/recoveries on impairment of loans</b>                | <b>-3,760</b> | <b>-3,436</b> | <b>324</b> | <b>9.4</b>   |
| <b>Net adjustments to/recoveries on guarantees and commitments</b> | <b>52</b>     | <b>130</b>    | <b>-78</b> | <b>-60.0</b> |
| <b>Net adjustments to loans</b>                                    | <b>-3,708</b> | <b>-3,306</b> | <b>402</b> | <b>12.2</b>  |



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

Given an increase in adjustments to loans in 2016, the cost of credit, expressed as the ratio of net adjustments to net loans, remained slightly above the levels in 2015 (102 bps compared to 95 bps).

In particular, net adjustments to loans amounted to 3,708 million euro, with an increase of 12.2% compared to 2015, to ensure adequate and rigorous coverage of non-performing loans. Adjustments were concentrated on bad positions, also as a result of the proactive migration of unlikely to pay exposures to bad loan status. These actions were partly offset by lower adjustments of other non-performing loans categories and partly by recoveries on the portfolio of performing loans related to the reduction of the incurred loss. Lower recoveries on guarantees and commitments had a negative impact. Bad loans required total net adjustments of 2,489 million euro, with an average coverage ratio of 60.6%. Net impairment losses on unlikely to pay exposures, totalling 1,347 million euro, decreased by 13.2% compared to 2015, with a coverage ratio of 26.9%. Net impairment losses on past due loans declined to 266 million euro (-27.7%). The coverage ratio for forborne positions within the non-performing loans category was 30% at the end of December 2016.

Lastly, within the performing loan portfolio, the generic reserve offers a stable coverage ratio for the physiological risk inherent in the portfolio of 0.5%.

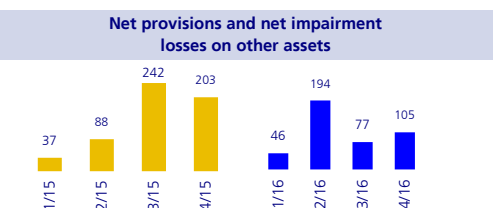
|  | 2016                  |                      |                       |                      | Changes %    |              |              |
|--|-----------------------|----------------------|-----------------------|----------------------|--------------|--------------|--------------|
|  | Fourth quarter<br>(A) | Third quarter<br>(A) | Second quarter<br>(B) | First quarter<br>(C) | (A/B)        | (B/C)        | (C/D)        |
| Bad loans  | -1,001                | -515                 | -468                  | -505                 | 94.4         | 10.0         | -7.3         |
| Unlikely to pay  | -392                  | -370                 | -412                  | -173                 | 5.9          | -10.2        |              |
| Past due loans   | -67                   | -56                  | -69                   | -74                  | 19.6         | -18.8        | -6.8         |
| Performing loans   | 285                   | 21                   | 9                     | 27                   |              |              | -66.7        |
| <b>Net losses/recoveries on impairment of loans</b>                | <b>-1,175</b>         | <b>-920</b>          | <b>-940</b>           | <b>-725</b>          | <b>27.7</b>  | <b>-2.1</b>  | <b>29.7</b>  |
| <b>Net adjustments to/recoveries on guarantees and commitments</b> | <b>1</b>              | <b>3</b>             | <b>17</b>             | <b>31</b>            | <b>-66.7</b> | <b>-82.4</b> | <b>-45.2</b> |
| <b>Net adjustments to loans</b>                                    | <b>-1,174</b>         | <b>-917</b>          | <b>-923</b>           | <b>-694</b>          | <b>28.0</b>  | <b>-0.7</b>  | <b>33.0</b>  |

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

The flow of adjustments in the fourth quarter of 2016 came to 1,174 million euro, which was higher than the previous quarters, mainly as a result of adjustments to bad loans, partly offset by the increase in the recoveries on the portfolio of performing loans.

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

|   | 2016        | 2015        | Changes     |              |
|---|-------------|-------------|-------------|--------------|
|   |             |             | amount      | %            |
| Net provisions  | -177        | -399        | -222        | -55.6        |
| Net impairment losses on other assets                           | -245        | -171        | 74          | 43.3         |
| <b>Net provisions and net impairment losses on other assets</b> | <b>-422</b> | <b>-570</b> | <b>-148</b> | <b>-26.0</b> |



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

Within the new layout of the reclassified income statement this caption consists of the net provisions to risks and charges and net provisions and net impairment losses on other assets. In 2016, net provisions for risks and charges came to 177 million euro, down sharply compared to 399 million euro for 2015, which included the expenses connected to the loans in Swiss francs of the Croatian subsidiary bank.

In 2016, impairment losses on assets other than loans (financial assets available for sale and property and equipment and intangible assets) amounted to 245 million euro, compared to 171 million euro in 2015.

|   | (millions of euro)       |                         |                          |                         |             |              |       |
|---|--------------------------|-------------------------|--------------------------|-------------------------|-------------|--------------|-------|
|   | 2016                     |                         |                          |                         | Changes %   |              |       |
|   | Fourth<br>quarter<br>(A) | Third<br>quarter<br>(A) | Second<br>quarter<br>(B) | First<br>quarter<br>(C) | (A/B)       | (B/C)        | (C/D) |
| Net provisions  | -13                      | -51                     | -97                      | -16                     | -74.5       | -47.4        |       |
| Net impairment losses on other assets                           | -92                      | -26                     | -97                      | -30                     |             | -73.2        |       |
| <b>Net provisions and net impairment losses on other assets</b> | <b>-105</b>              | <b>-77</b>              | <b>-194</b>              | <b>-46</b>              | <b>36.4</b> | <b>-60.3</b> |       |

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

Provisions and adjustments for the last quarter amounted to -105 million euro, mainly due to adjustments on investments subject to significant influence and provisions to risks and charges of the international subsidiary banks; this amount was higher than in the first and third quarter but lower than in the second quarter.

### **Other income (expenses)**

In this caption of the new format of the reclassified income statement, the “realised profits (losses) on investments held to maturity and on other investments” from the previous layout have been aggregated together with other income and expenses not strictly linked to operations. In 2016, other income came to 355 million euro, compared to 352 million euro for 2015. During the year profits were recognised from the value generation project for a portfolio of non-investment properties (314 million euro), along with the expenses from the settlement of the dispute in the US with the Supervisory Body of the New York State (-225 million euro).

### **Income (Loss) from discontinued operations**

Income from discontinued operations amounted to 952 million euro, of which 881 million euro attributable to the gain realised on the disposal of the investments held in Setefi and ISP Card.

### **Gross income**

Income before tax from continuing operations came to 5,432 million euro, up 8.3% compared to the 5,015 million euro posted in 2015.

### **Income tax**

Current and deferred taxes came to 1,422 million euro, corresponding to a tax rate of 26.2%.

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

This caption amounted to 150 million euro, compared to 83 million euro reported for 2015.

### **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 transactions. In 2016, these costs amounted to 112 million euro, confirming the structural decline that began in previous periods.

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

In the new layout of the reclassified income statement this caption includes the expenses imposed by legislative provisions and/or aimed at maintaining the stability of the banking system and consequently outside the company management. In 2016, the levies and other charges concerning the banking industry (net of tax) reached 559 million euro, up sharply on the 352 million euro recorded in 2015, mainly due to the charges related to the Atlante Fund established to tackle the banking crisis as well as the higher costs incurred for the deposit guarantee scheme. In detail, in 2016 expenses before tax of 820 million euro were recognised, of which 227 million euro attributable to the Atlante Fund, 464 million euro for ordinary and extraordinary contributions to the resolution fund, 114 million euro attributable to ordinary contributions to the deposit guarantee scheme and 15 million euro attributable to the voluntary scheme within the National Interbank Deposit Guarantee Fund (FITD).

### **Minority interests**

Minority interests, amounting to 78 million euro, mainly related to profits on indirect investments realised in the first half of the year.

### **Net income (loss)**

As a result of the above trends, the Group ended 2016 with net income of 3,111 million euro. This result was positively influenced by the gain from the sale of Setefi and ISP Card and negatively by the expenses to support the stability of the banking system.



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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. Where necessary, comparative figures are restated to account for discontinued operations and changes in the scope of consolidation. As usual, certain captions have been aggregated with respect to the model provided in Circular 262/05 of the Bank of Italy.

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

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

Aggregations of captions refer to:

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

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

## Reclassified balance sheet

| Assets   | 31.12.2016     | 31.12.2015     | (millions of euro) |            |
|--|----------------|----------------|--------------------|------------|
|  |                |                | Changes<br>amount  | %          |
| Financial assets held for trading  | 43,613         | 51,597         | -7,984             | -15.5      |
| <i>of which: Insurance Companies</i>   | 514            | 728            | -214               | -29.4      |
| Financial assets designated at fair value through profit and loss                        | 63,865         | 53,663         | 10,202             | 19.0       |
| <i>of which: Insurance Companies</i>   | 62,743         | 52,519         | 10,224             | 19.5       |
| Financial assets available for sale  | 146,692        | 131,334        | 15,358             | 11.7       |
| <i>of which: Insurance Companies</i>   | 79,286         | 75,646         | 3,640              | 4.8        |
| Investments held to maturity   | 1,241          | 1,386          | -145               | -10.5      |
| Due from banks   | 53,146         | 34,445         | 18,701             | 54.3       |
| Loans to customers   | 364,713        | 347,333        | 17,380             | 5.0        |
| Investments in associates and companies subject to joint control                         | 1,278          | 1,383          | -105               | -7.6       |
| Property, equipment and intangible assets  | 12,301         | 12,536         | -235               | -1.9       |
| Tax assets   | 14,444         | 15,007         | -563               | -3.8       |
| Non-current assets held for sale and discontinued operations                             | 312            | 3,431          | -3,119             | -90.9      |
| Other assets   | 23,495         | 24,453         | -958               | -3.9       |
| <b>Total Assets</b>  | <b>725,100</b> | <b>676,568</b> | <b>48,532</b>      | <b>7.2</b> |
| Liabilities and Shareholders' Equity   | 31.12.2016     | 31.12.2015     | Changes<br>amount  | %          |
| Due to banks   | 72,641         | 59,327         | 13,314             | 22.4       |
| Due to customers and securities issued   | 386,659        | 365,419        | 21,240             | 5.8        |
| <i>of which: Insurance Companies</i>   | 1,295          | 1,310          | -15                | -1.1       |
| Financial liabilities held for trading   | 44,790         | 43,522         | 1,268              | 2.9        |
| <i>of which: Insurance Companies</i>   | 86             | 144            | -58                | -40.3      |
| Financial liabilities designated at fair value through profit and loss                   | 57,187         | 47,022         | 10,165             | 21.6       |
| <i>of which: Insurance Companies</i>   | 57,184         | 47,022         | 10,162             | 21.6       |
| Tax liabilities  | 2,038          | 2,351          | -313               | -13.3      |
| Liabilities associated with non-current assets held for sale and discontinued operations | 272            | 116            | 156                |            |
| Other liabilities  | 21,745         | 20,773         | 972                | 4.7        |
| Technical reserves   | 85,619         | 84,616         | 1,003              | 1.2        |
| Allowances for specific purpose  | 4,830          | 4,829          | 1                  | -          |
| Share capital  | 8,732          | 8,732          | -                  | -          |
| Reserves   | 36,805         | 36,446         | 359                | 1.0        |
| Valuation reserves   | -1,854         | -1,018         | 836                | 82.1       |
| Equity instruments   | 2,117          | 877            | 1,240              |            |
| Minority interests   | 408            | 817            | -409               | -50.1      |
| Net income (loss)  | 3,111          | 2,739          | 372                | 13.6       |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>725,100</b> | <b>676,568</b> | <b>48,532</b>      | <b>7.2</b> |

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

## Quarterly development of the reclassified balance sheet

(millions of euro)

| Assets   | 2016           |                |                |                | 2015           |                |                |                |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | 31/12          | 30/9           | 30/6           | 31/3           | 31/12          | 30/9           | 30/6           | 31/3           |
| Financial assets held for trading  | 43,613         | 50,232         | 52,499         | 54,786         | 51,597         | 52,391         | 51,996         | 62,257         |
| <i>of which: Insurance Companies</i>   | 514            | 524            | 648            | 721            | 728            | 775            | 754            | 823            |
| Financial assets designated at fair value through profit and loss                        | 63,865         | 61,338         | 57,948         | 54,480         | 53,663         | 49,998         | 49,407         | 48,620         |
| <i>of which: Insurance Companies</i>   | 62,743         | 60,187         | 56,908         | 53,358         | 52,519         | 48,877         | 48,203         | 47,361         |
| Financial assets available for sale  | 146,692        | 146,885        | 152,465        | 142,816        | 131,334        | 133,353        | 135,430        | 138,066        |
| <i>of which: Insurance Companies</i>   | 79,286         | 80,792         | 80,379         | 78,393         | 75,646         | 72,548         | 71,463         | 74,813         |
| Investments held to maturity   | 1,241          | 1,231          | 1,246          | 1,317          | 1,386          | 1,379          | 1,426          | 1,470          |
| Due from banks   | 53,146         | 37,528         | 36,879         | 33,540         | 34,445         | 33,994         | 31,147         | 34,942         |
| Loans to customers   | 364,713        | 364,836        | 360,240        | 358,478        | 347,333        | 342,509        | 341,634        | 343,606        |
| Investments in associates and companies subject to joint control                         | 1,278          | 1,387          | 1,400          | 1,407          | 1,383          | 1,448          | 1,413          | 1,596          |
| Property, equipment and intangible assets  | 12,301         | 12,108         | 12,116         | 12,114         | 12,536         | 12,112         | 12,185         | 12,259         |
| Tax assets   | 14,444         | 14,163         | 14,398         | 14,583         | 15,007         | 14,809         | 14,946         | 14,366         |
| Non-current assets held for sale and discontinued operations                             | 312            | 772            | 966            | 3,545          | 3,431          | 3,294          | 3,206          | 3,134          |
| Other assets   | 23,495         | 23,917         | 27,135         | 23,297         | 24,453         | 23,044         | 25,720         | 23,169         |
| <b>Total Assets</b>  | <b>725,100</b> | <b>714,397</b> | <b>717,292</b> | <b>700,363</b> | <b>676,568</b> | <b>668,331</b> | <b>668,510</b> | <b>683,485</b> |
| <b>Liabilities and Shareholders' Equity</b>  |                |                |                |                |                |                |                |                |
|  | <b>31/12</b>   | <b>30/9</b>    | <b>30/6</b>    | <b>31/3</b>    | <b>31/12</b>   | <b>30/9</b>    | <b>30/6</b>    | <b>31/3</b>    |
| Due to banks   | 72,641         | 69,641         | 67,656         | 60,343         | 59,327         | 64,118         | 62,493         | 58,312         |
| Due to customers and securities issued   | 386,659        | 372,372        | 379,643        | 373,224        | 365,419        | 352,998        | 358,870        | 364,309        |
| <i>of which: Insurance Companies</i>   | 1,295          | 1,320          | 1,362          | 1,361          | 1,310          | 1,460          | 1,319          | 1,303          |
| Financial liabilities held for trading   | 44,790         | 48,143         | 49,340         | 48,936         | 43,522         | 44,189         | 43,221         | 54,398         |
| <i>of which: Insurance Companies</i>   | 86             | 117            | 104            | 95             | 144            | 169            | 138            | 234            |
| Financial liabilities designated at fair value through profit and loss                   | 57,187         | 54,373         | 51,360         | 48,031         | 47,022         | 43,657         | 43,451         | 42,088         |
| <i>of which: Insurance Companies</i>   | 57,184         | 54,373         | 51,360         | 48,031         | 47,022         | 43,657         | 43,451         | 42,088         |
| Tax liabilities  | 2,038          | 2,235          | 2,186          | 2,564          | 2,351          | 3,386          | 2,967          | 3,354          |
| Liabilities associated with non-current assets held for sale and discontinued operations | 272            | 413            | 336            | 350            | 116            | 101            | 121            | 98             |
| Other liabilities  | 21,745         | 25,939         | 26,798         | 25,181         | 20,773         | 25,013         | 26,825         | 25,983         |
| Technical reserves   | 85,619         | 87,370         | 86,813         | 86,664         | 84,616         | 81,965         | 79,645         | 82,925         |
| Allowances for specific purpose  | 4,830          | 5,049          | 4,987          | 4,792          | 4,829          | 4,698          | 4,588          | 5,276          |
| Share capital  | 8,732          | 8,732          | 8,732          | 8,732          | 8,732          | 8,730          | 8,725          | 8,725          |
| Reserves   | 36,805         | 36,774         | 36,830         | 39,184         | 36,446         | 36,435         | 36,415         | 37,545         |
| Valuation reserves   | -1,854         | -1,737         | -1,860         | -1,387         | -1,018         | -1,183         | -1,449         | -1,147         |
| Equity instruments   | 2,117          | 2,118          | 2,118          | 2,118          | 877            | 875            | -              | -              |
| Minority interests   | 408            | 640            | 646            | 825            | 817            | 623            | 634            | 555            |
| Net income (loss)  | 3,111          | 2,335          | 1,707          | 806            | 2,739          | 2,726          | 2,004          | 1,064          |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>725,100</b> | <b>714,397</b> | <b>717,292</b> | <b>700,363</b> | <b>676,568</b> | <b>668,331</b> | <b>668,510</b> | <b>683,485</b> |

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

In 2016, Intesa Sanpaolo's consolidated assets and liabilities increased by 7.2%. With regard to assets, growth was posted in loans to customers, loans to banks and total financial assets. In detail, financial assets available for sale increased by 15.4 billion euro, financial assets designated at fair value by 10.2 billion euro, while financial assets held for trading recorded a decline of 8 billion euro; loans to customers increased by 17.4 billion euro, driven by the recovery of commercial banking loans, and loans to banking counterparties were up 18.7 billion euro. Liabilities showed increases in almost all captions: +21.2 billion euro of amounts due to customers and securities issued, +13.3 billion euro of amounts due to banks and +10.2 billion euro of financial liabilities designated at fair value through profit or loss attributable to the Group's insurance companies.

## Loans to customers

|  | 31.12.2016     |                | 31.12.2015     |                | Changes       |              | Quarterly development<br>Loans to customers |
|--|----------------|----------------|----------------|----------------|---------------|--------------|---|
|  | amount         | %<br>breakdown | amount         | %<br>breakdown | amount        | %            |   |
| Current accounts                       | 21,142         | 5.8            | 24,535         | 7.1            | -3,393        | -13.8        |   |
| Mortgages                              | 145,342        | 39.8           | 138,036        | 39.7           | 7,306         | 5.3          |   |
| Advances and other loans               | 124,099        | 34.0           | 116,843        | 33.6           | 7,256         | 6.2          |   |
| <b>Commercial banking loans</b>        | <b>290,583</b> | <b>79.6</b>    | <b>279,414</b> | <b>80.4</b>    | <b>11,169</b> | <b>4.0</b>   |   |
| <b>Repurchase agreements</b>           | <b>29,940</b>  | <b>8.2</b>     | <b>21,449</b>  | <b>6.2</b>     | <b>8,491</b>  | <b>39.6</b>  |   |
| <b>Loans represented by securities</b> | <b>14,423</b>  | <b>4.0</b>     | <b>13,384</b>  | <b>3.9</b>     | <b>1,039</b>  | <b>7.8</b>   |   |
| <b>Non-performing loans</b>            | <b>29,767</b>  | <b>8.2</b>     | <b>33,086</b>  | <b>9.5</b>     | <b>-3,319</b> | <b>-10.0</b> |   |
| <b>Loans to customers</b>              | <b>364,713</b> | <b>100.0</b>   | <b>347,333</b> | <b>100.0</b>   | <b>17,380</b> | <b>5.0</b>   |   |

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

As at 31 December 2016, Intesa Sanpaolo Group loans to customers amounted to 365 billion euro, up 5% compared to the end of the previous year.

The positive performance of loans was due to both the rise in commercial banking loans (+11.2 billion euro or +4%) and reverse repurchase agreements, which rose by 8.5 billion euro (+39.6%). The recovery in commercial banking loans, which benefited from the improved outlook for the economy, was driven by the expansion of mortgages (+7.3 billion euro or +5.3%) and the development of advances and loans (+7.3 billion euro or +6.2%). In the presence of advantageous market conditions for customers, there was an increase in particular in medium/long-term credit aimed at retail customers in the form of consumer credit products and mortgage loans for home purchases, and credit to businesses to fund investments and working capital.

In the domestic medium-/long-term loan market, 2016 disbursements to households (including the small business accounts having similar needs to family businesses) exceeded 19 billion euro, while disbursements to businesses under the Banca dei Territori scope (including customers with turnover of up to 350 million euro) came to 14.3 billion euro. During the same period, medium-/long-term disbursements to segments included in the scope of the Corporate Division amounted to 13 billion euro. Including the extra-captive activities of Mediocredito, disbursements within Italy amounted to approximately 48 billion euro. On the whole, medium-/long-term disbursements for the Group in 2016 were close to 56 billion euro.

As at 31 December 2016, the Group's share of the domestic market (calculated on the harmonised time-series established for countries in the Eurozone) was estimated at 15.9% for total loans. The estimate was based on the sample deriving from the ten-day report of the Bank of Italy as the global banking system figure for the end of December is not yet available.

|                                  | 31.12.2016     |   | 31.12.2015     |   | Changes       |            | Business areas |
|----------------------------------|----------------|---|----------------|---|---------------|------------|----------------|
|                                  | amount         | % | amount         | % | amount        | %          |                |
| Banca dei Territori              | 187,649        |   | 184,522        |   | 3,127         | 1.7        |                |
| Corporate and Investment Banking | 98,183         |   | 89,691         |   | 8,492         | 9.5        |                |
| International Subsidiary Banks   | 26,492         |   | 25,818         |   | 674           | 2.6        |                |
| Private Banking                  | 9,597          |   | 8,971          |   | 626           | 7.0        |                |
| Asset Management                 | 298            |   | 372            |   | -74           | -19.9      |                |
| Insurance                        | 26             |   | 24             |   | 2             | 8.3        |                |
| <b>Total business areas</b>      | <b>322,245</b> |   | <b>309,398</b> |   | <b>12,847</b> | <b>4.2</b> |                |
| Corporate Centre                 | 42,468         |   | 37,935         |   | 4,533         | 11.9       |                |
| <b>Intesa Sanpaolo Group</b>     | <b>364,713</b> |   | <b>347,333</b> |   | <b>17,380</b> | <b>5.0</b> |                |

Figures also restated, where necessary, 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 approximately 60% of the aggregate of the Group's business areas, recorded a slight increase (+3.1 billion euro, or +1.7%) compared to the end of the previous year, due essentially to long/medium-term loans to individuals (households and personal loans). The most significant contribution in absolute terms was provided by the Corporate and Investment Banking Division (+8.5 billion euro, or +9.5%), driven by the increased business in repurchase agreements and collateral by Banca IMI, and by the new financing operations undertaken by the Luxembourg subsidiary. There was also an increase in International Subsidiary Bank loans (+2.6%), primarily those of the Slovak subsidiary, as well as in Private Banking loans, which increased by 7%, as a result of the increase in loans involving debt securities and the rise in lending to customers. Conversely, there were decreases in Asset Management loans (-19.9%) representing the management fees to be collected, whose overall volume is small. The growth in Corporate Centre loans (+11.9%) is largely attributable to an increase in reverse repurchase agreement transactions with Cassa di Compensazione e Garanzia, which more than offset the decline in the stock of bad loans managed by the Capital Light Bank.

## Loans to customers: credit quality

(millions of euro)

|  | 31.12.2016      |                | 31.12.2015      |                | Changes<br>Net<br>exposure |
|--|-----------------|----------------|-----------------|----------------|----------------------------|
|  | Net<br>exposure | %<br>breakdown | Net<br>exposure | %<br>breakdown |                            |
| Bad loans                                  | 14,895          | 4.1            | 14,973          | 4.3            | -78                        |
| Unlikely to pay                            | 14,435          | 4.0            | 17,091          | 4.9            | -2,656                     |
| Past due loans                             | 437             | 0.1            | 1,022           | 0.3            | -585                       |
| <b>Non-performing loans</b>                | <b>29,767</b>   | <b>8.2</b>     | <b>33,086</b>   | <b>9.5</b>     | <b>-3,319</b>              |
| <b>of which forborne</b>                   | <b>8,204</b>    |                | <b>7,705</b>    |                | <b>499</b>                 |
| Performing loans                           | 320,523         | 87.8           | 300,863         | 86.6           | 19,660                     |
| of which forborne                          | 7,828           |                | 7,699           |                | 129                        |
| Performing loans represented by securities | 14,423          | 4.0            | 13,384          | 3.9            | 1,039                      |
| of which forborne                          | 96              |                | 135             |                | -39                        |
| <b>Loans to customers</b>                  | <b>364,713</b>  | <b>100.0</b>   | <b>347,333</b>  | <b>100.0</b>   | <b>17,380</b>              |

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

(millions of euro)

|  | 31.12.2016        |                      |                 | 31.12.2015        |                      |                 | Changes<br>Net<br>exposure |
|--|-------------------|----------------------|-----------------|-------------------|----------------------|-----------------|----------------------------|
|  | Gross<br>exposure | Total<br>adjustments | Net<br>exposure | Gross<br>exposure | Total<br>adjustments | Net<br>exposure |                            |
| Bad loans                                  | 37,834            | -22,939              | 14,895          | 39,150            | -24,177              | 14,973          | -78                        |
| Unlikely to pay                            | 19,745            | -5,310               | 14,435          | 22,725            | -5,634               | 17,091          | -2,656                     |
| Past due loans                             | 558               | -121                 | 437             | 1,239             | -217                 | 1,022           | -585                       |
| <b>Non-performing loans</b>                | <b>58,137</b>     | <b>-28,370</b>       | <b>29,767</b>   | <b>63,114</b>     | <b>-30,028</b>       | <b>33,086</b>   | <b>-3,319</b>              |
| <b>of which forborne</b>                   | <b>11,727</b>     | <b>-3,523</b>        | <b>8,204</b>    | <b>10,856</b>     | <b>-3,151</b>        | <b>7,705</b>    | <b>499</b>                 |
| Performing loans                           | 322,130           | -1,607               | 320,523         | 302,875           | -2,012               | 300,863         | 19,660                     |
| of which forborne                          | 8,036             | -208                 | 7,828           | 7,917             | -218                 | 7,699           | 129                        |
| Performing loans represented by securities | 14,651            | -228                 | 14,423          | 13,633            | -249                 | 13,384          | 1,039                      |
| of which forborne                          | 97                | -1                   | 96              | 137               | -2                   | 135             | -39                        |
| <b>Loans to customers</b>                  | <b>394,918</b>    | <b>-30,205</b>       | <b>364,713</b>  | <b>379,622</b>    | <b>-32,289</b>       | <b>347,333</b>  | <b>17,380</b>              |

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

As at 31 December 2016, the Group's non-performing loans, net of adjustments, came to 29.8 billion euro, below the levels of the end of 2015 (-10%), and confirming the gradual decrease shown during the year. Compared to the end of December 2015, there was also a significant decrease in non-performing assets as a percentage of total net loans to customers, down to 8.2% from 9.5% at the end of 2015.

In further detail, bad loans came to 14.9 billion euro, net of adjustments, in 2016, slightly down (-0.5%) from the beginning of the year, and represented 4.1% of total loans (4.3% at the end of 2015). During the same period, the coverage ratio was 60.6% (61.8% in December 2015). Loans included in the unlikely to pay category amounted to 14.4 billion euro, down by 15.5%, accounting for 4% of total loans to customers, with a coverage ratio of 26.9%. Past due loans totalled 437 million euro, down 57.2% compared to the beginning of the year, with a coverage ratio which rose to 21.7%. Forborne exposures are generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, according to the definition introduced by the European Banking Authority with the aim of harmonising the classification of the definitions of non-performing loans and forbearance practices (renegotiation due to financial difficulty by the debtor) at the European level. Within the non-performing loan category, forborne exposures amounted to 8.2 billion euro, with an average coverage ratio of 30%, whereas those in the performing loan category were slightly lower (7.8 billion euro).

The coverage ratio of performing loans was 0.5%.

## Customer financial assets

|  | 31.12.2016     |                | 31.12.2015     |                | Changes       |            |
|--|----------------|----------------|----------------|----------------|---------------|------------|
|  | amount         | %<br>breakdown | amount         | %<br>breakdown | amount        | %          |
| Direct deposits from banking business                          | 393,798        | 45.6           | 372,200        | 44.2           | 21,598        | 5.8        |
| Direct deposits from insurance business and technical reserves | 144,098        | 16.7           | 132,948        | 15.8           | 11,150        | 8.4        |
| Indirect customer deposits                                     | 468,855        | 54.2           | 468,425        | 55.6           | 430           | 0.1        |
| Netting <sup>(a)</sup>   | -142,803       | -16.5          | -131,638       | -15.6          | 11,165        | 8.5        |
| <b>Customer financial assets</b>                               | <b>863,948</b> | <b>100.0</b>   | <b>841,935</b> | <b>100.0</b>   | <b>22,013</b> | <b>2.6</b> |

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

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

As at 31 December 2016, customer financial assets amounted to 864 billion euro, with an increase of 2.6% year-on-year, attributable to the positive performance of direct deposits from the banking business, growing 21.6 billion euro (+5.8%), and from the insurance business, up 11.2 billion euro (+8.4%). Indirect customer deposits remained stable despite the market volatility.

## 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.

|   | 31.12.2016     |                | 31.12.2015     |                | Changes       |            | Quarterly development<br>Direct deposits from banking business |
|---|----------------|----------------|----------------|----------------|---------------|------------|--|
|   | amount         | %<br>breakdown | amount         | %<br>breakdown | amount        | %          |  |
| Current accounts and deposits                     | 257,733        | 65.5           | 225,340        | 60.6           | 32,393        | 14.4       |  |
| Repurchase agreements and securities lending      | 24,561         | 6.2            | 20,416         | 5.5            | 4,145         | 20.3       |  |
| Bonds   | 73,214         | 18.6           | 87,147         | 23.4           | -13,933       | -16.0      |  |
| of which designated at fair value <sup>(*)</sup>  | -              | -              | -              | -              | -             | -          |  |
| Certificates of deposit                           | 3,933          | 1.0            | 6,076          | 1.6            | -2,143        | -35.3      |  |
| Subordinated liabilities                          | 13,813         | 3.5            | 13,336         | 3.6            | 477           | 3.6        |  |
| Other deposits                                    | 20,544         | 5.2            | 19,885         | 5.3            | 659           | 3.3        |  |
| of which designated at fair value <sup>(**)</sup> | 8,434          | 2.1            | 8,091          | 2.2            | 343           | 4.2        |  |
| <b>Direct deposits from banking business</b>      | <b>393,798</b> | <b>100.0</b>   | <b>372,200</b> | <b>100.0</b>   | <b>21,598</b> | <b>5.8</b> |  |

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

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

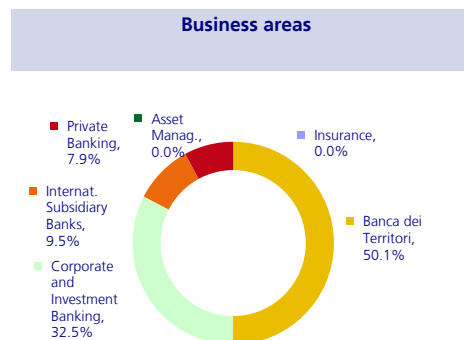
<sup>(\*\*)</sup> Figures included in the Balance sheet under Financial liabilities held for trading.

The total of direct deposits from banking business, nearly 394 billion euro, was up (+5.8%) compared to the end of December 2015, with diverging performances by the main deposit types.

The increase in direct deposits was primarily the result of the considerable increase in current accounts and deposits (+32.4 billion euro, or +14.4%) due to the positive performance of the demand component, attributable to new customers, and to the maturity of savings deposits, as well as the increase in repurchase agreements (+4.1 billion euro or +20.3%), attributable to the institutional counterparties. There were also increases in other deposits (+0.7 billion euro or +3.3%), the growth of which is primarily attributable to capital protected certificates issued by Banca IMI and designated at fair value, as well as to business in commercial paper and subordinated liabilities (+0.5 billion euro or +3.6%). Conversely there was a worsening of the downtrend - already observed in the previous year - in bonds (-13.9 billion, or -16%), and in certificates of deposit (-2.1 billion euro, or -35.3%), to be attributed to the operations of international branches.

At the end of December 2016, the market share of the Group's direct deposits on the harmonised domestic market, consisting of deposits and bonds, according to the ECB definition, was estimated to have increased by 16.8%. As already described above in reference to loans, this estimate is based on figures from the sample deriving from the ten-day report produced by the Bank of Italy.

|                                  | 31.12.2016     |   | 31.12.2015     |   | Changes       |            |
|----------------------------------|----------------|---|----------------|---|---------------|------------|
|                                  | amount         | % | amount         | % | amount        | %          |
| Banca dei Territori              | 173,599        |   | 159,854        |   | 13,745        | 8.6        |
| Corporate and Investment Banking | 112,661        |   | 109,915        |   | 2,746         | 2.5        |
| International Subsidiary Banks   | 32,978         |   | 32,456         |   | 522           | 1.6        |
| Private Banking                  | 27,540         |   | 20,922         |   | 6,618         | 31.6       |
| Asset Management                 | 8              |   | 9              |   | -1            | -11.1      |
| Insurance                        | -              |   | -              |   | -             | -          |
| <b>Total business areas</b>      | <b>346,786</b> |   | <b>323,156</b> |   | <b>23,630</b> | <b>7.3</b> |
| Corporate Centre                 | 47,012         |   | 49,044         |   | -2,032        | -4.1       |
| <b>Intesa Sanpaolo Group</b>     | <b>393,798</b> |   | <b>372,200</b> |   | <b>21,598</b> | <b>5.8</b> |

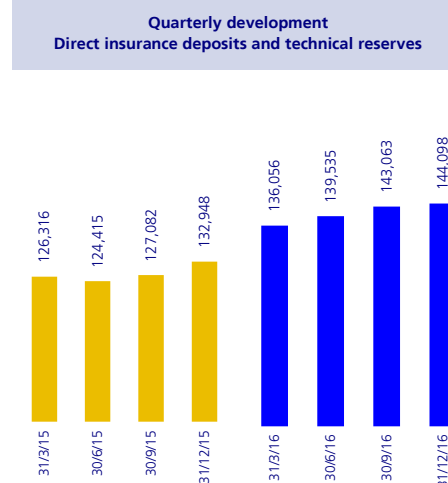


Figures also restated, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

The breakdown by Group business areas shows that the direct deposits of the Banca dei Territori Division, which accounts for one-half of the aggregate attributable to the Group's total business areas, increased by 8.6% compared to the end of December 2015, due to the increase in cash held in deposits by retail and corporate customers. Corporate and Investment Banking posted an increase (+2.5%), with the growth in repurchase agreements of Banca IMI more than offsetting the reduction in securities issued, specifically Banca IMI certificates. There were improvements in the funding of Private Banking (+31.6%), primarily as a result of current account and time deposits, and of the International Subsidiary Banks (+1.6%), in the securities issued segment. The funding for the Corporate Centre decreased (-4.1%) compared to the end of 2015, particularly in connection with the lower level of placements of commercial paper and certificates of deposit.

### Direct deposits from insurance business and technical reserves

|   | 31.12.2016     |              | 31.12.2015     |              | Changes       |             |
|---|----------------|--------------|----------------|--------------|---------------|-------------|
|   | amount         | % breakdown  | amount         | % breakdown  | amount        | %           |
| <b>Financial liabilities of the insurance business designated at fair value (*)</b>                                   | <b>57,184</b>  | <b>39.7</b>  | <b>47,022</b>  | <b>35.4</b>  | <b>10,162</b> | <b>21.6</b> |
| Index-linked products   | 1              | -            | 276            | 0.2          | -275          | -99.6       |
| Unit-linked products  | 57,183         | 39.7         | 46,746         | 35.2         | 10,437        | 22.3        |
| <b>Technical reserves</b>   | <b>85,619</b>  | <b>59.4</b>  | <b>84,616</b>  | <b>63.6</b>  | <b>1,003</b>  | <b>1.2</b>  |
| Life business   | 85,026         | 59.0         | 84,112         | 63.2         | 914           | 1.1         |
| Mathematical reserves   | 73,508         | 51.0         | 72,415         | 54.4         | 1,093         | 1.5         |
| Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds | 5,455          | 3.8          | 5,300          | 4.0          | 155           | 2.9         |
| Other reserves  | 6,063          | 4.2          | 6,397          | 4.8          | -334          | -5.2        |
| Non-life business   | 593            | 0.4          | 504            | 0.4          | 89            | 17.7        |
| <b>Other insurance deposits (***)</b>   | <b>1,295</b>   | <b>0.9</b>   | <b>1,310</b>   | <b>1.0</b>   | <b>-15</b>    | <b>-1.1</b> |
| <b>Direct deposits from insurance business and technical reserves</b>   | <b>144,098</b> | <b>100.0</b> | <b>132,948</b> | <b>100.0</b> | <b>11,150</b> | <b>8.4</b>  |



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

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

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

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

Direct deposits from insurance business came to 144 billion euro at the end of 2016, up 8.4% compared to 31 December 2015. The more performing component is represented by the financial liabilities of the insurance business designated at fair value, which grew by 10.2 billion euro (+21.6%), thanks to the contribution from unit-linked products. Technical reserves, which represent the amounts owed to customers subscribing to traditional policies or policies with significant insurance risk, increased by 1.2% year-on-year, mainly due to the increase in mathematical reserves and, to a lesser extent, to technical reserves with risk borne by policyholders and from pension funds management and reserves of the non-life business.

**Indirect customer deposits**

|   | 31.12.2016     |              | 31.12.2015     |              | Changes        |             |  |
|---|----------------|--------------|----------------|--------------|----------------|-------------|--|
|   | breakdown      | %            | breakdown      | %            | amount         | %           |  |
| Mutual funds <sup>(a)</sup>   | 105,787        | 22.6         | 103,876        | 22.2         | 1,911          | 1.8         |  |
| Open-ended pension funds and individual pension plans                       | 7,489          | 1.6          | 6,258          | 1.3          | 1,231          | 19.7        |  |
| Portfolio management <sup>(b)</sup>   | 56,064         | 12.0         | 59,582         | 12.7         | -3,518         | -5.9        |  |
| Life technical reserves and financial liabilities of the insurance business | 132,727        | 28.3         | 122,700        | 26.2         | 10,027         | 8.2         |  |
| Relations with institutional customers                                      | 12,014         | 2.5          | 10,098         | 2.2          | 1,916          | 19.0        |  |
| <b>Assets under management</b>  | <b>314,081</b> | <b>67.0</b>  | <b>302,514</b> | <b>64.6</b>  | <b>11,567</b>  | <b>3.8</b>  |  |
| <b>Assets under administration and in custody</b>                           | <b>154,774</b> | <b>33.0</b>  | <b>165,911</b> | <b>35.4</b>  | <b>-11,137</b> | <b>-6.7</b> |  |
| <b>Indirect customer deposits</b>   | <b>468,855</b> | <b>100.0</b> | <b>468,425</b> | <b>100.0</b> | <b>430</b>     | <b>0.1</b>  |  |

| Quarterly development<br>Indirect customer deposits |         |
|---|---------|
| 31/3/15   | 473,750 |
| 30/6/15   | 462,085 |
| 30/9/15   | 454,074 |
| 31/12/15  | 468,425 |
| 31/3/16   | 451,191 |
| 30/6/16   | 452,486 |
| 30/9/16   | 463,920 |
| 31/12/16  | 468,855 |

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

<sup>(a)</sup> The caption includes mutual funds established and managed by Eurizon Capital, Fideuram - Intesa Sanpaolo Private Banking (former 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, or the contribution of funds established by third parties and managed by Fideuram - Intesa Sanpaolo Private Banking, whose value is included in assets under administration and in custody.

<sup>(b)</sup> As at 31 December 2016 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. Relative data as at 31.12.2015 were restated consistently.

As at 31 December 2016, indirect customer deposits were approximately 469 billion euro, back to the levels at the end of 2015 (+0.1%) despite the decline in prices that impacted on the value of securities under management and administration. The performance of indirect customer deposits was due to the growth in assets under management, driven by the products of the insurance segment, which offset the decline in assets under administration.

Assets under management, which account for two-thirds of the total aggregate, were up 11.6 billion euro in the 12 months (+3.8%) owing to net inflows achieved by the distribution networks, which increased in the last quarter. Insurance products, in which investor preferences were concentrated, increased by 10 billion euro (+8.2%): during the year the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, inclusive of pension products, amounted to 23.7 billion euro. Investment funds and pension funds also increased (respectively by +1.8% and +19.7%), as well as relations with institutional customers (+19%). The drop in portfolio management schemes (-3.5 billion euro, or -5.9%) was linked to the sharp fluctuations in financial markets, which adversely affected returns.

Assets under administration fell significantly (-11.1 billion euro or -6.7%) due to the increase in assets under management, as well as the increased market volatility that reduced investments by institutional operators and retail customers.

**Financial assets and liabilities**

|   | 31.12.2016                   |                | 31.12.2015                   |                | Changes       |            |
|---|------------------------------|----------------|------------------------------|----------------|---------------|------------|
|   | of which Insurance Companies |                | of which Insurance Companies |                | amount        | %          |
| Financial assets held for trading                                 | 43,613                       | 514            | 51,597                       | 728            | -7,984        | -15.5      |
| of which derivatives at fair value                                | 30,220                       | 12             | 30,894                       | 4              | -674          | -2.2       |
| Financial assets designated at fair value through profit and loss | 63,865                       | 62,743         | 53,663                       | 52,519         | 10,202        | 19.0       |
| Financial assets available for sale                               | 146,692                      | 79,286         | 131,334                      | 75,646         | 15,358        | 11.7       |
| Investments held to maturity                                      | 1,241                        |                | 1,386                        |                | -145          | -10.5      |
| <b>Total financial assets</b>                                     | <b>255,411</b>               | <b>142,543</b> | <b>237,980</b>               | <b>128,893</b> | <b>17,431</b> | <b>7.3</b> |
| <b>Financial liabilities held for trading (*)</b>                 | <b>-36,359</b>               | <b>-86</b>     | <b>-35,431</b>               | <b>-144</b>    | <b>928</b>    | <b>2.6</b> |
| of which derivatives at fair value                                | -32,201                      | -86            | -31,715                      | -144           | 486           | 1.5        |

Figures restated, where necessary, 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 customer deposits table.

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

Total financial assets rose by 7.3% over the 12 months as a result of increases in all components except financial assets held for trading and investments held to maturity. Financial assets available for sale showed a significant increase of 15.4 billion euro (+11.7%), mostly attributable to the Parent Company. Financial assets designated at fair value also recorded an increase (+10.2 billion euro, or 19%), essentially attributable to equities and units of UCI attributable to insurance companies. This contrasted with the overall performance of financial assets held for trading (-8 billion euro, or -15.5%), which were mainly impacted by the decline in bonds and other debt securities. Financial liabilities held for trading showed an increase year-on-year (+0.9 billion euro, or +2.6%).



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

|  | 31.12.2016    |                                    | 31.12.2015    |                                    | (millions of euro)<br>Changes |             |
|--|---------------|------------------------------------|---------------|------------------------------------|-------------------------------|-------------|
|  |               | of which<br>Insurance<br>Companies |               | of which<br>Insurance<br>Companies | amount                        | %           |
| Bonds and other debt securities held for trading and designated at fair value through profit and loss            | 16,377        | 3,963                              | 22,925        | 4,080                              | -6,548                        | -28.6       |
| of which designated at fair value (fair value option)  | 4,704         | 3,710                              | 4,817         | 3,795                              | -113                          | -2.3        |
| Equities and quotas of UCI held for trading and designated at fair value through profit and loss                 | 60,580        | 58,990                             | 50,771        | 48,500                             | 9,809                         | 19.3        |
| of which designated at fair value (fair value option)  | 58,860        | 58,741                             | 48,176        | 48,061                             | 10,684                        | 22.2        |
| Other assets designated at fair value through profit and loss  | 301           | 292                                | 670           | 663                                | -369                          | -55.1       |
| <b>Securities, assets held for trading and financial assets designated at fair value through profit and loss</b> | <b>77,258</b> | <b>63,245</b>                      | <b>74,366</b> | <b>53,243</b>                      | <b>2,892</b>                  | <b>3.9</b>  |
| <b>Financial liabilities held for trading (*)</b>  | <b>-4,158</b> | <b>-</b>                           | <b>-3,716</b> | <b>-</b>                           | <b>442</b>                    | <b>11.9</b> |
| Net value of financial derivatives   | -1,930        | -71                                | -750          | -129                               | 1,180                         |             |
| Net value of credit derivatives  | -51           | -3                                 | -71           | -11                                | -20                           | -28.2       |
| <b>Net value of trading derivatives</b>  | <b>-1,981</b> | <b>-74</b>                         | <b>-821</b>   | <b>-140</b>                        | <b>1,160</b>                  |             |
| <b>Financial assets / liabilities, net</b>   | <b>71,119</b> | <b>63,171</b>                      | <b>69,829</b> | <b>53,103</b>                      | <b>1,290</b>                  | <b>1.8</b>  |

Figures restated, where necessary, 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 customer deposits table.

Financial assets held for trading, net of the associated liabilities, and financial assets designated at fair value through profit and loss amounted to 71 billion euro, up 1.8% in 2016. This trend was determined largely by the increase in the stock of equities and units of UCI. Financial liabilities held for trading increased by 0.4 billion euro.

**Financial assets available for sale**

|  | 31.12.2016     |                                    | 31.12.2015     |                                    | (millions of euro)<br>Changes |              |
|--|----------------|------------------------------------|----------------|------------------------------------|-------------------------------|--------------|
|  |                | of which<br>Insurance<br>Companies |                | of which<br>Insurance<br>Companies | amount                        | %            |
| Bonds and other debt securities            | 131,571        | 69,452                             | 117,355        | 67,051                             | 14,216                        | 12.1         |
| Equities and quotas of UCI                 | 15,098         | 9,834                              | 13,935         | 8,595                              | 1,163                         | 8.3          |
| <b>Securities available for sale</b>       | <b>146,669</b> | <b>79,286</b>                      | <b>131,290</b> | <b>75,646</b>                      | <b>15,379</b>                 | <b>11.7</b>  |
| <b>Loans available for sale</b>            | <b>23</b>      | <b>-</b>                           | <b>44</b>      | <b>-</b>                           | <b>-21</b>                    | <b>-47.7</b> |
| <b>Financial assets available for sale</b> | <b>146,692</b> | <b>79,286</b>                      | <b>131,334</b> | <b>75,646</b>                      | <b>15,358</b>                 | <b>11.7</b>  |

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

Financial assets available for sale amounted to approximately 147 billion euro, up 11.7% compared to the figure recorded as at 31 December 2015.

The caption consists primarily of bonds and other debt securities not held for trading and, to a lesser extent, equities and units of UCI. Financial assets available for sale are measured at fair value with a balancing entry in the specific shareholders' equity reserve.

**Net interbank position**

The net interbank position as at 31 December 2016 came to a negative 19.5 billion euro, reducing the imbalance recorded at the end of 2015 (-24.9 billion euro). This performance was influenced, on the asset side by the increase in the mandatory reserve attributable to the temporary excess liquidity at the ECB (25.2 billion euro at the end of 2016) and on the liability side by the participation in the new TLTRO II refinancing operations that brought the Group's overall exposure to the ECB to 44.6 billion euro at the end of 2016.

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

|   | 31.12.2016  | 31.12.2015   | (millions of euro) |              |
|---|-------------|--------------|--------------------|--------------|
|   |             |              | Changes<br>amount  | %            |
| Investments in associates and companies subject to joint control                                | -           | -            | -                  | -            |
| Property and equipment  | 305         | 27           | 278                |              |
| Other   | 7           | -            | 7                  | -            |
| <b>Individual assets</b>  | <b>312</b>  | <b>27</b>    | <b>285</b>         |              |
| <b>Discontinued operations</b>  | <b>-</b>    | <b>3,404</b> | <b>-3,404</b>      |              |
| <i>of which: loans to customers</i>   | <i>-</i>    | <i>2,677</i> | <i>-2,677</i>      |              |
| <b>Liabilities associated with non-current assets held for sale and discontinued operations</b> | <b>-272</b> | <b>-116</b>  | <b>156</b>         |              |
| <b>Non-current assets held for sale and discontinued operations and related liabilities</b>     | <b>40</b>   | <b>3,315</b> | <b>-3,275</b>      | <b>-98.8</b> |

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

This caption contains assets and related liabilities which no longer refer to continuing operations as they are being disposed of. At the end of December 2016, assets held for sale amounted to 312 million euro, up sharply on the 27 million euro recorded at the end of the previous year.

The amount shown for 31 December 2015 for the discontinued operations (loans to customers) refers to the performing loan portfolio related to the assignment of one-fifth of salary and consumer credit, completed in 2016 by the subsidiary Accedo.

## Shareholders' equity

As at 31 December 2016, the Group's shareholders' equity, including net income for the period, came to 48,911 million euro compared to the 47,776 million euro at the end of the previous year. The increase in shareholders' equity was primarily due to the net income for the period (3.1 billion euro) and to the issue of the new AT1 equity instrument (1.2 billion euro) against the distribution of dividends for 2.4 billion euro, taking place in May 2016. In 2016 the share capital, amounting to 8,732 million euro, increased slightly as result of the merger by incorporation of Casse di Risparmio dell'Umbria into the Parent Company.

## Valuation reserves

|                                      | Valuation<br>reserves<br>as at<br>31.12.2015 | Change<br>in the<br>period | Valuation reserves as at<br>31.12.2016 | %<br>breakdown |
|--------------------------------------|--|----------------------------|--|----------------|
| Financial assets available for sale  | 899  | -428                       | 471                                    | -25.4          |
| <i>of which: Insurance Companies</i> | <i>682</i>                                   | <i>-179</i>                | <i>503</i>                             | <i>-27.1</i>   |
| Property and equipment               | -  | -                          | -                                      | -              |
| Cash flow hedges                     | -1,145                                       | -1                         | -1,146                                 | 61.8           |
| Legally-required revaluations        | 352  | -4                         | 348                                    | -18.8          |
| Other                                | -1,124                                       | -403                       | -1,527                                 | 82.4           |
| <b>Valuation reserves</b>            | <b>-1,018</b>                                | <b>-836</b>                | <b>-1,854</b>                          | <b>100.0</b>   |

As at 31 December 2016, the negative balance of the Group's valuation reserves came to -1,854 million euro, worsening compared to the negative value at the end of December 2015 (-1,018 million euro). The changes for the period were mainly driven by the reserves for financial assets available for sale (-428 million euro) partly owing to insurance companies, and other reserves (-403 million euro). The change in the item Other reserves was attributable to the reserve for actuarial gains or losses and changes in exchange rates.

## Own funds and capital ratios

|   | (millions of euro) |                |
|---|--------------------|----------------|
| Own funds and capital ratios                                      | 31.12.2016         | 31.12.2015     |
| <b>Own funds</b>  |                    |                |
| Common Equity Tier 1 capital (CET1) net of regulatory adjustments | 35,926             | 36,908         |
| Additional Tier 1 capital (AT1) net of regulatory adjustments     | 3,533              | 2,302          |
| <b>TIER 1 CAPITAL</b>   | <b>39,459</b>      | <b>39,210</b>  |
| Tier 2 capital net of regulatory adjustments                      | 8,815              | 8,089          |
| <b>TOTAL OWN FUNDS</b>  | <b>48,274</b>      | <b>47,299</b>  |
| <b>Risk-weighted assets</b>                                       |                    |                |
| Credit and counterparty risks                                     | 243,351            | 245,793        |
| Market and settlement risk  | 19,199             | 16,582         |
| Operational risks   | 19,545             | 20,653         |
| Other specific risks <sup>(a)</sup>                               | 1,823              | 1,291          |
| <b>RISK-WEIGHTED ASSETS</b>                                       | <b>283,918</b>     | <b>284,319</b> |
| <b>% Capital ratios</b>   |                    |                |
| Common Equity Tier 1 capital ratio                                | 12.7%              | 13.0%          |
| Tier 1 capital ratio  | 13.9%              | 13.8%          |
| Total capital ratio   | 17.0%              | 16.6%          |

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

Own Funds, risk-weighted assets and the capital ratios as at 31 December 2016 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of the related Bank of Italy Circulars.

Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from Common Equity when the framework is fully effective, will only have a partial percentage effect on Common Equity Tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.

Specific transitional provisions (i.e. grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from Own Funds (over a period of eight years).

Accordingly, the prudential ratios as at 31 December 2016 take account of the adjustments envisaged by the transitional provisions for 2016.

As at 31 December 2016, total Own Funds came to 48,274 million euro, against risk-weighted assets of 283,918 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

In January 2016 Intesa Sanpaolo launched a second Additional Tier 1 (AT1) issue of 1.25 billion euro, targeted at the international markets (a first AT1 issue of 1 billion dollars had been launched in September 2015). This issue has characteristics in line with the provisions of CRD IV and the CRR, is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and can be redeemed in advance by the issuer after 5 years from the issue date and on every coupon payment date thereafter. The coupon, payable semi-annually in arrears on 19 January and 19 July of each year, with first payment on 19 July 2016, is equal to 7.00% per annum. If the early redemption option is not exercised on 19 January 2021, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged in the regulations applicable to the AT 1 issues, coupon payment is discretionary and subject to certain limitations.

In addition, on 22 April 2016, Intesa Sanpaolo received authorisation for the early repayment of an AT1 instrument with a nominal value of approximately 478 million euro. The subordinated instrument in question, issued in October 2010 and subject to grandfathering following the introduction of the Basel 3 framework, since it did not comply with the new regulations, called for the possibility of early repayment from 1 June 2016.

It should be emphasised that Common Equity Tier 1 capital does not include the net income for the period ended 31 December 2016 after deduction of the related dividend.

Based on the foregoing, the Total capital ratio stood at 17.0%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 13.9%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 12.7%.

You are reminded that, on 12 December 2016, Intesa Sanpaolo received the ECB's final decision regarding the capital requirements to be observed with effect from 1 January 2017, 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, including the combined buffer, is 7.25% under the transition criteria in force for 2017 and 9.25% under the standard criteria.

Lastly, it should be noted that, following the process conducted by the ECB on the harmonisation of the national discretion adopted by the competent authorities in the different EU countries, with effect from 1 October 2016, the date when Regulation (EU) 2016/445 of the ECB came into force, the prudential filter was eliminated; this filter had been aimed at excluding unrealised gains or losses on exposures to central administrations classified in the category Financial assets available for sale (AFS).

Consequently, as at 31 December 2016, the above-mentioned unrealised gains/losses were included at 60% in the Common Equity Tier 1 Capital, based on the percentages established by the transitional provisions for 2016.

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

| Captions   | (millions of euro) |               |
|--|--------------------|---------------|
|  | 31.12.2016         | 31.12.2015    |
| Group Shareholders' equity   | 48,911             | 47,776        |
| Minority interests   | 408                | 817           |
| <b>Shareholders' equity as per the Balance Sheet</b>   | <b>49,319</b>      | <b>48,593</b> |
| Dividends in distribution and other foreseeable charges (a)  | -                  | -2,383        |
| <b>Shareholders' equity following presumed distribution to shareholders</b>                          | <b>49,319</b>      | <b>46,210</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   | -2,121             | -871          |
| - Minority interests eligible for inclusion in AT1   | -6                 | -8            |
| - Minority interests eligible for inclusion in T2  | -2                 | -6            |
| - Ineligible minority interests on full phase-in   | -356               | -763          |
| - Ineligible net income for the period (b)   | -3,111             | -             |
| - Treasury shares included under regulatory adjustments  | 98                 | 68            |
| - Other ineligible components on full phase-in   | -38                | -11           |
| <b>Common Equity Tier 1 capital (CET1) before regulatory adjustments</b>                             | <b>43,298</b>      | <b>44,134</b> |
| <b>Regulatory adjustments (including transitional adjustments)</b>                                   | <b>-7,372</b>      | <b>-7,226</b> |
| <b>Common Equity Tier 1 capital (CET1) net of regulatory adjustments</b>                             | <b>35,926</b>      | <b>36,908</b> |

(a) The figure at 31 December 2015 takes account of the dividends paid on 2015 profit, the portion of the remuneration on the AT1 instrument issued on 17 September 2015 and the portion of the 2015 profit allocated to charity, net of the tax effect.

(b) Common Equity Tier 1 capital does not take account of the 2016 net income, nor, coherently, of the dividend and distribution of reserves proposed.

### Performance of risk-weighted assets

|  | (millions of euro) |
|--|--------------------|
| <b>Risk-weighted assets as at 31.12.2015</b> | <b>284,319</b>     |
| Increase in market risk                      | 2,616              |
| Decrease in operational risk                 | -1,108             |
| Decrease in credit risk                      | -1,909             |
| <b>Risk-weighted assets as at 31.12.2016</b> | <b>283,918</b>     |

The capital requirements for market risk increased significantly in 2016 (+2.6 billion euro), with a particularly sharp rise in the second half of the year. This performance primarily reflected the larger size of the portfolio of financial issuers, in addition to the greater exposure in the equity markets. The reduction in operational risk (-1.1 billion euro) was mainly attributable to the updating of the databases used for the determination of the AMA models and the indicators that contribute to the calculation of TSA models. Credit risk decreased by around 1.9 billion euro, since the increase in RWA resulting from new operations was fully offset by the repositioning of the EAD towards less risky portfolio segments.

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

|  | Shareholders'<br>equity | (millions of euro)<br><i>of which</i><br><i>Net income (loss)</i><br><i>as at</i><br><i>31.12.2016</i> |
|--|-------------------------|--|
| <b>Parent Company's balances as at 31 December 2016</b>  | <b>43,488</b>           | <b>1,760</b>   |
| Effect of consolidation of subsidiaries subject to control   | -373                    | 3,731  |
| Effect of valuation at equity of companies subject to joint control and other significant equity investments | 315                     | 203  |
| Elimination of adjustments to equity investments and recognition of impairment of goodwill                   | 5,364                   | 479  |
| Dividends collected during the period  | -                       | -3,100   |
| Other  | 117                     | 38   |
| <b>Consolidated balances as at 31 December 2016</b>  | <b>48,911</b>           | <b>3,111</b>   |



**Breakdown of consolidated  
results by business area  
and geographical area**





# Breakdown of consolidated results by business area and geographical area

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



The Intesa Sanpaolo Group's segment reporting is based on the elements that the 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 according to 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 2016. The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the year; it also illustrates income statement figures and the main balance sheet aggregates. Finally, for each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the provisions in force (Circulars 285 and 286, both issued during 2013, and the update to Circular 154 of 22 November 1991) issued by the Bank of Italy following the implementation of Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws; for asset management and private banking, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

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

|  | (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>                      |                     |                                  |                                |                 |                  |           |                  |         |
| 2016   | 8,611               | 3,385                            | 2,002                          | 1,740           | 647              | 1,172     | -628             | 16,929  |
| 2015   | 9,056               | 3,134                            | 2,085                          | 1,680           | 759              | 1,102     | -630             | 17,186  |
| % change <sup>(a)</sup>                      | -4.9                | 8.0                              | -4.0                           | 3.6             | -14.8            | 6.4       | -0.3             | -1.5    |
| <b>Operating costs</b>                       |                     |                                  |                                |                 |                  |           |                  |         |
| 2016   | -4,902              | -957                             | -962                           | -534            | -141             | -173      | -1,005           | -8,674  |
| 2015   | -4,958              | -943                             | -1,011                         | -532            | -142             | -160      | -988             | -8,734  |
| % change <sup>(a)</sup>                      | -1.1                | 1.5                              | -4.8                           | 0.4             | -0.7             | 8.1       | 1.7              | -0.7    |
| <b>Operating margin</b>                      |                     |                                  |                                |                 |                  |           |                  |         |
| 2016   | 3,709               | 2,428                            | 1,040                          | 1,206           | 506              | 999       | -1,633           | 8,255   |
| 2015   | 4,098               | 2,191                            | 1,074                          | 1,148           | 617              | 942       | -1,618           | 8,452   |
| % change <sup>(a)</sup>                      | -9.5                | 10.8                             | -3.2                           | 5.1             | -18.0            | 6.1       | 0.9              | -2.3    |
| <b>Net income (loss)</b>                     |                     |                                  |                                |                 |                  |           |                  |         |
| 2016   | 1,837               | 1,448                            | 703                            | 710             | 357              | 669       | -2,613           | 3,111   |
| 2015   | 1,135               | 1,356                            | 431                            | 663             | 466              | 630       | -1,942           | 2,739   |
| % change <sup>(a)</sup>                      | 61.9                | 6.8                              | 63.1                           | 7.1             | -23.4            | 6.2       | 34.6             | 13.6    |
| <b>Loans to customers</b>                    |                     |                                  |                                |                 |                  |           |                  |         |
| 31.12.2016                                   | 187,649             | 98,183                           | 26,492                         | 9,597           | 298              | 26        | 42,468           | 364,713 |
| 31.12.2015                                   | 184,522             | 89,691                           | 25,818                         | 8,971           | 372              | 24        | 37,935           | 347,333 |
| % change <sup>(b)</sup>                      | 1.7                 | 9.5                              | 2.6                            | 7.0             | -19.9            | 8.3       | 11.9             | 5.0     |
| <b>Direct deposits from banking business</b> |                     |                                  |                                |                 |                  |           |                  |         |
| 31.12.2016                                   | 173,599             | 112,661                          | 32,978                         | 27,540          | 8                | -         | 47,012           | 393,798 |
| 31.12.2015                                   | 159,854             | 109,915                          | 32,456                         | 20,922          | 9                | -         | 49,044           | 372,200 |
| % change <sup>(b)</sup>                      | 8.6                 | 2.5                              | 1.6                            | 31.6            | -11.1            | -         | -4.1             | 5.8     |
| <b>Risk-weighted assets</b>                  |                     |                                  |                                |                 |                  |           |                  |         |
| 31.12.2016                                   | 82,965              | 103,744                          | 30,013                         | 9,727           | 1,130            | -         | 56,339           | 283,918 |
| 31.12.2015                                   | 90,556              | 89,740                           | 30,904                         | 8,624           | 1,135            | -         | 63,360           | 284,319 |
| % change <sup>(b)</sup>                      | -8.4                | 15.6                             | -2.9                           | 12.8            | -0.4             | -         | -11.1            | -0.1    |
| <b>Absorbed capital</b>                      |                     |                                  |                                |                 |                  |           |                  |         |
| 31.12.2016                                   | 7,882               | 9,859                            | 2,872                          | 960             | 126              | 4,416     | 5,357            | 31,472  |
| 31.12.2015                                   | 8,603               | 8,527                            | 2,956                          | 851             | 124              | 4,618     | 6,027            | 31,706  |
| % change <sup>(b)</sup>                      | -8.4                | 15.6                             | -2.8                           | 12.8            | 1.6              | -4.4      | -11.1            | -0.7    |

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

<sup>(a)</sup> The change expresses the ratio between 2016 and 2015.

<sup>(b)</sup> The change expresses the ratio between 31.12.2016 and 31.12.2015.

## BUSINESS AREAS

### Banca dei Territori

| Income statement  | 2016          | 2015          | (millions of euro) |             |
|---|---------------|---------------|--------------------|-------------|
|   |               |               | Changes<br>amount  | %           |
| Net interest income   | 4,623         | 4,903         | -280               | -5.7        |
| Net fee and commission income   | 3,895         | 4,066         | -171               | -4.2        |
| Income from insurance business  | -             | -             | -                  | -           |
| Profits (Losses) on trading   | 70            | 66            | 4                  | 6.1         |
| Other operating income (expenses)                                     | 23            | 21            | 2                  | 9.5         |
| <b>Operating income</b>   | <b>8,611</b>  | <b>9,056</b>  | <b>-445</b>        | <b>-4.9</b> |
| Personnel expenses  | -3,024        | -3,043        | -19                | -0.6        |
| Other administrative expenses   | -1,877        | -1,914        | -37                | -1.9        |
| Adjustments to property, equipment and intangible assets              | -1            | -1            | -                  | -           |
| <b>Operating costs</b>  | <b>-4,902</b> | <b>-4,958</b> | <b>-56</b>         | <b>-1.1</b> |
| <b>Operating margin</b>   | <b>3,709</b>  | <b>4,098</b>  | <b>-389</b>        | <b>-9.5</b> |
| Net adjustments to loans  | -2,039        | -2,076        | -37                | -1.8        |
| Net provisions and net impairment losses on other assets              | -57           | -61           | -4                 | -6.6        |
| Other income (expenses)   | 109           | -             | 109                | -           |
| Income (Loss) from discontinued operations                            | 892           | 84            | 808                |             |
| <b>Gross income (Loss)</b>  | <b>2,614</b>  | <b>2,045</b>  | <b>569</b>         | <b>27.8</b> |
| Taxes on income   | -725          | -871          | -146               | -16.8       |
| Charges (net of tax) for integration and exit incentives              | -44           | -37           | 7                  | 18.9        |
| Effect of purchase price allocation (net of tax)                      | -8            | -2            | 6                  |             |
| 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>1,837</b>  | <b>1,135</b>  | <b>702</b>         | <b>61.9</b> |

|                                       | 31.12.2016 | 31.12.2015 | (millions of euro) |      |
|---------------------------------------|------------|------------|--------------------|------|
|                                       |            |            | Changes<br>amount  | %    |
| Loans to customers                    | 187,649    | 184,522    | 3,127              | 1.7  |
| Direct deposits from banking business | 173,599    | 159,854    | 13,745             | 8.6  |
| Indirect customer deposits            | 224,030    | 222,101    | 1,929              | 0.9  |
| Risk-weighted assets                  | 82,965     | 90,556     | -7,591             | -8.4 |
| Absorbed capital                      | 7,882      | 8,603      | -721               | -8.4 |

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

Banca dei Territori's operating income was 8,611 million euro in 2016, amounting to over half of the Group's consolidated operating income, down 4.9% on the previous year. In further detail, there was a decrease in net interest income (-5.7%), as a result of the market scenario featuring negative rates, and net fee and commission income (-4.2%), mostly on asset management products, only partly offset by higher fees relating to loans and guarantees and protection products. Among the other revenue components, which nevertheless provide a marginal contribution to the Division's income, both profits on trading (70 million euro) and other net operating income (23 million euro) showed positive performance. Operating costs, amounting to 4,902 million euro, reported savings on personnel and administrative expenses compared to 2015 (-1.1%), due to the constant focus on cost control. Operating margin amounted to 3,709 million euro, down by 9.5% on 2015. Conversely, gross income, amounting to 2,614 million euro, reported growth (+27.8%), benefiting from the profits on the sale of Setefi and the equity investment in Visa Europe (approximately 1 billion euro), as well as lower adjustments and provisions. Lastly, after allocation to the Division of charges for integration of 44 million euro and the economic effects of purchase price allocation for 8 million euro, net income amounted to 1,837 million euro, up 61.9%.

Looking at the quarterly trend, revenues improved in the fourth quarter compared to the third, mainly due to the higher contribution of fee and commission income. Gross income benefited from the aforementioned extraordinary income related to the sale of Setefi.

The balance sheet figures at the end of December 2016 showed loans to customers of 187,649 million euro, up (+3.1 billion euro, or +1.7%) year-on-year, essentially as a result of the increase in medium-long term loans to individuals (households and personal loans). Direct deposits from banking business, amounting to 173,599 million euro were up by 13.7 billion euro (+8.6%), as a result of greater cash held in deposits of retail and business customers.

Indirect customer deposits reached 224,030 million euro, up by 1.9 billion euro (+0.9%) from the end of December 2015, driven by the good performance of assets under management, which more than offset the outflows from assets under administration attributable to the repositioning of customer assets into forms of professional asset management.

|  |  |
|--|--|
| <b>Business</b>  | Traditional lending and deposit collection operations in Italy and associated financial services.  |
| <b>Mission</b>   | <p>To serve Retail, Personal, Small Business, and Small and Medium Enterprise customers, creating value through:</p> <ul style="list-style-type: none"> <li>- widespread local coverage;</li> <li>- focus on the characteristics of local markets, and the needs of customer segments serviced;</li> <li>- development of service levels to customers using different channels in order to improve the efficiency of the commercial offering;</li> </ul> <ul style="list-style-type: none"> <li>- exploitation of the brands of banks and the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres, banks and branches as points of reference for the Group at local level;</li> <li>- exploitation of the company specialised in medium-term lending, leasing, factoring and agribusiness, reporting to the Business Unit.</li> </ul> |
| <b>Organisational structure</b>  |  |
| Marketing, Multichannel Integration, Customer Experience and CRM Departments | <p>Overseeing the Retail sector, which consists of the following segments: Base (individual customers with financial assets of up to 10,000 euro), Households (individual customers with financial assets of between 10,000 euro to 100,000 euro) and Retail Businesses (businesses with less complex requirements); the Personal area (individual customers with financial assets of between 100,000 euro to 1 million euro); and the SME area (enterprises with group turnover of 350 million euro or less) as well as multi-channel services for customers and the Network.</p> <p>Supporting the branches and head office departments in defining the customer journey of commercial processes and development, in managing communications and relations with customers and the related Customer Satisfaction and Net Promoter Score surveys.</p>  |
| Mediocredito Italiano  | Specialised in medium-term lending, leasing, factoring and agribusiness.   |
| Banca Prossima   | Serves non-profit organisations.   |
| <b>Distribution structure</b>  | <p>Approximately 3,700 branches, including Retail and Business branches, distributed broadly throughout Italy. The network structure consists of 8 Regional Governance Centres (7 at the end of December 2016), where each of them directly reports to the Regional Manager. There are three Commercial Managers (one specialist for each business area, i.e. Retail, Personal and SME) in each Centre, coordinating around 400 commercial areas, in order to improve commercial focus and ensure the best possible service levels.</p>  |

On 1 January 2016 the partial demerger of Setefi, a subsidiary which manages electronic payments, in favour of Intesa Sanpaolo, came into effect with the transfer to the latter of the business line regarding the acquisition of payment instruments (acquiring) towards captive customers. The activity of Setefi, simultaneously renamed Setefi Services (in abbreviated form Setefi) has remained predominantly focused on the servicing and processing activities (to support the operations of the demerged business line). On 30 September 2016 the sale to the Parent Company of the business unit responsible for acquiring from non-captive customers was finalised, with effect from 1 October 2016. On 15 December 2016 the sale of the total share capital of Setefi to a subsidiary of Mercury UK Holdco Limited was finalised.

In order to streamline the structure of the banks included in the Division by gradually but significantly reducing the number of its legal entities, the merger by incorporation of Banca dell'Adriatico into the Parent Company was carried out in May and that of Casse di Risparmio dell'Umbria in November.

On 19 December 2016 Intesa Sanpaolo acquired total control of Banca ITB - the first online bank in Italy to operate in the payment system sector, which services licensed points of sales that distribute postage stamps, postmarks, tax and similar stamps and carry out certain payment and collection services - of which it already owned 10%. This transaction is in line with the strategic objectives indicated in the 2014-2017 Business Plan as part of the initiatives of the New Growth Bank. This is consistent with the development of a multichannel bank as well as the Banca 5<sup>®</sup> model which focuses on customers who rarely use banking products and services.

At the beginning of 2017, to ensure a greater focus on the local areas concerned and enhance the strength of the Intesa Sanpaolo Group at a more widespread level, the areas of coordination of the Regional Governance Centres were redefined and they were increased to 8.

## Marketing, Multichannel Integration, Customer Experience and CRM Department

### Investment

In 2016, the diversification of customer portfolios continued according to the need-based approach (spending, reserves, investment and pension) and the Recommended Portfolios.

The range of investment products was expanded, offering eighty new mutual funds, the unit-linked policy "Exclusive<sub>insurance</sub>" and new internal funds for the unit-linked policy "ISPL Prospettiva 2.0" and the combined policy "Giusto Mix", with partial protection of the capital and low volatility, three new flexible lines in the portfolio management schemes Unica and Unica Facile and the placement of Group bonds, certificates and three bonds.

### Transactional products

"Conto PerMe" is the new, customisable and flexible current account offered by Intesa Sanpaolo to individual customers which, transforming the concept of a current account from a single product to an enabler of products and services for a day-to-day budget management, allows custom services to be provided and developed to meet all the needs of customers and their families. With the new Flash range, a review of the catalogue of prepaid cards was

launched, including the distinctive features of an IBAN to receive bank transfers, the expiration of the card after 4 years and the possibility to customise the layout with an image chosen by the customer. The new catalogue of credit cards for private individuals was launched, consisting of Carta Blu, Carta Oro and Carta Oro Exclusive, which require no fee for the first six months and then charge a decreasing fee based on use, are customisable via additional targeted services, and safe thanks to the insurance coverage. "Carta Insieme" is the innovative card for entities and organisations operating in the social field, which consists of supporting persons in need and the disadvantaged, enabling these organisations to disburse donations or subsidies to cardholders, limiting their use to specific purposes. Lastly, the range of Commercial cards was expanded with "Carta Deposit", a deposit card that allows small companies and businesses to provide their employees with an instrument for depositing cash and cheques on the current account the card is linked to, and with "Carta Credit Individual Billing", a credit card that companies apply for which directly applies the charges to the employee/worker's account.

### Loans

The range of loans was expanded with "PerTe Prestito Exclusive", a loan designed for those who are able to pledge financial instruments, allowing them to rely on a loan of a high amount, also lasting more than 10 years and beneficial economic conditions, thus meeting the borrowing requirements without the need to divest, and "PerTe Prestito Vitalizio", which allows persons over 60 to obtain, against a mortgage guarantee on an owned property, the

disbursement of a sum depending on the value of the property and the age of the customer. The loan is a form of intergenerational solidarity of parents towards their children, allowing them to provide direct or indirect assistance. In line with this objective, "PerTe Prestito Vitalizio" requires the involvement of the children as their consent is needed to grant the loan and fill in an adequacy questionnaire to allow the identification of any alternative financing solutions that are consistent with the customer's needs.

### Mortgages

The mortgage range was enhanced and expanded with innovative solutions. "Mutuo Giovani" is the new flexible and modular mortgage solution, covering up to 100% of the value of the home, with a duration up to 40 years, an initial period, from 1 to 10 years, of interest-only "light instalments", costing less than renting, with the possibility of suspending the payment of the instalments and lengthening / shortening the duration, with the aim of allowing young

people to move from renting to owning a home, in a favourable period due to the record low interest rates. For those customers who already own a home and want to purchase a new home while waiting to sell their existing one, the new mortgage dedicated to sale and purchase allows, with a grace period of one year, an initial instalment of a much smaller amount compared to the "full" one of capital plus interest, with the potential to use part of the earnings from the sale to settle a portion of the residual debt. "MutuoUp" is a mortgage for the purchase of a first or second home, which offers customers the possibility to obtain an additional sum in 24 hours, up to 10% of the amount of the mortgage, a short time after contracting the mortgage, to manage expenses following the purchase.

### Young people

In order to become the preferred bank of younger customers, following them throughout all of the most important stages of their lives and combining products and services specifically conceived for customers up to 35 years of age and engagement initiatives, Intesa Sanpaolo expanded its presence on social channels to include Instagram and Snapchat, in addition to Facebook and Twitter, with communication based on three types of content: products and services (including Mutuo Giovani, personal loans, Carta Flash, Carta Flash La Statale, NextCard, Jiffy Pay, MotoConMe and ViaggiaConMe), music and events, and innovation and start-ups. In particular, in order to become the closest bank to young customers' plans and dreams, Intesa Sanpaolo was the main sponsor of the tenth edition of X-Factor, the Sky musical talent show. As part of the "Alternanza Scuola-Lavoro" work-study project, launched to increase knowledge of the working world for young people in the last three years of secondary school, training internships were organised, with opportunities for active learning. Furthermore, new agreements were signed with regard to "PerTe Prestito Con Lode", a product aimed at particularly deserving students, to provide them with access to credit, supporting them in their educational development.

### Protection

In a scenario of growing demand for integration of health services, Intesa Sanpaolo launched an innovative health and welfare offer with four new customisable, modular policies, thanks to a series of optional guarantees to safeguard families' economic stability: "Infortuni", "Prevenzione e Salute", "Interventi Chirurgici" and "Malattie Gravi". The new "Tutela Famiglia" policy, through the customisable combination of the three liability insurance policies Capofamiglia, Tutela Legale and Scippo e Rapina, also allows the insured party and his/her family to be protected in case of unexpected events in their daily lives. As part of the motor sector, the "ViaggiaConMe" policy has been enriched with a new consumption-based plan, in addition to the existing distance-based plans, dedicated to those who wish to pay the premium based on the actual use of the vehicle. A line of insurance solutions designed for retail businesses and small and medium enterprises operating in various industries was inaugurated with "Tutela Business – Commercio" and "Tutela Business – Agricoltura".

### Intesa Sanpaolo Casa

As part of the process of developing and expanding the services offered to customers, aimed at achieving an increasingly broader presence and meeting customers' comprehensive home needs, the development plan continued for Intesa Sanpaolo Casa, a Group company whose mission is to buy and sell residential real estate. At the end of the year, there were 32 real estate agencies operating in Italy, positioned as a shop-in-shop inside the Bank's branches, with real estate agents employed by the company, who offer qualified advice and innovative ancillary services.

### Multichannel Project

As part of the document dematerialisation process, the objective of eliminating paper in all the Retail and Personal branches was reached at the beginning of June, with the exclusive use by customers of their graphometric or digital signature to sign agreements that have been dematerialised. To improve the service level provided to customers, the telephone contact unit was transformed into an Online branch with ten offices where around 1,000 people worked at the end of the year, with operators enabled not only to provide information to customers remotely, also using co-browsing, but also to perform operations and commercial offering. The new website, which enhances the digital experience, while also increasing the visibility of the online bank's products and services, has been operational for all Intesa Sanpaolo Group's customers since mid-July.

### Customer Experience

In January, Intesa Sanpaolo launched a NPS Programme (Net Promoter Score, an international index that measures the willingness of customers to recommend a company to friends and family). The project, which has a wide scope, is not limited to the passive recording of customer satisfaction, but aims at improving both relations with customers and company processes, and thus, the effectiveness/efficiency of the operating model.

### Agreements

Continuing the partnership with Confindustria Piccola Industria, the agreement "Una crescita possibile" (Possible growth), expired at the end of 2015, was extended until 30 September 2016. New themes were also added, such as corporate welfare and access to the capital markets for SMEs, and financial assistance was provided for companies that make use of the 140% super-depreciation provided by the 2016 Stability Law. In November, a new three-year agreement - the sixth since 2009 - was signed, named "Progettare il futuro. Accelerazione, trasformazione digitale, competitività", which is made of four pillars: Corporate ecosystems and business integration, finance for growth, human capital and new entrepreneurship, which provides companies with up to 90 billion euro, to make use of the opportunities provided by the "fourth industrial revolution". Human capital and generational turnover, support for the employment of young people and women, e-commerce, digitalisation and POS, promotion of products Made in Italy, loyalty and training programmes are the distinctive elements of the agreement signed with Confcommercio in December, whose objective is to support the redevelopment and innovation of businesses operating in the retail and wholesale and services sectors.

### Sviluppo Filiere

The "Sviluppo Filiere" programme continued. This is an innovative project launched by Intesa Sanpaolo with the aim of supporting the growth of production chains of excellence in the Italian entrepreneurial system. The initiative, which focuses on relationships between companies and their suppliers, improves credit access conditions and offers custom-tailored products for companies that have production arrangements with one another. The number of participating lead companies has exceeded 360, with a potential of over 15,000 suppliers, for turnover exceeding 64 billion euro and a workforce of more than 80,000 employees.

## Loans

To help small businesses having difficulties in accessing credit, by supporting their growth plans, Intesa Sanpaolo has established "Finanziamento Microcredito Imprenditoriale" (business microcredit financing), which offers the possibility to access credit without collaterals, taking advantage of a special section of the SME Guarantee Fund established by the supplementary decree of the Ministry of Economic Development of 18 March 2015. Since February the "Surroga per microimprese" (subrogation for micro-enterprises) product has been launched, aimed at businesses with less than 10 employees and turnover/budget of less than 2 million euro, intended to substitute loans being regularly repaid at another bank, both assisted by mortgage guarantee and unsecured.

## Agriculture

Agrifood represents a strategic sector to which the Intesa Sanpaolo Group confirms its concrete commitment through a dedicated structure. In that regard, Intesa Sanpaolo signed a three-year partnership agreement with the Ministry of Agricultural, Food and Forestry Policies to support agriculture and the food and agricultural companies in Italy and help the competitiveness of a key sector for the Italian economy, making available an annual ceiling of 2 billion euro.

## Services

Inbiz, the remote banking channel for enterprises, added the new "Anticipo Fatture Estero Web" service to the existing products dedicated to the electronic management of invoices - "Easy Fattura", for the management of the invoicing process, "Cruscotto Fatture", to monitor collections and "Anticipo Fatture Italia Web" to manage the assignment of invoices issued to resident customers, allowing the online release of invoices, contracts, purchase orders for goods and export flows regarding debtors resident abroad.

## Training and layout

Training initiatives that Intesa Sanpaolo offers, in partnership with Intesa Sanpaolo Formazione, to SME customers to contribute to increasing their skills - which already include "Skills4Business" - were enriched with "Digital4Export", a training programme designed in cooperation with Confindustria Piccola Industria and ICE, aimed at assisting companies in understanding the scenario of internationalisation and taking advantage of the opportunities provided by digitalisation. The new branch model launched in 2015, which entails an open, welcoming, flexible branch spaces for listening and developing customer relations, was further extended to additional branches, thus making it possible to improve the customer experience, quality of service and specialised advice and to integrate the customer experience in the multi-channel strategy of the Bank.

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**Mediocredito Italiano**


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In 2016, **Mediocredito Italiano** recorded a sales volume of medium- and long-term products of 5.3 billion euro, up 2% (+125 million euro) compared with 2015, whilst factoring turnover was 57.7 billion euro, up 9% (+4.5 billion euro).

Mediocredito Italiano disbursed loans totalling over 4 billion euro, improving by approximately 10% compared to the previous year (+359 million euro). With almost 3.5 billion euro of loans disbursed (+12%), the Banca dei Territori Division accounts for 86% of total volumes, whilst the Corporate and Investment Banking Division, with 546 million euro (+2%), represents 14% of volumes disbursed.

The Specialist Desks dedicated to the principal economic sectors generated a total of medium- and long-term loan disbursements of 720 million euro (18% of the total disbursed in the period), which rose by 4% compared to 2015.

Based on a selective strategy for assets that can be financed through leasing, with a greater focus on attenuating risk, in 2016 Mediocredito Italiano signed new contracts with a value of 1.3 billion euro, down by 15% compared to the previous year (-233 million euro). Contracts entered into by customers of the Banca dei Territori Division amounted to 1.2 billion euro (-5%), representing more than 90% of total volumes. Customers in the Corporate Division signed contracts totalling 102 million euro, equal to 8% of total volumes (-61% compared to 2015).

Turning to the factoring business, in 2016 Mediocredito reported a turnover of 57.7 billion euro, up by 9% compared to 2015. Non-recourse factoring accounted for 90% of factoring business, up compared to the previous year. Compared with 31 December 2015, outstanding receivables, equal to 13.9 billion euro, posted an increase (+2%) and period-end loans amounted to 11.7 billion euro (+2%). The international activities related to the import and export factoring segments (both directly and intermediated through the correspondent bank members of Factors Chain International) and the foreign-on-foreign operations, predominantly conducted under the freedom to provide services in other European Union countries. The volumes generated, equal to 15.3 billion euro, represent 27% of the total turnover, up on 2015 (+11%).

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**Banca Prossima**


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**Banca Prossima** operates in the non-profit sector through 83 local branches (of which 80 authorised by the Bank of Italy) and 290 specialists distributed throughout Italy. At the end of December, the bank had approximately 58,500 customers. Financial assets amounted to 7.6 billion euro, of which 3.2 billion euro of direct deposits, while lending operations presented an approved amount of 2.5 billion euro, of which 1.7 billion euro had been used.

Commercial activity in 2016 focused on acquiring new customers and developing existing customers, to consolidate and further strengthen Banca Prossima's leading role in the non-profit sector. The definition of a structured business plan and the introduction of new applications already in use within Banca dei Territori allowed enhancement of risk monitoring and the control system and more precise commercial management. Numerous initiatives were implemented aimed at developing relations with non-profit organisations and best meeting their needs, by prioritising financial needs not yet adequately met. In particular, activities were launched to develop customers in the religious sphere and increase fund raising of non-profit organisations, including testing new methods. In addition, specific attention was focused on banking foundations, both by launching studies to identify innovative solutions to use the Terzo Valore platform and the Cre.S.Co. Initiative and by working with Mediocredito Italiano as the bank

serving as the catalyst for applications for the assignment of tax receivables of the foundations participating in the ABI ACRI protocol to combat lack of education of minors.

During the year, synergies were developed with Banca dei Territori, specifically by expanding the energy efficiency programme developed in partnership with Federesco for the Businesses value chain of Banca dei Territori and the signing of an agreement among Società Nazionale di Mutuo Soccorso Cesare Pozzo, Intesa Sanpaolo and Banca Prossima, to offer members of the Cesare Pozzo organisation access to personal loans at favourable conditions, to be applied for with any Group bank, in support of household expenses. Cesare Pozzo established a guarantee fund with Banca Prossima for this purpose.

Lastly, "Effetto Iva" (VAT Effect) was developed. This is a new range of financial solutions conceived for non-profit organisations that stably operate in the public administration, for the purpose of re-establishing their financial balance following the introduction of the Split Payment.



## Corporate and Investment Banking

| Income statement  | 2016         | 2015         | (millions of euro) |             |
|---|--------------|--------------|--------------------|-------------|
|   |              |              | Changes amount     | %           |
| Net interest income   | 1,447        | 1,544        | -97                | -6.3        |
| Net fee and commission income   | 1,111        | 868          | 243                | 28.0        |
| Income from insurance business  | -            | -            | -                  | -           |
| Profits (Losses) on trading   | 808          | 712          | 96                 | 13.5        |
| Other operating income (expenses)                                     | 19           | 10           | 9                  | 90.0        |
| <b>Operating income</b>   | <b>3,385</b> | <b>3,134</b> | <b>251</b>         | <b>8.0</b>  |
| Personnel expenses  | -372         | -362         | 10                 | 2.8         |
| Other administrative expenses   | -582         | -578         | 4                  | 0.7         |
| Adjustments to property, equipment and intangible assets              | -3           | -3           | -                  | -           |
| <b>Operating costs</b>  | <b>-957</b>  | <b>-943</b>  | <b>14</b>          | <b>1.5</b>  |
| <b>Operating margin</b>   | <b>2,428</b> | <b>2,191</b> | <b>237</b>         | <b>10.8</b> |
| Net adjustments to loans  | -333         | -203         | 130                | 64.0        |
| Net provisions and net impairment losses on other assets              | -10          | -20          | -10                | -50.0       |
| Other income (expenses)   | 33           | -            | 33                 | -           |
| Income (Loss) from discontinued operations                            | -            | -            | -                  | -           |
| <b>Gross income (Loss)</b>  | <b>2,118</b> | <b>1,968</b> | <b>150</b>         | <b>7.6</b>  |
| Taxes on income   | -664         | -609         | 55                 | 9.0         |
| Charges (net of tax) for integration and exit incentives              | -6           | -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  | -            | -            | -                  | -           |
| <b>Net income (loss)</b>  | <b>1,448</b> | <b>1,356</b> | <b>92</b>          | <b>6.8</b>  |

|  | 31.12.2016 | 31.12.2015 | (millions of euro) |      |
|--|------------|------------|--------------------|------|
|  |            |            | Changes amount     | %    |
| Loans to customers                                   | 98,183     | 89,691     | 8,492              | 9.5  |
| Direct deposits from banking business <sup>(a)</sup> | 112,661    | 109,915    | 2,746              | 2.5  |
| Risk-weighted assets                                 | 103,744    | 89,740     | 14,004             | 15.6 |
| Absorbed capital                                     | 9,859      | 8,527      | 1,332              | 15.6 |

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

<sup>(a)</sup> The item includes capital protected certificates.

In 2016, the **Corporate and Investment Banking Division** earned 3,385 million euro in operating income (representing 20% of the Group's consolidated figure), up (+8%) on the previous year.

In detail, net interest income, equal to 1,447 million euro, declined (-6.3%) primarily as a result of smaller margins and of a lower contribution from the Luxembourg subsidiary and capital markets activity. Net fee and commission income of 1,111 million euro increased (+28%) due to the growth of fee and commission income especially in the investment banking sector. Profits on trading, equal to 808 million euro, grew by 13.5%, mainly due to the positive performance of capital markets activities. Operating costs amounted to 957 million euro, up (+1.5%) compared to 2015, mainly due to greater personnel expenses. As a result of the revenue and cost dynamics described, the operating margin came to 2,428 million euro, up 10.8% compared to the previous year. Gross income, amounting to 2,118 million euro, increased by 7.6%, while net income amounted to 1,448 million euro (+6.8%).

In the fourth quarter, the Corporate and Investment Banking Division showed significant improvement in income results, which benefited from fee and commission income and profits on trading.

The Division's intermediated volumes increased compared to the end of December 2015 (+4.6%). In detail, loans to customers of 98,183 million euro showed significant growth (+9.5%) as a result, in particular, of increased operations in repurchase agreements and collateral by Banca IMI and of the new financing transactions undertaken by the Luxembourg subsidiary. Direct

deposits from banking business, amounting to 112,661 million euro, were up (+2.5%). The positive trend in repurchase agreements of Banca IMI more than offset the reduction in securities issued, specifically Banca IMI certificates.

|   |   |
|---|---|
| <p><b>Business</b></p>  | <p>Corporate, Investment Banking and Public Finance, in Italy and abroad.</p>   |
| <p><b>Mission</b></p>   | <p>To act as a global partner in supporting companies and financial institutions in achieving balanced, sustainable growth, even at the international level, through a specialised network of branches, representation offices and subsidiaries that engage in corporate banking operations.<br/>To foster collaboration between the public and private sectors with the aim of supporting the creation of infrastructure and the modernisation of the public administration by pursuing international growth opportunities in countries of strategic interest to the Group.</p>  |
| <p><b>Organisational structure</b></p>  |   |
| <p>International<br/>International Network &amp;<br/>Global Industries Department</p> | <p>The Department develops and manages relations with Italian and foreign industrial groups, which have a high degree of complexity and international presence, and operate in eight key sectors with strong growth potential: Automotive &amp; Industrial; Basic Resources &amp; Diversified; Consumer, Retail &amp; Luxury; Healthcare &amp; Chemicals; Infrastructures &amp; Construction; Oil &amp; Gas; Power &amp; Utilities; Telecom, Media &amp; Technology. Using the International Network, which comprises branches, representative offices and international corporate banks and through the cooperation with the International Subsidiary Banks Division, the Department manages the relationship with international counterparties and provides specialist assistance in supporting the internationalisation of Italian businesses, developing their exports. The synergy with Banca IMI ensures coverage as well as developing investment banking (ECM, DCM, M&amp;A) and structured finance activities, whilst leasing, factoring and subsidised financing business is carried out by the Department in partnership with Mediocredito Italiano.</p> |
| <p>Corporate and<br/>Public Finance Department</p>                                    | <p>The Department is responsible for servicing individual companies and large and medium corporates, by means of a global and integrated offer of products and services overseen by all the Divisions and Group product companies. It also serves Public counterparties consisting of Central State Administrations, Local Entities and the so called "public corporate entities"</p>   |
| <p>Financial Institutions<br/>Department</p>  | <p>The Department is responsible for servicing Italian and international financial institutions according to a dedicated, global commercial model. Its highly sophisticated approach to relations with such customers is widely diversified and oriented towards integrated solutions that promote the cross-selling of capital markets and investment banking products.</p>  |
| <p>Global Transaction Banking<br/>Department</p>                                      | <p>The Department is responsible for transaction banking products and services for the entire Group.</p>  |
| <p>Proprietary Trading</p>  | <p>The Sub-Department is responsible for management of the proprietary portfolio and/or risk through direct access to markets or indirect access, via relevant internal functions, in order to carry out trading, arbitrage and long/short positions on capital markets products, cash and derivatives.</p>   |
| <p>Global Markets and Corporate<br/>&amp; Strategic Finance</p>                       | <p>The scope of the Division also includes the M&amp;A, capital markets, structured finance and primary markets (equity and debt capital market) activities performed by Banca IMI.</p>   |
| <p><b>Distribution structure</b></p>  | <p>In Italy, the Corporate and Investment Banking Division avails of on a total of 44 branches dedicated to corporate customers and public customers. At the international level, it operates in 29 countries supporting the cross-border operations of its customers through a specialised network of branches, representative offices and subsidiaries that engage in corporate banking activity.</p>   |

## International Network & Global Industries Department

In 2016, the International Network & Global Industries Department confirmed its role as financial partner to its customers, participating with Banca IMI in a number of transactions to the benefit of Italian and international customers operating across all business segments.

Specifically, the Department acted as Mandated Lead Arranger in the financing transactions to the benefit of Soyuzneftegaz Vostok Limited, a company fully-owned by Lukoil, of a Special Purpose Vehicle (SPV) headed by Plenary to manage the trains of the Melbourne underground in Australia and of Consorzio Antin, Icamap and Borletti Group for the acquisition of Grandi Stazioni Retail.

In the area of syndicated loans, operations were carried out in favour of the Campari and Terna Group, America Movil - acting as Joint Bookrunner, and in favour of Keurig Green Mountain and Samsonite, acting as Documentation Agent. Also note the support provided to the Air Liquide Group on the acquisition of Air Gas, the participation in the loans to Global Infrastructure Partners in the acquisition of a stake in Gas Natural Fenosa, as well as the role of Mandated Lead Arranger in the export financing of Vitol, in the refinancing of Equate and in the structured pre-export finance of Petroleum Development Oman.

Acquisition financing transactions were carried out, supporting Bayer, Dell Inc., AT&T and ChemChina, as well as project financing transactions such as the one regarding the consortium comprised of Vinci Airports, Aeroports de Paris and Astaldi, which was awarded the concession for the Arturo Benitez international airport in Santiago, Chile, and the one in favour of Fermaca for the construction of two gas pipelines in Mexico. The bank was also an investor in the first Project Bond for the purpose of building a hospital in Turkey.

In 2016 the Department continued to act as Financial Advisor in M&A deals, such as that for A2A. In ECM business, the Department acted as Joint Global Coordinator in the Prelios capital increase, Coordinator in the takeover bid launched by the Mitsubishi Group on DeLclima and "Cassa incaricata" (assigned bank) in the takeover bid of Hyster-Yale on Bolzoni. With regard to DCM business, the bank participated in bond issues by Gas Natural Fenosa, Snam, Heidelberg Cement, Ferrari, Unibail Rodamco, Klepierre, Autoroutes du Sud de la France, Abertis Infraestructuras, Iren, Hera, Total Group, ENI, RCI Banque, General Motors, PSA, CNH Industrial, Telecom Italia, Cellnex, Bulgarian Electricity Holding, ABS, Saipem, Saint-Gobain and Salini Impregilo. It acted as Sole Arranger and Co-Arranger, respectively, in issues of private placement for Daimler and for FCA Bank, as Dealer Manager in the buyback of Alstom bonds and in the exchange offer of Salini Impregilo as well as Exclusive Financial Advisor in the process of selling a stake in A4 Holding to the Abertis Group.

During the year, work continued on the development of the international network, focused on monitoring relations with Italian and international customers and on investments in high-potential markets.

In this context, the Group obtained the banking licence to open two new branches in Abu Dhabi, in the United Arab Emirates, and in Doha, Qatar, and finalised the establishment of a representative office in Jakarta, Indonesia. With the aim of strengthening coverage in Benelux, in February the Amsterdam branch of Intesa Sanpaolo was conferred to the subsidiary Intesa Sanpaolo Bank Luxembourg, and during the year numerous initiatives were implemented to ensure direct support to Corporate and Financial Institutions customers operating in that area's markets.

With a direct coverage in 29 countries, 15 wholesale branches, 15 representative offices and 3 subsidiary banks (Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, Intesa Sanpaolo Brasil S.A.), the Division's current international network more and more represents the right blend of customer relations and offering of products in specific markets.

## Corporate and Public Finance Department

In 2016 the Corporate and Public Finance Department continued to ensure its support both to corporate customers, consisting of individual companies or national groups with over 350 million euro in turnover, and to public customers consisting of Central State Administrations, Local Entities and the so-called "public corporate entities" (companies with public participation of strategic importance in the services and infrastructure sectors).

In particular, the Department continued to offer loans to its customers at favourable economic terms, to transfer to the real economy the liquidity made available by the ECB to the European banks during the second edition of the TLTRO.

The Industry model contributed to making the commercial activity more effective, adjusting it to the customers' specific needs and allowing for important transactions with Italian company customers.

Also note the support provided as part of the acquisitions in favour of Diasorin, Fidia Farmaceutici Group, MIC Bidco, Genextra, Cementir (Caltagirone Group) and Sofidel Group.

The Department also acted as Sole Lender in the acquisition of Continental Mid Group USA by the Agrati Group and as Arranger and Sole Lender in the acquisition of Nutricafes by the Zanetti Beverage Group and in the acquisition of an equity stake in Demetra by Cemsight. In the roles of Bookrunner and Mandate Lead Arranger, the Department participated in the acquisition of Gimatic by the private equity fund AGIC, and as Lead Arranger, it participated in a loan to ACS Dobfar.

The Department also participated in financing transactions in favour of Acciaieria Arvedi, the Conad Group and the EOS Investment Management Group and acted as Lender and Advisor in the takeover and exchange bid launched by Cairo Communication on RCS.

In the Public Finance segment, the Department supported customers such as Ferrovie dello Stato, Finanziaria Sviluppo Utilities and Simest through financing transactions.

The constant synergy with Banca IMI allowed the conclusion of structured finance transactions, merger and acquisition and advisory activities and, at the same time, the continuation of the marketing of products for hedging market risks (interest rates, currencies and commodities).

With regard to the Debt Capital Markets business, the Department acted as Joint Bookrunner in the High Yield bond issue of Guala Closures, while in the Structured Finance business, it acted as Arranger, Lender and Agent in the Gallerie Commerciali Sardegna operation.

In 2016, the Department continued to monitor the development of internationalisation of Italian customers through a dedicated service model which, among the most important operations, resulted in the participation in the financing for the construction of the new Leitner ropeway in Berlin.

Moreover, in synergy with the Banca dei Territori Division, the activity regarding "Programma Filiera" continued with the aim of promoting production chains of excellence in the Italian entrepreneurial system.

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### Financial Institutions Department

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In 2016, the financial institutions sector continued to be focused on issues such as the search for new business models, cost reduction, more effective exploitation of the value chain, rationalisation of organisation and, especially for Italian financial institutions, capital strengthening and sale of problem assets.

In this scenario, the Department continued to guarantee its usual advisory and financial support in numerous operations regarding, in particular, performing or problem assets of various Italian banks, and debt placement for leading international institutions such as *Crédit Agricole* and *Wells Fargo*.

There was significant business in the near-banking sector, where the Group supported *Banca IFIS* in the acquisition of *Interbanca*, participated in numerous financing transactions and obtained its first mandate as Bookrunner from a foreign insurance company (*Swiss Life*).

As regards the Structured Export Finance segment, 2016 featured a sharp demand of Italian and foreign customers for financial support for exports to “emerging” countries, in various business sectors (infrastructure, energy and transport) and through various types of actions (export credit and project finance transactions). It is important to note the financing agreement backed by *SACE* and *COFACE* for the construction of a natural gas liquefaction plant in the Siberian region of *Yamal* in Russia and the growing number of operations carried out in the role of Arranger and Lender, involving all the main export credit agencies in Europe and the emerging markets.

At geographical level, the areas of greatest interest were Sub-Saharan Africa, Russia and the Gulf states. Numerous European operators also focused significant attention on Iran.

The Department also did solid business in the commodities financing sector, concentrating on pre-export and pre-payment transactions to benefit large producers and traders.

In the Trade Finance segment, in 2016 the decreasing trend in loans to India and Asia continued while significant operations were conducted with Turkey and Brazil, though with some limits set by the economic situation of the two countries. There was an increase in operations with the Gulf states, Egypt and Russia.

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### Global Transaction Banking Department

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In 2016 the Global Transaction Banking Department focused on developing product and innovation initiatives and, specifically, on releasing new cash management and trade finance products, launching strategic projects of the Group and creating an integrated e-banking platform for banks and international branches.

The Department also participated in numerous events for the purpose of dialoguing with customers and other financial institutions on the needs and challenges of the market and on innovation trends. In particular, these included *Eurofinance*, where the Department met with the treasurers of the leading groups in Europe, the *Salone dei pagamenti* organised by the ABI and the Treasury and Finance Forum Day, organised by *Associazione dei Tesorieri*.

In the area of commercial support to the Group Divisions, numerous initiatives were launched such as the start of customised commercial actions on traditional and advanced transactional products and the development of activities on cash and trade products on both the domestic and international markets.

Commercial coverage also focused on developing the acquiring business, which reported growth in the luxury sector abroad and the resulting creation of an increasingly global offering.

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### Proprietary Trading

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In 2016, Proprietary Trading made a negative contribution to the income statement, in terms of revenues, which was worse than in 2015.

The risk exposure to structured credit products reached 2,471 million euro as at 31 December 2016 with respect to funded and unfunded ABS/CDOs, compared to 2,429 million euro as at 31 December 2015, in addition to an exposure of 7 million euro with respect to structured packages, which compares with the 2 million euro as at 31 December 2015.

The hedge fund portfolio held for trading as at 31 December 2016 totalled 352 million euro, compared to 758 million euro recorded in December 2015.

The reduction in the portfolio is mainly due to the decrease in the value of the stakes underwritten mainly during the first quarter, partly offset by recoveries recorded in the last few months of the year, and to significant distributions and redemptions starting in the second quarter.

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### Global Markets and Corporate & Strategic Finance

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During 2016 business with Institutional customers focused on transactions linked to optimising liquidity ratios, structuring transactions for the sale of non-core assets and analysing portfolios of non performing loans (NPLs) in view of potential sales. The Market Hub platform recorded performance in line with the market trend both in equities and bonds, and its base of active customers grew, especially in the international arena. The Exchange Traded Derivatives segment was the best performer, with considerable focus on the US and UK markets. In the last part of the year, volumes traded on the Italian Derivatives Markets increased as a result of increased attention from investors to Italy.

Direct listing on *Borsa Italiana's* MOT (Electronic Bond Market) continued, as well as the development of international commercial business, with specific focus on the European Economic Community (Poland, Hungary and Slovakia). Transactions on interest rates continued at high volumes, while foreign exchange operations reported a decrease in volumes, specifically for OTC derivatives. In the commodities segment, the physical gas business continued to grow, whereas there were declines in gold lending and derivatives business.

In the area of Corporate Risk Solutions, strong growth was recorded in interest rate hedging in the corporate segment, mainly due to greater volatility of the markets. As regards Equity, customers showed growing interest in using price risk hedging options and swaps, while on the Forex side, medium- and long-term hedging increased significantly.

The Securitisation and Risk Transfer Solutions area focused on structuring and actively managing credit risk, in order to offer customers solutions targeted to optimising economic and regulatory capital, deconsolidating non-core and non-performing assets and improving net financial position. In the Securitisation segment, the Department finalised securitisation transactions on various types of assets (consumer credit, receivables underlying lease contracts, residential mortgages) for numerous Italian banks. Securitisations were also finalised for non-banking financial intermediaries and specialised banks involving loan portfolios secured by the assignment of one-fifth of salary and pension, factoring receivables, loans for vehicle purchases and receivables underlying lease contracts. In particular, as part of the process of the General Electric Group's disposal of financial assets, senior financing was finalised for the acquisition of the GE Capital Interbanca Group by Banca IFIS. Banca IMI also concluded the first transaction with corporate customers in Slovenia and assisted Intesa Sanpaolo in finalising two securitisations of consumer credit originated by Accedo.

In the Risk Transfer Solutions segment, the bank supported customers in the disposal of bad loans, carrying out various roles in structuring operations with Italian and foreign banks. It finalised the fifth multi-originator assignment of bad loans originated by small banks as part of a multi-assignor programme (the largest implemented in Italy to date), structured the first conduit financing transaction on a portfolio of residential mortgages originated by Barclays in the United Kingdom and completed numerous secured financing transactions in the form of repurchase agreements in favour of several Italian banks. As sole arranger it supported Intesa Sanpaolo in managing the synthetic securitisation programme (GARC) on portfolios of loans to SMEs.

In the Equity Capital Markets segment, in a scenario of global equity markets with highly differentiated performance, Banca IMI acted as sole global coordinator in the capital increase of Veneto Banca and joint bookrunner in the capital increase of Saipem and the IPOs of Enav, Coima Res and Innova Italy1. The bank also participated in the sale of share capital of Iren and Anima and, internationally, in the capital increases of Air Liquide and ArcelorMittal and in the IPOs of Parques Reunidos and Telepizza. With regard to takeover bids, the bank acted as intermediary responsible for coordinating subscriptions to the bids of DeLclima, Ansaldo STS, Bolzoni, Engineering and Italcementi and as financial advisor for the conversion of Italmobiliare savings shares into ordinary shares.

As regards M&A activity, Banca IMI supported customers in various industrial segments. In the Energy sector, the bank supported SEL in its restructuring of Edipower and the equity investments in Hydros and Seledison, the Pizzarotti Group in the sale of Pizzarotti Energia to Holding Fotovoltaica, Iberdrola in the sale of SER to the Glennmont fund, Eni in the sale to BP of the Shorouk exploration concession and Rosneftegaz in the sale of a stake in Rosneft's capital to a consortium comprised of Glencore and QIA. In the TMT sector, it supported the Cairo Communication Group in the takeover and exchange bid on RCS shares, the NB Renaissance and Apax funds in the acquisition of Engineering and F2i in the sale of an equity investment in Metroweb to Enel Open Fiber. In the Infrastructure segment it worked for ReConsult in the sale of A4 Holding to Abertis. In the Industrial sector, it assisted the GEA Group in the acquisition of Imafori and PM&Partners in the sale of Plastiaple to the RPC Group, while in the Consumer & Healthcare segment, it assisted Investcorp in the acquisition of Corneliani and Ibersol in the acquisition of Eat Out. With reference to the Financial Institutions segment, it supported Banca IFIS in the acquisition of GE Capital Interbanca, Fondazione Carige in the sale of a stake in Cassa Depositi e Prestiti to Istituto Banco di Napoli-Fondazione and Intesa Sanpaolo in the value generation project for a portfolio of consumer finance performing loans.

In the Debt Capital Markets segment, Banca IMI originated transactions on bond markets in Italy and Europe. In the Corporate segment, it acted as Bookrunner for issues of leading foreign issuers, such as EDF, Alstom, Air Liquide, Peugeot, ASF, APRR, Enagas, Merlin Properties, Telefonica, Iberdrola, Gas Natural and Deutsche Telekom. It also took on the role of Bookrunner for primary Italian issuers such as Snam, Autostrade per l'Italia, Acea and Terna. The bank confirmed its leadership in Italy in the Project Bond segment, acting as Bookrunner in the issue of Concessioni Autostradali Venete. It participated in numerous placements, including Groupe FNAC, N&W, Guala and Buzzi-Unicem and distinguished itself as Bookrunner in the issue of the first fixed-rate nominal BTP maturing in 50 years, issued by the Italian Treasury. In the area of Emerging Markets it acted as Bookrunner in the issue by Equate Petrochemical Co, the first joint venture between Petrochemical Industries and Dow Chemical Co, and in that of TengizChevroil as well as acting as Dealer Manager in the tender offer of Zagrebacki Holding Doo. In the Financial Institutions segment, Banca IMI acted as Bookrunner in the subordinated issues of Intesa Sanpaolo and in the mortgage covered bond (cedulas) issued by Deutsche Bank Spain, in the covered bonds of BNP Paribas Fortis and Crédit Agricole, as well as in various transactions of customers such as Goldman Sachs, UBS Group, JP Morgan, Citi, Wells Fargo, Bank of America, HSBC Holdings, Deutsche Bank and Swisslife. It also acted as Sole Bookrunner in various transactions targeting the retail market, issued by Citigroup, the European Investment Bank and the IBRD. In the Asset Backed Securities segment it participated in the Sunrise 2016-2, Siena Lease 2016-2, Towers CQ and Globaldrive Auto Receivables 2016-B transactions.

In the Structured Finance segment, intense international operations were carried out, including participating in the largest deal of the year, Bayer's acquisition of Monsanto, and other top leveraged deals of 2016 such as the acquisitions of Syngenta by ChemChina, of SanDisk by Western Digital, of Keurig Green Mountain by a consortium of investors headed by JAB Holding and the acquisition by Glencore and QIA of 19.5% of the shares of Rosneft Oil. Important were also the loan to Cheniere Energy Partners and some actions in the sectors of shipping (Unipecc/HNA Logistics, Cido Product Tankers, Wellard), media & entertainment, renewable energy, oil & gas (Dakota Access Pipeline, NSMP, SPI Exploration & Production), energy (Merkur, Canary), infrastructure (Parques Reunidos, Gold Coast Light Rail, Millennium Parking, Aéroports de la Côte d'Azur, Massena, HCMT Melbourne, Kocaeli e Izmir Integrated Health Campus) and real estate in London and New York. In 2016 actions continued on the Italian market, with important Leverage (Pirelli, Tecres, Fila), Corporate (FNAC, Terna, De Agostini, Davide Campari, Astaldi, FFSS, Calzedonia, RCS, Lavazza, Marcegaglia, Arvedi, Giochi Preziosi, Valvitalia, Teleperformance, Cementir, Zoppas) and Real Estate (Beni Stabili, Savills, Eurocommercial, Grandi Stazioni, Domus, Coima Res, Prelios SGR, Fondo M2, Starhotels) transactions and project financing actions in the renewable energy (ForVei, Solarfarm) and shipping (Moby, D'Amico, Grandi Navi Veloci, Fincantieri) sectors. Structured Finance provided significant support to customers in the Banca dei Territori area, due to its action in the Leveraged Finance (transactions with Caffitaly, Farnese Vini, Necta Vending, Viscolube) and Corporate (transactions with Ynap, Rina, Corden Pharma, Aboca, Dedalus Healthcare, Farmol, Woolrich) segments.

**International Subsidiary Banks**

| Income statement  | 2016         | 2015          | (millions of euro) |             |
|---|--------------|---------------|--------------------|-------------|
|   |              |               | Changes amount     | %           |
| Net interest income   | 1,428        | 1,495         | -67                | -4.5        |
| Net fee and commission income   | 483          | 512           | -29                | -5.7        |
| Income from insurance business  | -            | -             | -                  | -           |
| Profits (Losses) on trading   | 108          | 100           | 8                  | 8.0         |
| Other operating income (expenses)                                     | -17          | -22           | -5                 | -22.7       |
| <b>Operating income</b>   | <b>2,002</b> | <b>2,085</b>  | <b>-83</b>         | <b>-4.0</b> |
| Personnel expenses  | -533         | -553          | -20                | -3.6        |
| Other administrative expenses   | -341         | -364          | -23                | -6.3        |
| Adjustments to property, equipment and intangible assets              | -88          | -94           | -6                 | -6.4        |
| <b>Operating costs</b>  | <b>-962</b>  | <b>-1,011</b> | <b>-49</b>         | <b>-4.8</b> |
| <b>Operating margin</b>   | <b>1,040</b> | <b>1,074</b>  | <b>-34</b>         | <b>-3.2</b> |
| Net adjustments to loans  | -221         | -340          | -119               | -35.0       |
| Net provisions and net impairment losses on other assets              | -8           | -161          | -153               | -95.0       |
| Other income (expenses)   | 71           | 1             | 70                 |             |
| Income (Loss) from discontinued operations                            | 31           | 5             | 26                 |             |
| <b>Gross income (Loss)</b>  | <b>913</b>   | <b>579</b>    | <b>334</b>         | <b>57.7</b> |
| Taxes on income   | -179         | -144          | 35                 | 24.3        |
| Charges (net of tax) for integration and exit incentives              | -31          | -4            | 27                 |             |
| 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>703</b>   | <b>431</b>    | <b>272</b>         | <b>63.1</b> |

|                                       | 31.12.2016 | 31.12.2015 | (millions of euro) |      |
|---------------------------------------|------------|------------|--------------------|------|
|                                       |            |            | Changes amount     | %    |
| Loans to customers                    | 26,492     | 25,818     | 674                | 2.6  |
| Direct deposits from banking business | 32,978     | 32,456     | 522                | 1.6  |
| Risk-weighted assets                  | 30,013     | 30,904     | -891               | -2.9 |
| Absorbed capital                      | 2,872      | 2,956      | -84                | -2.8 |

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

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

It bears noting that the income statement figures presented above and commented upon below do not include the results of the Ukrainian Pravex Bank, as well as the FUT business unit into which the non-performing assets of CIB Bank have been injected. Both these assets have been included in the Capital Light Bank's scope of responsibility.

The sale of the entire capital of ISP Card - the company operating in the payment services segment - was finalised in December, and the accounting values as well as the resulting capital gain were reclassified under non-current assets held for sale and discontinued operations, as required by IFRS 5.

In 2016, the Division's operating income came to 2,002 million euro, down 4% compared to the previous year (+0.8% at like-for-like exchange rates). This trend was influenced by the depreciation of the Egyptian pound in 2016 following the announcement by the Central Bank of Egypt that it will allow the currency to float. A detailed analysis shows that net interest income came to 1,428 million euro compared to 1,495 million euro in 2015 (-4.5%), due to the trends reported by Bank of Alexandria (-26 million euro), Banca Intesa - Russia (-21 million euro), Banca Intesa Beograd (-14 million euro) and VUB Banka (-13 million euro), only partly offset by PBZ, including Intesa Sanpaolo Banka Bosna i Hercegovina (+18 million euro). Net fee and commission income, amounting to 483 million euro, was down compared to the previous year (-29 million euro, or -5.7%) mainly due to the negative

performance of Bank of Alexandria (-22 million euro). Profits on trading, amounting to 108 million euro, increased by 8% due to increased contributions from PBZ, including Intesa Sanpaolo Banka Bosna i Hercegovina (+19 million euro), CIB Bank (+12 million euro) and VUB Banka (+5 million euro), only partly absorbed by the declines of Bank of Alexandria (-14 million euro), Banca Intesa - Russia (-8 million euro) and Banca Intesa Beograd (-6 million euro).

Operating costs of 962 million euro decreased compared to 2015 (-4.8%, -0.3% at like-for-like exchange rates). As a result of the above revenue and cost trends, the operating margin came to 1,040 million euro, down 3.2% (+1.9% at like-for-like exchange rates). Gross income, amounting to 913 million euro, grew significantly compared to the 579 million euro in the previous year (+57.7%), benefiting from the decrease in net adjustments to loans, lower net provisions and net impairment losses on other assets, as well as the capital gains deriving from the sale of ISP Card and the equity investment in Visa Europe. The Division closed 2016 with net income of 703 million euro (+63.1%).

The fourth quarter reported a lower operating margin and net income than in the third quarter.

The Division's intermediated volumes grew compared to the end of December 2015 (+2.1%) owing to positive performance by both loans to customers (+2.6%) and direct deposits from banking business (+1.6%), in the securities issued component.

|  |   |
|--|---|
| <b>Business</b>  | It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates.  |
| <b>Mission</b>   | Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the Corporate and Investment Banking Division. |
| <b>Organisational structure</b>                          |   |
| South-Eastern Europe                                     | Presence in Albania, Bosnia-Herzegovina, Croatia, Romania and Serbia.   |
| Central-Eastern Europe                                   | Presence in Slovakia, Slovenia and Hungary  |
| Commonwealth of Independent States & South Mediterranean | Presence in Egypt, and the Russian Federation   |
| <b>Distribution structure</b>                            | 1,067 branches in 11 countries.   |

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### South-Eastern Europe

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In 2016, the operating income of the Privredna Banka Zagreb Group amounted to 483 million euro up compared to 2015 (+7.5%), due to the favourable trend in profits on trading, net interest income and fee and commission income. Operating costs of 198 million euro increased slightly (+0.7%) due to the rising trend in personnel expenses. The operating margin came to 286 million euro, improving on the previous year (+12.8%). Gross income stood at 277 million euro, benefiting from the release of allowances for risks and charges. Net income came to 198 million euro.

**Banca Intesa Beograd**, including Intesa Leasing Beograd, generated operating margin of 129 million euro, down 10.9% on 2015. Operating income decreased by 6.8%, primarily due to the performance of net interest income and profits on trading. Operating costs were essentially in line with 2015. Gross income amounted to 91 million euro, up compared to the previous year (+11.7%), following the lower adjustments to loans, while net income was 82 million euro (+13.3%).

**Intesa Sanpaolo Banka Bosna i Hercegovina closed 2016 with an operating margin of 20 million euro, up on the previous year (+4.9%).** This performance is attributable to the increase in operating income, which more than offset the growing operating costs. Gross income, amounting to 16 million euro, increased by 10.4%, while net income came to 14 million euro (+5.4%).

**Intesa Sanpaolo Bank Albania** reported an operating margin of 21 million euro, down on 2015 (-19.9%), due to a decline in revenues, while operating costs remained essentially stable. Gross income came to 20 million euro, up on the previous year (+5.5%) consequently to the recoveries on loans. Net income was 17 million euro, up by 5.1%.

**Intesa Sanpaolo Bank Romania** recorded an operating margin of 14 million euro, down (-2%) compared to 2015 due to the decline in operating income (-7.7%), primarily attributable to lower interest income, partly offset by the decline in operating costs (-10.7%). The company reported a net income of 3 million euro, compared to a net loss of 29 million euro in 2015, essentially due to lower net adjustments to loans.

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### Central-Eastern Europe

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**Intesa Sanpaolo Bank** (formerly **Banka Koper**) generated operating income of 77 million euro, down 9.4% compared with the previous year as a result of negative trends in net interest income, profits on trading and net fee and commission income. Operating costs were down compared to 2015 (-3%). Net income, amounting to 20 million euro, grew by 70.8%, mainly due to the capital gains achieved on the sale of ISP Card and the equity investment in Visa Europe.

**VUB Banka** Group recorded an operating margin of 273 million euro, down (-9.2%) on the previous year as a result of a declining trend in operating income (-4.3%) and an increase in operating costs (+2.3%). On the revenue side, all components declined, with the exception of profits on trading. Gross income, amounting to 219 million euro, recorded a decrease of 1.5%, while net income amounted to 157 million euro (-4.3%).

The **CIB Bank** Group (excluding the FUT business unit, which now houses the non-performing loans managed by the Capital Light Bank) recorded operating income of 169 million euro, up 4.2% compared to 2015, mainly due to the increase in profits on trading. Operating costs recorded significant savings (-13.1%), especially in administrative expenses. Net income recorded a positive balance of 49 million euro, compared to net income of 1.7 million euro posted in the previous year.

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### Commonwealth of Independent States & South Mediterranean

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**Banca Intesa – Russia** closed 2016 with net income of 4.8 million euro, compared to a net loss of 33 million euro in 2015. Operating income decreased (-23.6%) due to the decline in net interest income and profits on trading. Operating costs reported a decrease of 11%. Net adjustments to loans amounted to 13 million euro, down considerably compared to 2015.

**Bank of Alexandria** reported an operating margin of 189 million euro, lower than in 2015 (-13.4%, +11.5% at like-for-like exchange rates). Operating income of 331 million euro declined (-15.9%, +8.4% at like-for-like exchange rates), mainly as a result of the lower contribution of net interest income, fee and commission income and profits on trading. Operating costs declined (-18.9%; +4.4% at like-for-like exchange rates), attributable to all components. Net income came to 122 million euro, down 16.2% on 2015 (+7.9% at like-for-like exchange rates). The bank's results were impacted by the depreciation of the Egyptian currency which occurred in 2016.



## Private Banking

| Income statement  | 2016         | 2015         | (millions of euro) |            |
|---|--------------|--------------|--------------------|------------|
|   |              |              | Changes amount     | %          |
| Net interest income   | 175          | 201          | -26                | -12.9      |
| Net fee and commission income   | 1,527        | 1,449        | 78                 | 5.4        |
| Income from insurance business  | -            | -            | -                  | -          |
| Profits (Losses) on trading   | 31           | 27           | 4                  | 14.8       |
| Other operating income (expenses)                                     | 7            | 3            | 4                  |            |
| <b>Operating income</b>   | <b>1,740</b> | <b>1,680</b> | <b>60</b>          | <b>3.6</b> |
| Personnel expenses  | -292         | -290         | 2                  | 0.7        |
| Other administrative expenses   | -227         | -226         | 1                  | 0.4        |
| Adjustments to property, equipment and intangible assets              | -15          | -16          | -1                 | -6.3       |
| <b>Operating costs</b>  | <b>-534</b>  | <b>-532</b>  | <b>2</b>           | <b>0.4</b> |
| <b>Operating margin</b>   | <b>1,206</b> | <b>1,148</b> | <b>58</b>          | <b>5.1</b> |
| Net adjustments to loans  | 6            | -            | 6                  | -          |
| Net provisions and net impairment losses on other assets              | -44          | -39          | 5                  | 12.8       |
| Other income (expenses)   | -            | -            | -                  | -          |
| Income (Loss) from discontinued operations                            | -            | -            | -                  | -          |
| <b>Gross income (Loss)</b>  | <b>1,168</b> | <b>1,109</b> | <b>59</b>          | <b>5.3</b> |
| Taxes on income   | -339         | -332         | 7                  | 2.1        |
| Charges (net of tax) for integration and exit incentives              | -35          | -30          | 5                  | 16.7       |
| Effect of purchase price allocation (net of tax)                      | -84          | -84          | -                  | -          |
| 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>710</b>   | <b>663</b>   | <b>47</b>          | <b>7.1</b> |

|  | 31.12.2016 | 31.12.2015 | (millions of euro) |      |
|--|------------|------------|--------------------|------|
|  |            |            | Changes amount     | %    |
| Assets under management <sup>(1)</sup> | 104,129    | 98,691     | 5,438              | 5.5  |
| Risk-weighted assets                   | 9,727      | 8,624      | 1,103              | 12.8 |
| Absorbed capital                       | 960        | 851        | 109                | 12.8 |

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

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

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

In 2016, in a scenario of high market volatility, the Division achieved gross income of 1,168 million euro, up (+59 million euro, or +5.3%) on 2015, mainly as a result of higher operating income (+60 million euro) and profits on disposals of bonds in the loan portfolio (+6 million euro). Operating costs moved in the opposite direction (+2 million euro) as well as allowances and net adjustments to other assets (+5 million euro).

The operating income performance was essentially attributable to the increase in net fee and commission income (+78 million euro), only partly offset by the reduction in the interest margin (-26 million euro). Operating costs increased by 2 million euro and provisions by 5 million euro, mainly due to the discounting of the provisions for risks, which, as a result of the declining trend of interest rates, led to a higher charge to the income statement. Net income was 710 million euro (+47 million euro or +7.1%).

The values of assets under administration have been restated in accordance with the reporting criteria for indirect customer deposits used in the Intesa Sanpaolo Group's consolidated financial statements, involving in particular the elimination of customer current accounts correlated with investment transactions, bonds and certificates that, despite being part of customers' assets, are already included in direct customer deposits. In addition, third-party products were reallocated from assets under management to assets under administration.

As at 31 December 2016, assets under administration, which also include the contribution of the trust mandates for Sirefid, amounted to 166 billion euro (+3.1 billion euro compared to the end of 2015). This trend is mainly attributable to the positive performance of net inflows. The assets under management component amounted to 104.1 billion euro, up by 5.4 billion euro, essentially due to the strong performance of life insurance.

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|                                 |   |
|---------------------------------|---|
| <b>Business</b>                 | Generating new inflows of assets and managing them, using a network of financial advisors and in-house private bankers serving a customer base with high savings potential.   |
| <b>Mission</b>                  | Improve and broaden the product portfolio and increase the service levels by allowing the customers to choose the network which best satisfies their needs; assist customers in the informed management of their wealth, based on a detailed analysis of their real requirements and risk profile; and offering fully transparent financial and pensions advice in accordance with the regulations. |
| <b>Organisational structure</b> |   |
| Fideuram                        | Dedicated to the production, management and distribution of financial products and services to high profile customers, using a network of 5,000 Fideuram and Sanpaolo Invest financial advisors.  |
| Intesa Sanpaolo Private Banking | Bank dedicated to private customers (with over 1 million euro in financial assets), providing financial services which are designed to preserve and increase wealth and provide continuity, using a network of over 800 in-house private bankers.   |
| SIREFID                         | Company specialised in the provision of fiduciary services.   |
| <b>Distribution structure</b>   | Network of 225 branches in Italy, three branches abroad and 5,848 financial advisors and private bankers.   |

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## Asset Management

| Income statement  | 2016        | 2015        | (millions of euro) |              |
|---|-------------|-------------|--------------------|--------------|
|   |             |             | Changes amount     | %            |
| Net interest income   | 1           | 1           | -                  | -            |
| Net fee and commission income   | 567         | 670         | -103               | -15.4        |
| Income from insurance business  | -           | -           | -                  | -            |
| Profits (Losses) on trading   | 11          | 1           | 10                 |              |
| Other operating income (expenses)                                     | 68          | 87          | -19                | -21.8        |
| <b>Operating income</b>   | <b>647</b>  | <b>759</b>  | <b>-112</b>        | <b>-14.8</b> |
| Personnel expenses  | -64         | -65         | -1                 | -1.5         |
| Other administrative expenses   | -76         | -77         | -1                 | -1.3         |
| Adjustments to property, equipment and intangible assets              | -1          | -           | 1                  | -            |
| <b>Operating costs</b>  | <b>-141</b> | <b>-142</b> | <b>-1</b>          | <b>-0.7</b>  |
| <b>Operating margin</b>   | <b>506</b>  | <b>617</b>  | <b>-111</b>        | <b>-18.0</b> |
| Net adjustments to loans  | -           | -           | -                  | -            |
| Net provisions and net impairment losses on other assets              | 1           | -3          | 4                  |              |
| Other income (expenses)   | -           | -           | -                  | -            |
| Income (Loss) from discontinued operations                            | -           | -           | -                  | -            |
| <b>Gross income (Loss)</b>  | <b>507</b>  | <b>614</b>  | <b>-107</b>        | <b>-17.4</b> |
| Taxes on income   | -139        | -139        | -                  | -            |
| 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  | -11         | -9          | 2                  | 22.2         |
| <b>Net income (loss)</b>  | <b>357</b>  | <b>466</b>  | <b>-109</b>        | <b>-23.4</b> |

|                         | 31.12.2016 | 31.12.2015 | (millions of euro) |      |
|-------------------------|------------|------------|--------------------|------|
|                         |            |            | Changes amount     | %    |
| Assets under management | 238,804    | 226,885    | 11,919             | 5.3  |
| Risk-weighted assets    | 1,130      | 1,135      | -5                 | -0.4 |
| Absorbed capital        | 126        | 124        | 2                  | 1.6  |

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

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

Overall, the total assets managed by the Asset Management Division at the end of December 2016 came to 238.8 billion euro, growing (+5.3% equal to +11.9 billion euro) year-on-year, as a result of net inflows and a favourable performance, despite financial market volatility. During 2016, net inflows came to 9 billion euro (of which 2.8 billion euro in the fourth quarter), mainly due to the contribution from mutual funds (3.6 billion euro, of which 1.4 billion euro in the fourth quarter) and institutional mandates (9 billion euro of which 2 billion euro in the fourth quarter), mostly concentrated in insurance contracts, which more than offset the outflows relating to the retail sale of portfolio management schemes (-3.6 billion euro of which -0.5 billion euro in the fourth quarter).

As at 31 December 2016, Eurizon Capital's market share of assets under management was 14.7% (gross of duplications), up year-on-year. Excluding the closed-end funds segment, in which the company does not operate, the share of assets under management at the end of December 2016 rose to 15.1%.

Operating income for 2016, amounting to 647 million euro, decreased by 14.8% compared to the previous year, mainly in relation to the negative performance of net fee and commission income (-15.4%). The declining performance of net fee and commission income is essentially due to the resizing of incentive commissions collected on the products managed (-149 million euro compared to 2015), only partly offset by the increase in management fees related to the development of average assets under management, which exceeded the level of the previous year. Operating costs showed a slight decrease (-0.7%), thanks to the streamlining of personnel and administrative expenses. As a result of the above revenue and cost trends, the operating margin

came to 506 million euro, down 18%. The Division closed 2016 with net income of 357 million euro (-23.4% compared to the previous year), penalised by Eurizon Capital SGR's payment of higher taxes and interest for a total of 38 million euro due to the settlement of tax charges for the tax periods 2011 to 2015.

Among significant corporate events, it is worth noting that on 14 December 2016 the corporate reorganisation process that resulted in the acquisition by Eurizon Capital S.A. of total control of VUB Asset Management (previously 50.12%-controlled, with VUB Banka holding 40.55% and Privredna Banka Zagreb holding 9.33%) was finalised.

On 1 July 2016 Eurizon Capital SGR acquired a 65% equity investment in SLJ Macro Partners, subsequently renamed Eurizon SLJ Capital, a British company primarily engaged in macroeconomic research, currencies and the advisory business on investments and portfolio management.

Lastly, on 30 September 2016, Eurizon Capital SGR, Intesa Sanpaolo and Fideuram - Intesa Sanpaolo Private Banking established the Chinese wealth management company Yicai, headquartered in Qingdao.

|   |   |
|---|---|
| <b>Business</b>                             | Asset management.   |
| <b>Mission</b>                              | To provide collective and individual asset management products to the Group's internal banking networks and develop its presence on the open market through specific distribution agreements with other networks and institutional investors. |
| <b>Organisational structure</b>             |   |
| Eurizon Capital SGR                         | Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of investment products and services.                          |
| Epsilon Associati SGR                       | Specialised in active portfolio management, and in particular in quantitative and multi-strategy management, with total return investment objectives. It is 51% owned by Eurizon Capital SGR, with the remaining 49% held by Banca IMI.       |
| Eurizon Capital S.A.<br>(Luxembourg)        | The company manages and distributes Luxembourg UCI products aimed at retail and institutional customers and offers a wide range of services dedicated to institutional investors. It specialises in limited tracking error (LTE) management.  |
| Eurizon Capital (HK) Ltd.<br>(Hong Kong)    | A company wholly owned by Eurizon Capital S.A., established to develop consulting activities on financial instruments and portfolio management in the Asian market.   |
| VUB Asset Management<br>(Slovakia)          | A Slovak asset management company, 100%-owned by Eurizon Capital S.A., which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub).  |
| Penghua Fund Management<br>Company Limited  | Chinese fund manager 49% owned by Eurizon Capital SGR.  |
| Allfunds Bank S.A.                          | A multimanager distribution platform of mutual funds intended for institutional investors, 50% owned by Eurizon Capital SGR and 50% by AFB SAM Holdings S.L. (Santander Group).   |
| Eurizon SLJ Capital Ltd (U.K.)              | An English company controlled by Eurizon Capital SGR through a 65% interest that conducts research and provides investment and advisory services.   |
| Qingdao Yicai Wealth<br>Management Co. Ltd. | A Chinese company headquartered in Qingdao, established on 30 September 2016. The company is 20%-owned by Eurizon Capital SGR, 55%-owned by Intesa Sanpaolo and 25%-owned by Fideuram-Intesa Sanpaolo Private Banking.                        |

**Insurance**

| Income statement  | 2016         | 2015         | (millions of euro) |            |
|---|--------------|--------------|--------------------|------------|
|   |              |              | Changes amount     | %          |
| Net interest income   | -            | -            | -                  | -          |
| Net fee and commission income   | -            | -            | -                  | -          |
| Income from insurance business  | 1,179        | 1,100        | 79                 | 7.2        |
| Profits (Losses) on trading   | -            | -            | -                  | -          |
| Other operating income (expenses)                                     | -7           | 2            | -9                 |            |
| <b>Operating income</b>   | <b>1,172</b> | <b>1,102</b> | <b>70</b>          | <b>6.4</b> |
| Personnel expenses  | -71          | -67          | 4                  | 6.0        |
| Other administrative expenses   | -100         | -90          | 10                 | 11.1       |
| Adjustments to property, equipment and intangible assets              | -2           | -3           | -1                 | -33.3      |
| <b>Operating costs</b>  | <b>-173</b>  | <b>-160</b>  | <b>13</b>          | <b>8.1</b> |
| <b>Operating margin</b>   | <b>999</b>   | <b>942</b>   | <b>57</b>          | <b>6.1</b> |
| Net adjustments to loans  | -            | -            | -                  | -          |
| Net provisions and net impairment losses on other assets              | -12          | -19          | -7                 | -36.8      |
| Other income (expenses)   | 21           | -            | 21                 | -          |
| Income (Loss) from discontinued operations                            | -            | -            | -                  | -          |
| <b>Gross income (Loss)</b>  | <b>1,008</b> | <b>923</b>   | <b>85</b>          | <b>9.2</b> |
| Taxes on income   | -315         | -258         | 57                 | 22.1       |
| Charges (net of tax) for integration and exit incentives              | -5           | -4           | 1                  | 25.0       |
| Effect of purchase price allocation (net of tax)                      | -19          | -31          | -12                | -38.7      |
| 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>669</b>   | <b>630</b>   | <b>39</b>          | <b>6.2</b> |

|                         | 31.12.2016 | 31.12.2015 | (millions of euro) |      |
|-------------------------|------------|------------|--------------------|------|
|                         |            |            | Changes amount     | %    |
| Assets under management | 144,321    | 133,145    | 11,176             | 8.4  |
| Risk-weighted assets    | -          | -          | -                  | -    |
| Absorbed capital        | 4,416      | 4,618      | -202               | -4.4 |

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

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

In 2016 the Insurance Division reported income from insurance business of 1,179 million euro, up by 79 million euro (+7.2%) on 2015 thanks to the improvement in the technical margin, specifically attributable to development of the non-life business. The year 2015 had benefited from the extraordinary contribution of 58 million euro deriving from the sale of the equity investment in the insurance company Union Life. Net of that component, the increase in income from insurance business is around +13%.

Operating income showed the same trend, reporting an increase of 6.4%. In the presence of an increase in operating costs (+13 million euro), the operating margin reached 999 million euro, up by 6.1%.

The cost/income ratio, amounting to 14.8%, increased slightly on the previous year (moreover, net of the mentioned extraordinary effect of 2015, this ratio improved).

Gross income, amounting to 1,008 million euro, reported a positive trend (+85 million euro, equal to +9.2%), benefiting from the capital gain on the sale of a property owned by Intesa Sanpaolo Vita for 21 million euro, as part of a larger project of rationalising the Intesa Sanpaolo Group's real-estate assets.

Net income amounted to 669 million euro (+39 million euro, or +6.2%). By excluding the capital gain on the above sale of the equity interest in Union Life in 2015 and that deriving from the sale of the property in 2016, net income increased by approximately 12%.

Direct deposits from insurance business, amounting to 144,321 million euro, increased 8.4% since the end of December 2015, largely attributable to the development of financial liabilities of the insurance segment designated at fair value and of technical reserves.

Collected premiums for life policies in 2016 amounted to 23.9 billion euro, lower than in 2015, but at high levels in any case when considering financial market volatility. During 2016 the diversification of the product range continued, in favour of efficient products in terms of capital absorption. In the fourth quarter, the products available on the Private network (Fideuram Private Mix and Synthesis) were consolidated, adding a fund with protection to multi-line products, and developments were launched to extend individual capital production also to unit-linked products.

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

|                                 |   |
|---------------------------------|---|
| <b>Business</b>                 | Life and Non-Life Insurance.  |
| <b>Mission</b>                  | Develop the offering of insurance products for the Group's customers.   |
| <b>Organisational structure</b> |   |
| Intesa Sanpaolo Vita            | Insurance parent company specialised in offering insurance, pension and personal and asset protection services within Banca dei Territori. The Company owns 100% of Intesa Sanpaolo Life, Intesa Sanpaolo Assicura and Intesa Sanpaolo Smart Care, a company specialising in the creation of innovative digital solutions to combine with insurance products. |
| Intesa Sanpaolo Life            | Specialised in life insurance products with a higher financial content, such as unit-linked products and life insurance policies linked to internal funds.  |
| Intesa Sanpaolo Assicura        | Dedicated to the non-life business, it offers customers a wide range of products capable of covering personal injury, damage to vehicles and to the home and loan protection  |
| Intesa Sanpaolo Smart Care      | Dedicated to marketing hardware and software products and providing electronic assistance services.   |
| Fideuram Vita                   | Specialised in offering insurance, pension and personal and asset protection products in service of the Private Banking Division.   |

## Corporate Centre

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

The Corporate Centre Departments generated a gross loss of 2,896 million euro in 2016, compared to -2,223 million euro in the previous year. With revenues and operating costs essentially stable, this trend was mainly due to higher adjustments to loans posted in the scope of operations of Capital Light Bank as well as the charges regarding the settlement of the US lawsuit with the supervisory body for the State of New York (-225 million euro). The net loss amounted to 2,613 million euro, compared to -1,942 million euro in 2015.

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## Capital Light Bank

The process of reducing the assets attributable to the Capital Light Bank continued in 2016. In particular, the assets contributed with the definition of the 2014-2017 Business Plan were reduced by approximately 7 billion euro during the year, bringing the total deleveraging since 2013 to over 17 billion euro. In addition, on the assets contributed in the first half of 2015, i.e. the former Merchant Banking and Accedo investments and funds (the product company specialised in extra-captive consumer credit), a deleveraging of about 3 billion euro in 2016 should be noted. This reduction is almost entirely attributable to the sale without recourse, finalised in May, of a portfolio of performing consumer loans of approximately 2.6 billion euro, included among Accedo's assets. The disposal of non-core assets also regarded the sale, in the last few months of 2016, of the network of agents and financial intermediaries pertaining to Accedo, with which agreements were entered into to terminate the mandate at the end of the year.

With regard to the portfolio of bad loans under management, the recovery activity, carried out both internally and through external servicers, collected almost 1.2 billion euro in 2016, which confirmed the ongoing improvement trend, with an increase of over 20% on the previous year. This result was positively influenced by the contest dedicated to internal managers and benefited from the latest reorganisations of the Loan Recovery Department. The bad lease positions managed by Provis continued to be subject to both ordinary monitoring of repossessed assets, and of moveable assets in particular, and extraordinary monitoring. Projects to integrate IT systems, defined when the assets were contributed to the company, continued. Re.O.CO. carried out activities with the intention of 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. Cases for intervention were chosen carefully so as to reconcile the objective of maximising the recovery of bad positions secured by real-estate assets with the goal of minimising the investment of additional capital. In 2016, driven by supporting action and direct participation in auctions for over 120 properties, approximately 11 million euro of properties were sold. With regard to real-estate assets, in December, the closing was held on the sale of a portfolio of properties in Italy, previously repossessed by various Group companies. Concerning the international subsidiaries, the deleveraging activities involving the Ukrainian Pravex bank continued, in line with the Bank's business plan and given the country's political and economic situation, with a further rationalisation of the branch network and headcount. The FUT Division of the Hungarian subsidiary CIB Bank positively continued its deleveraging activities, involving in particular the sale of packages of non-performing loans. With regard to non-strategic equity investments, the sale of a subsidiary company operating in the infrastructure sector was finalised in September, resulting in a significant reduction of assets, and other minor equity interests were sold during the year.

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## 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.

During the year, Intesa Sanpaolo confirmed its role of "system-wide bank" for payment systems in euro, obtaining the certification as "critical participant" in Target2 by the European Central Bank and the validation of the processes relating to this activity to obtain the ISO 22301 external certification. In terms of project activity, work continued which will result in the complete migration of European nations to the T2S platform in the last two migration windows (February - September 2017). With regard to settlements, the Bank launched a collaboration at European level (EBA and SWIFT), which continued during the year, for the purpose of creating market infrastructures for the settlement of "Instant payments": these projects are part of a broader context for the development of settlement services promoted by the ECB, with a view to adapting its platforms to the continuous technological evolution and the service standards required by customers.

In the initial months of 2016, the money markets were characterised by considerable uncertainties regarding the outlook of the global economy, which generated significant volatility and a marked aversion to risk by investors. These tensions led the ECB to announce new measures of monetary stimulus such as the cut in official rates. In particular, the main refinancing rate was cut to 0%, the deposit rate to -0.40% and the marginal lending rate to 0.25%. As a result of the referendum on the United Kingdom leaving the European Union, market volatility rose sharply, with the collapse of the GBP and a violent flight-to-quality on all asset-classes. The ECB continued monitoring, though not interfering post-Brexit. At its December meeting, it approved the extension of the quantitative easing programme to December 2017, while decreasing the scope of the monthly purchases from 80 billion euro to 60 billion euro starting in April. It is important to note, with regard to the programme parameters, that the flexibility of the ECB's action in the event that new risks for the economy arise remains unchanged. Short-term rates, which were not affected by additional cuts in the official rates by the Central Bank, remained completely extraneous to the volatility of the longer-term rates.

In December, the Fed raised official interest rates, as extensively expected by the market, also planning a series of rises at a quicker pace in the coming years. In the Eurosystem, liquidity remained high over the entire year. The ECB conducted three TLTRO II auctions which the Intesa Sanpaolo Group participated in for a total of approximately 45 billion euro. In the middle of the year, Intesa Sanpaolo's short-term securities funding programme declined slightly on the first quarter, to then stabilise at the end of the year. Overall, there was a sharp increase in liquidity, which was also related to growth in funding on customer current accounts.



For the government bond portfolio, investment strategies during the year aimed at maintaining the diversification of government risk, reducing the size, credit sensitivity and residual life of the non-government portfolio. In the meantime the performance of the AFS portfolio improved, benefiting from the tightening of the spread following the announcement of quantitative easing in the first quarter, and from the post-Brexit, in the third quarter.

On the repo market, spreads between repo rates on the government bonds of core countries and those on Italian government bonds gradually expanded since the beginning of the year. The phenomenon was particularly marked in the fourth quarter, when the demand for core collateral, in Germany, the Netherlands and France above all, brought the repo rates of these countries to significantly negative levels. Italian repo rates traded, conversely, at deposit facility levels or slightly below. This performance is mainly attributable to the significant surplus liquidity on the market.

Medium/long-term funding recorded a slight decrease in deposits compared to the previous year.

In the domestic retail market, the total issues of Group securities placed through own and third-party networks amounted to 4.7 billion euro: of which 64% consisted of structured financial instruments (primarily represented by index-linked structures) and 36% of plain vanilla issues. A breakdown by average maturity shows a concentration of 5-, 6- and 7-year maturities (with a weight of 69%), whilst 17% is comprised of by 2-, 3- and 4-year securities and the remaining 14% of 8- and 10-year securities.

On international markets, approximately 6 billion euro in institutional funding was completed through the issue of senior and subordinated bonds (private placements and public transactions). The securities were placed on the Euromarket, on the US market and on the Asian market. In particular, during 2016, Intesa Sanpaolo placed a fixed-rate Additional Tier 1 issue of 1.25 billion euro targeted at the international markets, a fixed-rate T2 subordinated instrument of 1.5 billion USD (equal to approximately 1.4 billion euro) with a 10-year maturity, targeted at the US and Canadian markets and a Formosa Bond of 63 million USD (equal to approximately 57.6 million euro), which is a senior, fixed-rate bond with a 12-year maturity, targeted at the Asian market.

As part of the covered bond issue programme guaranteed by ISP CB Ipotecario, in March a new issue of covered bonds was placed on the institutional market, the 19th fixed-rate series, for 1.25 billion, maturing in seven years. The securities are listed on the Luxembourg Stock Exchange and rated Aa2 by Moody's. In the second half of the year, as part of the same programme, two floating rate securities were issued, the 20th and 21st series, in amounts of 1.25 billion euro and 2.2 billion euro, maturing in four and eight years, respectively. These are also listed on the Luxembourg Stock Exchange and rated Aa2 by Moody's, and are both subscribed by the Parent Company for refinancing on the Eurosystem.

As part of the covered bond issue programme guaranteed by ISP CB Pubblico, the 8th and 9th series were redeemed in advance, for amounts of 2.2 billion euro and 1 billion euro, respectively. In April, following those redemptions, the 11th and 12th floating-rate series were concurrently issued, for amounts of 1.1 billion euro, maturing in two years, and 1.275 billion euro, maturing in seven years. The new securities, fully subscribed by the Parent Company and eligible on the Eurosystem, are listed on the Luxembourg Stock Exchange and rated A1 by Moody's. Moreover, as part of the multi-originator issue programme guaranteed by ISP OBG, in June, the 20th series was issued for an amount of 1.6 billion euro, maturing in seven years, and in September, the 21st and 22nd floating rate series were issued for 1.75 billion euro each.

As regards management of the collateral eligible for refinancing operations at central banks, Intesa Sanpaolo uses the A.Ba.Co. (Collateralised Bank Assets) procedure, which allows bank loans disbursed to non-financial companies to be used to secure loan transactions with the Bank of Italy. This procedure is implemented in compliance with the Bank of Italy regulations "Eurosystem Monetary Policy Instruments - Guide for Operators". At the end of December 2016, the outstanding amount of loans lodged as pledge by the Group, gross of the applicable haircuts, was 12.75 billion euro.

### Active Value Management (AVM)

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

### Integrated Operational Strategies Area

In particular, the Integrated Operational Strategies Area was appointed with the task to ensure the definition and development of the target technological model of Intesa Sanpaolo and of efficient and effective organisational solutions, aimed at supporting the implementation of the initiatives scheduled under the Business Plan and the programs for compliance to sector-specific regulations, as well as to define the guidelines and policies in terms of physical, IT and business continuity security and to manage back office processing activities related to finance, securities, banking services, loans, services and systems for collection and payment in Italy and abroad, while pursuing the efficiency needed for optimum cost governance.

The Personnel and Organisation Head Office Department, the ICT Head Office Department and the Operations Head Office Department report to the Integrated Operational Strategies Area. The Digital Factory has functionally reported to this Department since April 2016 as well as the Information Security and Business Continuity Sub-department since the initial months of 2016.

In 2016 the latter Sub-department was involved in the organisational development of the IOS Area, which involved the creation of a dedicated structure to oversee the processes of analysis and management of IT security and business continuity risks at Group level, concentrating under a single point of responsibility activities previously located in the Personnel and Organisation Department and the ICT Department. The structure was assigned the role of Information Security Officer.

The Cyber Security Program has been launched in this area. It is planned to develop over the two year period 2016/2017, and aims to increase the Group's maturity through more efficient and effective threat management, as well as strengthen the capabilities and structures needed to mitigate the risk induced by cyber attacks.

In 2016, working with and supporting the Group structures, the IOS Area specifically focused on implementing projects for the development, streamlining and optimisation of operating processes, including digitalisation activities via end-to-end logics, support of new business, definition of new data governance methods and corporate simplification envisaged by the Business Plan. The Area Structures contributed to the execution of organisational and infrastructural measures required by the evolution of the domestic, EU and international regulatory frameworks. The insourcing of activities for the purpose of reducing costs and reappropriating competencies continued.

In 2016 the activities in the Group IT Plan also continued, with the purpose of increasing the centrality of the customer, improving the "user experience", reducing time-to-market in the creation of IT solutions, support the end-to-end digitisation of processes and strengthen the governance and oversight of IT security.

The Digital Factory program, which involved active participation by qualified persons of all three Head Office Departments reporting to the IOS Area falls within the context of a digital transformation process undertaken by the Group in recent years, which aims to set the foundations for the digitisation of processes, keeping focus on costs and on continuous efficiency improvement.

In 2016 Digital Factory completed the activities on the Granting Retail Mortgages, Inheritance Planning and Mortgage Renegotiations processes, finalising their roll out to the Network. Activities were also begun for the creation of nine additional processes, of which five - Specialised International, Online Branch, Remote Banking Contracts, Retail Proactive Lending and Business & Corporate Proactive Lending - have completed the pilot stage and are in the engineering phase. The other processes - Authorisations, Seizures and Portfolio - are being redesigned. In 2016 the Digital Factory program was awarded the National Innovation Award, presented by the President of the Republic to initiatives that best represent Italy.

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### Chief Innovation Officer Area

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The Chief Innovation Officer (CIO) Governance Area has the task of identifying, analysing and developing innovation activities, guaranteeing their monitoring, coordination and consistency at Group level, searching for innovative solutions on the national and international markets to identify development opportunities for the Group and its customers. The Area defines, in line with business strategies and objectives, the guidelines and policies on Group's innovation, proposing new projects that are in line with the main innovation trends, so that they can be translated into actions to support the achievement of the Bank's growth objectives.

This structure governs innovation initiatives and the related investments, along with the competent company structures, taking on the most appropriate role each time to achieve successful projects. The Area, in partnership with the other Group structures, also acts as the driver of innovation initiatives throughout the country, building a national and international network of relations with the ecosystem, promoting valuable partnerships with companies, incubators, research centres, universities and other institutions. The structure also pursues the objective of disseminating the culture of innovation within the Group.

The initiatives promoted by the Innovation Center during 2016, working with the other departments of the Bank, can be attributed to two main areas of action.

#### Structural/Ongoing activities in the CIO Area

- Consolidation of the Group Innovation Portfolio for 2016, which represents the Bank's commitment to investing resources in innovation;
- Coordination of innovation partnerships with national and international universities, research centres, companies and incubators;
- Establishment in April 2016 of the Corporate Venture Capital vehicle, Neva Finventures S.p.A.;
- Cross-industry innovation monitor;
- Application of service design to various project areas;
- Continuation of the StartUp Initiative cycle of events to accelerate international start-ups in Italy and in London, training 105 start-ups to be subsequently presented to investors and customers;
- Expansion of the online services of Officine Formative, the training, coaching and acceleration process for early-stage start-ups;
- Creation of events and workshops to disseminate and promote the culture of innovation and increase the Bank's positioning, involving internal and external stakeholders (colleagues, customers, institutions and start-ups).

#### New initiatives to compete in the world of tomorrow

##### *Initiatives to promote and create new digital capabilities:*

- digital payments, the creation of prototypes to define the best customer experience (buyer-side and merchant-side) for digital payments using innovative technologies (e.g. ultrasound);
- Blockchain and Virtual Currencies, a consortium and institutional collaboration was launched to assess the application of blockchain technology in accordance with the regulatory and functional requirements typical of the traditional financial world;
- Big Data / Advanced Analytics, in the retail and business areas;
- Biometrics, solutions to simplify the user experience and ensure continuous monitoring of activities to identify anomalous behaviour to combat fraud. Analyses and prototypes of the most important solutions currently on the market have been developed.

**Circular Economy:** in 2016 the activities planned as part of the partnership signed with the Ellen MacArthur Foundation continued. Joint initiatives have also been launched with the Business Units and Head Office Departments of the Bank to promote the Circular Economy through workshops dedicated to Group customers with various industries and by creating a Master's degree on Bioeconomy and Circular Economy in partnership with four leading universities.

**Initiatives for the development of new products/services to support innovation for businesses:**

- Diligence Assessment Tool Scorecard (DATS): a new tool (known as a “tech assessment”) to support managers and lending decision makers during the loan application assessment phase for innovative start-ups and SMEs, which introduces a model that provides an initial qualitative assessment of these businesses;
- A guaranteed convertible loan for innovative companies: this initiative aims to expand the Group's financial range of products and services supporting high potential innovative Italian companies by offering guaranteed loans with an option of conversion to equity. Project activities are at an advanced stage, with the goal of launching a Pilot convertible loan in the first quarter of 2017.

## GEOGRAPHICAL AREAS

(millions of euro)

|  | Italy   | Europe | Rest of the World | Total   |
|--|---------|--------|-------------------|---------|
| <b>Operating income</b>                      |         |        |                   |         |
| 2016   | 12,940  | 2,888  | 1,101             | 16,929  |
| 2015   | 13,371  | 2,886  | 929               | 17,186  |
| % change <sup>(a)</sup>                      | -3.2    | 0.1    | 18.5              | -1.5    |
| <b>Loans to customers</b>                    |         |        |                   |         |
| 31.12.2016                                   | 306,142 | 43,773 | 14,798            | 364,713 |
| 31.12.2015                                   | 294,900 | 37,829 | 14,604            | 347,333 |
| % change <sup>(b)</sup>                      | 3.8     | 15.7   | 1.3               | 5.0     |
| <b>Direct deposits from banking business</b> |         |        |                   |         |
| 31.12.2016                                   | 329,438 | 57,902 | 6,458             | 393,798 |
| 31.12.2015                                   | 310,520 | 51,337 | 10,343            | 372,200 |
| % change <sup>(b)</sup>                      | 6.1     | 12.8   | -37.6             | 5.8     |

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

<sup>(a)</sup> The change expresses the ratio between 2015 and 2014.

<sup>(b)</sup> The change expresses the ratio between 31.12.2015 and 31.12.2014.

With regard to subdivision by geographical areas, the activities of the Intesa Sanpaolo Group continued to be concentrated primarily in the Italian market. Italy accounted for 76% of revenues and 84% of both loans to customers and direct deposits from banking business. Abroad, the Group has a significant presence in Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia and Herzegovina, Albania, Romania), in the Russian Federation and in the Mediterranean area (Egypt). As regards the performance of operations in 2016, intermediated volumes grew both in Italy and, even more sharply, in Europe, both in bank funding and loans to customers, while in the rest of the world, loans to customers increased slightly and direct deposits from banking business declined. Operating income decreased moderately in Italy, against substantial stability in Europe and growth in the rest of the world.

Further detailed information with reference to the individual foreign countries where the Group operates, are published in compliance with Art. 89 of Directive 2013/36/EU of the European Parliament and of the Council (CRD IV), via the following link [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com).

# **Corporate governance and remuneration policies**



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# Corporate Governance and remuneration policies

## Corporate Governance

Intesa Sanpaolo adheres to the objectives and guidelines of the Corporate Governance Code for listed companies, and its one-tier corporate governance system is in line with the principles contained therein (for which a report is provided, describing the adjustments deemed appropriate) as well as, in general, with national and international best practices, which aim to ensure, also in accordance with the Supervisory Authority provisions, effective and transparent distribution of the roles and responsibilities of its corporate Bodies and a proper balance of strategic supervision, management and control functions.

For a detailed description of the corporate governance system, reference is made to the "Report on Corporate Governance and Ownership Structures" -

available on the Bank's website (Governance section) - prepared in accordance with Article 123-bis of the Consolidated Law on Finance, which requires issuers to provide the market yearly with a set of information, precisely identified by the said Article, on their ownership structures, their compliance to the corporate governance code, their corporate bodies' structure and operation, as well as their corporate governance practices.

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## Shareholder base

According to records in the Shareholders' Register as at 31 December 2016, shareholders with stakes exceeding 3% – threshold that, if exceeded, requires now communication to both the company and Consob, pursuant to Italian legislation (Art. 120 of the Consolidated Law on Finance "TUF") – were as follows.

| Shareholder                        | Ordinary shares | % held on ordinary share capital |
|------------------------------------|-----------------|----------------------------------|
| Compagnia di San Paolo             | 1,481,372,075   | 9.340%                           |
| Fondazione Cariplo                 | 767,029,267     | 4.836%                           |
| Fondazione C.R. di Padova e Rovigo | 524,111,188     | 3.305%                           |

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

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## One-tier governance system

By resolution of the Extraordinary Shareholders' Meeting of 26 February 2016, which was applied as from 27 April 2016, Intesa Sanpaolo has adopted the one-tier corporate governance system and, therefore, operates through a Board of Directors, with guidance and strategic supervision duties, management duties mainly concentrated on the Managing Director and CEO and control duties, which are performed by a committee entirely made up of independent Board Members (the Management Control Committee).

The practical application of the one-tier system to the Bank's structure is marked by a clear division of roles and responsibilities between the Governing Bodies:

- the Board of Directors of the Company is assigned the guidance and strategic supervision duties and the duty to resolve on all the relevant corporate deeds;
- the internal Board Committees support the Board of Directors in carrying out its functions in order to facilitate the taking of fully informed decisions;
- the Management Control Committee has the powers and functions conferred by the current regulations upon the body with the control function and upon the internal control and audit committee, pursuant to Legislative Decree 39/2010.
- the Managing Director and CEO performs the day-to-day management function, within the scope of the powers delegated by the Board of Directors.

The Managers support the Managing Director and CEO in performing the day-to-day management function: as Management Committees, in performing the tasks and powers assigned to them by the Board of Directors within the scope of specific Regulations; individually or jointly, in exercising the powers conferred upon them by the Board of Directors at the proposal of the Managing Director.

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## The Shareholders' Meeting

The Shareholders' Meeting is the body deemed to represent all shareholders and its resolutions, passed in accordance with the law and the Articles of Association, are binding on all shareholders, irrespective of their attendance or dissent.

In the one-tier system adopted by the Bank, the ordinary Shareholders' Meeting resolves, amongst other things, on:

- the approval of the financial statements and distribution of profits;
- the appointment, revocation and determination of remuneration with respect to the positions of Board Member, Chairman and Deputy Chairperson of the Board of Directors and Chairman and member of the Management Control Committee; the Managing Director is appointed by the Board of Directors from amongst its members;

- the approval of the Board Members' and personnel's remuneration policies, as well as the plans based on financial instruments;
- the appointment and revocation of the statutory audit mandate and the determination of the relative fees;
- the other matters entrusted to its authority by law or by the Articles of Association.

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### The Board of Directors and the Internal Committees

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The Board of Directors is composed of a minimum of 15 up to a maximum of 19 members, including non-shareholders, appointed by the Shareholders' Meeting on the basis of slates submitted by Shareholders. Board Members remain in office for three financial years until the date of the next Shareholders' Meeting called to approve the financial statements and the proposal for allocation of net income in accordance with Article 2364 of the Italian Civil Code and may be re-elected.

The Shareholders' Meeting of Intesa Sanpaolo, held in ordinary session on 27 April 2016, determined the number of members of the Board of Directors as 19 and appointed the Board of Directors for the 2016/2017/2018 financial years, electing as its Chairman Gian Maria Gros-Pietro and as Deputy Chairperson Paolo Andrea Colombo. The meeting also appointed the 5 members of the Board of Directors comprising the Management Control Committee, electing Marco Mangiagalli as its Chairman.

The election took place on the basis of lists of candidates who meet the requirements envisaged by law and by the Articles of Association, presented by Shareholders holding at least 0.5% of the ordinary share capital.

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

Conversely, as regards the corporate management function, the Board of Directors, without prejudice to its powers that cannot be delegated, delegates to the Managing Director the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board. The Board of Directors determined the content, limits and methods of exercise of the powers granted to the Managing Director and CEO, while also defining the methods whereby the Board of Directors is to receive information concerning the delegated activity.

The Board of Directors' meeting held on 28 April 2016 appointed Carlo Messina as Managing Director, thereby granting him the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board.

The Managing Director is the Chief Executive Officer and General Manager and supervises the company's management to the extent of his/her assigned powers, in compliance with the general planning and strategic guidelines set forth by the Board of Directors. He/she is responsible for personnel management and determines operational directives.

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

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

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### The Management Control Committee

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The Management Control Committee, established as part of the Board of Directors, consists of 5 members of the Board of Directors elected by the Meeting of 27 April 2016, who meet the requirements of independence laid down by the Articles of Association.

The Management Control Committee performs the duties assigned by current legislation to the control body of a parent company of a banking group heading a financial conglomerate and issuing listed shares and also operates as the internal control and audit committee pursuant to Article 19, paragraph 2, letter c) of Legislative Decree no. 39/2010.

The Management Control Committee oversees, amongst other things:

- compliance with legal and regulatory provisions and the Articles of Association and the principles of correct management;
- the adequacy, efficiency and functionality of the company's organisational structure and administrative-accounting system to correctly represent the company operations;
- the adequacy, efficiency and functionality of the internal control system and risk management process;
- compliance with the legislation applicable to the Bank in its capacity as the parent company of a banking group issuing shares listed on regulated markets.

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



## The Head Office Departments

Intesa Sanpaolo's Head Office Departments are organised according to a model that is in line with international best practices in terms of Corporate Governance.

The Head Office Departments report to the Chief Officers, who report directly to the Managing Director and CEO:

### *Chief Operating Officer (COO)*

The Chief Operating Officer (COO) is responsible for:

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

Also reporting to the COO is the Human Resources Department, which is responsible for:

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

### *Chief Innovation Officer (CIO)*

The Chief Innovation Officer (CIO) is responsible for:

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

### *Chief Lending Officer (CLO)*

The Chief Lending Officer (CLO) is responsible for:

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

### *Chief Financial Officer (CFO)*

The Chief Financial Officer (CFO) is responsible for:

- ensuring the accurate and timely presentation of income statement and balance sheet results of the Bank and of the entire Group, as well as compliance with the relative accounting and supervisory obligations, performing quality control of the processes governing administrative and financial reporting disclosures to the market, pursuant to the appropriate regulations;
- defining, in accordance with corporate strategies and objectives, the guidelines and policies in terms of research, planning, capital management, credit strategies, management control, and relations with investors and rating agencies;
- facilitating value creation within the Group and ensuring the relative controls, through integrated monitoring of study and research activities, planning, management control and capital management, and optimisation of the financial and credit portfolios;
- coordinating the implementation of guidelines and policies on planning, capital management and management control by the relevant Group business units, and in other corporate areas as appropriate;
- verifying the implementation of said guidelines and policies, also through monitoring of the Group's planning and capital management process, budget development and management control activities;
- verifying, through the appropriate control methods, compliance with the guidelines and policies defined and ensuring the pursuit of effectiveness and efficiency in the service level offered.

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

#### **Chief Compliance Officer (CCO);**

The Chief Compliance Officer (CCO) is responsible for:

- supervising the identification and monitoring of any misalignment of current regulations, and arranging consulting, support and awareness-raising of corporate functions as regards regulations;
- ensuring the monitoring of compliance risk in terms of anti-money laundering, combating the financing of terrorism and embargo management.

#### **Chief Risk Officer (CRO)**

The Chief Risk Officer (CRO) is responsible for:

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

#### **Chief Governance Officer (CGO)**

The Chief Governance Officer (CGO) is responsible for:

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

The areas of responsibility described above do not include:

- The Internal Auditing Head Office Department, which reports directly to the Board of Directors and is responsible for:
  - o ensuring constant and independent auditing of the regular performance of Bank operations and processes for the purpose of preventing or identifying any anomalous or risky conduct or situation, assessing the overall operations of the internal control system and its adequacy in guaranteeing the effectiveness and efficiency of company processes, safeguarding asset value and loss protection, and the reliability and completeness of accounting and management reports, and the compliance of transactions with corporate governance policies and with internal and external regulations;
  - o providing consultancy to the Bank's and the Group's departments, also through participation in projects, for the purpose of adding value and improving effectiveness of control, risk management and governance processes of the organisation;
  - o ensuring supervision of the internal control systems of the Group's subsidiaries, also by exercising governance of and providing guidelines to the respective internal audit functions;
  - o supporting corporate governance and ensuring that Top Management, the Corporate Bodies and the competent Authorities (Bank of Italy, Consob, etc.) promptly and systematically receive information on the status of the control system and on the outcome of activities performed.
- The International and Regulatory Affairs Head Office Department, which reports to the Managing Director and CEO is responsible for:
  - o managing relations with national and international regulators;
  - o overseeing and developing relations with the main stakeholders at the international level;
  - o managing the Group's institutional relations, promoting and directing relations with institutional bodies, associations and national and international trade associations;
  - o representing the Group's position in institutional venues as regards policies for economic and social growth and development.
- The External Relations Head Office Department, which reports to the Managing Director and CEO and the Board of Directors, is responsible for:
  - o managing and coordinating the Group's external communications, in order to promote competitiveness, quality and innovation with respect to the targets of the various business lines, uphold the Group's reputation with media and with the financial community and develop its image as perceived by opinion makers and Italian and foreign public opinion;
  - o spreading the ethical, social and cultural values that form part of the Group's identity;
  - o handling relations with the press and with media in general;
  - o monitoring the perception of the group and the effectiveness of external communications.

## Remuneration policies

The issue of remuneration of listed companies and financial intermediaries has been gaining growing attention by international bodies and regulators, aiming to guide issuers and intermediaries towards the adoption of remuneration systems that are consistent with the principles - intensified following the economic and financial crisis - governing the process for drawing up and approving the remuneration policies, their remuneration structure and their transparency.

In particular, according to these principles, remuneration systems must take into account current and future risks and the level of capitalisation of each intermediary, and guarantee remuneration based on results actually achieved.

In accordance with European Community regulations and with effect from 2011, the Italian Authorities defined a set of key rules on these matters.

The Bank of Italy, with regulation dated 30 March 2011, defined balanced rules for banks' remuneration policies, systems and practices with reference to their design and control, to compensation structures and disclosure obligations. The Supervisory Authority further intensified the monitoring of this last issue, including remuneration systems and practices among the information to be disclosed under Pillar 3, pursuant to Circular no. 263 of 27 December 2006.

Moreover, ISVAP (now IVASS), with regulation no. 39 of 9 June 2011, dictated the principles regarding the decision-making processes, structure and disclosure obligations of the remuneration policies of insurance companies.

In its resolution no. 18049 of 23 December 2011, Consob regulated implementation of the provisions contained in Article 123-ter of the Consolidated Law on Finance, which require issuers to draw up and publicly disclose a report on remuneration.

Important updates have been introduced on self-governance level as well. After being initially modified (March 2010) in the remuneration part, the Corporate Governance Code has been subject to a complete review that resulted in a new edition published on December 2011.

In fact, the Bank of Italy subsequently revisited the topic of remuneration policies with two communications dated 2 March 2012 and 13 March 2013, highlighting in general the opportunity for banks to define a strategy that is consistent with the objective of preserving, with a view to the future, the balance of the company's position, as well as maintaining the conditions of capital adequacy and prudent management of liquidity risk.

In 2014, following a proposal from the EBA, the European Union arranged the issue of new Regulatory Technical Standards (RTS) relating to suitable qualitative and quantitative criteria for the identification of categories of personnel whose professional activities have a material impact on the institution's risk profile (so-called "Risk Takers").

Subsequently, in application of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (CRD IV), published in the Official Journal of the European Union on 27 June 2013, the Bank of Italy issued the new Supervisory Provisions on remuneration, laid down in Circular 285 of 17 December 2013.

Finally, in December 2015, the EBA, based on the forecasts contained in CRD IV, published the update of the "Guidelines on sound remuneration policies", drawn up by its predecessor CEBS, defining in detail the rules relating to the remuneration structure, remuneration policies and the related governance and implementation processes.

Consequently, based on the provisions of the aforementioned Article 123-ter of the Consolidated Law on Finance, a specific Report on Remuneration is drawn up and published together with the Report on Corporate Governance and Ownership Structures. This Report also takes into account the obligations of disclosure to the Shareholders' Meeting, in accordance with the supervisory provisions issued by the Bank of Italy.

Moreover, Intesa Sanpaolo has always extensively focused its attention on remuneration matters, on relative regulation compliance and on maximum transparency to the market.

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## Procedures for adoption and implementation of the remuneration policies

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### The role of corporate bodies

#### *The Shareholders' Meeting*

The Articles of Association require the Shareholders' Meeting to approve the Board Members' and personnel's remuneration policies, as well as the plans based on financial instruments.

In this context, it shall approve the criteria for determining the severance payments to be granted in the event of early termination of the employment agreement or early termination of office, including the limits set for such payments as provided by the regulations currently in force and shall also determine, with the qualified majority threshold defined by the supervisory regulations in force, a ratio between the variable and fixed individual remuneration of the personnel above the ratio of 1:1, but in any case not exceeding the maximum established by the same regulations.

### ***The Board of Directors***

The Board of Directors may determine, in addition to the fixed remuneration determined by the Shareholders' Meeting, the remuneration of the Board Members to whom the Board itself assigns further special duties in compliance with the Articles of Association, including the office of Managing Director.

Furthermore, in accordance with the Articles of Association, the Board of Directors is solely responsible for determining the remuneration of the General Manager and of the Manager responsible for preparing the Company's financial reports, pursuant to Article 154-bis of Legislative Decree 58 of 24 February 1998, as well as of all other Top Risk Takers and the higher-level personnel from the corporate control functions, in accordance with the provisions of the legislation currently in force.

Finally, the Board of Directors is responsible for the drafting of the remuneration and incentive policy to be submitted to the Shareholders' Meeting and the definition of the remuneration and incentive systems for persons for whom the supervisory regulations require that this task be performed by the body with strategic supervision functions, including the identification of parameters used to evaluate performance objectives and the definition of the variable remuneration deriving from the application of said systems.

### ***The Human Resources Head Office Department and the Corporate Control Functions***

As mentioned above, the Shareholders' Meeting is responsible for approving remuneration policies for employees upon proposal of the Board of Directors and with the involvement of the Remuneration Committee.

The Human Resources Head Office Department is responsible for drawing up the aforementioned remuneration policies, that undergo the relative approval procedure, involving the following, to the extent of their responsibilities, as envisaged by the Regulations:

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

On an annual basis, the Internal Auditing Head Office Department, in accordance with the guidelines of the Supervisory Authority, verifies compliance of the remuneration implementation procedures with the relevant policies, informing the Board of Directors and the Shareholders' Meeting on the results of the verifications conducted.

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## **Remuneration of the members of the Board of Directors**

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### ***General criteria***

The Bank's Articles of Association envisage that the members of the Board of Directors be entitled, in addition to the reimbursement of expenses incurred due to their office, to a remuneration for the services rendered, which is determined for the entire period of their office by the Shareholders' Meeting at the time of their appointment, also taking into account the remuneration due to Board Members vested with special offices.

The Shareholders' Meeting is therefore called upon to determine the fixed annual gross remuneration of the members of the Board of Directors, upon the appointment thereof at the start of the mandate.

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

### ***Fixed remuneration for special offices***

The Articles of Association envisage that the Shareholders' Meeting determine the remuneration of Board Members vested with special offices.

The Shareholders' Meeting is therefore called upon to determine the additional annual gross fixed remuneration of the Chairman of the Board of Directors and the Deputy Chairpersons as well as of the Board Members appointed to sit on the Management Control Committee.

As mentioned above, the Board of Directors is instead responsible for determining the additional annual gross fixed remuneration of the Secretary (where appointed among its members), of the Chairmen of the other internal Board Committees as well as the members of the latter.

It is noted that, as laid down in the Supervisory Provisions on remuneration, the amount of the remuneration paid to the Chairman must not be higher than the fixed remuneration paid to the Managing Director and CEO.

### ***Remuneration of the Managing Director and CEO***

Pursuant to the Articles of Association, the Managing Director also acts as the General Manager of Intesa Sanpaolo.

In this perspective, in addition to fixed remuneration paid to the offices of member of the Board of Directors and Managing Director (as above), the same is entitled to the annual gross remuneration, the bonus system and the supplementary pension scheme, as well as the additional fringe benefits of the role that are determined by the Board of Directors in compliance with the Remuneration and Incentive Policies for employees.

**Remuneration for participation in the Management Control Committee**

Pursuant to the Articles of Association, the Shareholders' Meeting has the duty to determine, at the time of the appointment of the Management Control Committee and for the entire term of office, additional remuneration for the members of the Board of Directors sitting on said Committee, according to the same per capita proportion but with a special bonus for the Chairman taking into account the additional duties that may be assigned to the Committee by the Board of Directors pursuant to the Articles of Association.

**Remuneration for participation in the other Board Committees**

In relation to the activities that the members of the Board of Directors are required to perform as members of the internal Board Committees, the Board of Directors may, in accordance with the Articles of Association, provide the payment of an additional annual gross fixed remuneration for the Chairmen of these Committees, as well as by way of an attendance fee for the actual participation of each member in the meetings of these Committees.

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

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

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

Employee remuneration is broken down into the following:

- a) fixed component;
- b) variable component.

**Fixed remuneration**

The fixed component is defined based on the contractual agreement, the role held, the responsibilities assigned, and the specific experience and expertise acquired by the employee.

In full compliance with the provisions of law, the fixed component includes:

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

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

**Variable remuneration**

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

- short-term variable component, paid through the incentive system;
- variable result bonus;
- long-term variable component, based on certificates associated with Intesa Sanpaolo shares, introduced in 2014 at the time of launch of the 2014-2017 Business Plan through the Leveraged Employee Co-Investment Plans ("LECOIP Plans");
- any stability, non-competition, one-off retention and similar agreements.

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

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

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

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

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

From 1 January 2013 this cap on variable remuneration was set at 100% of the fixed remuneration, adopting the requirements of Directive 2013/36/EU (so-called CRD 4) in advance of a year for roles not belonging to the Corporate Control Functions and, from 1 January 2014, at 33% of the fixed remuneration for roles belonging to the Corporate Control Functions, thereby incorporating the provisions laid down in the former Bank of Italy's document for consultation on remuneration (confirmed during 2014 by the Supervisory Provisions on remuneration).

The maximum limit established by the general criteria (1:1) was increased to 2:1, as provided by CRD IV, permitted by the Bank of Italy, and approved by the 2016 Shareholders' Meeting, in line with the resolution passed in 2015, for specific and limited professional sectors and business segments (investment banking, asset management, private banking, treasury). However, in terms of cap compliance between fixed and variable remuneration (1:1), appropriate pay mix differentiations were identified with reference to the various professional or business segments, in line with the results obtained by means of specific benchmark analyses related to the leading European global banks that also ensure compliance with the internal equity principle, given the use of common benchmarks for each cluster.

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

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

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

- the use of a balanced pay mix, as the fixed component is sufficiently high to allow the variable portion, which is never guaranteed, to decline significantly, even down to zero, upon occurrence of the conditions specified below;
- the application of the principle of selectivity, which differentiates the best performances and, in return, assigns significantly higher-than-average bonuses;
- the introduction, on the basis of the "financial sustainability principle", of a structured mechanism for funding the variable component (bonus pool), which correlates the amount to be allocated to incentives for all company segments to the performance of a Group parameter, currently identified as Income before tax from continuing operations;
- the use of a solidarity mechanism between Group and Division/Business Unit results, according to which the amount of total bonuses paid to the employees of each Business Unit depends in part on the Group's overall performance (reflected in the size of the bonus pool) and in part on the performance of the specific Organisational Unit, measured in terms of the degree of expected contribution to the Group's Income before Tax from Continuing Operations;
- the application of the "guided discretion principle", which translates into the assignment to the CEO of a limited part of the Group's bonus pool (10%), eligible for allocation once the threshold has been reached, to departments that have exceeded their access thresholds, as further recognition for the quality and level of performance achieved;
- the observance of the access conditions provided for in international and national regulations, namely:
  - o at Group level, the achievement of capital adequacy and liquidity levels and, in more general terms, compliance with the limits envisaged in its own Risk Appetite Framework (RAF);
  - o at individual level, the propriety of conduct (absence of disciplinary measures resulting in one or more days of suspension);
- the measurement of performance from multiple perspectives, both quantitative (profitability, growth, productivity, cost of risk/sustainability) and qualitative (strategic actions or projects and managerial qualities), as well as extending to different scopes (Group/Department/Individual). The following are some examples of indicators for performance drivers:
  - o Profitability: Operating income/Risk Weighted Assets, Portfolio Mix (assets under management vs. assets under administration), Revenues/Assets;
  - o Growth: Operating income, Average assets under management (asset management), Net inflows (private banking);
  - o Productivity: Cost/Income, Optimisation of response times in relation to credit granting, Operating income/Full Time Equivalent, Costs/Asset under Management;
  - o Cost of risk/Sustainability: Adjustments to loans/Period-end loans, Concentration Risk, Balance sheet quality and active risks profile; Maintaining Liquidity Coverage Ratio target levels;
- the use of an additional mechanism that measures the residual risk level of each business unit (Q-Factor) and that acts as a possible de-multiplier of the bonus achieved in the event of failure to reach the target.

The assignment of guaranteed bonuses is not envisaged, with the sole exception of limited cases of recently hired employees, without prejudice to thorough assessment and analysis of market practice, solely for the first year.

It is expressly prohibited for individual employees to undertake personal hedging or insurance strategies on the remuneration or other aspects that may alter or undermine the effects of the alignment with company risk inherent in the remuneration mechanisms described. Remuneration may not be paid in forms, instruments or methods aimed at avoiding provisions of law.

The termination of the employment agreement involving personnel with state pension or seniority pension rights and/or A.G.O. pension treatment does not result in loss of the right to payment of the entitled amounts, even deferred.

In all other cases, the Bank has the right to award any amounts, depending on the specific situations, upon termination of the employment agreement, also through consensual retrenchment agreements providing termination payments.

In any case, in compliance with the principles contained in the Group's Code of Ethics, the Intesa Sanpaolo Group does not enter into individual agreements with its managers and employees in advance (i.e. prior to termination of the employment agreement) that govern compensation to be granted in the event of early termination of the employment agreement.

In recent years, the Bank has signed specific agreements with the trade unions with regard to the "solidarity fund", applied to employees of all levels, including executives, which also govern the treatment of sums payable to personnel upon termination of the employment agreement in the event of extraordinary transactions and/or company reorganisations.

According to the Supervisory Provisions on remuneration, the severance payment agreed in view of or upon early termination of the employment agreement or early termination of office for the amount exceeding the provisions of the National Collective Bargaining Agreement concerning payments related to the indemnity for failed notice constitutes the so-called golden parachutes, including any compensation paid according to the non-competition agreement.

In the Intesa Sanpaolo Group, the principles for the definition of these payments - inspired to both the correlation between severance pay and ongoing performance criteria and the control of potential litigations – are:

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

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

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





# **Social and environmental responsibility**



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## Social and environmental responsibility

In 2016, despite continued domestic and global uncertainty, Intesa Sanpaolo maintained its commitment to the three aspects of sustainable development – in terms of social, environmental and economic responsibility – by making consistent choices.

A specific unit – the CSR Sub-Department – is tasked with overseeing the Group's areas of social and environmental responsibility, by planning, managing and monitoring policies and tools for sustainability. This unit reports, through the Chief Governance Officer, to the Managing Director and CEO and the Board of Directors and works together with a network of Delegates working in the various Group entities in Italy and abroad. The Risks Committee, established within the Board of Directors, is assigned specific tasks in relation to CSR to help the Board in assessing and examining CSR issues and approving the Code of Ethics and the annual Sustainability Report.

The Group's Code of Ethics is a core document that sets out the foundations of the corporate culture and the fundamental values underpinning the principles of conduct towards all internal and external stakeholders. It also identifies the implementation and verification mechanisms used by the Governance bodies to ensure that the values are adhered to and are firmly embedded in the life of the Bank. In 2016, the Code of Ethics was updated to adopt the new corporate governance system and to specify a number of principles and criteria that form the basis for the Bank's relations with its stakeholders and the model for the implementation of the code. These changes make it possible to closely follow the evolution of the Bank and its operating environment, in order to continue to ensure coherence and transparency of the principles that underpin the relationships of trust with stakeholders. The work related to the implementation of the Code of Ethics also involved an independent Body that performs an assessment of the implementation of the principles of the Code, in accordance with the ISO 26000 Guidelines, the international standard for the integration of social responsibility in practice and within business organisations.

The principles and commitments expressed in the Code are also supported by the Group's participation in a number of international initiatives that promote dialogue between companies, international organisations and civil society and pursue respect for the environment and human rights. These initiatives include the UN Global Compact, the United Nations Environment Programme Finance Initiative (UNEP FI), and the Equator Principles for project financing.

In particular, with regard to the environment, the Group has further strengthened its awareness of the urgent need to put in place concrete lines of action to combat climate change, in accordance with the provisions of the Code of Ethics and in line with the commitments contained in the Environmental and Energy Policy.

The Sustainability Report, prepared based on international reporting standards, is the primary tool through which Intesa Sanpaolo gives an account of the activities performed during the year – in accordance with and in implementation of the principles and commitments enshrined in the Code – and the work carried out in pursuing improvement targets incorporated within the company strategies and emerging from consultation on stakeholder expectations.

The stakeholder listening and engagement work conducted directly by the CSR Sub-Department involved the creation of two local Multi-Stakeholder Forums, one in Naples and the other in Bergamo, on the issues of greatest impact on business operations in terms of sustainability. Dialogue was also conducted with trade union representatives. The requests by other stakeholders have been analysed in close collaboration with the internal functions institutionally in charge of the relationship with stakeholders (customer experience, investor relations, internal communication, and industrial relations).

The resulting scenario allowed a focus on significant issues that represent development or risk management opportunities, thereby defining areas for improvement for the Bank, the society and the environment (see the chapter on materiality analysis). The materiality analysis was also conducted with a view to reporting and communicating the Group's commitment in a concise and accessible manner, with a view to increasing transparency. Numeric indicator tables that measure the progress made in the three-year period are published as an appendix to the Report, as required by the reporting standards. The Sustainability Report refers to additional information on the Bank's website, making numerous hyperlinks available. The website is a valuable source of information on sustainability, with continuous updates, and includes thematic publications such as the Community Book.

Being aware of the importance of promoting a culture of sustainability, the Group continued its work in collaboration with the Human Resources - Training and Internal Communications function. In 2016, this work involved training courses to strengthen the application of sustainability criteria in the purchasing of goods and services and a pilot course was initiated for the management of ethical claims at the Croatian subsidiary Privredna Banka Zagreb. An online training model for the proper management of waste was launched in November during the European Week for Waste Reduction.

The sustainability initiatives were also accompanied by dialogue with investors and SRI analysts that conduct Environmental, Social and Governance (ESG) analyses. These activities involved both meetings arranged in collaboration with Investor Relations and responses to ESG questionnaires and assessments.

Based on those assessments, Intesa Sanpaolo is listed in numerous sustainability indices, including the Dow Jones Sustainability (World and Europe), FTSE4Good (Global and Europe), MSCI (Global Sustainability and Low Carbon) and Euronext Vigeo 120 (Europe and Eurozone). According to the Corporate Knights ranking, Intesa Sanpaolo is in 20<sup>th</sup> place among the most sustainable companies in the world, and the leading Italian group.

The Group's commitment to the environment was also recognised by various organisations: first, with its inclusion in the 2016 "A List" of the CDP (Carbon Disclosure Project) for its performance in relation to climate change mitigation, and then with its inclusion in the 2016 Newsweek Green Rankings and the "Industry Carbon Leader 2016" award from ET Index Research.

With regard to the commitment towards its employees, the attention to the issue of inclusion was again recognised with the "2016 Diversity & Inclusion Award Diversitalavoro", while the "Lavoro Flessibile" (Flexible Work) project received an honourable mention in the AIFn award and an award at the SMAU fair. Further recognition came from Intesa Sanpaolo's inclusion in the Thomson Reuters Diversity and Inclusion (D&I) Index.

In addition, Intesa Sanpaolo received the AIFn "Premio Cerchio d'Oro dell'Innovazione Finanziaria" (Golden Circle for Financial Innovation) award, in the Distribution Channels and Customer Experience category, for its Customer Experience and Branch

Layout project, and an honourable mention for the project Digital Factory - Innovare e digitalizzare i processi della Banca (Innovating and digitising Bank's processes).

### **Materiality analysis**

The 2016 Sustainability Report, which is currently being drafted, focuses on the most important "material" issues for the Group's business and its stakeholders. Identification of the issues was performed through a materiality analysis, a process structured according to the "G4 Sustainability Reporting Guidelines" of GRI, the main reference standards for sustainability reporting and the <IR>, the international reference framework for integrated reporting, promoted by the IIRC (International Integrated Reporting Council), which allows to identify organizational and strategic factors and solutions that are the basis of the current and future ability of the Group to create value. Therefore, the aspects that "have significant impacts in economic, environmental and social terms for the organisation or that can influence assessments and decisions taken by stakeholders" are considered "material".

In this regard, the materiality analysis was integrated with the IIRC reporting framework that encompasses:

- the introduction of the six capitals (financial, social and relational, intellectual, infrastructural, human and natural), to highlight how the value creation process is the result of synergies between financial and non-financial capital;
- elements of prospective nature (megatrends) in order to give new interpretations to issues considered as "material" and increase the Group supervision on the evolution of the external environment.

### **Identification and prioritisation of material issues**

The identification of "material" issues, for the financial sector and significant to the Intesa Sanpaolo business and its stakeholders was performed by analysing the:

- documentary sources within the Group, including the 2014-2017 Business Plan, top management communications, Shareholders' Meeting minutes, communications to shareholders, ESG rating agency questionnaires, Sustainability Reports for the last three years, policies adopted by the Group and complaints on the Code of Ethics;
- external documentary sources, including the reference reporting standards for sustainability performance (G4, <IR>, SASB);
- Sustainability Reports of other Italian and international financial groups;
- sources from national and international institutions (World Bank, ISTAT, World Economic Forum etc.) for the identification of general and specific megatrends of the banking sector.

The issues identified were organised into a Topic Tree diagram arranged into three increasing levels of detail.

### **Definition of the materiality matrix**

Also for 2016, the stakeholder engagement and listening process represented the core of the materiality analysis. To prioritise the issues identified, each issue was assessed, on the one hand in relation to its significance to business strategies and commitments defined in the Business Plan and, on the other hand, in relation to the degree to which it represents the interests and expectations of stakeholders: these two aspects are represented by the two axes of the materiality matrix, which is presented hereunder.

The two aspects respond to the need to identify, for each topic:

- the degree of commitment that the company has taken or plans to take on each issue according to the perception of the potential to generate risks and opportunities for the short-, medium- and long-term strategic objectives;
- the relevance perceived by the stakeholders on the same issues assessed through a variety of listening and engagement initiatives implemented by Intesa Sanpaolo during 2016.

## THE 2016 MATERIALITY MATRIX



The areas considered to be priorities for 2016, on which the Sustainability Report discusses the related matters in detail, the management method, significant indicators and the relationship between said issues and the Business Plan progress are:

- Protection of solidity and profitability
- Business Risk Management
- Access to credit and savings management
- Integrity and rigour in corporate conduct
- Offering a valued service to customers
- Human resource development and management
- Climate change

With respect to 2015, there were no significant changes in the “impact on strategies” axis, whose priorities were established by the strategic guidelines of the four-year Business Plan that will end in 2017. With regard to the “importance for stakeholders” axis, the importance given to the issues identified in the previous analysis cycle were confirmed with a significant increase in importance for the following items:

- “Climate Change” in light of the national and international changes in relation to environmental issues (COP21, Agenda 2030, etc.) and the growing interest from SRI investors;
- “Customer service innovation” which includes the digitisation of services and technological innovation, whose importance is growing among the stakeholders consulted (Employees, Customers, Community and Investors);
- “Training and professional development” and “Employee enhancement”, aspects considered of growing importance by Employees, Trade Unions and Investors, particularly for issues related to the offering of personalised training courses for the role performed, innovative knowledge transfer methods and systems and the issues of diversity management and attracting talent;
- “Integrity and rigour in corporate conduct”, which emerges as an issue of particular interest for Investors, Community and Customers, especially for aspects related to protection of privacy and anti-money laundering, which have increased in importance also as a result of recent regulatory developments.

### **Matrix validation**

The potential business risks/opportunities and the possible impacts on internal and external stakeholders and the corporate structures over the long term (see chapter "Analysis of "material" issues in the wider context of sustainability") have been analysed for each issue identified as "material". This also enabled the identification of the reporting structure and management disclosures associated with each issue in the Sustainability Report.

The materiality matrix was shared with the Delegates of the Chief Risk Officer Governance Area with the aim of initiating a process of integration of the results of this analysis with the Reputational Risk Assessment (RRA) conducted annually by the dedicated function. Starting from this year, the assessment of the importance of the issues in the strategies axis also considered the RRA results, which provide a qualitative and quantitative picture of the Top Management's Perception of the Group's Reputational Risk <sup>2</sup>.

At the same time, the materiality assessments for the issues in the stakeholders' axis are made available by the CSR Sub-Department to the Reputational Risk function to provide the Area Managers and the Division Heads an overall view of the critical reputational factors.

### **Analysis of material issues in the wider context of sustainability**

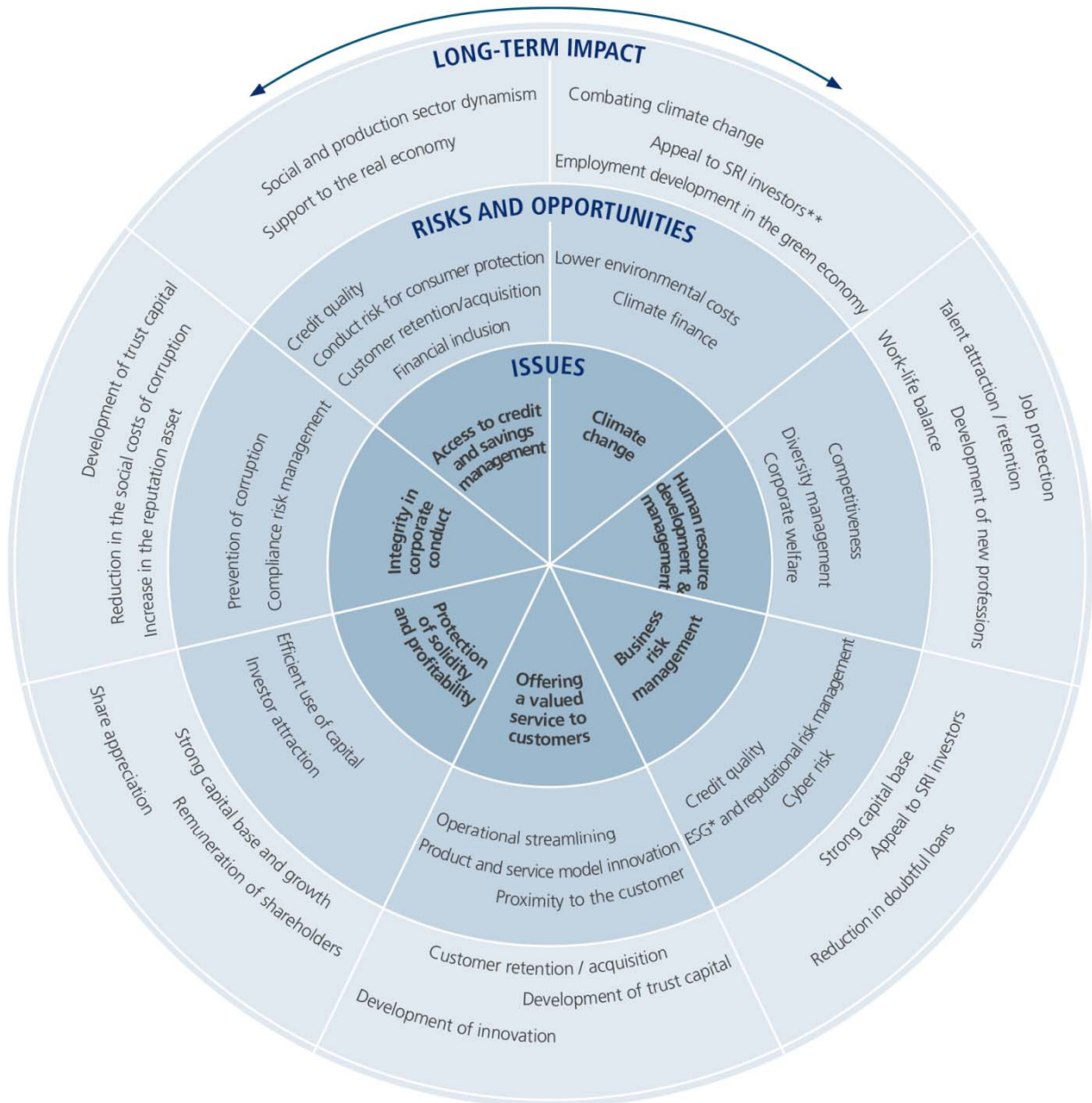
Intesa Sanpaolo illustrates how business activities help to improve or deteriorate social, economic and environmental conditions in a local, regional or global framework. To this end, it presents a concentric chart that shows the seven "material" macro-issues, that is the most significant ones according to the materiality analysis in relation to:

- risks and opportunities associated with each issue, which could have cross-cutting impacts on the strategies and business of Intesa Sanpaolo in the medium and long term;
- positive impacts that could generate shared long-term value for the Group, the environment and society in general.

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<sup>2</sup> Managers of the departments reporting directly to the Division Heads and those reporting directly to the heads of the Governance Areas and to the Managing Directors or General Managers of the Group Companies

## IMPACT, RISKS AND OPPORTUNITIES



- LONG-TERM IMPACT
- RISKS AND OPPORTUNITIES
- "MATERIAL" MACRO-ISSUES

\* ESG refers to Environmental Social and Governance Risks.  
 \*\* SRI (Socially Responsible Investments) investors: investors that assess ESG criteria (Environmental, Social, Governance).

## The material issues

### *Protection of solidity and profitability*

The Group intends to use the opportunities offered by the improvement in the economy to strengthen the central role of sustainability and social and environmental responsibility within its overall strategy. Considerable attention - in addition to profitability targets - is given to actions aimed at further strengthening capital adequacy and improving the risk and liquidity profiles. The capital base remained high, while there was a further improvement in the risk profile. As a solid Bank with growing profitability, Intesa Sanpaolo is able to make a positive contribution to the interests of its shareholders and all its stakeholders. Through the 2014-2017 Business Plan, Intesa Sanpaolo is achieving significant results that demonstrate its ability to meet the commitments made with the markets, to protect employment of staff and to be alongside customers, even those experiencing potential problems, by activating internal processes and structures to avoid deterioration of credit fundamentals.

### *Results achieved in 2016*

The consolidated results at the end of 2016 recorded strong profitability growth compared to 2015, with net income up to 3.1 billion euro, despite particularly conservative adjustments to loans, which resulted in an increase in the coverage of non-performing loans, and a consequent proposed cash dividend of 3 billion euro to be allocated to shareholders, confirming the Bank's very strong capital base, with ratios well above the regulatory requirements. Intesa Sanpaolo continued to be a growth accelerator for the real economy with 56 billion euro of new medium and long-term loans granted to households and businesses in 2016. In Italy, around 24,000 businesses were brought back to performing status in 2016 (over 52,000 since 2014)

The Group's stability and profitability enabled it to provide almost 46.4 million euro<sup>3</sup> (43.7 million euro in Italy) of contributions to the community.

### *Business risk management*

The Intesa Sanpaolo Group attaches great importance to risk management and control to ensure reliable and sustainable value creation over time in a context of controlled risk.

Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, a sound liquidity position and a strong reputation are the key factors to protecting its current and prospective profitability.

The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of the Group's portfolios. This management also includes the measurement of social and environmental variables in lending activities. This takes place in particular for project finance operations, in accordance with the Equator Principles (EP), especially when the customers' business projects are implemented in developing countries, for which local regulations do not offer suitable safeguarding clauses, and in "sensitive" sectors, i.e. those for which the external output generated has a greater probability of negative social and environmental impact on the community. The Intesa Sanpaolo Group carefully monitors the risks associated with climate change, both with a view to promoting behaviour aimed at reducing those risks and developing a prevention culture. The analysis of those risks enables the assessment of the impacts resulting from unexpected changes in climate parameters (for example damage to the Group's properties) as well as those arising from regulatory developments (see the "Climate change" chapter). Risk monitoring includes a health and safety management system for personnel, as well as the commitment to protect and safeguard employees and customers with specific attention given to preventing the risk of robbery at branches and managing employees in emergency situations.

### *Results achieved in 2016*

The usual close oversight was maintained over the risk-acceptance strategies, summarised in the Group's Risk Appetite Framework (RAF), and in particular over credit risk (Credit Risk Appetite). In line with the provisions contained in the Supervisory Regulations, the control and management processes designed to allow proper ex ante assessment of any transactions that are potentially relevant in terms of risk profile and that could have a significant effect on the Group's stability (Most Significant Transactions) were further implemented. In view of a changing economic scenario, the Bank worked on the development of a new generation of corporate rating models, dedicated to Italian businesses, to measure sector and competitive variables.

For loans, support is being provided for the correct assessment and implementation of social and environmental risks. In particular, in the area of project financing Intesa Sanpaolo continues to apply the risk classification established by the Equator Principles (EP), the international guidelines of the World Bank, which the Group has subscribed to since its establishment.

With regard to the handling of controversial sectors, the "Rules governing operations in the arms sector" were updated.

For customers and transactions exposed to high social and environmental risk, the Risk Management and CSR functions provide the business units a specific analysis of the CSR and reputational risks, which is incorporated in the overall risk assessment.

With regard to reputational risks, the main models adopted by the Bank's European competitors and the theoretical models available from the literature were examined to produce an overall framework for the Group. Particular attention was given to the involvement of the company functions responsible for the management of reputational aspects in order to systematise their respective duties and responsibilities and to build a shared framework of action, also by using a specific web reputation monitoring tool.

The focus continued on combating cybercrime – a continually increasing problem at industry level – which particularly affects customers through the direct channels (internet banking, phone banking, mobile banking, payment cards and ATMs). In terms of fraud prevention, for the Group's Italian banks and for some of its International Subsidiary Banks, Intesa Sanpaolo has activated an anti-fraud system that analyses all transactions carried out via internet banking in real time and identifies those considered to be questionable. Such transactions are then centrally verified by a specialised unit. A Computer Emergency Response Team has also been set up, in order to manage critical cyber events with respect to external stakeholders, thus allowing to optimize procedures, expertise, investments, reaction times and ensure the compulsory communication with stakeholders established by legal or sector-specific regulations. Constant monitoring of fraud resulted in the blocking of almost 10 million euro in fraudulent transactions for retail customers and about 21 million euro for corporate customers.

<sup>3</sup> Measurement according to the London Benchmarking Group model: only includes cash donations.



The attention to the health and safety of employees was reflected in the constant monitoring of the workplace, risk warnings, injuries and accidents, as well as the annual risk reduction programme. In 2016 there was an overall reduction in the risk factors and, continuing the trend from previous years, the measures implemented resulted in the resolution of approximately 20% of the problem issues.

The injury monitoring identified 867 events at Group level in 2016 (269 inside and 598 outside the workplace), down 4.6% on 2015. The injury rate for the employees in service was 0.98%. Serious and very serious injuries amounted to 171 (158 in 2015).

The overall assessment of the level of work-related stress used the results from the epidemiological report from the last three years that considered the general health of over thirteen thousand people. In 2016, the appointed physicians conducted over 6,000 health inspections, with 98% of cases resulting in an assessment of suitability for the task and 2% in an assessment of suitability pending confirmation.

The guiding principle for all the initiatives implemented to protect branches from the risk of robbery is to safeguard people by systematically preventing risk and mitigating existing and potential vulnerabilities, with a particular focus on enhancement and innovation for technological security measures supported by information tools. From 2016, the “post-robbery support” programme involves a medical intervention regardless of the severity of the event. The psychological support programme has also been extended to attacks suffered by employees in service, as well as trauma during natural disasters such as seismic events.

**Performance indicators and objectives achieved**

| Indicators  | 2016 Results  |
|---|---|
| Definition of systematic monitoring to manage Most Significant Transactions (MSTs)  | Around 460 transactions examined with release of the related prior opinions, which mainly involved risks related to TOP20 Concentration, the Real-Estate Sector and the Public Sector – Local Authorities   |
| Breakdown of Group RAF limits on divisions and subsidiaries with a high contribution to risks and/or specific local features. | Establishment of specific RAF limits for all the Group’s divisions, for the subsidiaries with specialist business models (Banca IMI, Fideuram-ISPB, Eurizon) or subject to industry sector regulations (Intesa Sanpaolo Vita, Fideuram Vita) and for the International Subsidiary Banks |
| Definition of systematic monitoring of reputational risk management and mitigation  | Work continued on the development of the overall reference framework  |
| Projects subject to screening of the Equator Principles   | 14 Projects for a total of 2.04 billion euro.   |
| Monitoring of employees’ health and safety Injuries   | Injuries inside the workplace: 269 (211 in 2015)<br>Injuries outside the workplace: 598 (698 in 2015)<br>Injury rate for employees: 0.98% (1.04% in 2015)   |

**Integrity and rigour in corporate conduct**

The Intesa Sanpaolo Group recognises the strategic importance of activities to ensure compliance with internal and external regulations and codes of conduct, in the belief that respecting standards and fairness in business are essential elements in carrying out banking operations, which by nature are based on trust. The view is that compliance with standards encourages the creation and maintenance of a competitive economic context, in which merit can be measured and shared value can be created, contributing to the area and community development. Intesa Sanpaolo aims to be a reliable, qualified contact for the regulators, relating with these in a transparent manner and helping to develop the regulatory context through the identification of common objectives for the Bank and stakeholders. The Group actively supports the United Nations’ Global Compact principles that envisage the development of activities for combating corruption, protecting human rights and safeguarding the environment.

The Group also places particular attention on the evolution of international tax regulations guided by the OECD and aimed at countering base erosion and profit shifting from high-tax to low-tax jurisdictions, with the ongoing commitment to adhere to those principles.

**Results achieved in 2016**

Over the years, Intesa Sanpaolo has put in place organisational and procedural controls to prevent money laundering risk. During the year, the Group initiated a project to strengthen its corruption risk management.

In terms of customer protection initiatives, the “Group Guidelines for the management of complaints, disclaimers, reports to the Supervisory Authority and requests to alternative dispute resolution bodies” were adopted, aimed at establishing the model and the core principles at Group level, both for Italy and abroad, for the assessment and handling of those requests, taking due account of the industry guidelines issued by the Bank of Italy.

Internal regulations have been enacted aimed at identifying reference principles and operational criteria to ensure that products and services offered to customers and the structured transactions, together with the consulting activity, comply with the tax rules. Moreover, the commitment has continued to combat operations in little-transparent countries and/or through particularly complex corporate structures with limited transparency in terms of ownership structures. In this regard, a tax function has been set up responsible for controlling tax compliance, which is preparing specific documents, together with the other Offices of the Tax Sub-Department, on the Group’s strategy and the methods of adherence to the system of “cooperative compliance” with the tax authorities, aimed at encouraging interaction based on cooperation, transparency and mutual trust.

Since the beginning of 2016, the internal whistleblowing system, which allows employees to report actions or events that could constitute breaches of banking regulations, has been in place.

Concerning the protection of free competition, the monitoring of the risk of compliance with competition protection rules has been further expanded and strengthened, to include EU Rules on State aid and the Italian standards to support the competitiveness of the Italian system.

Also with regard to the protection of privacy, Intesa Sanpaolo ensures that personal data are collected and processed in accordance with the legal provisions and the Code of Ethics. All Group personnel participate in ongoing training and updates on

this issue, through mandatory and non-mandatory initiatives, both online and classroom-based, and activities focused on specific areas.

### *Human resource development and management*

The 2014-2017 Business Plan has identified human resource enhancement and motivation, as well as strengthening of their sense of belonging, as the key forms of leverage for achieving the Group's strategic objectives. Through a new and more balanced internal cohesion, the managers are required to create an environment that is motivating, facilitating, based on trust and encouraging individual engagement. Training, made accessible to all, plays a crucial role in supporting development, company reorganisation and improved customer service, including the necessary expertise for the assessment of the social and environmental impact of our operations. Intesa Sanpaolo promotes listening and dialogue with employees and bases industrial relations on the principles of fairness and respect for the roles with the aim of finding joint solutions aimed at growth, competitiveness and sustainability. Important among the Business Plan objectives is the reabsorption of excess production capacity corresponding to around 4,500 people to achieve the strategic plans, without job cuts. This was further confirmed in the agreements that led to the signing in February 2017 of the Group's Sustainable Development Protocol, which has also created new instruments and solutions for the welfare of the employees within the Group and a better work-life balance, combined with a socially responsible approach to the achievement of business strategies and the enhancement of human resources.

### *Results achieved in 2016*

Development and reorganisation programmes were also implemented to protect jobs and to strengthen the Group's competitiveness in the markets, including through service and product innovation.

The breakdown of employees by gender in 2016 consisted of 46% men and 54% women in the Group. The turnover rate was -1.14% (+0.32% in Italy and -4.74% abroad). In 2015 it was -0.72% in Italy and -3.1% abroad, with a Group total of -1.36%. In 2016, the Group strengthened its cooperation with the major Italian universities in the area of recruitment and employer branding and set up new methods with the academic world for the engagement and selection of young talents.

In the area of human resources development, the On Air platform was extended; this platform promotes employee motivation through a structured process involving the declaration of the employees' experience and skills, as well as self-nomination for growth and professional development paths. The assessment work involved over 500 people. In response to scenario changes and the emergence of new professions, and thanks to the mapping of expertise, skills, motivations and attitudes made available in On Air by the people who put themselves forward, the Direct Job Offering initiative continued with targeted job searching campaigns. Opportunities and areas for cross-department growth were created for interested employees, with 730 applications in 2016. The Group also continued the "Feedback 180" project, a development programme aimed at helping managers in developing their leadership styles to make them more consistent and effective for business challenges. For the performance assessment process, Intesa Sanpaolo used the new Performer 2.0 system, which included the introduction of the People Portfolio Management tool designed to provide managers with detailed and specific guidance on managerial actions for personnel development.

The development of the second-level Collective Bargaining Agreement, also in terms of its application, gave rise to new professional development programmes in the Banca dei Territori Division and in Intesa Sanpaolo Group Services. Continuing on from the work already carried out last year, the Variable Result Bonus brings the Company Bonus and the Incentive System together in a single tool that involves the employees in the achievement of the Group and Division/Company results based on the principles of transparency and inclusion.

Enhancing talent and leadership, and strengthening motivation and sense of belonging formed the basis for the development of the "ISP International Talent Program", one of the first talent management initiatives dedicated to the Group's employees, which will be implemented during 2017. Training continued to be a landmark not only for the transfer of skills, but also for the creation of a culture through ongoing training (before, during and after the classroom) and the progressive integration of teaching channels and methods. In 2016, the training activities ran alongside projects designed to ensure that the updating of the knowledge needed to strengthen company expertise is aligned to developments in the banking sector and customer needs. A total of over 3.9 million hours of training were delivered (1.5 million in the classroom and 2.4 million remotely), with 44.0 training hours per person (50.4 in Italy and 27.3 abroad).

Welfare is another priority area, which is the focus of actions to support motivation and engagement, by putting people at the centre in order to meet their needs and those of their loved ones.

Having completed the test phase in 2015, the "Lavoro Flessibile" (Flexible Work) project continued in 2016 with the involvement of a growing number of departments and employees throughout the Group (5,700 participants in 13 Group companies), with the possibility of working from home, from company spaces other than their office or from the customers. The project received the SMAU Innovation award and the special mention in the "Premio AIFIN Cerchio d'Oro per l'Innovazione Finanziaria" (Golden Circle for Financial Innovation) award. The personnel also had access to other welfare tools including: the "Time Bank", established to respond to personal and/or family difficulties and to promote participation by personnel in voluntary initiatives, and actions for the safeguarding of maternity and paternity, with a focus on encouraging the involvement of fathers in family care. Measures were also introduced to help bring people who work in faraway places or with particular personal needs closer to their residence or home. In 2016, the personnel in service donated over 8,000 hours, which were doubled by the company and added to the initial amount of 50,000 established under the trade union agreements. This made available over 2,000 days of leave for personnel in difficulty, providing them help and practical support in managing difficult personal and family situations.

A single Group defined-contribution Pension Fund was also established, incorporating almost all the related Funds of a similar nature and encouraging subscription of those employees already subscribing to open funds and those not subscribing to any form of pension. With regard to prevention and attention to lifestyles, following on from the cardiovascular campaign, the osteoporosis campaign was launched, aimed particularly at woman, as part of the prevention campaign "I Colori della Salute" (The Colours of Health). The development of the Intesa Sanpaolo Workers Association represents a new form of complementary welfare, focused on bringing people together, also through innovative means, as well as promoting services for personnel and work-life balance initiatives. In addition, building on the experience gained in the sector, Intesa Sanpaolo's welfare work has been opened to the community and the local areas where the Bank operates to help contribute to the common good. Initiatives were launched through the Intesa Sanpaolo Onlus Foundation aimed at dealing with economic and social hardship which resulted in assistance to

people in need, scholarships for deserving young people, and support to organisations and projects providing help to disadvantaged people.

The attention to the employees enabled the construction of a new inclusive and cohesive work environment. The work climate analysis conducted during the year involved all the Group personnel, with an increase in the participation rate in Italy from 51.3% to 55.2% compared to the previous 2014 edition. The survey showed a more widespread perception, compared to the past, that Intesa Sanpaolo is more innovative and modern, and has an international scale that represents an added value for the Group. Regarding professional staff and middle managers, there was an increase in satisfaction in Italy, which amounted to 78% compared to 67% in 2014, while at the international level it remained essentially stable (77% in 2016 and 78% in 2014).

### Performance indicators and objectives achieved

| Indicators   | 2016 Results  | 2017 objectives<br>cumulative value 2014-2017   |
|--|---|---|
| Personnel expenses   | 5.3 billion euro in 2016<br>15.7 billion euro cumulative value for 2014-2016                        | ~21 billion euro  |
| Human resources reabsorbed in the professional reallocation plan | 270 in 2016<br>4,500 cumulative figure for 2014-2016  | 4,500   |
| Flexible Work no. of participants                                | Over 5,700 participants in 13 Group companies<br><br>Integrated welfare programme fully operational | Promoting work-life balance for greater cohesion among employees, innovation development and service excellence |
| Company welfare initiatives                                      |   |   |

#### Offering a valued service to customers:

Offering an excellent and reliable service and providing differentiated support to the various types of customers allows Intesa Sanpaolo to contribute to the welfare and progress of the communities where it operates. Enhancing relations with customers, through in-depth and systematic listening, customer satisfaction surveys and effective complaint handling is fundamental in achieving the overall growth strategy and in responding to the needs of trust and proximity expressed by customers.

The service models adopted aim to provide a high degree of customer protection and excellent quality of the products and services offered, to increasingly meet customer needs. The commercial model based on advisory services allows us to tailor the product mix according to the needs of customers, raising purchase awareness. Special attention is paid to disabled persons in order to facilitate access to the Bank's services.

The Group operates with a truly multi-channel model to make banking services increasingly available, in a simple, efficient, flexible manner and at lower cost, providing multiple virtual contact points and greater accessibility of services. Intesa Sanpaolo promotes innovation and research, in addition to analysing the innovative solutions on the national and international markets to identify development opportunities, also through partnerships with universities and research centres.

#### Results achieved in 2016

The activities were characterized by the strategic guidelines of the Business Plan that place the customer at the centre of the new service model.

This work included the extension to other branches of the new branch model aimed at making people feel "at home", by providing open and flexible spaces and supplementing the advisory services with digital channels.

Accessible spaces and tailored welcoming for each customer favour the relations between people: communal areas give way to booths for private meetings, to assist customers, with the discreet and non-invasive presence of technology, in the use of the Bank's services and new opportunities, also through training programmes connected to the digital world.

The "Insieme per la Crescita" (Together for Growth) programme continued in 2016. The programme involves actions on the personnel's relationship and behavioural skills aimed at improving the service offered and the working environment at the branch and consequently the satisfaction of customers and employees, through widespread and permanent change. "Insieme per la Crescita" relies upon the work of the Customer Relationship Management function for the measurement of customer satisfaction and directly measures employee satisfaction through the branch barometer (synthetic barometer rating of 7.7, on a scale of 1 to 10, with over 230,000 questionnaires collected). Intensive online communications encourage the Bank's personnel community to reflect, on a daily basis, on the issues of change, and on commercial processes and digital innovation through news, exchange of experiences, the spreading of stories to be told and direct exchange.

The contract dematerialisation project continued. This new method of signing documents for the sale of banking, financial and insurance products and services eliminates the need to print documents and contracts to be delivered to customers and filed. On 6 June 2016 the objective of eliminating signatures on paper in all the Retail and Personal branches was achieved, with customers now only using graphometric or digital signatures. This innovation, in addition to having an impact on costs and the environmental footprint (see "Climate change"), also seeks to improve customer satisfaction by reducing waiting times and helping streamline the archiving of documentation.

The work aimed at facilitating access to services continued in the area of multichannel integration. In 2016, there were 6.4 million customers with multi-channel contracts (up by around 1.6 million from the beginning of 2014). The International Subsidiary Banks also saw the development of a strategy – Digital – aimed at providing customers with an advanced platform to access the Bank's services through digital and physical channels. The first banks involved were the Egyptian Alexbank, the Hungarian CIB Bank and the Croatian Privredna Banka Zagreb.

Again with the aim of improving the level of service to customers, in Italy the telephone contact unit was transformed into an Online Branch and spread across eight operating points throughout Italy with almost 700 employees. Since April, this unit has also had access to two other outsourced operating points. The Online Branch is able to provide solutions to customer needs and, at the same time, to offer operational information. It has also become a commercial management hub for the offering of products and services through direct channels (telephone, chats, video calls, e-mail and social networks).

The offering of a high value service is achieved through careful monitoring of the customer experience, which was significantly upgraded in 2016 with the enhancement of the "Sistema di Eccellenza SEIok", which uses objective parameters to measure the

quality of service provided by the branches. SEIok provides a synthetic quality indicator that measures the level of excellence and four groups of indices to help identify areas of improvement: operational, service related, credit related, and the net promoter score, which helps determine when the customer would recommend the Bank to family and friends.

The customer satisfaction surveys after the key moments of Bank-customer interaction also continued. The structured customer satisfaction survey projects provide a true picture of the customer perception in every interaction with the Bank and make it possible to assess the critical areas that need priority measures.

In line with its role as an all-round Bank for businesses, Intesa Sanpaolo offered training initiatives, in collaboration with Intesa Sanpaolo Formazione, aimed at SME customers to help them increase their skills. The "Skills4Business" programme, consisting of the modules "Think International", "Think Digital", "Think Green" and "Think Pink", was further enhanced with the addition of "Digital4Export", a training programme designed together with Confindustria Piccola Industria and the Italian Trade Agency (ICE) to help businesses use the opportunities offered by digitisation and international expansion.

In the area of innovation promotion, Intesa Sanpaolo has set itself the goal of developing the technological offering that supports the expansion and competitiveness of businesses, whilst also generating growth for the Bank. In this regard, it provided advisory services on sectors and technologies of excellence, support to local area and local economy development projects, and assistance to start-ups, including international businesses with high growth potential. In particular, it offered digital platforms that enable the Bank to be the point of contact between the "innovation creators" and potential users.

As for relations with large companies, in August 2016 Intesa Sanpaolo started a process of reorganisation of the Corporate and Investment Banking Division serving these customers. An extensive project was implemented involving the main departments aimed at offering a top-quality service to customers and enhancing in-house expertise and process efficiency.

### **Access to credit and savings management**

The Intesa Sanpaolo Group provides a range of products and services that promote the financial inclusion of people, companies, institutions and public authorities, and access to credit. The correct allocation of resources and the ability to identify local players with whom agreements and synergies can be developed is aimed at facilitating inclusion also for vulnerable people, with preference given to counterparties that meet requirements in terms of repayment capacity.

Asset management activities are also open to innovations in the development of customer services, both with a view to the investments offered and in the forms of protection and welfare, becoming an increasingly determining factor in the long-term well-being of households. The Intesa Sanpaolo portfolio of solutions makes available funds that apply selection criteria in compliance with the Principles for Responsible Investment, also with the aim of activating sustainability dynamics in businesses and customer choices.

### **Results achieved in 2016**

The implemented initiatives followed lines of action consistent with the 2014-2017 Business Plan, focused on the development of the real economy and the communities where the Group operates. This action, in the area of social and environmental sustainability, resulted in support to access to credit and the protection of households in cases of need, participation in innovation and development projects with businesses and non-profit organisations, and asset management geared towards the development of sustainable and responsible investment products.

In the area of access to credit and protection of households, the work continued to provide concrete responses for home purchases or to help those who have difficulty in paying instalments, in addition to loans and agreements to support young students in their university career. The mortgage range was enhanced and expanded with new solutions specifically aimed at young people and households.

In particular, the "Mutuo Giovani" mortgage facilitates the purchase of first homes for people under the age of 35, including workers with non-standard employment arrangements or with increasing protection employment contracts, and all those (including older people) who are waiting to sell their existing home.

A sign of the Bank's continued commitment to helping future talent in their training and university education is the "Per Te Prestito con Lode" loan which provides financial support to young people who complete their studies. To expand access to credit, new agreements were signed (13, bringing the number of agreements up to 27) with universities and higher education institutions. This support has been offered to young people who are not necessarily linked to a university, for which the guarantor and the certifying authority may be a foundation, a guarantee fund or a company as part of its welfare initiatives.

Simple and practical insurance solutions have been implemented with the new "ProteggiMutuo" policy, to protect borrowers in case of serious events (Life, Total Permanent Disability and Work), with "Mi curo dei miei" (I take care of my own) for the protection of the household, and "Tu dopo di Noi" (you after us) to protect a disabled beneficiary at the time of death of the insured party. "Offerta Salute", on the other hand, includes four new policies to safeguard the economic stability of households ("Prevenzione e Salute", "Infortuni", "Interventi Chirurgici" and "Malattie Gravi").

Intesa Sanpaolo has a long history of providing microcredit with a number of initiatives throughout Italy. In particular, the Bank continued its role as the sole reference point for new applications for the Prestito della Speranza loan, which aims to disburse 100 million euro of loans guaranteed by a 25 million euro CEI fund entrusted to Banca Prossima, and distributed under the joint aegis of Vobis (Volunteer Bankers In Society) and the diocesan Caritas network. Prestito della Speranza has two specific areas of focus with dedicated initiatives: life choice projects and entrepreneurship for young people and start-ups. The combining of a guarantee fund at Banca Prossima, made available by an entity, which is generally philanthropic or religious, with a convention with the Group for credit to disadvantaged people was replicated with important partners including Fondazione Lombarda Antiusura, Fondazione Welfare Ambrosiano, and Fondazione San Patrignano.

To help small businesses with difficulties in accessing credit, Intesa Sanpaolo has developed the "Finanziamento Microcredito imprenditoriale" (business microcredit financing) product. This solution offers the possibility of obtaining loans without collateral taking advantage of a special section of the Guarantee Fund for SMEs established by the Ministry of Economic Development.

With a view to fostering production, Intesa Sanpaolo continued with work for the "Programma Filiera" project, which defines a new collaboration model between the Bank and companies by improving credit access conditions with investments in industrial supply chains and offers a new risk assessment approach which takes into account qualitative elements. The partnerships with trade associations also continued: the agreement with Confindustria Piccola Industria – extended until September 2016 – added new themes such as corporate welfare. Furthermore, in November 2016 a new three-year agreement was signed with

Confindustria that provides a credit ceiling of 90 billion euro to support enterprises that have decided to initiate innovation measures through organisational changes or investments in fixed and intangible capital, especially in research, innovation and training. To support agriculture and the food and agricultural companies in Italy, a three-year partnership agreement was signed with the Ministry of Agricultural, Food and Forestry Policies to provide an annual credit ceiling of 2 billion euro.

On the subject of innovation, consolidated activities continued in favour of customers and start-ups with the Intesa Sanpaolo Start-Up Initiative programme, which in recent years has recruited and trained a considerable number of start-ups. The programme involves the training and promotion of emerging high-tech companies facilitating their contact with qualified investors.

As for loans to Italian companies investing in innovation and research, the "Nova+" program continued, supplementing the traditional credit rating analysis with a technical and business assessment of the investment plan. In this context, Mediocredito Italiano collaborates with a number of leading Italian universities, making use of experts' technical and scientific support in assessing the technological risk of the more complex projects.

The activity to support to the non-profit sector and the social economy continued with new medium and long-term loans in support of social enterprises for about 200 million euro.

Banca Prossima further strengthened its role as the leading bank for the non-profit sector, by creating new products, services and initiatives and developing commercial agreements aimed exclusively at non-profit firms. One of the most significant partnerships in the non-profit sector is that with Consorzio SPIN-Sport Insieme, a non-profit entity deriving from the collaboration with the leading sports Promoting Entities at national level (ACSI, AICS, ASI, CSI, ENDAS, LIBERTAS, PGS, UISP, USACLI) to build new sports facilities and renovate or adapt the existing ones to promote sports activities in Italy. The SPIN credit access model is innovative: the association takes on the risk by investing its own capital and undertakes a project study and analysis process together with the Consorzio.

In the area of asset management and the development of sustainable and responsible investment products, Eurizon Capital continued its commitment to conducting management activities in accordance with the Principles for Responsible Investment (PRI). In particular, Eurizon Capital is one of the first companies to subscribe the Italian Stewardship Principles for the exercise of management and voting rights in the listed companies it invests in. In 2016, it constantly monitored the major corporate events connected to the financial instruments in its portfolio and developed a targeted approach to ongoing dialogue on governance issues with the companies it invests in. In 2016, Eurizon Capital cast its vote in 87 shareholders' meetings of the issuers held in the managed asset portfolios. The company is also a member of the network of international investors that works together with the UN to share a set of principles inspired by the understanding of the investment sustainability mechanisms through the consideration of environmental, social and governance (ESG) factors and their incorporation in the investment process. In 2016, the assets of Eurizon Capital invested in ethical funds amounted to approximately 902 million euro (1.3% of the total funds managed by Eurizon Capital).

Banca Fideuram, which serves high-profile customers, also provides a socially responsible investment solution. The segment invests in government bonds with a special focus on social and environmental issues, in bonds of supranational bodies in support of emerging economies and in the units of funds specialising in microcredit financing, in fair trade funds and in equity funds and shares with a positive impact at social and/or environmental level. The assets under management in 2016 totalled around 40 million euro.

### Performance indicators and objectives achieved

| Indicators  | 2016 Results   | 2017 objectives<br>Cumulative value 2014-2017 |
|---|--|---|
| New medium/long-term credit granted to the real economy   | 56 billion euro in 2016<br>137 billion euro cumulative figure for 2014-2016  | Approx. 170 billion euro                      |
| New medium/long-term credit granted to social enterprises | 0.2 billion euro in 2016<br>0.6 billion euro cumulative figure for 2014-2016 | Approx. 1.2 billion euro                      |

### Climate change

Climate change is an issue that is becoming an extremely significant matter that is not just limited only to the "Environment". Indeed, its consequences are likely to have far reaching repercussions on society and future generations. It is a global-scale and rapidly evolving phenomenon that affects all the components of the environment, society and the economic system in all its aspects, with potential significant impacts on customers, households, communities and, consequently, on the Group's overall operations.

Intesa Sanpaolo is aware that combating climate change requires a clear and effective strategy. Therefore, it has adopted an Environmental and Energy Policy whose main aims are to reduce the Group's ecological footprint and protect ecosystems, to pay attention to the environmental consequences of the Bank's operations, to support research and innovation for the improvement of energy performance, as well as analysing the risks and opportunities arising from climate change, in order to incorporate them into company policies. In this regard, the Group pursues qualitative and quantitative improvement objectives to help combat the effects of climate change, both at social and environmental level and for its business. In particular, for its long-term objectives, since 2009 Intesa Sanpaolo has produced a Multi-Year Environmental Sustainability Action Plan aimed at reducing the risks and impacts on the environment and also cutting energy consumption and climate-changing emissions.

Lastly, through green finance operations and the development of innovative products and services Intesa Sanpaolo helps its customers reduce their ecological footprint and respond effectively to the pressure of environmental challenges.

### Results achieved in 2016

Intesa Sanpaolo has a wide range of green products and services, designed with the utmost attention to quality and innovation, in order to improve their sustainability. Again in 2016, the Group continued to support and finance activities in the field of renewable energy, energy savings, agriculture and environmental protection with measures aimed at all the private and public customer segments: retail customers, SMEs, large companies, the Public Administration, start-ups, the non-profit sector, and major projects.

The major tasks that the Bank has set itself include customer support in terms of advice on energy and environmental issues, through a range of channels and the reach of the networks. In particular, the presence within Mediocredito Italiano of the Energy Desk – a specialist unit dedicated to the analysis of projects in the renewable energy sector – has enabled the provision of high-level support to the Group's sales network. In 2016, Banca Prossima won the "Green Globe Banking Award" in the "Indirect Impacts" category, which it received for the energy efficiency programme launched in partnership with Federesco (the Federation of Italian Energy Service Companies). The agreement involves the collaboration between the Intesa Sanpaolo Group and Federesco to promote energy efficiency and energy production from renewable sources in the companies in the non-profit sector and other manufacturing enterprises, supporting them in all phases, from the energy audit to the implementation of interventions, through to the entry into operation of the plants.

Another strategic initiative in 2016 was the support for investment in research and technological innovation to combat climate change. In particular, the Intesa Sanpaolo Start-Up Initiative programme continued to promote high-tech entrepreneurial initiatives, with a focus on the Clean Tech sector and the Circular Economy. With regard to the latter, in 2016 initiatives were launched – through the partnership signed in December 2015 as the sole Financial Services Global Partner of the Ellen MacArthur Foundation (EMF) – together with the Bank's internal departments, as well as external stakeholders such as companies, public and private institutions, multilateral agencies and universities.

With regard to the credit granting process, the monitoring of environmental risks is ensured both by the assessment process related to the Equator Principles and by the review, which is still ongoing, of the internal credit assessment processes.

The Intesa Sanpaolo Group is attentive to the management of its direct impacts on the environment, in order to increasingly reduce its carbon footprint, and has put in place various initiatives to achieve energy saving, energy efficiency improvement and CO<sub>2</sub> emissions reduction targets. To this end, in Italy it uses electricity from renewable sources with a guarantee of origin in an amount of around 97% and in the Group's International Subsidiary Banks, which have a different market situation, it has nevertheless achieved a 15% purchase of energy from renewable sources. Generation of photovoltaic electricity is also significant and in 2016 it amounted to 1,067 MWh, an increase of approximately 2% compared to 2015. Thanks to the "Conto Energia" (Feed-in scheme) incentive for the Group's three largest photovoltaic plants (Moncalieri, Settimo Torinese and Sarmeola di Rubano) and the non-purchase of electricity in these sites, an energy saving of over 298,000 euro was achieved in 2016.

The extension continued of the Environmental and Energy Management System in Italy, certified according to the ISO 14001 and ISO 50001 international standards that, when applied to a sample of over 200 operating units, included the New Headquarters in Turin within its scope. On the same sample of operating units in Italy, the Group also obtained the certification of greenhouse gas emissions in accordance with ISO 14064. In 2016, the Hungarian bank CIB also obtained the ISO 50001 certification for all its 85 Sites.

Other particularly significant actions included the measures to reduce energy consumption such as the more widespread use of energy consumption detection systems managed via the web, the replacement of boilers with condensation systems, heat pumps and high-performance refrigeration units, and the upgrading of electrical installations and the replacement of lighting systems with LED bulbs. In 2016, these actions in Italy and abroad led to a 6.7% reduction in electricity and heat consumption compared to 2015 and to an estimated economic benefit of over 800,000 euro.

Finally, thanks to the actions outlined above, the Group was able to take advantage of tax deductions worth around 5 million euro for the period 2014-2016 (approximately 1 million euro in 2016).

The Group also continued its various initiatives in the field of sustainable mobility including the increase in the number of agreements with the public transport companies, car sharing and bike sharing services, and the analysis of mobility flows.

Thanks to the actions undertaken by the Group in 2016, the reduction continued as regards SCOPE 1 (direct emissions) and SCOPE 2 (indirect emissions) emissions of greenhouse gases, with an overall reduction of 9.6% compared to 2015.

Finally, the Group's efforts in the field of ecological paper supply remained stable, having reached 89% of the total purchased. In 2016, the Group's work in Italy therefore focused on the implementation of various digitisation initiatives, including the online contractual documentation and reporting. Thanks to these actions, in 2016 it was possible to avoid the use of about 2,700 tonnes of paper, corresponding to over 4,300 tonnes of CO<sub>2</sub> emissions avoided, with cost savings of about 3 million euro.

With regard to internal training, in 2016 a new course dedicated to waste management at the Branch was added to the "Ambientiamo" e-learning platform. To raise awareness on environmental issues, every year Intesa Sanpaolo participates in numerous national and international initiatives including: "M'illumino di meno" (Energy Saving Day), "World Environment Day", "European Mobility Week" and "European Week for Waste Reduction" with targeted communication measures also aimed at customers.

**Performance indicators and objectives achieved**

| Indicators   | 2016 Results   | 2016 objectives  | 2017 objectives  |
|--|--|--|--|
| Electricity consumption in Italy compared to 2012                    | 19.9% reduction  | 17% reduction  | 20% reduction  |
| Purchase of environmentally-friendly or recycled paper in Italy      | 93%  | 98%  | 98%  |
| Group indirect emissions (Scope 2 – location based) compared to 2012 | 13.5% reduction  | 13% reduction  | 14% reduction  |
| Extension of “other indirect emissions” reporting (Scope 3)          | Scope of reporting for internet banking transactions expanded to the International Subsidiary Banks                                | Gradual expansion of the scope and improvement in reporting  | Gradual expansion of the scope and improvement in reporting  |
| Environmental certification  | New Headquarters in Turin included in the sample (around 2,000 people) and ISO 50001 certification obtained for CIB Bank (Hungary) | Extension of the sample of UNI EN ISO 14001, UNI CEI EN ISO 50001 and UNI EN ISO 14064 certified sites | Extension of the system to a further 25 operational units in Sicily, Tuscany, Umbria and Emilia Romagna and alignment to the new ISO 14001:2015 standard |

**Economic value generated and distributed**

The economic value generated is calculated in accordance with ABI instructions and consistent with international reference standards. The calculation is made by reclassifying consolidated income statement items recorded in the financial statements, as required under Bank of Italy Circular n° 262. The economic value generated, which in 2016 was 15.4 billion euro, came from net income from financial operations and the insurance business – which therefore takes into account the impairment losses on loans and financial assets available for sale – plus the realised gains and losses on investments in associates and companies subject to joint control, investments and discontinued operations, and other operating income.

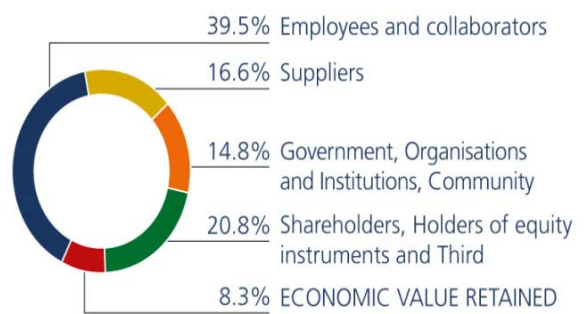
The amount of the economic value generated expresses the value of the wealth produced, most of which distributed among the stakeholders with which the Group interacts in various ways on a day-to-day basis. In particular:

- employees and other staff benefited from over 39% of the economic value generated, for a total of 6.1 billion euro. In addition to staff pay, the total also includes payments to the network of financial advisors;
- suppliers received approximately 17% of the economic value generated, for a total of 2.6 billion euro in payment for goods and services;
- The Government, Organisations and Institutions recorded a total flow of funds of 2.3 billion euro, around 15% of the economic value generated, over 800 million euro of which referring to taxes on income from continuing operations, almost 900 million euro to indirect taxes and duties, and 578 million to levies and other charges concerning the banking industry, consisting of ordinary and extraordinary contributions to resolution and guarantee funds. There were also numerous social and cultural initiatives and other actions taken to support the charity funds and issue disbursements by way of social and cultural contributions.
- approximately 21% of the economic value generated was allocated to Shareholders and minority interests, largely in terms of the proposed dividend, for a total of 3.2 billion euro.

The remaining amount, about 1.3 billion euro, was withheld by the corporate system. This refers to deferred tax assets and liabilities, amortisation, and provisions for risks and charges. Self-financing is considered an investment that other stakeholder categories make each year to maintain efficiency and allow development of the Bank as a whole.

| Economic value  | millions of euro |               |
|---|------------------|---------------|
| <b>Economic value generated</b>                       | <b>15,373</b>    | <b>100.0%</b> |
| <b>Economic value distributed</b>                     | <b>-14,104</b>   | <b>91.7%</b>  |
| Employees and collaborators                           | -6,075           | 39.5%         |
| Suppliers   | -2,555           | 16.6%         |
| Government, Organisations and Institutions, Community | -2,275           | 14.8%         |
| Shareholders, Holders of equity instruments and Third | -3,199           | 20.8%         |
| <b>Economic value retained</b>                        | <b>1,269</b>     | <b>8.3%</b>   |

ECONOMIC VALUE IN 2016





**Intesa Sanpaolo stock**



# Intesa Sanpaolo stock

## Stock price performance

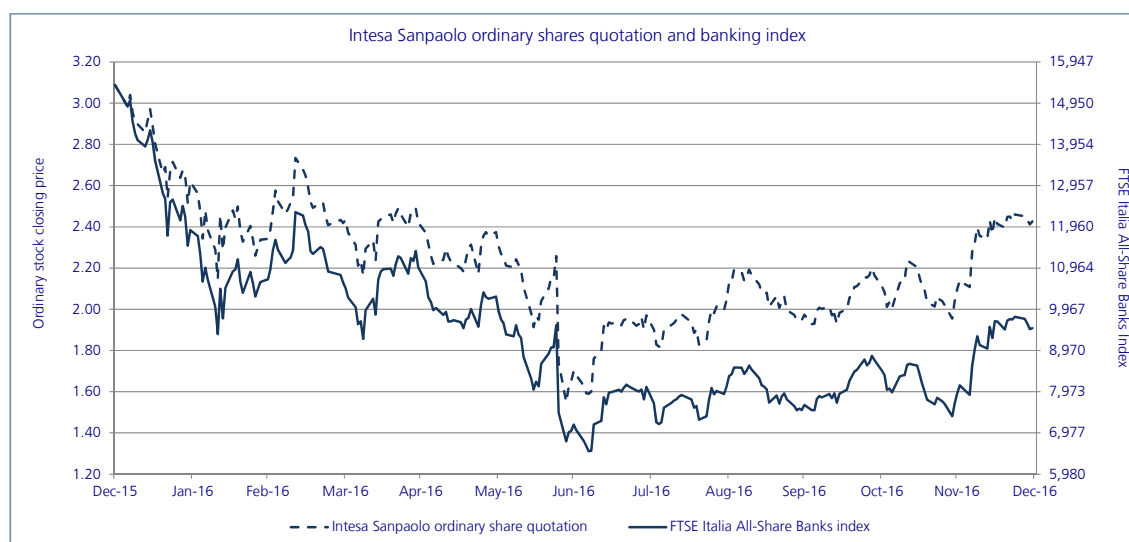
In an environment of risk aversion among investors and growing concerns about the quality of the assets and the capitalisation of the various national banking systems in the Eurozone, and despite a significant recovery in prices in the second half of the year, in 2016 the Eurozone banking index recorded a loss of 8%, underperforming the Eurostoxx 50 index by 8.7%.

In this scenario, the Italian banking sector was harshly penalised: after a first half with performance 18% lower than the already weak Eurozone segment, recovery in the second half, from the lows reached in June, was lower than for the Eurozone banks, due to fears about economic growth and political uncertainty and the recapitalisation plans of several Italian banks.

The Italian banking index closed 2016 with a fall of 38.2%, above the 28% drop in the FTSE MIB index.

In 2016, the performance of Intesa Sanpaolo ordinary shares mirrored that of banking sector indices, with a drop at the start of the year, until the first ten days of February, followed by a recovery until mid-March and a subsequent downturn, which accelerated sharply at the end of the half year, when the lowest point was reached, to then gradually recover, with a strong rise in December, which brought the shares to record a fall of 21.4% compared to the end of 2015. The price of Intesa Sanpaolo savings shares decreased by 21.2% at the end of 2016 compared to the end of 2015. The discount with respect to ordinary shares at the end of 2016 remained in line with the 8% at the end of 2015.

Intesa Sanpaolo's capitalisation dropped to 40.6 billion euro at the end of 2016, from 51.6 billion euro at the end of 2015.



## Earnings per share

Intesa Sanpaolo's share capital consists of ordinary and savings shares with different rights for the allocation of net income, which have been taken into account for the determination of the portion of net income attributable to each category of share.

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

|   | 31.12.2016      |                | 31.12.2015      |                |
|---|-----------------|----------------|-----------------|----------------|
|   | Ordinary shares | Savings shares | Ordinary shares | Savings shares |
| Weighted average number of shares   | 15,841,479,283  | 932,490,561    | 15,832,484,936  | 932,490,561    |
| Income attributable to the various categories of shares<br>(millions of euro) | 2,929           | 182            | 2,577           | 162            |
| Basic EPS (euro)  | 0.18            | 0.20           | 0.16            | 0.17           |
| Diluted EPS (euro)  | 0.18            | 0.20           | 0.16            | 0.17           |

### Price/book value

The index reflects the value attributed by the market to the share capital of a listed company, and hence indirectly to the company's overall assets. The index, while measuring the confidence which financial analysts and the financial community have in the company's income prospects and capital strength, is affected significantly by the external factors that influence stock prices. Also for the Intesa Sanpaolo Group, the performance of the index – indicated in relation to both average figures and year-end figures for 2016 – was impacted significantly by the dynamics of the market.

|                              | (millions of euro) |             |             |             |             |             |
|------------------------------|--------------------|-------------|-------------|-------------|-------------|-------------|
|                              | 31.12.2016         | 2016        | 2015        | 2014        | 2013        | 2012        |
| Market capitalisation        | 40,559             | 37,152      | 51,903      | 38,096      | 24,026      | 20,066      |
| Group's shareholders' equity | 48,911             | 48,344      | 46,230      | 44,599      | 46,918      | 48,327      |
| <b>Price / book value</b>    | <b>0.83</b>        | <b>0.77</b> | <b>1.12</b> | <b>0.85</b> | <b>0.51</b> | <b>0.42</b> |

### Pay-out ratio

The index expresses the ratio between net income and the portion paid out as dividends.

In 2016, it was decided to submit a proposal to the Shareholders' Meeting, in addition to the allocation from the net income for the year, for the distribution of part of the share premium reserve for a total of 2,999 million euro, as described in detail in the chapter Proposals to the Shareholders' Meeting of the Intesa Sanpaolo financial statements. Also in 2013, given the net loss for the year, it was decided to submit for the approval of the Shareholders' Meeting the distribution of a total of 822 million euro from the extraordinary reserve, as described in detail in the chapter Proposals to the Shareholders' Meeting of the Intesa Sanpaolo financial statements for that year.

|                      | (millions of euro) |            |            |             |            |
|----------------------|--------------------|------------|------------|-------------|------------|
|                      | 2016               | 2015       | 2014       | 2013        | 2012       |
| Net income           | 3,111              | 2,739      | 1,251      | -4,550      | 1,605      |
| Dividends (*)        | 2,999              | 2,361      | 1,185      | 822         | 832        |
| <b>Pay-out ratio</b> | <b>96%</b>         | <b>86%</b> | <b>95%</b> | <b>n.s.</b> | <b>52%</b> |

(\*) For 2016, the amounts were assigned from reserves.

For 2013 when a net loss was recorded, the amounts were assigned from reserves.

### Dividend yield

This indicator measures percentage return on the share, calculated as the ratio between dividends for the year and market price in the reference year. This return, determined on the basis of average annual stock prices, maintained sustainable levels over time, also in view of financial market trends.

|                       | (in euro) |       |       |       |       |
|-----------------------|-----------|-------|-------|-------|-------|
|                       | 2016      | 2015  | 2014  | 2013  | 2012  |
| <b>Ordinary share</b> |           |       |       |       |       |
| Dividend per share    | 0.178     | 0.140 | 0.070 | 0.050 | 0.050 |
| Average stock price   | 2.220     | 3.109 | 2.288 | 1.476 | 1.233 |
| Dividend yield        | 8.02%     | 4.50% | 3.06% | 3.39% | 4.06% |
| <b>Savings share</b>  |           |       |       |       |       |
| Dividend per share    | 0.189     | 0.151 | 0.081 | 0.050 | 0.061 |
| Average stock price   | 2.084     | 2.784 | 1.973 | 1.229 | 1.022 |
| Dividend yield        | 9.07%     | 5.42% | 4.11% | 4.07% | 5.97% |

## Rating

On 25 January 2016 Moody's upgraded Intesa Sanpaolo's long-term rating on deposits to "A3" - with stable outlook - following the Italian government's approval of the decrees implementing the BRRD.

The ratings on senior debt were confirmed at "Baa1/P-2" with stable outlook.

On 9 December 2016, Moody's confirmed Intesa Sanpaolo's deposits rating at "A3/P-2", but changed the outlook from stable to negative. The other ratings and outlooks were confirmed:

- senior unsecured notes: "Baa1/P-2" with stable outlook
- BCA, based on the bank's stand-alone credit profile: "baa3"

This action followed the decision on the Italy rating (Baa2/negative) of 7 December 2016.

On 31 March 2016, Fitch confirmed Intesa Sanpaolo's long- and short-term ratings at "BBB+/F2", with a stable outlook. The agency also confirmed its viability rating at "bbb+". This action was taken as part of the periodic review of the ratings.

On 28 October 2016, Fitch confirmed Intesa Sanpaolo's rating at "BBB+/F2", but changed the outlook from stable to negative. The Viability rating, based on the bank's stand-alone credit profile, was confirmed at "bbb+". This action followed the decision on the Italy rating of 21 October 2016.

On 11 August 2016, DBRS placed ISP's long-term rating at "A (low)" on review for downgrade, following the same action on the Italy rating of 5 August 2016. At the same time, DBRS confirmed the short-term rating of "R-1 (low)" with stable trend.

The table below shows the rating situation as at 31.12.2016.

|                       | RATING AGENCY            |          |                     |                   |
|-----------------------|--------------------------|----------|---------------------|-------------------|
|                       | DBRS                     | Fitch    | Moody's             | Standard & Poor's |
| Short-term debt       | R-1 (low) <sup>(1)</sup> | F2       | P-2                 | A-3               |
| Long-term senior debt | A (low) <sup>(*)</sup>   | BBB+     | Baa1 <sup>(2)</sup> | BBB-              |
| Outlook / Trend       | -                        | Negative | Stable              | Stable            |
| Viability             | -                        | bbb+     | -                   | -                 |

(\*) Rating under review with negative implications

<sup>(1)</sup> Stable trend

<sup>(2)</sup> Senior debt rating. The rating on deposits is "A3" with negative outlook.

On 20 January 2017, DBRS downgraded Intesa Sanpaolo's rating following the same action on Italy's rating: the rating on senior debt was lowered to "BBB (high)" with stable outlook, while the short-term rating of R-1 (low) with stable trend was confirmed.



# Other information





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## Other information

With regard to information to be included in the annual report as required by specific provisions note that:

- the list of Group companies and subsidiaries as at 31 December 2016 is provided in the Notes to the consolidated financial statements (Part A and Part B - Assets - Section 10), in accordance with the provisions of the Bank of Italy;
- the Notes to the consolidated financial statements also contain (Part E – Information on risks and the relative hedging policies – Section 1) information concerning obligations under Art. 36 of the Market Regulation with respect to subsidiaries established and regulated under the laws of non-EU countries;
- information on compensation and transactions with related parties carried out by the Bank or by the Group is provided in Part H of the Notes to the financial statements;
- Information on the Corporate Governance system and the ownership structure of Intesa Sanpaolo, pursuant to Art. 123 bis of the Consolidated Law on Finance and information on the remuneration paid to Board Members, General Managers and Key Managers and on the Parent Company's shares, pursuant to Art. 123 ter of the Consolidated Law on Finance, is provided in a specific chapter of this Report and in the separate "Report on Corporate Governance and Ownership Structures - Report on Remuneration", published together with these financial statements and available for consultation from the "Governance" section of the Bank's website at: [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com).
- the public disclosure as at 31 December 2016 concerning Basel 3 Pillar 3 ("Pillar 3") contained in a special separate file may be consulted on the Bank's website at the address indicated above.

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## Forecast for 2017

The phase of moderate economic growth will extend to 2017, which should also see a further increase in inflation rates. In Italy, GDP growth will remain low, at less than 1% according to the average of the published forecasts. The markets consider it highly likely that there will be at least two official US rate rises by the end of the year. The ECB has already announced an extension until December 2017 of its securities purchase programme, also stating that it wants to leave official rates at levels equal to or below current rates well beyond the end of the programme. The performance of financial markets will be potentially affected by political events, including the début of the new US administration and the busy election schedule in Europe.

In 2017, the IMF forecasts a slight recovery in the emerging economies, with growth of 4.5% compared to 4.1% estimated for 2016. The rise mainly reflects the expected growth in the CIS countries and Latin America (with Brazil back in positive territory) and stronger performance in the Sub-Saharan African countries due to the recovery of the commodity cycle. However, GDP performance is expected to remain substantially unchanged in Asia, with growth in India offset by a further moderate slowdown in China.

In the countries where ISP subsidiaries are located, in 2017 an increase in GDP is expected in the CEE area compared to the 2.5% estimated for 2016, thanks to renewed recovery in the prospects of the economies in Slovakia, Slovenia and Hungary, and a (moderate) slowdown in the SEE area (compared to the 3.7% estimated for 2016). The slowdown is mainly related to a lower growth rate in Romania (compared to 4.6% estimated for 2016), while the other countries in the region are expected to see further recovery overall. In the CIS area, Russia is expected to return to positive growth rates, after two years of decline, thanks to the improvement in the economic climate triggered by the rise in oil prices and the fall in inflation. In Egypt, the jump in inflation and the substantial increases in interest rates will restrict GDP growth in the short-term, with forecasts of around 4% for 2017, but rising after that.

Within the Italian banking system, there continue to be favourable conditions for a gradual recovery of lending activity, thanks to the very expansionary monetary policy stance, the selective availability of supply and the increase in demand in some business segments, in a scenario of moderate economic recovery. For households, which confirmed their financial soundness, the lending scenario remains positive: growth in stocks will continue at a moderate pace in 2017, favoured by interest rates that will remain at historical lows, the continued recovery of the real estate market and the improved conditions on the labour market. However, the recovery remains uncertain and sluggish for loans to businesses, with prospects of a return to growth during 2017.

With regard to funding, the growth of deposits will continue, while the overall trend will continue to be affected by the limited requirements for customer deposits by banks, considering the evolution of loans and the significant liquidity available. The net redemption of bonds on the retail segment will continue, while unattractive market yields and the significant liquidity available will continue to fuel the balances on current accounts. These factors will continue to favour the reduction of customer deposit costs. In a context of very low, where not negative, market rates, and favourable credit access conditions, loan rates are expected to remain very low.

In 2017, the Intesa Sanpaolo Group is expected to register an increase in operating margin, driven by revenue growth and continuous cost management, and in gross income with a reduction in the cost of risk. The commitment to distribute 10 billion euro of cumulative cash dividends in four years (2014-2017), as indicated in the Business Plan, is confirmed.

The Board of Directors

Torino, 21 February 2017

**Intesa Sanpaolo Group  
Consolidated financial statements**



# Consolidated financial statements

## Consolidated balance sheet

| Assets  | 31.12.2016     | 31.12.2015     | (millions of euro) |            |
|---|----------------|----------------|--------------------|------------|
|   |                |                | CHANGES<br>amount  | %          |
| 10. Cash and cash equivalents   | 8,686          | 9,344          | -658               | -7.0       |
| 20. Financial assets held for trading                                 | 43,613         | 51,597         | -7,984             | -15.5      |
| 30. Financial assets designated at fair value through profit and loss | 63,865         | 53,663         | 10,202             | 19.0       |
| 40. Financial assets available for sale                               | 146,692        | 131,402        | 15,290             | 11.6       |
| 50. Investments held to maturity                                      | 1,241          | 1,386          | -145               | -10.5      |
| 60. Due from banks  | 53,146         | 34,445         | 18,701             | 54.3       |
| 70. Loans to customers  | 364,713        | 350,010        | 14,703             | 4.2        |
| 80. Hedging derivatives   | 6,234          | 7,059          | -825               | -11.7      |
| 90. Fair value change of financial assets in hedged portfolios (+/-)  | 321            | 110            | 211                |            |
| 100. Investments in associates and companies subject to joint control | 1,278          | 1,727          | -449               | -26.0      |
| 110. Technical insurance reserves reassured with third parties        | 17             | 22             | -5                 | -22.7      |
| 120. Property and equipment   | 4,908          | 5,367          | -459               | -8.6       |
| 130. Intangible assets  | 7,393          | 7,195          | 198                | 2.8        |
| <i>of which</i>   |                |                |                    |            |
| - <i>goodwill</i>   | 4,059          | 3,914          | 145                | 3.7        |
| 140. Tax assets   | 14,444         | 15,021         | -577               | -3.8       |
| <i>a) current</i>   | 3,313          | 3,626          | -313               | -8.6       |
| <i>b) deferred</i>  | 11,131         | 11,395         | -264               | -2.3       |
| - <i>of which convertible into tax credit (Law no. 214/2011)</i>      | 8,491          | 8,749          | -258               | -2.9       |
| 150. Non-current assets held for sale and discontinued operations     | 312            | 27             | 285                |            |
| 160. Other assets   | 8,237          | 8,121          | 116                | 1.4        |
| <b>Total Assets</b>   | <b>725,100</b> | <b>676,496</b> | <b>48,604</b>      | <b>7.2</b> |

## Consolidated balance sheet

(millions of euro)

| Liabilities and Shareholders' Equity   | 31.12.2016     | 31.12.2015     | CHANGES       |            |
|--|----------------|----------------|---------------|------------|
|  |                |                | amount        | %          |
| 10. Due to banks   | 72,641         | 59,327         | 13,314        | 22.4       |
| 20. Due to customers   | 291,876        | 255,258        | 36,618        | 14.3       |
| 30. Securities issued  | 94,783         | 110,144        | -15,361       | -13.9      |
| 40. Financial liabilities held for trading   | 44,790         | 43,522         | 1,268         | 2.9        |
| 50. Financial liabilities designated at fair value through profit and loss                   | 57,187         | 47,022         | 10,165        | 21.6       |
| 60. Hedging derivatives  | 9,028          | 8,234          | 794           | 9.6        |
| 70. Fair value change of financial liabilities in hedged portfolios (+/-)                    | 773            | 1,014          | -241          | -23.8      |
| 80. Tax liabilities  | 2,038          | 2,367          | -329          | -13.9      |
| <i>a) current</i>  | 497            | 508            | -11           | -2.2       |
| <i>b) deferred</i>   | 1,541          | 1,859          | -318          | -17.1      |
| 90. Liabilities associated with non-current assets held for sale and discontinued operations | 272            | -              | 272           |            |
| 100. Other liabilities   | 11,944         | 11,566         | 378           | 3.3        |
| 110. Employee termination indemnities  | 1,403          | 1,353          | 50            | 3.7        |
| 120. Allowances for risks and charges  | 3,427          | 3,480          | -53           | -1.5       |
| <i>a) post employment benefits</i>   | 1,025          | 859            | 166           | 19.3       |
| <i>b) other allowances</i>   | 2,402          | 2,621          | -219          | -8.4       |
| 130. Technical reserves  | 85,619         | 84,616         | 1,003         | 1.2        |
| 140. Valuation reserves  | -1,854         | -1,018         | 836           | 82.1       |
| 150. Redeemable shares   | -              | -              | -             |            |
| 160. Equity instruments  | 2,117          | 877            | 1,240         |            |
| 170. Reserves  | 9,528          | 9,167          | 361           | 3.9        |
| 180. Share premium reserve   | 27,349         | 27,349         | -             | -          |
| 190. Share capital   | 8,732          | 8,732          | -             | -          |
| 200. Treasury shares (-)   | -72            | -70            | 2             | 2.9        |
| 210. Minority interests (+/-)  | 408            | 817            | -409          | -50.1      |
| 220. Net income (loss)   | 3,111          | 2,739          | 372           | 13.6       |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>725,100</b> | <b>676,496</b> | <b>48,604</b> | <b>7.2</b> |

## Consolidated income statement

(millions of euro)

|  | 2016           | 2015          | CHANGES       |              |
|--|----------------|---------------|---------------|--------------|
|  |                |               | amount        | %            |
| 10. Interest and similar income  | 12,865         | 14,148        | -1,283        | -9.1         |
| 20. Interest and similar expense   | -4,250         | -4,910        | -660          | -13.4        |
| <b>30. Interest margin</b>   | <b>8,615</b>   | <b>9,238</b>  | <b>-623</b>   | <b>-6.7</b>  |
| 40. Fee and commission income  | 8,465          | 8,723         | -258          | -3.0         |
| 50. Fee and commission expense   | -1,730         | -1,828        | -98           | -5.4         |
| <b>60. Net fee and commission income</b>   | <b>6,735</b>   | <b>6,895</b>  | <b>-160</b>   | <b>-2.3</b>  |
| 70. Dividend and similar income  | 461            | 378           | 83            | 22.0         |
| 80. Profits (Losses) on trading  | 527            | 285           | 242           | 84.9         |
| 90. Fair value adjustments in hedge accounting   | -34            | -68           | -34           | -50.0        |
| 100. Profits (Losses) on disposal or repurchase of   | 990            | 1,205         | -215          | -17.8        |
| <i>a) loans</i>  | -34            | -44           | -10           | -22.7        |
| <i>b) financial assets available for sale</i>  | 990            | 1,452         | -462          | -31.8        |
| <i>c) investments held to maturity</i>   | -              | -             | -             |              |
| <i>d) financial liabilities</i>  | 34             | -203          | 237           |              |
| 110. Profits (Losses) on financial assets and liabilities designated at fair value             | 1,051          | 977           | 74            | 7.6          |
| <b>120. Net interest and other banking income</b>  | <b>18,345</b>  | <b>18,910</b> | <b>-565</b>   | <b>-3.0</b>  |
| 130. Net losses / recoveries on impairment   | -3,288         | -2,824        | 464           | 16.4         |
| <i>a) loans</i>  | -3,026         | -2,751        | 275           | 10.0         |
| <i>b) financial assets available for sale</i>  | -314           | -203          | 111           | 54.7         |
| <i>c) investments held to maturity</i>   | -              | -             | -             |              |
| <i>d) other financial activities</i>   | 52             | 130           | -78           | -60.0        |
| <b>140. Net income from banking activities</b>   | <b>15,057</b>  | <b>16,086</b> | <b>-1,029</b> | <b>-6.4</b>  |
| 150. Net insurance premiums  | 8,433          | 12,418        | -3,985        | -32.1        |
| 160. Other net insurance income (expense)  | -10,508        | -14,680       | -4,172        | -28.4        |
| <b>170. Net income from banking and insurance activities</b>                                   | <b>12,982</b>  | <b>13,824</b> | <b>-842</b>   | <b>-6.1</b>  |
| 180. Administrative expenses   | -9,505         | -9,430        | 75            | 0.8          |
| <i>a) personnel expenses</i>   | -5,494         | -5,364        | 130           | 2.4          |
| <i>b) other administrative expenses</i>  | -4,011         | -4,066        | -55           | -1.4         |
| 190. Net provisions for risks and charges  | -241           | -535          | -294          | -55.0        |
| 200. Net adjustments to / recoveries on property and equipment                                 | -354           | -357          | -3            | -0.8         |
| 210. Net adjustments to / recoveries on intangible assets                                      | -577           | -554          | 23            | 4.2          |
| 220. Other operating expenses (income)   | 430            | 915           | -485          | -53.0        |
| <b>230. Operating expenses</b>   | <b>-10,247</b> | <b>-9,961</b> | <b>286</b>    | <b>2.9</b>   |
| 240. Profits (Losses) on investments in associates and companies subject to joint control      | 125            | 111           | 14            | 12.6         |
| 250. Valuation differences on property, equipment and intangible assets measured at fair value | -              | -             | -             |              |
| 260. Goodwill impairment   | -              | -             | -             |              |
| 270. Profits (Losses) on disposal of investments   | 356            | 103           | 253           |              |
| <b>280. Income (Loss) before tax from continuing operations</b>                                | <b>3,216</b>   | <b>4,077</b>  | <b>-861</b>   | <b>-21.1</b> |
| 290. Taxes on income from continuing operations  | -1,003         | -1,331        | -328          | -24.6        |
| <b>300. Income (Loss) after tax from continuing operations</b>                                 | <b>2,213</b>   | <b>2,746</b>  | <b>-533</b>   | <b>-19.4</b> |
| 310. Income (Loss) after tax from discontinued operations                                      | 987            | 60            | 927           |              |
| <b>320. Net income (loss)</b>  | <b>3,200</b>   | <b>2,806</b>  | <b>394</b>    | <b>14.0</b>  |
| 330. Minority interests  | -89            | -67           | 22            | 32.8         |
| <b>340. Parent Company's net income (loss)</b>   | <b>3,111</b>   | <b>2,739</b>  | <b>372</b>    | <b>13.6</b>  |
| <b>Basic EPS - Euro</b>  | <b>0.18</b>    | <b>0.16</b>   |               |              |
| <b>Diluted EPS - Euro</b>  | <b>0.18</b>    | <b>0.16</b>   |               |              |



## Statement of consolidated comprehensive income

|   | (millions of euro) |              |                   |              |
|---|--------------------|--------------|-------------------|--------------|
|   | 2016               | 2015         | Changes<br>amount | %            |
| <b>10. NET INCOME (LOSS)</b>  | <b>3,200</b>       | <b>2,806</b> | <b>394</b>        | <b>14.0</b>  |
| <b>Other comprehensive income (net of tax) that may not be reclassified to the income statement</b> | <b>-174</b>        | <b>297</b>   | <b>-471</b>       |              |
| 20. Property and equipment  | -                  | -            | -                 |              |
| 30. Intangible assets   | -                  | -            | -                 |              |
| 40. Defined benefit plans   | -174               | 297          | -471              |              |
| 50. Non-current assets held for sale  | -                  | -            | -                 |              |
| 60. Share of valuation reserves connected with investments carried at equity                        | -                  | -            | -                 |              |
| <b>Other comprehensive income (net of tax) that may be reclassified to the income statement</b>     | <b>-806</b>        | <b>381</b>   | <b>-1,187</b>     |              |
| 70. Hedges of foreign investments   | -                  | -            | -                 |              |
| 80. Foreign exchange differences  | -284               | -5           | 279               |              |
| 90. Cash flow hedges  | -4                 | 226          | -230              |              |
| 100. Financial assets available for sale  | -507               | 140          | -647              |              |
| 110. Non-current assets held for sale   | -                  | -            | -                 |              |
| 120. Share of valuation reserves connected with investments carried at equity                       | -11                | 20           | -31               |              |
| <b>130. Total other comprehensive income (net of tax)</b>   | <b>-980</b>        | <b>678</b>   | <b>-1,658</b>     |              |
| <b>140. TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 + 110)</b>  | <b>2,220</b>       | <b>3,484</b> | <b>-1,264</b>     | <b>-36.3</b> |
| <b>150. Total consolidated comprehensive income pertaining to minority interests</b>                | <b>-55</b>         | <b>144</b>   | <b>-199</b>       |              |
| <b>160. Total consolidated comprehensive income pertaining to the Parent Company</b>                | <b>2,275</b>       | <b>3,340</b> | <b>-1,065</b>     | <b>-31.9</b> |

## Statement of changes in consolidated shareholders' equity as at 31 December 2016

(millions of euro)

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

<sup>(a)</sup> Includes dividends and amounts allocated to the charity fund of the Parent Company, as well as those relating to consolidated companies, pertaining to minorities.

## Statement of changes in consolidated shareholders' equity as at 31 December 2015

(millions of euro)

|   | Share capital   |                | Share premium reserve | Reserves          |       | 31.12.2015         |                    |                 |                   |                      |                            |                    |
|---|-----------------|----------------|-----------------------|-------------------|-------|--------------------|--------------------|-----------------|-------------------|----------------------|----------------------------|--------------------|
|   | ordinary shares | savings shares |                       | retained earnings | other | Valuation reserves | Equity instruments | Treasury shares | Net income (loss) | Shareholders' equity | Group shareholders' equity | Minority interests |
| AMOUNTS AS AT 1.1.2015  | 8,510           | 488            | 27,369                | 8,528             | 565   | -1,631             | -                  | -77             | 1,310             | 45,062               | 44,683                     | 379                |
| <b>ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR <sup>(a)</sup></b> |                 |                |                       |                   |       |                    |                    |                 |                   |                      |                            |                    |
| Reserves  |                 |                |                       | 76                |       |                    |                    |                 | -76               | -                    | -                          | -                  |
| Dividends and other allocations                                     |                 |                |                       |                   |       |                    |                    |                 | -1,234            | -1,234               | -1,195                     | -39                |
| <b>CHANGES IN THE PERIOD</b>  |                 |                |                       |                   |       |                    |                    |                 |                   |                      |                            |                    |
| Changes in reserves   |                 |                |                       | -13               | 13    | 3                  |                    |                 |                   | 3                    | 3                          | -                  |
| <b>Operations on shareholders' equity</b>                           |                 |                |                       |                   |       |                    |                    |                 |                   |                      |                            |                    |
| Issue of new shares   | 7               |                |                       |                   |       |                    |                    | 8               |                   | 15                   | 14                         | 1                  |
| Purchase of treasury shares   |                 |                |                       |                   |       |                    |                    | -3              |                   | -3                   | -3                         | -                  |
| Extraordinary dividends   |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Changes in equity instruments                                       |                 |                |                       |                   |       |                    | 877                |                 |                   | 877                  | 877                        | -                  |
| Derivatives on treasury shares                                      |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Stock options   |                 |                |                       |                   |       |                    |                    |                 |                   | -                    | -                          | -                  |
| Changes in equity investmens  | 88              |                | 157                   | -20               |       |                    |                    |                 |                   | 225                  | -                          | 225                |
| Other <sup>(b)</sup>  | 199             | -3             | -5                    | -27               |       |                    |                    |                 |                   | 164                  | 57                         | 107                |
| <b>Total comprehensive income for the period</b>                    |                 |                |                       |                   |       | <b>678</b>         |                    |                 | <b>2,806</b>      | <b>3,484</b>         | <b>3,340</b>               | <b>144</b>         |
| SHAREHOLDERS' EQUITY AS AT 31.12.2015                               | 8,804           | 485            | 27,521                | 8,544             | 578   | -950               | 877                | -72             | 2,806             | 48,593               | 47,776                     | 817                |
| - Group   | 8,247           | 485            | 27,349                | 8,589             | 578   | -1,018             | 877                | -70             | 2,739             | 47,776               |                            |                    |
| - minority interests  | 557             | -              | 172                   | -45               | -     | 68                 | -                  | -2              | 67                | 817                  |                            |                    |

<sup>(a)</sup> Includes dividends and amounts allocated to the charity fund of the Parent Company, as well as those relating to consolidated companies, pertaining to minorities.

<sup>(b)</sup> The caption mainly includes the effects of the first full consolidation of the investment in Risanamento S.p.A.

## Consolidated statement of cash flows

(millions of euro)

|  | 31.12.2016     | 31.12.2015     |
|--|----------------|----------------|
| <b>A. OPERATING ACTIVITIES</b>   |                |                |
| <b>1. Cash flow from operations</b>  | <b>6,737</b>   | <b>10,241</b>  |
| - net income (loss) (+/-)  | 3,200          | 2,806          |
| - gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+) | -458           | 1,270          |
| - gains/losses on hedging activities (-/+)   | 34             | 68             |
| - net losses/recoveries on impairment (+/-)  | 3,869          | 3,393          |
| - adjustments to/net recoveries on property, equipment and intangible assets (+/-)   | 931            | 911            |
| - net provisions for risks and charges and other costs/revenues (+/-)  | 452            | 637            |
| - net insurance premiums to be collected (-)   | 1              | 11             |
| - other insurance revenues/charges to be collected (-/+)   | 2,510          | 5,272          |
| - taxes, duties and tax credits to be paid/collected(+/-)  | 184            | -126           |
| - net adjustments to/recoveries on discontinued operations net of tax effect (-/+)   | -              | -              |
| - other adjustments (+/-)  | -3,986         | -4,001         |
| <b>2. Cash flow from / used in financial assets</b>  | <b>-51,540</b> | <b>-26,491</b> |
| - financial assets held for trading  | 8,562          | 2,478          |
| - financial assets designated at fair value through profit and loss  | -8,618         | -8,709         |
| - financial assets available for sale  | -15,214        | -5,365         |
| - due from banks: repayable on demand  | -25,242        | 2,277          |
| - due from banks: other  | 6,542          | -5,117         |
| - loans to customers   | -18,222        | -14,347        |
| - other assets   | 652            | 2,292          |
| <b>3. Cash flow from / used in financial liabilities</b>   | <b>44,419</b>  | <b>20,818</b>  |
| - due to banks: repayable on demand  | -597           | -344           |
| - due to banks: other  | 14,183         | 7,997          |
| - due to customers   | 36,601         | 24,577         |
| - securities issued  | -15,410        | -13,826        |
| - financial liabilities held for trading   | 1,217          | -2,908         |
| - financial liabilities designated at fair value through profit and loss   | 9,632          | 9,286          |
| - other liabilities  | -1,207         | -3,964         |
| <b>Net cash flow from (used in) operating activities</b>   | <b>-384</b>    | <b>4,568</b>   |
| <b>B. INVESTING ACTIVITIES</b>   |                |                |
| <b>1. Cash flow from</b>   | <b>1,799</b>   | <b>100</b>     |
| - sales of investments in associates and companies subject to joint control  | 374            | -              |
| - dividends collected on investments in associates and companies subject to joint control  | -              | -              |
| - sales/reimbursements of investments held to maturity   | 145            | 85             |
| - sales of property and equipment  | 167            | -              |
| - sales of intangible assets   | -              | -              |
| - sales of subsidiaries and business branches  | 1,113          | 15             |
| <b>2. Cash flow used in</b>  | <b>-822</b>    | <b>-1,595</b>  |
| - purchases of investments in associates and companies subject to joint control  | -              | -23            |
| - purchases of investments held to maturity  | -              | -              |
| - purchases of property and equipment  | -              | -505           |
| - purchases of intangible assets   | -647           | -481           |
| - purchases of subsidiaries and business branches  | -175           | -586           |
| <b>Net cash flow from (used in) investing activities</b>   | <b>977</b>     | <b>-1,495</b>  |
| <b>C. FINANCING ACTIVITIES</b>   |                |                |
| - issues/purchases of treasury shares  | -2             | 5              |
| - share capital increases  | 1,240          | 877            |
| - dividend distribution and other  | -2,440         | -1,234         |
| <b>Net cash flow from (used in) financing activities</b>   | <b>-1,202</b>  | <b>-352</b>    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | <b>-609</b>    | <b>2,721</b>   |
| <b>RECONCILIATION</b>  |                |                |
| Cash and cash equivalents at beginning of period   | 9,344          | 6,631          |
| Net increase (decrease) in cash and cash equivalents   | -609           | 2,721          |
| Cash and cash equivalents: foreign exchange effect   | -49            | -8             |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>  | <b>8,686</b>   | <b>9,344</b>   |

LEGEND: (+) from (-) used in



# Notes to the consolidated financial statements



# Part A – Accounting policies

## A.1 – GENERAL CRITERIA

### SECTION 1 – DECLARATION OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

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

The Consolidated financial statements as at 31 December 2016 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Art. 43 of Legislative Decree 136/2015<sup>(\*)</sup>, with Regulation of 22 December 2005, which issued Circular 262/05, and with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014 and 15 December 2015.

These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.

The financial statements have been prepared using the International Accounting Standards endorsed and in force as at 31 December 2016 (including the SIC and IFRIC interpretation documents) as listed in the attachments to these financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which came into force in 2016.

### IFRS endorsed as at 31.12.2016 in force since 2016

| Regulation endorsement | Title  | Effective date   |
|------------------------|--|--|
| 28/2015                | Amendments to IFRS 2 Share-based payment<br>Amendments to IFRS 3 Business combinations<br>Amendments to IFRS 8 Operating segments<br>Amendments to IAS 16 Property, plant and equipment<br>Amendments to IAS 24 Related party disclosures<br>Amendments to IAS 38 Intangible assets  | 01/01/2016<br>First financial year starting on or after 01/02/2015 |
| 29/2015                | Amendments to IAS 19 Employee benefits   | 01/01/2016<br>First financial year starting on or after 01/02/2015 |
| 2113/2015              | Amendments to IAS 16 Property, plant and equipment<br>Amendments to IAS 41 Agriculture   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2173/2015              | Amendments to IFRS 11 Joint arrangements   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2231/2015              | Amendments to IAS 16 Property, plant and equipment<br>Amendments to IAS 38 Intangible assets   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2343/2015              | Amendments to IFRS 1 First-time adoption of International Financial Reporting Standard<br>Amendments to IFRS 5 Non current assets held for sale and discontinued operations<br>Amendments to IFRS 7 Financial Instruments: disclosures<br>Amendments to IAS 19 Employee benefits<br>Amendments to IAS 34 Interim financial reporting | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2406/2015              | Amendments to IAS 1 Presentation of financial statements   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2441/2015              | Amendments to IAS 27 Separate financial statements   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 1703/2016              | Amendments to IFRS 10 Consolidated financial statements<br>Amendments to IFRS 12 Disclosure of interests in other entities<br>Amendments to IAS 28 Investments in associates and joint ventures  | 01/01/2016<br>First financial year starting on or after 01/01/2016 |

The accounting standards applicable on a mandatory basis for the first time starting in 2016 consist of several amendments made to the existing standards, endorsed by the European Commission during 2015 and 2016. However, those amendments are not particularly significant for the Intesa Sanpaolo Group.

<sup>(\*)</sup>Article 43 of Legislative Decree 136/2015 confirmed the Bank of Italy's powers in relation to the technical formats for financial statements that were previously assigned to the Authority by Legislative Decree 38/2005.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which will become mandatory on 1 January 2018 - for financial statements reflecting the calendar year - or after this date.

### IFRS endorsed as at 31.12.2016 applicable subsequent to 31.12.2016

| Regulation endorsement | Title   | Effective date   |
|------------------------|---|--|
| 1905/2016              | IFRS 15 Revenue from contracts with customers | 01/01/2018<br>First financial year starting on or after 01/01/2018 |
| 2067/2016              | IFRS 9 Financial instruments                  | 01/01/2018<br>First financial year starting on or after 01/01/2018 |

During 2016 the European Commission endorsed the new accounting standards IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments, with regard to which, given their significance, additional information is provided below.

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

The changes introduced with respect to the existing rules may be summarised as follows:

- the introduction – within a single accounting standard – of a “common framework” for revenue recognition for both the sale of goods and the provision of services;
- the adoption of a step-based approach for revenue recognition (see below);
- an unbundling mechanism for the allocation of the total transaction price to each of the commitments (sale of goods and/or provision of services) in a sale contract.

In general terms, IFRS 15 requires the entity, when recognising revenues, to adopt an approach based on five steps:

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

The impacts of IFRS 15 will depend, in practice, on the types of transactions measured (the standard has introduced estimation elements in the determination of the transaction price, for the variable component) and on the entity’s sector of operations (the sectors most affected appear to be telecommunications and residential real estate). The impacts for the Group are expected to consist mainly 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.

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



**IFRS not endorsed as at 31.12.2016**

| <b>Standard/<br/>Interpretation</b> | <b>Title</b>  | <b>Date of issue</b> |
|-------------------------------------|---|----------------------|
| IFRS 14                             | Regulatory Deferral Accounts  | 30/01/2014           |
| IFRS 16                             | Leases  | 13/01/2016           |
| IFRIC 22                            | Foreign Currency Transactions and Advance Consideration                               | 08/12/2016           |
| <b>Standard/<br/>Interpretation</b> | <b>Amendments</b>   | <b>Date of issue</b> |
| IFRS 10                             | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 11/09/2014           |
| IAS 28                              | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 11/09/2014           |
| IAS 12                              | Recognition of Deferred Tax Assets for Unrealised Losses                              | 19/01/2016           |
| IAS 7                               | Disclosure Initiative   | 29/01/2016           |
| IFRS 15                             | Clarifications to IFRS 15 Revenue from Contracts with Customers                       | 12/04/2016           |
| IFRS 2                              | Classification and Measurement of Share-based payment Transactions                    | 20/06/2016           |
| IFRS 4                              | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts                 | 12/09/2016           |
| IFRS 1                              | First-time Adoption of International Financial Reporting Standards                    | 08/12/2016           |
| IFRS 12                             | Disclosure of Interests in Other Entities   | 08/12/2016           |
| IAS 28                              | Investments in Associates and Joint Ventures  | 08/12/2016           |
| IAS 40                              | Transfers of Investment Property  | 08/12/2016           |

Here, in view of their particular significance, the following are noted:

- the new standard IFRS 16 – Leases;
- the amendments to the current IFRS 4 in view of certain benefits to insurance companies resulting from the introduction of IFRS 9.

The new IFRS 16, applicable from 1 January 2019, subject to endorsement by the European Commission, introduces significant changes to the accounting for lessees/users. In particular, the main amendment is the removal of the distinction, established by IAS 17, between operating and finance leases: all leases must now be accounted for as finance leases. For the lessee/user enterprises this results – at the same levels of income and final cash flows – in an increase in the assets recorded in the balance sheet (the leased assets), an increase in the liabilities (the debt for the leased assets), a reduction in operating costs (lease rentals) and an increase in financial costs (for the repayment and remuneration of the debt recognised).

In terms of disclosure, the minimum information required from the lessees includes:

- the sub-division of the leased assets among different “classes”;
- an analysis by due date of the liabilities related to the leases;
- all the information that is potentially helpful for a better understanding of the entity’s activities with regard to the leases (for example, early repayment or extension options)

On the other hand, there are no particular changes, other than some additional disclosure requirements, for lessor entities, for which the current distinction is maintained between operating leases and finance leases.

Analyses are being conducted to determine the impacts for the Group resulting from the application of the new standard, mainly aimed at identifying the scope and the accounting treatment of the assets used by the Group through leases.

The amendment to IFRS 4, published in September 2016, is aimed at enabling insurance companies to manage the possible accounting mismatches arising from early adoption of IFRS 9 (which affects the assets of the insurance companies) with respect to the new standard on insurance contracts (which affects the liabilities of those companies).

In this regard, IFRS 4 was amended by introducing two different accounting options, specifically established for the transition to the new IFRS 9, namely the overlay approach and the temporary exemption:

- the overlay approach involves a specific treatment for insurance companies that adopt IFRS 9 from 1 January 2018, to remedy possible accounting mismatches. The exercise of this option allows the insurance companies to remove from profit and loss any effects resulting from the measurement at fair value through profit or loss (FVTPL) – in implementation of IFRS 9 – of specific eligible financial assets related to insurance contracts, which would not be measured at FVTPL in full in application of IAS 39. This effect would be reclassified to equity;
- the temporary exemption allows insurance companies whose predominant activity is the issuing of insurance contracts to exercise the option not to apply IFRS 9 on 1 January 2018. This exemption is temporary and applies up to the date of entry into force of the new standard on insurance contracts and, in any event, not beyond 1 January 2021. The possibility of adopting the temporary exemption is limited, as mentioned above, based on the criterion of the “predominance” of the insurance activities and the verification may be conducted separately at the level of the consolidated financial statements or the separate financial statements. Therefore, it is possible that the option may be exercisable at group level, but that it does not apply to one or more entities of the group for the preparation of their separate financial statements (or vice versa).

**IFRS 9: the new accounting standard on financial instruments**

In accordance with the guidance from the European Securities and Markets Authority (ESMA), in this section Intesa Sanpaolo provides its disclosure on the implementation of IAS 9 – Financial Instruments.

### *The regulations*

The new accounting standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation 2067/2016, will replace IAS 39 with effect from 1 January 2018. The latter Standard currently governs the classification and measurement of financial instruments.

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 introduces a model whereby classification of financial assets is guided, on the one hand, by the contractual characteristics of the cash flows of the instrument and, on the other, by the business model within which the instrument is held. In lieu of the current four accounting categories, under IFRS 9 financial assets may be classified into three categories according to the two drivers indicated above: assets measured at amortised cost, assets measured at fair value through profit or loss and, finally, assets measured at fair value through other comprehensive income (the reserve is transferred to profit or loss in the event of the disposal of the instrument). Financial assets may be measured at amortised cost or fair value through other comprehensive income only if the test concerning the contractual characteristics of the cash flows of the instrument has been "passed". Equity instruments are always measured at fair value through profit and loss unless the entity elects (irrevocably, upon initial recognition), for equities not held for trading, to present changes in value in other comprehensive income, never to be transferred to profit and loss, even in the event of the disposal of the financial instrument ("no recycling").

There are no major changes with respect to the classification and measurement of financial liabilities under the current Standard. The sole change relates to the accounting treatment of own credit risk: for financial liabilities designated at fair value (fair value option liabilities), the Standard requires that changes in the fair value of financial liabilities attributable to the change in own credit risk be recognised in other comprehensive income, unless this treatment creates or enlarges 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 at fair value through other comprehensive income (other than equity instruments) based on the concept of "expected loss" instead of the current "incurred loss", with the aim of recognising losses in a more timely manner. IFRS 9 requires that entities recognise expected losses in the next 12 months (stage one) starting from initial recognition of the financial instrument. The time horizon for calculating expected losses is the entire residual life of the asset being measured if credit risk has increased "significantly" since initial recognition (stage 2) or if it is impaired (stage 3).

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 and to enhance disclosure of risk management activity by the reporting entity.

The Supervisory Authorities – particularly in the banking and finance sectors – are carefully analysing IFRS 9 and there are numerous initiatives aimed at amending and/or supplementing the current regulations and detailing the practices that are considered appropriate for fully implementing IFRS 9.

Given the pervasive impacts of IFRS 9, both on business and on organisation and reporting, from 2015 the Intesa Sanpaolo Group has launched a specific project aimed at further studying the various areas of influence of the Standard, determining its impact in qualitative and quantitative terms, and identifying and implementing the practical and organisational measures required for consistent, systematic and effective adoption within the Group as a whole and for each of the subsidiaries of which it is composed.

### *The implementation project*

The project is being developed according to the three main areas into which the Standard is structured, as briefly described in the foregoing paragraph:

#### *Classification and Measurement (C&M), Impairment and Hedge Accounting.*

In the CFO and CRO areas, and under the joint responsibility of the Administration and Tax Department, Credit Risk Management Department and Financial and Market Risks Department, and, as detailed below, with the active involvement of numerous Group Departments, themed working groups were formed on the basis of the areas into which the Standard is divided.

In order to ensure operational implementation of the Standard in a manner that is consistent with international best practices and as faithful as possible to the substantive meaning of the provisions of IFRS 9 (including on the basis of indications from international authorities, where relevant), a specific working table was created to aid the themed working groups in analysing and guiding the preliminary decisions on the basis of which the activities are to be performed.

In addition to the involvement of the operating divisions in the analysis of the impacts of the Standard on the business areas, to develop the changes to IT systems it was necessary to create a Coordination Group with the other projects currently in progress, so as to design consistent IT solutions capable of exploiting synergies efficiently.

For each of the three areas (C&M, Impairment, and Hedge Accounting), the same methodological approach set out in the following (three) macro phases of activity is used: analysis and preliminary choices, IT simulations and design of the target operating model, IT development, and identification of the operating processes.

#### *Classification and Measurement*

To be able to comply with the requirements of IFRS 9 – which introduces a model through which the classification of financial assets is guided, on one hand, by the contractual cash flow characteristics of the instruments and, on the other hand, by the business model within which the instrument is held – the activities under way are mainly aimed at identifying the prospective business models and setting out the procedures for conducting the test on the contractual cash flow characteristics (the SPPI Test). For the SPPI Test of the financial assets, the internal method has been established, based on decision trees, and the analysis is being finalised of the composition of the existing securities and loans portfolios, to identify the correct classification upon First Time Adoption (FTA) of the new standard.

With regard to debt securities, a detailed examination has been conducted on the cash flow characteristics of the instruments classified at amortised cost and as available for sale according to IAS 39, in order to identify the assets which do not pass the SPPI Test and must therefore be measured at fair value through profit or loss according to IFRS 9. Specific supporting tools were used for this purpose. The analyses conducted on the scope specified above only identified a non-material percentage of debt securities

that do not pass the SPPI Test, mainly related to instruments that create concentrations of credit risk (tranches) and structured securities.

For the loans segment, the project has launched modular analyses that take account of the significance of the portfolios, their homogeneity and business division. In this regard, different approaches were used for the retail and corporate loan portfolios. For the loans of the Banca dei Territori Division, largely associated with standard contracts (existing and historical product catalogue), the analysis was conducted with the aid of the Marketing structures on clusters of homogeneous loans, extending the result of the SPPI Test to all the relationships included in the cluster. For the loans of the Corporate and Investment Banking Division, most of which are not associated with standard contracts, the examinations underway involve conducting a specific test on individual loans, identified based on representative samples of the operations of each industry/desk and geographical area (Italy/international), according to the materiality of the amounts, and also involving the participation of the business departments. At their current state of progress, the analyses have only identified certain contracts that, due to specific clauses, would fail the SPPI Test. Accordingly, no significant impacts are expected also for the loans segment.

For the financial assets, both loans and debt securities, that have a mismatch between the frequency of the reset and the tenor of the interest rate, the passing of the SPPI Test will also be verified by conducting the Benchmark Cash Flow Test, whose methods are currently being refined. The methods have also been identified for conducting the credit risk assessment (an integral part of the look through test), required by the standard for analysing instruments with tranching of the credit risk (e.g. securitised instruments).

With regard to the second classification driver for the financial assets (business model), the analysis and survey of the current business models has essentially been completed and the prospective business models are being identified. In this regard, the operating rules are currently being prepared for the implementation of the business model assessment and the ongoing monitoring of the portfolios affected by IFRS 9. To this end, the drivers to be examined have been identified and analyses have been conducted on the historical data on sales, particularly for the securities portfolios currently classified at amortised cost. For the definition of the hold to collect portfolios, the limits are being finalised for frequent sales to be considered eligible, but not significant (individually or in aggregate), or infrequent even if their amount is significant. Based on the analyses conducted, the securities portfolios currently classified at amortised cost generally have little movement, consistent with the management strategy of a hold to collect business model. With regard to the debt securities currently classified as Financial assets available for sale, a hold to collect and sell business model is expected to be identified for most portfolios. Transfers to the hold to collect business model are only being envisaged for a limited number of cases, for portfolios with marginal amounts.

In general terms, the current procedures for managing loans, both with retail and corporate counterparties, are consistent with the hold to collect business model; however, the identification of the classification category will be confirmed based on the management procedures for the financial instruments upon first time adoption of IFRS 9.

The assessments of the equity investments have been started and will continue over the coming months, aimed at determining whether to exercise the option of classifying the equity instruments at Fair value through other comprehensive income (FVTOCI without recycling through profit or loss). Verifications are also underway regarding the possible accounting choices offered by the standard for the classification of financial liabilities designated at fair value through profit or loss (with separate recognition through other comprehensive income of the fair value changes attributable to the changes in the Bank's credit rating).

In summary, with regard to the expected effects of the new standard for the C&M area, according to the examinations conducted so far, no significant impacts are expected upon first time adoption. Specifically, a possible increase is expected in instruments to be measured at fair value through profit or loss and a consequent increase in the profit or loss volatility in subsequent years. In this regard, analyses are being conducted on the accounting treatment for investment funds (open-end funds and closed-end funds), with a possible future increase in profit or loss volatility if the classification at fair value through profit or loss is confirmed for the instruments currently classified under Financial assets available for sale.

For the derivative contracts segment, for both trading and hedging purposes, the Standard is not expected to result in either reclassification or measurement effects.

### *Impairment*

For the Impairment area (for which specific project streams have been developed for both lending and securities operations), the following key information can currently be provided:

- the methods have essentially been established for the tracking of the credit quality of the portfolios of financial assets measured at amortised cost and at fair value through other comprehensive income;
- the parameters are being defined for determining the significant deterioration of 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 present – means that the current criteria for the classification of exposures as “non-performing”/“impaired” can be considered the same as the future classification of exposures in stage 3.
- the models are being finalised – which include the forward-looking information – for the staging (with regard to the use of the lifetime PD as the relative indicator of impairment) and for the calculation of the expected credit losses (ECL) at one year (to be applied to exposures in stage 1) and over lifetime (to be applied to exposures in stage 2 and stage 3). Concerning the definition of the forward-looking information, assessments are underway aimed at identifying the use, in this regard, of the different macro-economic scenarios in which the bank may find itself operating.

With regard to the tracking of credit quality, to identify the significant deterioration of the risk of the exposures, in line with the regulatory content of the standard and the guidelines from the Supervisory Authorities regarding the methods for applying the reporting standard for larger banks, the decision has been made – within specific project streams and as a policy choice to be applied uniformly to all the types of exposures after IFRS 9 enters into force – to conduct a specific review of the credit quality of each individual relationship (both in the form of securitised exposure and the form of loans), in order to identify any “significant deterioration” and, vice versa, the conditions for returning to stage 1 from stage 2. In other words, this operational choice involves, case-by-case and at each reporting date, the comparison – for the purposes of staging – between the credit quality of the financial instrument at the time of measurement and at the time of initial disbursement or purchase. Solely for the first-time adoption of the standard, for certain categories of exposures (specifically identified), the low credit risk exemption established by IFRS 9 is expected to be applied. The application of this exemption would result in exposures that are investment grade (or similar), at the date of transition to the new standard, being considered as stage 1, and the remaining performing exposures as stage 2.

Also with regard to the above, the factors that will constitute the main drivers to be taken into consideration for the assessments regarding the “transfers” between the different stages are the following:

- the variation of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a “relative” basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. In these circumstances, 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 any other conditions (e.g. a renegotiation with the characteristics for classification under forbearance measures), which – again on a presumption basis – result in the classification as an exposure 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 may be considered for the purposes of the transfer between “stages” and where appropriate.

Some specific considerations apply for the “staging” of the debt securities. Unlike loans, for this type of exposure, sales after initial purchase (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 “discharge” of sales and 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, the inclusion of forward-looking factors, and macroeconomic scenarios in particular, is a crucial element for the estimates of the expected losses. In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the alternatives considered, the Intesa Sanpaolo Group is currently assessing whether to adopt the “Most likely scenario+Add-on” approach, which, for the calculation of the expected credit losses (ECL) and the “stage assignment”, involves considering the credit losses generated by the base scenario believed to be most likely and used also for other purposes within the Group (for example, for the preparation of the budget and business plan), plus/minus an add-on adjustment – whose methods of definition are still being finalised – aimed at reflecting the effects from the non-linear nature of the variable used for determining the macroeconomic parameters.

The impairment rules introduced by IFRS 9 are undoubtedly a significant change compared to the approaches in IAS 39. With regard to the new measurement metrics for the exposures, although the impact of first-time adoption of the standard – which must be recognised in net equity – is expected to be “significant” for the Intesa Sanpaolo Group, it will not, however, be critical for the Group’s current levels of balance-sheet and regulatory capital. More specifically, it was not considered possible to provide specific details of the quantitative impact, because the estimates available at the time of preparation of these financial statements show a not insignificant potential range for the capital impact of the new rules on impairment. This impact, obviously, depends on the composition of the loan portfolios at the date of transition and the macroeconomic forecasts for future years that will be produced at the date of transition to IFRS 9, in addition to elements that have not been fully identified, regarding both the finalisation of several regulatory and application interpretations (currently still being debated at national and international level) and choices regarding the organisational and IT systems, which will be made in the near future. Furthermore, it should be noted that the methods for managing this situation for prudential purposes are still being developed by the Authorities.

After adoption, the following may also be envisaged:

- greater volatility of the income statement due to the transition of financial instruments from stage 1 to stage 2 and vice versa, due to the different methods of determining impairment losses and recoveries compared to the current methods;
- the impact on the measurement of impairment for the determination of the lifetime expected loss on performing loans classified to stage 2, which increases as the duration of the individual relationships increases.

#### *Hedge accounting*

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

*Impact on the IT systems*

The smooth and effective implementation of the changes introduced by IFRS 9 regarding Classification and Measurement and, above all, Impairment, requires measures that have a big impact in the area of information technology. To that end, analyses have been conducted to identify the main areas of impact, with the aim, on one hand, of setting out the target application architectures to be developed and, on the other hand, identifying the applications and procedures to be adapted (and, where necessary, purchased), as well as the amendments to be made.

The measures being implemented on the systems – which are designed to achieve compliance with the new requirements established by the standard in terms of classification of the portfolios, tracking and measurement of credit risk, accounting and disclosure – therefore involve both the implementation, within the existing procedures, of the features required for that purpose, and the identification and development/addition of new software applications required for the more efficient and effective management of the issues concerned.

More specifically, for the Classification and Measurement area, once the methods for conducting the SPPI Test have been defined, the applications and procedures to be purchased and/or adjusted/supplemented for its implementation have been identified, both for securities and for credit exposures in the strict sense. For the Impairment area, after having made the main choices regarding the parameters to be considered for the assessment of significant deterioration, as well as for the calculation methods for the ECL (also taking into account forward-looking information), the risk management applications to be used for tracking the credit risk of the individual positions and calculating the ECL have been identified, together with the necessary adaptations and upgrades, which are currently being developed. Similar analyses and measures are also underway for the adaptation of the accounting applications, also in order to ensure adequate disclosure, as required by the new version of the FINREP, among others.

In general, these measures have been defined and developed centrally in Intesa Sanpaolo for all the Group companies that have IT systems that are shared with or are the same as those of the Parent Company. However, these measures are managed independently by the subsidiaries (for example, the international subsidiaries and insurance companies) that have different application systems, also due to the specific nature of their business, with oversight by the Parent Company, to ensure that the solutions are aligned to guidelines issued by it.

*Organisational impacts*

The IT Implementations are being accompanied by similar analyses and measures of an organisational nature. Specifically, the main organisational impacts relate to the revision and adaptation of existing operating processes, the design and implementation of new processes and the revision of the scope and expansion of the competencies available within the various operational and administrative and control departments.

Specifically, the work related to the Classification and Measurement area will initially involve business and marketing departments, with the aim of identifying and defining business models and developing management and monitoring procedures for the process of performing the SPPI test.

With regard to Impairment, the Group's objective is the increasingly effective and integrated implementation of the procedures for ongoing monitoring of credit risk, in line with the requirements of IFRS 9, in order to establish preventive measures, aimed at monitoring the potential "sliding" of positions into stage 2 and recording fair and timely impairment adjustments based on the real credit risk.

Lastly, the introduction of IFRS 9 will presumably also have impacts in terms of the commercial offer (and, consequently, as already partly already noted, in terms of revision of the product catalogue). In this regard, during 2016 work was started to identify and define the scope of possible mitigating actions. This work is expected to continue and intensify during 2017. That said, the main impacts that may be envisaged for the Intesa Sanpaolo Group's banking business deriving from the combination of the different subject areas of the new standard include:

- the likely need – at least for some portfolios – to re-examine the current credit strategies;
- the amendment of some catalogue products (potentially including both their pricing and duration, based on their supporting guarantees, and their repayment mechanisms);
- the possible restatement of the mission of certain operating units, with the resulting implications for the governance of portfolios, control methods, risk/measurement parameters and the related limits and ceilings. Consequently, the models and incentive schemes may also be subject to revision, in some cases.
- the management of loan portfolios whose operations are linked to a possible strategy of subsequent disposal ("originate to distribute") will probably be subject to new valuations, which – in general – will also apply to the hedging opportunities.

Intesa Sanpaolo intends to implement the parallel running of the application of the new standard from the second half of 2017, based on the information available at that time.

## SECTION 2 – GENERAL PREPARATION PRINCIPLES

The Consolidated financial statements are made up of the Balance sheet, the Income statement, the Statement of comprehensive income, the Changes in shareholders' equity, the Statement of cash flows, the Notes to the consolidated financial statements and the related comparative information; the Report on operations, on the economic results achieved and on the Intesa Sanpaolo Group's balance sheet and financial position has also been included. In compliance with the provisions of Art. 5 of Legislative Decree 38/2005, the financial statements have been drawn up in euro as functional currency.

The amounts indicated in the Consolidated financial statements and in the Notes to the consolidated financial statements as well as those in the Report on operations are expressed in millions of euro, unless otherwise specified.

The financial statements are prepared with the application of the general principles set out by IAS 1 and the specific accounting principles endorsed by the European Commission and illustrated in Part A.2 of these Notes to the Consolidated financial statements, as well as in compliance with the general assumptions set forth by the Framework for the Preparation and Presentation of Financial Statements issued by IASB.

No exceptions to the application of IAS/IFRS have been made.

The Report on operations and the Notes to the consolidated financial statements contain all information required by international accounting standards, by current regulations, by the Bank of Italy and by Consob (Italian Securities and Exchange Commission), in addition to other information which is not compulsory but is nonetheless deemed to be necessary in order to give a true and fair presentation of the Group's situation.

The financial statement forms and the Notes to the financial statements show, in addition to the figures for the reference period, the comparative figures as at 31 December 2015.

The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2015 financial statements, together with specific reconciliations between the 2015 financial statements and the reclassified statements included in the Report on operations accompanying these financial statements.

### Contents of financial statement forms

#### *Balance sheet and income statement*

The compulsory forms of the balance sheet and income statement are made up of captions, subcaptions and further detailed information (specified as the "of which" items in the captions and subcaptions). For the purposes of completeness with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for 2016 and for 2015 are in any case included. In the income statement revenues are indicated without sign, whereas costs are preceded by the minus sign.

#### *Statement of comprehensive income*

The Statement of comprehensive income shows, starting from the income/(loss) for the year, the income components recognised as a balancing entry in valuation reserves, net of the tax effect, in compliance with international accounting standards.

Consolidated comprehensive income is represented by providing separate recognition of the income components that will not be reversed to the income statement in the future and those which, conversely, could later be reclassified to income/(loss) for the year under specific conditions. The statement also distinguishes between the portion of income pertaining to the Parent Company and that pertaining to minority interests. Similarly to the balance sheet and the income statement, with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reference year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

#### *Changes in shareholders' equity*

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

#### *Statement of cash flows*

The statement of cash flows registered in the reference year and in the previous year is prepared using the indirect method, on the basis of which cash flows from operating activities are represented by net income adjusted for the effects of non-cash transactions.

Cash flows are broken down into flows from operating activities, from investing activities and from financing activities.

In the form, cash flows generated in the year are indicated without sign, whereas cash flows absorbed are preceded by the minus sign.

### Contents of the Notes to the financial statements

The Notes to the consolidated financial statements include the information provided for by International Financial Reporting Standards and Circular 262 issued by the Bank of Italy on 22 December 2005 and subsequently amended.

## SECTION 3 – SCOPE OF CONSOLIDATION AND CONSOLIDATION METHODS

### Scope of consolidation

The Consolidated financial statements include Intesa Sanpaolo and the companies that it directly and indirectly controls and consider in the scope of consolidation – as specifically set out by IAS/IFRS – also the companies operating in dissimilar sectors from the Parent Company as well as private equity investments. Similarly, structured entities are included when the requisite of effective control recurs, even if there is no stake in the company.

Companies are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entity in question.

Control only exists if all of the following conditions are met:

- the power to direct the relevant activities of the subsidiary;
- the exposure, or rights, to variable returns from the involvement with the investee;
- the ability to use the power over the investee to affect the amount of the investor's returns.

Companies are considered as subject to joint controls if control is directly or indirectly contractually shared by the Parent Company with one or more other parties external to the Group, or where the decisions about the relevant activities require the unanimous consent of all the parties sharing control.

Companies are considered associates, that is subject to significant influence, when Intesa Sanpaolo, directly or indirectly, holds 20% or more of the voting rights (including "potential" voting rights) or when the Parent Company – despite a lower percentage of voting rights due to specific legal agreements such as the participation of voting syndicates – has the power of participating in the determination of the financial and operating policies of the company.

Certain companies in which the Parent Company holds an equity stake exceeding 20% of voting share capital, and in any case of limited absolute amount, are excluded from the scope of consolidation and are classified in Available for Sale category since Intesa Sanpaolo, directly or indirectly, exclusively holds rights on a portion of the rewards of the investment, does not have access to management policies and may exercise limited governance rights to safeguard its economic interests.

Equity investments held, directly or through funds, in companies involved in the venture capital business are also excluded from the line-by-line scope of consolidation. These equity investments are included in the category of instruments measured at fair value.

Companies for which the shares have been received as pledges with voting rights exceeding 20% are not consolidated, in consideration of the substance underlying the pledge, which has the purpose of guaranteeing loans and not of exercising control and direction over financial and economic policies in order to benefit from the economic return on the shares.

With respect to the situation as at 31 December 2015, the scope of consolidation has been expanded to include Eurizon SLJ Capital Ltd and Banca ITB. For further details concerning the acquisition of control of the abovementioned companies, refer to Part G of these Notes. Also please note that the companies Oldequiter, Setefi and Intesa Sanpaolo Card have left the scope of consolidation, as they were involved in a disposal during the year, and so have the companies Equiter and Manzoni, reclassified among associated investments as the elements to exercise control have ceased.

Several extraordinary intragroup transactions were carried out during the year, which had no effects on the Consolidated financial statements; they consisted in transfers of business lines between Intesa Sanpaolo Group companies or business combinations (under common control). Since the transfers were carried out for reorganisation purposes only, in accordance with the Group's accounting policy, these transactions were simply recorded in the individual financial statements of the companies involved, using the continuing values method, without recognition of any economic effect.

In this context, the most significant transactions were the merger by incorporation of Banca dell'Adriatico and of Cassa di Risparmio dell'Umbria into Intesa Sanpaolo, the demerger of the investment in CIB held by Intesa Sanpaolo Holding International into Engenia and the simultaneous merger by incorporation of Engenia into Intesa Sanpaolo, the sale of the investment in Banca Intesa Beograd held by Intesa Sanpaolo to Intesa Sanpaolo Holding International.

For the full details of the transactions under common control finalised during the year, see Part G of these Notes to the consolidated financial statements.

The following table lists the investments in subsidiaries that are included in the line-by-line scope of consolidation of the Consolidated financial statements as at 31 December 2016.

## 1. Consolidated companies

| Name  | Operating office | Registered office | Type of relationship (a) | INVESTMENT direct ownership                      | % held         | Notes available % (b) |
|---|------------------|-------------------|--------------------------|--|----------------|-----------------------|
| 1 Accedo S.p.A.<br>Capital 110,000,000 euro   | Bologna          | Bologna           | 1                        | Intesa Sanpaolo                                  | 100.00         |                       |
| 2 Banca IMI S.p.A.<br>Capital 962,464,000 euro  | Milano           | Milano            | 1                        | Intesa Sanpaolo                                  | 100.00         |                       |
| 3 Banca Imi Securities Corp<br>Capital USD 44.500.000   | New York         | New York          | 1                        | Imi Capital Markets USA Corp.                    | 100.00         |                       |
| 4 Banca Intesa a.d., Beograd<br>Capital RSD 21,315,900,000  | Novi Beograd     | Novi Beograd      | 1                        | Intesa Sanpaolo Holding International            | 100.00         |                       |
| 5 Banca Intesa Joint-Stock Company<br>Capital RUB 10,820,180,800  | Moscow           | Moscow            | 1                        | Intesa Sanpaolo Holding International            | 53.02<br>46.98 |                       |
|   |                  |                   |                          | Intesa Sanpaolo                                  | 100.00         |                       |
| 6 Banca ITB S.p.A.<br>Capital 25,120,000.00 euro  | Milano           | Milano            | 1                        | Intesa Sanpaolo                                  | 100.00         |                       |
| 7 Banca Prossima S.p.A. (h)<br>Capital 81,999,999.64 euro   | Milano           | Milano            | 1                        | Intesa Sanpaolo                                  | 80.16          |                       |
| 8 Banco di Napoli S.p.A.<br>Capital 1,000,000,000 euro  | Napoli           | Napoli            | 1                        | Intesa Sanpaolo                                  | 100.00         |                       |
| 9 Bank of Alexandria S.A.E. (d)<br>Capital EGP 800,000,000  | Cairo            | Cairo             | 1                        | Intesa Sanpaolo                                  | 80.00          | 70.25                 |
| 10 Banka Koper d.d. (e)<br>Capital 22,173,218.16 euro   | Koper            | Koper             | 1                        | Intesa Sanpaolo                                  | 98.92          |                       |
| 11 Brivon Hungary Zrt - in voluntary liquidation<br>(formerly Brivon Hunqary Zrt.)<br>Capital HUF 15,000,000  | Budapest         | Budapest          | 1                        | Recovery Property Utilisation and Services       | 100.00         |                       |
| 12 Cassa dei Risparmi di Forlì e della Romagna S.p.A.<br>Capital 214,428,465 euro                             | Forlì            | Forlì             | 1                        | Intesa Sanpaolo                                  | 83.48          |                       |
| 13 Cassa di Risparmio del Friuli Venezia Giulia S.p.A.<br>Capital 210,263,000 euro                            | Udine            | Gorizia           | 1                        | Intesa Sanpaolo                                  | 100.00         |                       |
| 14 Cassa di Risparmio del Veneto S.p.A.<br>Capital 781,169,000 euro   | Padova           | Padova            | 1                        | Intesa Sanpaolo                                  | 100.00         |                       |
| 15 Cassa di Risparmio di Firenze S.p.A.<br>Capital 418,230,438.24 euro  | Firenze          | Firenze           | 1                        | Intesa Sanpaolo                                  | 100.00         |                       |
| 16 Cassa di Risparmio di Pistoia e della Lucchesia S.p.A. (f)<br>Capital 171,846,279.99 euro                  | Pistoia          | Pistoia           | 1                        | Cassa di Risparmio di Firenze<br>Intesa Sanpaolo | 74.88<br>8.11  |                       |
|   |                  |                   |                          |  | 82.99          |                       |
| 17 Cassa di Risparmio in Bologna S.p.A.<br>Capital 703,692,000 euro   | Bologna          | Bologna           | 1                        | Intesa Sanpaolo                                  | 100.00         |                       |
| 18 Cib Bank Ltd<br>Capital HUF 50,000,000,002   | Budapest         | Budapest          | 1                        | Intesa Sanpaolo                                  | 100.00         |                       |
| 19 CIB Car Trading Ltd - in voluntary liquidation<br>(formerly CIB Car Trading Ltd)<br>Capital HUF 10,000,000 | Budapest         | Budapest          | 1                        | Recovery Property Utilisation and Services       | 100.00         |                       |
| 20 CIB Factor Financial Services Ltd<br>Capital HUF 103,500,000   | Budapest         | Budapest          | 1                        | Cib Bank   | 100.00         |                       |
| 21 CIB Insurance Broker Ltd<br>Capital HUF 10,000,000   | Budapest         | Budapest          | 1                        | Cib Bank   | 100.00         |                       |
| 22 CIB Investment Fund Management Ltd<br>Capital HUF 600,000,000  | Budapest         | Budapest          | 1                        | Vub Asset Management Spravcovska Spolocnost      | 100.00         |                       |
| 23 CIB Leasing Ltd<br>Capital HUF 53,000,000  | Budapest         | Budapest          | 1                        | Cib Bank   | 100.00         |                       |
| 24 CIB Real Estate Ltd<br>Capital HUF 52,000,000  | Budapest         | Budapest          | 1                        | Cib Bank   | 100.00         |                       |
| 25 CIB Rent Operative Leasing Ltd<br>Capital HUF 5,000,000  | Budapest         | Budapest          | 1                        | Cib Bank   | 100.00         |                       |
| 26 Compagnia Italiana Finanziaria - CIF S.r.l.<br>Capital 159,193,216.62 euro                                 | Milano           | Milano            | 1                        | IN.FRA - Investire nelle Infrastrutture          | 61.45          |                       |
| 27 Consumer Finance Holding a.s.<br>Capital 53,110,277 euro   | Kezmarok         | Kezmarok          | 1                        | Vseobecna Uverova Banka                          | 100.00         |                       |
| 28 Consumer Finance Holding Ceska Republika a.s.<br>Capital Czk 86,300,000                                    | Praga            | Praga             | 1                        | Consumer Finance Holding                         | 100.00         |                       |
| 29 Duomo Funding Plc (g)  | Dublin           | Dublin            | 4                        | Intesa Sanpaolo                                  | -              |                       |
| 30 Epsilon SGR S.p.A.<br>Capital 5,200,000 euro   | Milano           | Milano            | 1                        | Eurizon Capital SGR<br>Banca IMI                 | 51.00<br>49.00 |                       |
|   |                  |                   |                          |  | 100.00         |                       |
| 31 Etoile Actualis S.a.r.l.<br>Capital 29,709,643 euro  | Paris            | Paris             | 1                        | Risanamento Europa                               | 100.00         |                       |



| Name   | Operating office | Registered office | Type of relationship (a) | INVESTMENT   |  | Votes available % (b) |
|--|------------------|-------------------|--------------------------|--|--|-----------------------|
|  |                  |                   |                          | direct ownership   | % held                                 |                       |
| 32 Etoile François Premier S.a.r.l.<br>Capital 5,000 euro                        | Paris            | Paris             | 1                        | Risanamento Europa   | 100.00                                 |                       |
| 33 Etoile Saint Florentin S.a.r.l.<br>Capital 540,720 euro                       | Paris            | Paris             | 1                        | Risanamento Europa   | 100.00                                 |                       |
| 34 Etoile Services S.a.r.l.<br>Capital 1,000 euro                                | Paris            | Paris             | 1                        | Risanamento Europa   | 100.00                                 |                       |
| 35 Eurizon Capital S.A.<br>Capital 7,557,200 euro                                | Luxembourg       | Luxembourg        | 1                        | Eurizon Capital SGR  | 100.00                                 |                       |
| 36 Eurizon Capital SGR S.p.A.<br>Capital 99,000,000 euro                         | Milano           | Milano            | 1                        | Intesa Sanpaolo  | 100.00                                 |                       |
| 37 Eurizon Sij Capital Ltd<br>Capital GBP 1,001,000                              | London           | London            | 1                        | Eurizon Capital SGR  | 65.00                                  |                       |
| 38 Fideuram - Intesa Sanpaolo Private Banking S.p.A.<br>Capital 300,000,000 euro | Roma             | Torino            | 1                        | Intesa Sanpaolo  | 100.00                                 |                       |
| 39 Fideuram Asset Management (Ireland) Ltd<br>Capital 1,000,000 euro             | Dublin           | Dublin            | 1                        | Fideuram - Intesa Sanpaolo Private Banking   | 100.00                                 |                       |
| 40 Fideuram Bank Luxembourg S.A.<br>Capital 40,000,000 euro                      | Luxembourg       | Luxembourg        | 1                        | Fideuram - Intesa Sanpaolo Private Banking   | 100.00                                 |                       |
| 41 Fideuram Fiduciaria S.p.A.<br>Capital 1,551,000 euro                          | Torino           | Torino            | 1                        | Fideuram - Intesa Sanpaolo Private Banking   | 100.00                                 |                       |
| 42 Fideuram Investimenti S.G.R. S.p.A.<br>Capital 25,850,000 euro                | Milano           | Milano            | 1                        | Fideuram - Intesa Sanpaolo Private Banking   | 99.50                                  |                       |
| 43 Fideuram Vita S.p.A.<br>Capital 357,446,836.42 euro                           | Roma             | Roma              | 1                        | Intesa Sanpaolo<br>Fideuram - Intesa Sanpaolo Private Banking  | 80.01<br>19.99                         | 100.00                |
| 44 Financière Fideuram S.A.<br>Capital 346,761,600 euro                          | Paris            | Paris             | 1                        | Fideuram - Intesa Sanpaolo Private Banking   | 100.00                                 |                       |
| 45 IMI Capital Markets USA Corp.<br>Capital USD 5,000                            | New York         | New York          | 1                        | IMI Investments  | 100.00                                 |                       |
| 46 IMI Finance Luxembourg S.A.<br>Capital 100,000 euro                           | Luxembourg       | Luxembourg        | 1                        | IMI Investments  | 100.00                                 |                       |
| 47 IMI Fondi Chiusi S.G.R. S.p.A.<br>Capital 2,000,000 euro                      | Bologna          | Bologna           | 1                        | IMI Investimenti   | 100.00                                 |                       |
| 48 IMI Investimenti S.p.A.<br>Capital 579,184,200 euro                           | Bologna          | Bologna           | 1                        | Intesa Sanpaolo  | 100.00                                 |                       |
| 49 IMI Investments S.A.<br>Capital 21,660,000 euro                               | Luxembourg       | Luxembourg        | 1                        | Banca IMI  | 100.00                                 |                       |
| 50 Immobiliare Cascina Rubina S.r.l.(i)<br>Capital 1,371,066 euro                | Milano           | Milano            | 1                        | Risanamento  | 100.00                                 |                       |
| 51 IN.FRA - Investire nelle Infrastrutture S.p.A.<br>Capital 117,342,245.47 euro | Milano           | Milano            | 1                        | Intesa Sanpaolo  | 100.00                                 |                       |
| 52 Infogroup S.c.p.A.<br>Capital 4,352,000 euro                                  | Firenze          | Firenze           | 1                        | Cassa di Risparmio di Firenze<br>Intesa Sanpaolo<br>Cassa di Risparmio di Pistoia e della Lucchesia<br>Intesa Sanpaolo Group Services<br>other smaller investments | 65.45<br>31.77<br>2.76<br>0.01<br>0.01 | 100.00                |
| 53 Iniziative Logistiche S.r.l.<br>Capital 81,120,724.80 euro                    | Milano           | Milano            | 1                        | IN.FRA - Investire nelle Infrastrutture  | 60.02                                  |                       |
| 54 Intesa Funding LLC<br>Capital USD 25.000                                      | New York         | Wilmington        | 1                        | Intesa Sanpaolo  | 100.00                                 |                       |
| 55 Intesa Leasing (Closed Joint-Stock Company)<br>Capital RUB 3,000,000          | Moscow           | Moscow            | 1                        | Banca Intesa Joint-Stock Company   | 100.00                                 |                       |
| 56 Intesa Leasing d.o.o. Beograd<br>Capital RSD 960,374,301                      | Beograd          | Beograd           | 1                        | Banca Intesa Beograd   | 100.00                                 |                       |
| 57 Intesa Sanpaolo Assicura S.p.A.<br>Capital 27,912,258 euro                    | Torino           | Torino            | 1                        | Intesa Sanpaolo Vita   | 100.00                                 |                       |
| 58 Intesa Sanpaolo Bank Albania Sh.A.<br>Capital ALL 5,562,517,674               | Tirana           | Tirana            | 1                        | Intesa Sanpaolo  | 100.00                                 |                       |
| 59 Intesa Sanpaolo Bank Ireland Plc<br>Capital 400,500,000 euro                  | Dublin           | Dublin            | 1                        | Intesa Sanpaolo  | 100.00                                 |                       |
| 60 Intesa Sanpaolo Bank Luxembourg S.A.<br>Capital 989,370,720.28 euro           | Luxembourg       | Luxembourg        | 1                        | Intesa Sanpaolo Holding International<br>Intesa Sanpaolo   | 99.57<br>0.43                          | 100.00                |
| 61 Intesa Sanpaolo Banka d.d. Bosna I Hercegovina<br>Capital BAM 44,782,000      | Sarajevo         | Sarajevo          | 1                        | Privredna Banka Zagreb   | 94.94                                  |                       |
| 62 Intesa Sanpaolo Brasil S.A. - Banco Multiplo<br>Capital BRL 306,065,234.44    | Sao Paulo        | Sao Paulo         | 1                        | Intesa Sanpaolo<br>Intesa Sanpaolo Holding International   | 99.90<br>0.10                          | 100.00                |

| Name  | Operating office | Registered office | Type of relationship (a) | INVESTMENT  |   | Votes available % (b) |
|---|------------------|-------------------|--------------------------|---|---|-----------------------|
|   |                  |                   |                          | direct ownership  | % held  |                       |
| 63 Intesa Sanpaolo Group Services S.c.p.A.<br>Capital 272,586,637 euro      | Torino           | Torino            | 1                        | Intesa Sanpaolo<br>Fideuram - Intesa Sanpaolo Private Banking<br>Cassa di Risparmio del Veneto<br>Cassa di Risparmio di Firenze<br>Banco di Napoli<br>Banca Imi<br>Eurizon Capital SGR<br>Intesa Sanpaolo Vita<br>other smaller investments | 99.91<br>0.01<br>0.01<br>0.01<br>0.01<br>0.01<br>0.01<br>0.01<br>0.02 | 100.00                |
| 64 Intesa Sanpaolo Holding International S.A.<br>Capital 2,157,957,270 euro | Luxembourg       | Luxembourg        | 1                        | Intesa Sanpaolo   | 100.00  | 100.00                |
| 65 Intesa Sanpaolo Immobilière S.A.<br>Capital 350,000 euro                 | Luxembourg       | Luxembourg        | 1                        | Intesa Sanpaolo Holding International   | 100.00  | 100.00                |
| 66 Intesa Sanpaolo Life Ltd<br>Capital 625,000 euro                         | Dublin           | Dublin            | 1                        | Intesa Sanpaolo Vita  | 100.00  | 100.00                |
| 67 Intesa Sanpaolo Private Bank (Suisse) S.A.<br>Capital CHF 20,000,000     | Lugano           | Lugano            | 1                        | Fideuram - Intesa Sanpaolo Private Banking  | 100.00  | 100.00                |
| 68 Intesa Sanpaolo Private Banking S.p.A.<br>Capital 105,497,424 euro       | Milano           | Milano            | 1                        | Fideuram - Intesa Sanpaolo Private Banking  | 100.00  | 100.00                |
| 69 Intesa Sanpaolo Provis S.p.A.<br>Capital 4,625,000 euro                  | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 100.00  | 100.00                |
| 70 Intesa Sanpaolo RE.O.CO. S.p.A.<br>Capital 13,000,000 euro               | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 100.00  | 100.00                |
| 71 Intesa Sanpaolo Real Estate S.A.<br>Capital 2,940,476 euro               | Luxembourg       | Luxembourg        | 1                        | Intesa Sanpaolo Holding International   | 100.00  | 100.00                |
| 72 Intesa Sanpaolo Romania S.A. Commercial Bank<br>Capital RON 886,639,410  | Bucharest        | Bucharest         | 1                        | Intesa Sanpaolo<br>Cassa di Risparmio di Firenze<br>Intesa Sanpaolo Holding International   | 91.47<br>8.18<br>0.35   | 100.00                |
| 73 Intesa Sanpaolo Sec S.A.<br>Capital 31,000 euro                          | Luxembourg       | Luxembourg        | 1                        | Intesa Sanpaolo   | 100.00  | 100.00                |
| 74 Intesa Sanpaolo Securitisation Vehicle S.r.l.<br>Capital 60,000 euro     | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 100.00  | 100.00                |
| 75 Intesa Sanpaolo Servitia S.A.<br>Capital 1,500,000 euro                  | Luxembourg       | Luxembourg        | 1                        | Intesa Sanpaolo Holding International   | 100.00  | 100.00                |
| 76 Intesa Sanpaolo Smart Care S.r.l.<br>Capital 800,000 euro                | Torino           | Torino            | 1                        | Intesa Sanpaolo Vita  | 100.00  | 100.00                |
| 77 Intesa Sanpaolo Vita S.p.A.<br>Capital 320,422,508.53 euro               | Milano           | Torino            | 1                        | Intesa Sanpaolo   | 99.99   | 100.00                |
| 78 Intesa Sec. 3 S.r.l.<br>Capital 70,000 euro                              | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 60.00   | 60.00                 |
| 79 Intesa Sec. Npl S.p.A.<br>Capital 129,000 euro                           | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 60.00   | 60.00                 |
| 80 Intesa Sec. S.p.A.<br>Capital 100,000 euro                               | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 100.00  | 100.00                |
| 81 ISP CB Ipotecario S.r.l.<br>Capital 120,000 euro                         | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 60.00   | 60.00                 |
| 82 ISP CB Pubbico S.r.l.<br>Capital 120,000 euro                            | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 60.00   | 60.00                 |
| 83 ISP OBG S.r.l.<br>Capital 42,038 euro                                    | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 60.00   | 60.00                 |
| 84 Lunar Funding V Plc (g)  | Dublin           | Dublin            | 4                        | Intesa Sanpaolo   | -   | 100.00                |
| 85 Lux Gest Asset Management S.A.<br>Capital 200,000 euro                   | Luxembourg       | Luxembourg        | 1                        | Intesa Sanpaolo Bank Luxembourg   | 100.00  | 100.00                |
| 86 Mediocredito Italiano S.p.A.<br>Capital 992,043,495 euro                 | Milano           | Milano            | 1                        | Intesa Sanpaolo   | 100.00  | 100.00                |
| 87 Milano Santa Giulia S.p.A. (i)<br>Capital 120,000 euro                   | Milano           | Milano            | 1                        | Risanamento   | 100.00  | 100.00                |
| 88 MSG Comparto Primo S.r.l. (i)<br>Capital 50,000 euro                     | Milano           | Milano            | 1                        | Milano Santa Giulia   | 100.00  | 100.00                |
| 89 MSG Comparto Quarto S.r.l. (i)<br>Capital 20,000 euro                    | Milano           | Milano            | 1                        | Milano Santa Giulia   | 100.00  | 100.00                |
| 90 MSG Comparto Secondo S.r.l. (i)<br>Capital 50,000 euro                   | Milano           | Milano            | 1                        | Milano Santa Giulia   | 100.00  | 100.00                |
| 91 MSG Comparto Terzo S.r.l. (i)<br>Capital 20,000 euro                     | Milano           | Milano            | 1                        | Milano Santa Giulia   | 100.00  | 100.00                |
| 92 MSG Residenze S.r.l. (i)<br>Capital 50,000 euro                          | Milano           | Milano            | 1                        | Risanamento   | 100.00  | 100.00                |
| 93 PBZ Card d.o.o.<br>Capital HRK 43,422,200                                | Zagreb           | Zagreb            | 1                        | Privredna Banka Zagreb  | 100.00  | 100.00                |

| Name  | Operating office | Registered office | Type of relationship (a) | INVESTMENT   |                         | Votes available % (b) |
|---|------------------|-------------------|--------------------------|--|-------------------------|-----------------------|
|   |                  |                   |                          | direct ownership   | % held                  |                       |
| 94 PBZ Invest d.o.o.<br>Capital HRK 5,000,000   | Zagreb           | Zagreb            | 1                        | Vub Asset Management Spravcovska Spolocnost  | 100.00                  |                       |
| 95 PBZ Leasing d.o.o. za poslove leasinga<br>Capital HRK 15,000,000                         | Zagreb           | Zagreb            | 1                        | Privredna Banka Zagreb   | 100.00                  |                       |
| 96 PBZ Nekretnine d.o.o.<br>Capital HRK 3,000,000   | Zagreb           | Zagreb            | 1                        | Privredna Banka Zagreb   | 100.00                  |                       |
| 97 PBZ Stambena Stedionica d.d.<br>Capital HRK 115,000,000                                  | Zagreb           | Zagreb            | 1                        | Privredna Banka Zagreb   | 100.00                  |                       |
| 98 Pravex Bank Public Joint-Stock Company Commercial Bank<br>Capital UAH 968,370,561.86     | Kiev             | Kiev              | 1                        | Intesa Sanpaolo  | 100.00                  |                       |
| 99 Private Equity International S.A. (c)<br>Capital 107,000,000 euro                        | Luxembourg       | Luxembourg        | 1                        | Intesa Sanpaolo<br>IMI Investimenti  | 85.80<br>8.59           | 90.90<br>9.10         |
|   |                  |                   |                          |  | 94.39                   | 100.00                |
| 100 Privredna Banka Zagreb d.d.<br>Capital HRK 1,907,476,900                                | Zagreb           | Zagreb            | 1                        | Intesa Sanpaolo Holding International  | 97.47                   |                       |
| 101 Qingdao Yicai Wealth Management Co. Ltd.<br>Capital CNY 146,000,000                     | Qingdao          | Qingdao           | 1                        | Eurizon Capital SGR<br>Fideuram - Intesa Sanpaolo Private Banking<br>Intesa Sanpaolo | 20.00<br>25.00<br>55.00 |                       |
|   |                  |                   |                          |  | 100.00                  |                       |
| 102 Recovery Property Utilisation and Services ZRT.<br>Capital HUF 20,000,000               | Budapest         | Budapest          | 1                        | Cib Bank   | 100.00                  |                       |
| 103 Ri. Estate S.r.l. (i)<br>Capital 10,000 euro  | Milano           | Milano            | 1                        | Risanamento  | 100.00                  |                       |
| 104 Ri. Progetti S.p.A. (i)<br>Capital 510,000 euro   | Milano           | Milano            | 1                        | Risanamento  | 100.00                  |                       |
| 105 Ri. Rental S.r.l. (i)<br>Capital 10,000 euro  | Milano           | Milano            | 1                        | Risanamento  | 100.00                  |                       |
| 106 Risanamento Europa S.r.l. (i)<br>Capital 100,125,050 euro                               | Milano           | Milano            | 1                        | Risanamento  | 100.00                  |                       |
| 107 Risanamento S.p.A. (i)<br>Capital 382,301,510.57 euro                                   | Milano           | Milano            | 1                        | Intesa Sanpaolo  | 48.88                   |                       |
| 108 Romulus Funding Corporation (g)   | New York         | New York          | 4                        | Intesa Sanpaolo  | -                       |                       |
| 109 Sanpaolo Invest SIM S.p.A.<br>Capital 15,264,760 euro                                   | Roma             | Torino            | 1                        | Fideuram - Intesa Sanpaolo Private Banking   | 100.00                  |                       |
| 110 Società Italiana di Revisione e Fiduciaria – S.I.RE.F. S.p.A.<br>Capital 2,600,000 euro | Milano           | Milano            | 1                        | Fideuram - Intesa Sanpaolo Private Banking   | 100.00                  |                       |
| 111 Sviluppo Comparto 3 S.r.l.(i)<br>Capital 50,000 euro                                    | Milano           | Milano            | 1                        | Milano Santa Giulia  | 100.00                  |                       |
| 112 Trade Receivables Investment Vehicle Sarl   | Luxembourg       | Luxembourg        | 4                        | Banca IMI/Duomo Funding  | 100.00                  |                       |
| 113 Vseobecna Uverova Banka a.s.<br>Capital 430,819,063.81 euro                             | Bratislava       | Bratislava        | 1                        | Intesa Sanpaolo Holding International  | 97.03                   |                       |
| 114 VUB Asset Management Sprav. Spol a.s.<br>Capital 4,093,560 euro                         | Bratislava       | Bratislava        | 1                        | Eurizon Capital  | 100.00                  |                       |
| 115 VUB Factoring a.s.<br>Capital 2,232,334 euro  | Bratislava       | Bratislava        | 1                        | Vseobecna Uverova Banka  | 100.00                  |                       |
| 116 VUB Leasing a.s.<br>Capital 16,600,000 euro   | Bratislava       | Bratislava        | 1                        | Vseobecna Uverova Banka  | 100.00                  |                       |

## (a) Type of relationship:

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

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

(c) On 23/12/2016, the subsidiary Private Equity International issued a new category of class C shares representing 5.6% of the company's capital. These shares do not carry the right to vote in the shareholders' meeting and their return is dependant on the financial performance of certain investments held in portfolio by Private Equity International.

(d) In March 2009, 9.75% of the share capital of Bank of Alexandria (BOA) was sold to International Finance Corporation (IFC) with the concurrent signing by the parties of a Put&amp;Call Agreement covering the portion sold by Intesa Sanpaolo. It should be noted that, based on the contractual clauses underlying the transaction and failing to meet IFRS derecognition criteria, the percentage of equity investment includes the portion sold, while voting rights were transferred to the buyer.

(e) Minority shareholders are subject to a legal commitment to purchase the remaining 1.08% of share capital.

(f) Please note that there is a put option sold/call option purchased from minority shareholders on 16.52% of ordinary shares and savings shares.

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

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

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

## 2. Significant evaluations and assumptions in determining the scope of consolidation.

As stated above, companies are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entity in question. Control only exists if all of the following conditions are met:

- the power to direct the relevant activities of the subsidiary;
- the exposure, or rights, to variable returns from the involvement with the investee;
- the ability to use the power over the investee to affect the amount of the investor's returns.

In particular, the Group considers the following factors in evaluating the existence of control:

- the purpose and the structure of the investee in order to identify its aims and relevant activities, or the activities that significantly affect the investee's returns, and how those activities are governed;
- power, in order to understand whether the Group has the contractual right to manage the relevant activities;
- the exposure to variable returns from the investee in order to evaluate whether the return recognised by the Group is subject to variations depending on the investee's returns.

Furthermore, in order to evaluate the existence of control, potential principal-agent relationships are taken into consideration. In order to evaluate whether the investee is acting as a principal or an agent, the Group takes account of the following factors:

- the decision-making power on the relevant activities of the subsidiary;
- the rights of other parties;
- the payments to which the Group is entitled;
- the Group's exposure to variable returns resulting from any investment in the investee.

IFRS 10 identifies relevant activities as activities of the investee that significantly affect the investee's returns.

In general terms, when the relevant activities are managed through voting rights, the following factors determine evidence of control:

- direct ownership, or indirect ownership through its subsidiaries, of more than half the voting rights of an entity, unless in exceptional circumstances it can be clearly demonstrated that such ownership does not constitute control;
- ownership of half, or less, of the votes which can be cast at the shareholders' meeting, and the practical ability unilaterally to govern the relevant activities through:
  - o the control of more than half the voting rights as enshrined in an agreement with other investors;
  - o the power to determine the financial and operational policies of the entity, as conferred by the Articles of Association or by contract;
  - o the power to nominate or remove the majority of the members of the Board of Directors or of the equivalent corporate governance body;
  - o the power to cast the majority of the votes at meetings of the Board of Directors or of the equivalent corporate governance body.

In order to exercise power, it is necessary for the rights that the Group has over the investee to be material; to be material, the Group must have the ability to use its rights when decisions relating to relevant activities are taken.

The existence and the effect of potential voting rights, where material, are taken into consideration in evaluating whether power exists to shape the managerial and financial policies of another entity.

Sometimes the Group has "de facto" control over certain entities when it possesses rights to determine unilaterally the relevant activities of the investee, even though it does not have the majority of the voting rights.

On the contrary, cases may emerge where the Group, though holding more than half of the voting rights, does not control the investee since, consequently to agreements with other investors, the exposure to variable returns from the involvement with the investees is not considered significant.

Subsidiaries can also include "structured entities" in which the voting rights are not the dominant factor in deciding who control the entity; this includes special purpose vehicles (SPEs/SPVs) and investment funds. Structured entities are considered to be controlled where:

- the Group has powers enshrined in contractual rights allowing it to govern the relevant activities; and
- the Group is exposed to the variable returns deriving from such activities.

### 3. Investments in subsidiaries with minority interests

#### 3.1 Minority interests, minority voting rights and dividends distributed to minorities

| Companies  | Minority interests % | Minority voting rights % <sup>(1)</sup> | Dividends distributed to minority shareholders |
|--|----------------------|---|--|
| 1 Banca Prossima S.p.A.  | 19.84                | 19.84                                   | -  |
| 2 Bank Of Alexandria S.A.E (2)                                     | 20.00                | 29.75                                   | 19   |
| 3 Banka Koper D.D.   | 1.08                 | 1.08                                    | -  |
| 4 Cassa Dei Risparmi di Forlì e della Romagna S.p.A.               | 16.52                | 16.52                                   | -  |
| 5 Cassa Di Risparmio di Pistoia e della Lucchesia S.p.A.           | 17.01                | 17.01                                   | -  |
| 6 Compagnia Italiana Finanziaria - CIF S.r.l.                      | 38.56                | 38.56                                   | -  |
| 7 Eurizon Sij Capital L.t.d.                                       | 35.00                | 35.00                                   | -  |
| 8 Fideuram Investimenti - Società di Gestione del Risparmio S.p.A. | 0.50                 | 0.50                                    | -  |
| 9 Iniziative Logistiche S.r.l.                                     | 39.98                | 39.98                                   | -  |
| 10 Intesa Sanpaolo Banka D.D. Bosna I Hercegovina                  | 5.06                 | 5.06                                    | -  |
| 11 Intesa Sanpaolo Vita S.p.A.                                     | 0.02                 | 0.02                                    | -  |
| 12 Intesa Sec 3 S.r.l.   | 40.00                | 40.00                                   | -  |
| 13 Intesa Sec Npl S.r.l.   | 40.00                | 40.00                                   | -  |
| 14 ISP CB Ipotecario S.r.l.  | 40.00                | 40.00                                   | -  |
| 15 ISP CB Pubblico S.r.l.  | 40.00                | 40.00                                   | -  |
| 16 ISP OBG S.r.l.  | 40.00                | 40.00                                   | -  |
| 17 Privredna Banka Zagreb d.d.                                     | 2.53                 | 2.53                                    | 1  |
| 18 Risanamento S.p.A.  | 51.12                | 51.12                                   | -  |
| 19 Vseobecna Uverova Banka a.s.                                    | 2.97                 | 2.97                                    | 4  |

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

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

### 3.2 Investments in companies with significant minority interests: financial highlights

| Companies  | Total assets | Cash and cash equivalents | Financial assets | Property, equipment and intangible assets | Financial liabilities | Shareholders' equity | Interest margin | Net interest and other banking income | Operating expenses | Income (loss) before tax from continuing operations | Income (loss) after tax from continuing operations | Income (loss) after tax from discontinued operations | (millions of euro)    |   |   |
|--|--------------|---------------------------|------------------|---|-----------------------|----------------------|-----------------|---------------------------------------|--------------------|---|--|--|-----------------------|---|---|
|  |              |                           |                  |   |                       |                      |                 |                                       |                    |   |  |  | Net income (loss) (1) | Other comprehensive income (net of tax) (2) | Consolidated comprehensive income (3) = (1) + (2) |
| 1 Risanamento S.p.A.                                 | 1,093        | -                         | 12               | 46  | 425                   | 223                  | -19             | -23                                   | -6                 | -29   | -60  | -3   | -63                   | -   | -63   |
| 2 Bank Of Alexandria S.A.E                           | 3,285        | 74                        | 3,136            | 32  | 2,743                 | 333                  | 303             | 338                                   | -172               | 154   | 122  | -  | 121                   | 8   | 129   |
| 3 Compagnia Italiana Finanziaria - CIF S.r.l.        | 130          | -                         | 130              | -   | -                     | 130                  | -               | -                                     | -2                 | -27   | -27  | -  | -27                   | -   | -27   |
| 4 Vseobecna Uverova Banka A.S.                       | 13,440       | 99                        | 13,023           | 146                                       | 11,879                | 1,432                | 321             | 581                                   | -233               | 307   | 262  | -  | 262                   | -23   | 239   |
| 5 Cassa di Risparmio di Forlì e della Romagna S.p.A. | 4,607        | 39                        | 4,362            | 67  | 4,232                 | 280                  | 81              | 143                                   | -93                | -20   | -15  | -  | -15                   | -1  | -16   |

### 4. Significant restrictions

The following are significant restrictions on the transfer of resources within the Intesa Sanpaolo Group.

In connection with the controlling interest in Banca Prossima, a company operating in the non-profit sector, the shareholders have undertaken to renounce the distribution of profits until 2017. Such profits shall be allocated to the Fund for the development of social business.

With regard to the Egyptian subsidiary, Bank of Alexandria, currency export restrictions have been in place since 2012 on the repatriation of funds denominated in Egyptian pounds; specifically, the dividend denominated in Egyptian pounds as from 2013 was paid to Intesa Sanpaolo in US dollars in staggered transactions authorised by the Egyptian central bank on a daily basis. In 2016 everything was blocked, stopping the transfer of the funds and resulting in a receivable of Intesa Sanpaolo from the Egyptian subsidiary.

On 23 December 2016, the subsidiary Private Equity International issued a new category of class C shares, equal to 5.6% of the company's capital. These shares do not have voting rights at the shareholders' meeting and their yield is related to the economic results of certain investments held by the same Private Equity International.

Moreover, the Intesa Sanpaolo Group is subject to supervisory rules provided by Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) and controls financial institutions subject to the same or similar regulations aiming to maintain an adequate level of regulatory capital in relation to risks taken; therefore the ability of subsidiary banks or financial institutions to distribute capital or dividends is dependent on the fulfilment of the regulatory thresholds set in those regulations. In addition, within the Group, there are insurance companies subject to the Solvency Capital Requirements of Insurance companies established by the Solvency II legislation.

### 5. Other information

In preparing the Intesa Sanpaolo consolidated financial statements, the financial statements of all controlled subsidiaries have the same financial year-end.

### Consolidation methods

#### Full consolidation

This method involves the "line by line" aggregation of the individual amounts reported in the balance sheets and income statements of the subsidiary companies concerned. Following the allocation to minority shareholders of their interests, in a specific caption, in equity and in the result for the period, the residual value is eliminated against the book value of the subsidiaries concerned.

Any positive differences arising on consolidation, after the allocation to the assets and liabilities of the consolidated subsidiary, are recorded under Intangible assets as goodwill or other intangible assets. Negative differences are recognised in the income statement.

Assets, liabilities, income and expenses between consolidated companies are totally eliminated.

Business combinations must be accounted for using the "acquisition method" in accordance with IFRS 3, as modified by Regulation 495/2009, whereby identifiable assets acquired or liabilities assumed (including contingent liabilities) are recognised at their fair value at the acquisition date. Moreover, for each business combination, any minority interest in the acquired company can be recognised at fair value or in proportion to the minority investment in the net identifiable assets of the acquired company. Any excess of the consideration transferred (being the fair value of the assets sold, the liabilities incurred and the equity instruments issued) over the fair value recognition of minority interests with respect to the fair value of the assets acquired and the liabilities assumed is recognised as goodwill. If the consideration is lower, the difference is taken to the income statement.

The "acquisition method" is applied starting from the acquisition date, that is from the moment in which control of the acquired company is obtained. Therefore, the economic results of a subsidiary acquired in the reference period are included in the Consolidated financial statements starting from the acquisition date. Likewise, economic results of a subsidiary sold are included in the Consolidated financial statements until the date in which control ceased.

The difference between sale price and book value at the date of disposal (including foreign exchange differences recorded in shareholders' equity on consolidation, over time) is accounted for in the income statement.

The financial statements of the Parent Company and of other companies used to prepare the Consolidated financial statements refer to the same date.

Where necessary – and without prejudice to absolutely marginal cases – the financial statements of companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.

### ***Measurement using the equity method***

Associates and companies subject to joint control are consolidated with the equity method.

The equity method requires the initial recognition of the equity investment at cost and its subsequent value adjustment based on the stake in the shareholders' equity of the company.

Any difference between the value of the equity investment and the shareholders' equity of the company involved is recorded in the book value of the company.

The valuation of the portion of shareholders' equity does not consider any potential voting rights.

The portion of the company's results for the period pertaining to the Group is recorded in a specific caption of the consolidated income statement.

If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value. If the recoverable amount is under book value the relative difference is recorded in the income statement.

For consolidation of companies subject to joint control and investments in associates, the most recent approved (annual or interim) figures have been used. In certain marginal cases, the companies do not apply IAS/IFRS and, therefore, for such companies it was verified that the adoption of IAS/IFRS would not have produced significant effects on the Intesa Sanpaolo Group's Consolidated financial statements.

### ***Conversion of financial statements in currencies other than the euro***

The financial statements of the companies which do not operate in the eurozone are translated into euro applying to the assets and liabilities in the balance sheet the spot exchange rate at period-end and to the income statement the average exchange rate.

Foreign exchange differences from the conversion of the financial statements of such companies, deriving from the application of different foreign exchange rates to assets and liabilities and the income statement, are recorded in Valuation reserves under shareholders' equity. Foreign exchange differences on the shareholders' equity of the subsidiaries are also recorded in Valuation reserves.

All foreign exchange differences are reversed to the income statement of the year in which the foreign operation is sold.

#### **SECTION 4 – SIGNIFICANT EVENTS SUBSEQUENT TO FINANCIAL STATEMENT DATE**

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

#### **SECTION 5 - OTHER ASPECTS**

##### **Option for the national fiscal consolidation provisions**

Intesa Sanpaolo and the Group's Italian companies have adopted the "national fiscal consolidation", set forth by Articles 117-129 of the Combined Tax Regulations, introduced by Legislative Decree 344/2003. It provides an option, based on which the total net income or fiscal loss of every controlled subsidiary taking part in the fiscal consolidation procedure – together with withholding tax, tax deductions and tax credits – is transferred to the parent company, which determines a single taxable income or loss carried forward (that is the result of the sum of its own income/loss and of the income/loss of the participating subsidiaries) and, consequently, a sole tax debit/credit. Based on this option, Group companies that opted for the "national fiscal consolidation" determine the tax charge pertaining to them and the corresponding taxable income is transferred to the Parent Company.

##### **Other aspects**

KPMG S.p.A. audited the Consolidated financial statements, in execution of the Shareholders' Meeting resolution of 10 May 2011, which appointed the company as independent auditor for the years from 2012 to 2020, included.



## A.2 – MAIN FINANCIAL STATEMENT CAPTIONS

### 1. Financial assets held for trading

#### **Classification criteria**

This category includes financial assets held for trading, essentially represented by debt securities and equities and the positive value of derivative contracts held for trading. Derivative contracts also include those embedded in combined financial instruments which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- embedded instruments, even though separate, fully meet the definition of derivative;
- combined instruments are not measured at fair value with changes in fair value recognised through profit and loss.

Derivatives are stated as assets if their fair value is positive and as liabilities if their fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.

The reclassifications to other categories of financial assets are not permitted unless there is an event that is unusual and highly unlikely to recur in the near term.

In such cases debt securities and equities not held for trading may be reclassified into other categories established by IAS 39 if the conditions for their recognition apply (Investments held to maturity, Financial assets available for sale, Loans). The transfer value is the fair value at the time of the reclassification. On reclassification, the presence of any embedded derivative contracts, that have to be separated, is assessed.

#### **Recognition criteria**

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

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

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

#### **Measurement criteria**

After initial recognition, financial assets held for trading are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc. Equities, quotas of UCI and derivative instruments which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value according to the guidelines listed above, are maintained at cost.

#### **Derecognition criteria**

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

### 2. Financial assets available for sale

#### **Classification criteria**

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

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

**Recognition criteria**

Initial recognition of the financial asset occurs at settlement date for debt securities and equities and at disbursement date for loans.

On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

If, in the cases provided for by the accounting standards, recognition occurs following the reclassification from Investments held to maturity or, in rare circumstances, from Financial assets held for trading, the recognition value is the fair value as at the time of transfer.

**Measurement criteria**

After initial recognition, Financial assets available for sale are measured at fair value, through the registration in the income statement of the value corresponding to amortised cost, while gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the total or partial sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement.

Fair value is determined on the basis of the criteria already illustrated for financial assets held for trading.

Equities included in this category and quotas of UCI which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value, are maintained at cost.

Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.

If such evidence exists, the loss is measured as the difference between the carrying value of the asset and its fair value.

Should the reasons for impairment cease to exist, following an event occurred after the registration of the impairment, value recoveries are posted through the income statement in the case of loans or debt securities, and through shareholders' equity in the case of equities. The size of the recovery must not lead the carrying amount of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

**Derecognition criteria**

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

**3. Investments held to maturity****Classification criteria**

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

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

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

**Recognition criteria**

Initial recognition of financial assets occurs at settlement date.

On initial recognition, financial assets classified in this category are recorded at fair value, inclusive of any costs and revenues directly attributable to the asset.

If inclusion in this category occurs following reclassification from Financial assets available for sale or, in rare circumstances, from Financial assets held for trading, the fair value of the asset as at the date of reclassification is used as the new amortised cost of the asset.

**Measurement criteria**

After the initial recognition, Investments held to maturity are valued at amortised cost, using the effective interest method.

Profits or losses referred to investments held to maturity are recorded in the income statement when assets are derecognised or impaired, and through the amortisation process of the difference between book value and the value reimbursable at maturity.

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

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

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

**Derecognition criteria**

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

**4. Loans****Classification criteria**

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

The caption Loans also includes commercial loans, repurchase agreements with the obligation to resell at a later date, and securities underwritten at issue or via private placements, with determined or determinable payments, not quoted in active markets.

Reclassifications to the other categories of financial assets established in IAS 39 are not permitted.

**Recognition criteria**

Initial recognition of a loan occurs at the date of subscription of the contract that usually coincides with the disbursement date. Should this not be the case, a commitment to disburse funds is made along the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised based on its fair value, equal to the amount disbursed or subscription price, inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even if settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

If, in rare circumstances, the inclusion in this category occurs following reclassification from Financial assets available for sale or from Financial assets held for trading, the fair value of the asset as at the date of reclassification is used as the new amortised cost of the asset.

**Measurement criteria**

After initial recognition, loans are measured at amortised cost, equal to initial value increased/decreased by principal repayments, adjustments/recoveries and amortisation – calculated applying the effective interest method – of the difference between amount disbursed and amount to be reimbursed at maturity, typically attributable to the costs/revenues directly connected to the single loan. The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

The amortised cost method is not used for loans whose short maturity implies that the application of the discounting approach leads to immaterial effects. Such loans are recorded at historical cost. An analogous measurement criterion is applied to loans with unspecified maturity or with notice period.

Loans are reassessed for the purpose of identifying those which, due to events occurred after initial recognition, show objective evidence of possible impairment. These include bad loans, unlikely to pay or past due loans according to the rules issued by the Bank of Italy, consistent with IAS/IFRS and EU supervisory regulations.

There are three different categories of restructured credit exposures:

- renegotiations for "commercial" reasons/practices;
- forbore exposures (as defined in Bank of Italy Circular 272);
- the discharge of debt through substitution of the debtor or debt-for-equity swap.

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

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

Non-performing forbore exposures are those for which there are objective indications of impairment, in addition to forbearance measures.

As an alternative to the scenarios outlined above (renegotiations due to difficulty of the debtor and renegotiations for commercial reasons/practices), the bank and debtor may agree on the discharge of the original debt through:

- novation or assumption by another debtor (assignment with release);

– substantial modification of the nature of the contract involving a debt-equity swap.

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

Non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure.

The original effective rate of each loan remains unchanged over time even though the relationship has been restructured with a variation of the contractual interest rate and even though the relationship, in practice, no longer bears contractual interest.

The adjustment is recorded in the income statement.

The original value of loans is reinstated in subsequent periods to the extent that the reasons which had led to the impairment cease to exist, provided that such valuation is objectively attributed to an event which occurred subsequent to the impairment. The recovery is recorded in the income statement and must not lead the carrying amount of the loan to exceed the amortised cost had no impairment losses been recognised in previous periods.

Recoveries on impairment include time value effects.

Loans for which no objective evidence of loss has emerged from individual measurement are subject to measurement of a collective adjustment. Such measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series and other objective elements observable at measurement date, which enable the latent loss to be estimated for each loan category. Measurement also considers the risk connected to the borrower's country of residence.

Collective adjustments are recorded in the income statement.

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

Loans sold are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the loans. Conversely, if a significant part of the risks and rewards relative to the sold loans is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the loans are derecognised where no control over the loans has been maintained. If this is not the case, when control, even partial, is maintained, then the loans continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of loans sold and to variations in the relevant cash flows.

Lastly, loans sold are derecognised if the entity retains the contractual rights to receive the cash flows of the loan, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

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

#### ***Classification criteria***

IAS/IFRS endorsed by the European Commission enable the classification as financial instruments designated at fair value through profit and loss of any financial asset thus defined at the moment of acquisition, in compliance with the cases contemplated in the reference regulations.

Reclassifications to the other categories of financial assets are not permitted.

The Group has only classified in this category investments with respect to insurance policies and certain debt securities with incorporated derivatives or hedged debt securities and equity investments held, directly or through funds, in companies involved in the venture capital business.

#### ***Recognition criteria***

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

#### ***Measurement criteria***

After initial recognition, the financial instruments in question are measured at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

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

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

## 6. Hedging transactions

### **Classification criteria: type of hedge**

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.

The following types of hedging transactions are used:

- fair value hedge: which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including “core deposits”, as permitted by IAS 39 endorsed by the European Commission; Fair value macro hedges are aimed at reducing fluctuations in the fair value, as a result of interest rate risk, of a sum of money flowing from a portfolio of financial assets and liabilities. Net amounts resulting from mismatches between assets and liabilities cannot be subject to macro hedges;
- cash flow hedge: which has the objective of covering exposure to variability in future cash flows attributable to particular risks associated with balance sheet captions. This type of hedge is essentially used to stabilise the interest flow on floating rate funding to the extent that the latter finances fixed rate investments. In certain circumstances, similar transactions are carried out with respect to some types of floating rate investments;
- hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in their original currency.

Only hedging transactions which involve counterparties outside the Group may qualify for hedge accounting.

### **Recognition criteria**

Hedging derivative instruments, like all derivatives, are initially recognised and subsequently measured at fair value.

### **Measurement criteria**

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (as concerns the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 90. “Fair value change of financial assets in hedged portfolios” or under caption 70. “Fair value change of financial liabilities in hedged portfolios”;
- in the case of cash flow hedges, changes in fair value of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered in the income statement only when, with reference to the hedged item, there is a variation in the flows to be offset or if the hedge is ineffective;
- hedges of net investments in foreign currency are treated in the same way as cash flow hedges.

Derivatives are designated as hedging instruments if there is formal designation and documentation of the hedging relationship between the hedged item and the hedging instrument and if this is effective at inception and prospectively over the entire period of the hedge.

The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned changes, considering the intent pursued by the entity at the time in which it entered the hedging transaction.

A hedge is effective when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise, that is within the 80-125% range, the changes in the fair value of the hedged item, for the type of risk being hedged.

Effectiveness is assessed at every close of annual or interim financial statements using:

- prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;
- retrospective tests, which demonstrate the effectiveness of the hedge for the reference period, or measures how much the effective results diverge from perfect coverage.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified in instruments held for trading and the hedged item is measured on the basis of its classification in the balance sheet. When a fair value macro-hedging relationship is discontinued, the cumulative revaluations/impairment losses carried under caption 90 “Fair value change of financial assets in hedged portfolios” or caption 70. “Fair value change of financial liabilities in hedged portfolios” are transferred to the income statement among interest income or expense over the residual life of the original hedging relationships, without prejudice to verification that the requirements have been met.

## 7. Investments in associates and companies subject to joint control

### **Recognition, classification and measurement criteria**

The caption includes investments in companies subject to joint control and associates.

Entities are considered to be companies subject to joint control if control is contractually shared between the Group and one or more other parties, or where the decisions about the relevant activities require the unanimous consent from all parties sharing control.

Companies are considered subject to significant influence (associates), when the Group holds 20% or more of the voting rights (including “potential” voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates. Certain companies in which the Group holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.

If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

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

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

## **8. Property and equipment**

#### ***Classification criteria***

Property and equipment include land, buildings used in operations, investment property, 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.

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, including investment property, are measured at cost, net of depreciation and impairment losses.

Property and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount is the cost of the goods since the residual value at the end of the depreciation period is not deemed to be 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.

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;
- works of art, since the useful life of a work of art cannot be estimated and its value is normally destined to increase over time.

If there is some evidence that an asset may have been impaired, the carrying value of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement.

If the reasons for impairment cease to exist, a value recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

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

Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

## **9. Intangible assets**

#### ***Classification criteria***

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Intangible assets include goodwill, which represents the positive difference between purchase price and fair value of assets and liabilities pertaining to the acquired company.

#### ***Recognition and measurement criteria***

Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.

For assets with finite useful life, the cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected from the asset. Assets with indefinite useful life are not subject to systematic amortisation, but are periodically subjected to impairment testing.

If there is any indication that an asset may have suffered impairment losses, the asset's recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.

In particular, intangible assets include:

- technology related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years. In particular, the costs incurred internally for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs

only comprise the costs directly attributable to the development process. Capitalised software development costs are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity from the beginning of production over the product's estimated life;

- customer related intangibles represented, in business combinations, by asset management relations and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset's specific risks, of the income margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. 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 or in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry. More specifically, asset management relations are amortised over a period of 7-10 years and relations from insurance contracts in decreasing portions corresponding to the residual maturity of the policies;
- marketing related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.

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

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

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

#### **Derecognition criteria**

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

#### **10. Other assets**

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

These assets, pursuant to IAS 2, are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying value and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.

#### **11. Non-current assets held for sale and discontinued operations and related liabilities**

Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. Such assets/liabilities are measured at the lower between the carrying amount and their fair value less costs to sell.

The income and charges (net of tax) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate caption.

#### **12. Current and deferred tax**

Income tax, calculated according to domestic tax regulations, is accounted for as a cost in compliance with the accruals concept, in line with the method followed to include, in the financial statements, the costs and income that generated it. Therefore, it represents the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the tax balances of the Group companies due to the relevant Italian and foreign tax authorities. More specifically, these captions include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes borne or tax credits of previous years that the Group companies claimed against taxes payable in future years.

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

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

Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable

income or deductible amounts in the future. To this end, “taxable temporary differences” are differences which will give rise to taxable income in future years while “deductible temporary differences” are those which will give rise to deductible amounts in future years.

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

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

Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders' equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, evaluations of financial assets available for sale or of cash flow hedge derivative contracts), the balancing entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).

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

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

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

### 13. Allowances for risks and charges

#### *Post-employment benefits*

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

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

#### *Other allowances*

Other allowances for risks and charges record provisions related to legal obligations or connected to labour relationships or to litigations, also of a fiscal nature, originating from a past event for which a disbursement will probably arise to settle the obligations, provided that the amount of the disbursement may be estimated reliably.

Consequently, a provision is recognised when, and only when:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reference date of the financial statements and take into account the risks and uncertainties that inevitably surround many events and circumstances. Where time value is significant, provisions are discounted using current market rates. Provisions and increases due to time value are recorded in the income statement.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation or when the obligation is settled, the provision should be reversed.

The caption also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial profits and losses are all immediately recognised in the income statement.

### 14. Payables and securities issued

#### *Classification criteria*

Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.

It also includes the payables recorded by the entity in the capacity of lessee in financial lease transactions.



**Recognition criteria**

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

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

**Measurement criteria**

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

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

**Derecognition criteria**

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

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

**15. Financial liabilities held for trading****Recognition criteria**

These financial instruments are recognised at the subscription or issue date at cost, which reflects the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.

This liability category includes, specifically, the negative value of trading derivatives as well as the negative value of embedded derivatives in combined contracts but which are not closely correlated to the latter. It also includes liabilities determined by short selling generated by securities trading activities and certificates.

**Measurement criteria**

All financial liabilities held for trading are designated at fair value through profit and loss.

**Derecognition criteria**

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is sold with the substantial transfer of all the risks and rewards connected to it.

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

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

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

**Recognition criteria**

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

**Measurement criteria**

These liabilities are measured at fair value through profit and loss.

**Derecognition criteria**

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

**17. Foreign currency transactions****Initial recognition**

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

**Subsequent measurement**

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

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at

which they were translated on initial recognition during the period or in previous financial statements are recognised through profit and loss in the period in which they arise.

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

## 18. Insurance assets and liabilities

### **Insurance products**

Products for which insurance risk is deemed significant include: temporary first branch death policies and income and mixed policies with guaranteed fixed conversion rates at the time of issue, and certain types of unit-linked policies and damage cover. As regards these products, IAS/IFRS substantially confirm the national accounting standards concerning insurance. In brief, IFRS 4 sets forth that:

- gross premiums are to be recorded in the income statement under income; they include all amounts matured during the year as a result of insurance contracts signed, net of cancellations; likewise, all premiums ceded to reinsurers are recorded under current year costs;
- with respect to gross premiums, the corresponding commitment towards the insured is accrued in technical reserves, such amount being calculated on a contract-by-contract basis in accordance with applicable local accounting principles. In accordance with IFRS 4, the Group assesses the adequacy of the carrying amount of recorded liabilities using the Liability Adequacy Test (LAT);
- the insurance products entered under separate management are valued by applying “shadow accounting,” whereby the differences between the carrying value and the market value of securities classified as securities available for sale are allocated to technical reserves as regards the insured parties’ portion and to shareholders’ equity as regards the insurance companies’ portion. If, on the other hand, the securities are recorded at fair value in the income statement, the difference between the book value and the market value is recorded in the income statement giving rise to a change in technical reserves equal to the amount of the insured parties’ portion;
- in determining shadow accounting, the Group uses the retrocession average rate and the minimum guaranteed rate established in accordance with the contractual conditions of the various products associated with each portfolio management;
- liabilities related to products with discretionary participation features are given as a whole with no distinction between the guaranteed component and the discretionary participation feature.

### **Financial products included under separate management**

Financial products included under separate management, despite their not being subject to significant insurance risk, and which therefore contain discretionary participation features, include the majority of life policies and mixed first branch policies, as well as fifth branch capitalisation policies. These are accounted for according to the principles set forth in IFRS 4. These principles may be summarised as:

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

### **Financial products not included under separate management**

Financial products without a significant insurance risk and which are not included under separate management, and therefore do not envisage discretionary participation features, are stated in the financial statements as financial liabilities and are valued at fair value, on the basis of the envisaged option (Fair Value Option), or at amortised cost. These financial products are essentially index-linked policies and part of the unit-linked ones, as well as policies with specific assets not included under separate management. These products are accounted for according to the principles set forth in IAS 39, as summarised below:

- the portion of index- and unit-linked policies that are considered investment contracts are measured at fair value, whereas the specific asset products not included under separate management are measured at amortised cost;
- the income statement does not reflect the premiums relating to these products, but just the revenue components, represented by charges and commissions, and the cost components, comprising provisions and other charges; it also reflects the costs or revenues represented by the changes in the fair value of the liabilities incurred against these contracts. More specifically, the international accounting standards, contained in IAS 39 and 18, provide that, for the liabilities designated at fair value, income and costs relating to the products in question be identified and classified under two headings: (i) origination, to be recorded in the income statement at the time the product is issued and (ii) investment and management services, to be amortised over the life of the product which depends on how the service is provided. In addition, as regards specific asset products not included under separate management, incremental cost and income items are included in the calculation of the amount to be amortised;
- the insurance component included in the index- and unit-linked products, where it can be unbundled, is independently valued and recorded.

## 19. Other information

### **Own shares**

Any treasury shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

### **Accruals, prepayments and deferrals**

Accruals, prepayments and deferrals for the year that include income and charges for the year, accrued on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities to which they are related.

### **Leasehold improvements**

The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. These costs, recorded in Other assets as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract.

### **Employee termination indemnities**

Employee termination indemnities qualify as a “post-employment benefit” classified as:

- a “defined contribution plan” to the extent of the portions accruing from 1 January 2007 (the date the reform of the supplementary pension schemes came into force pursuant to Legislative Decree 252 of 5 December 2005) when the employee opted for the complementary pension scheme or decided to allocate such portions to the INPS (the Italian Social Security Institute) Treasury fund. Therefore, the amounts, recorded under personnel expenses, are determined on the basis of amounts due without the application of actuarial calculation;
- a “defined benefit plan”, therefore recognised in the financial statements on the basis of the actuarial value determined using the “Projected Unit Credit Method” to the extent of the portions accrued until 31 December 2006. These amounts are recognised at their actuarial value determined using the “Projected Unit Credit Method”, without applying the pro-rata of the service rendered. Indeed, the current service cost of employee termination indemnities is almost entirely accrued and its revaluation in the years to come is not expected to generate significant benefits for employees.

For the purposes of discounting, the rate used is the market yield of high-quality corporate bonds taking into account the average remaining life of the liability, weighted based on the percentage amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the expiry of the entire obligation.

The plan’s costs are recorded under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

### **Provisions for guarantees and commitments**

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

### **Share-based payments**

Share-based payments are recorded in the income statement, with a corresponding increase in shareholders’ equity, on the basis of the fair value of financial instruments attributed at assignment date, dividing the charge over the period set forth by the plan.

In the case of options, the fair value is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics of the plan. The pricing model values the option and the probability of realisation of the condition on the basis of which the options have been assigned. The combination of the two values supplies the fair value of the assigned instrument.

Any decrease in the number of financial instruments granted is accounted for as a cancellation of such instruments.

### **Employee benefits**

Employee benefits are defined as all forms of consideration given by an entity in exchange for service rendered by employees.

Employee benefits are divided into:

- short-term benefits (other than termination benefits or equity compensation benefits) that are expected to be paid in full within twelve months after the end of the period in which the employees render the related service and recognised in full through profit or loss when they become due (this category includes, for example, wages, salaries and “extraordinary” benefits);
- post-employment benefits payable after the conclusion of employment that require the entity to provide future benefits to employees. These include employee termination indemnities and pension funds, which are in turn divided into defined contribution plans and defined benefit plans or company pension funds;
- termination benefits, namely the compensation that the company provides to the employees upon termination of employment, following the decision by the company to terminate the employment relationship before the normal retirement date.
- long-term benefits, other than those above, that are not expected to be paid in full within twelve months after the end of the period in which the employee rendered their service.

### **Recognition of revenues and costs**

Revenues are recognised when they are collected or:

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

In particular:

- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost. Interest income (or interest expense) includes differentials and positive (or negative) margins accrued until the reference date of the financial statements, relating to financial derivatives:
  - a) hedging interest-generating assets and liabilities;
  - b) classified in the balance sheet in the trading book, though related to financial assets and/or liabilities designated at fair value through profit and loss (fair value option) in management terms;
  - c) related in management terms to assets and/or liabilities classified in the trading book and providing for the settlement of differentials or margins with different maturities;
- overdue interest, which may be provided for by the relevant contracts is recorded in the income statement solely at the time of collection;
- dividends are posted in the income statement in the financial year when their distribution is approved;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered. Commission income included in the amortised cost for the purposes of determining the effective interest rate are recognised under interest;
- costs and revenues from the sale of financial instruments, determined by the difference between transaction amount paid or received and the fair value of the instrument, are recognised in the income statement at the time of the transaction if the fair value is determinable with reference to effective market quotes, or assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (levels 1 and 2 of the fair value hierarchy). When such reference parameters are not observable on the market (level 3), or the instruments present a reduced liquidity, the financial instrument is recognised at a value equal to the price of the transaction; the difference with respect to the fair value is recorded in the income statement during the life of the transaction;
- profits and losses from securities trading are recognised in the income statement at the date of sale, on the basis of the difference between the consideration paid or collected and the carrying value of such instruments;
- revenues deriving from the sale of non-financial assets are recorded at the date of sale, unless most of the risks and rewards related to the asset are maintained.

Costs are recorded in the income statement for the periods to which their income relates. If matching can only be attributed generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis.

Those costs that cannot be matched with the related revenues are immediately charged to the income statement.

#### ***Use of estimates and assumptions in preparing financial reports***

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and income statement, and on the potential assets and liabilities reported in the financial statements. Estimates are based on available information and subjective evaluations, often founded on past experience, which are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

The main cases for which subjective evaluations are required to be made by corporate management include:

- the measurement of impairment losses on loans, investments, and, generally, other financial assets;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the measurement of personnel funds and provisions for risks and charges;
- the estimates and assumptions on the collectability of deferred tax assets;
- the demographic (linked to the estimated mortality of insured people) and financial (deriving from the possible trend in financial markets) suppositions used to structure insurance products and define the basis for calculating integrative reserves.

For some of the types listed above, the main factors subject to estimates by the Group and which determine the carrying value of assets and liabilities in the financial statements can be identified. The following are noted, by way of example:

- to determine the fair value of financial instruments not listed on active markets, if the use of parameters that cannot be obtained from the market is necessary, the main estimates regard, on one hand, development of future cash flows (or even income flows, in the case of equities), possibly conditional on future events and, on the other, the level of specific input parameters not listed on active markets;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure. To determine the future cash flow estimates from loans for which no objective evidence of loss has emerged (collective measurement), past time-series and other objective elements observable at the measurement date are used, which enable the latent loss to be estimated for each loan category;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash Generating Units (CGU) comprising the Group, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. Also the cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising the Group, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;
- to measure provisions for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where

- possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences).

#### **Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions recur (for example review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on the fact that financial assets/liabilities have fixed or variable rates and – in this last case – if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or variable) over the life of the loan. For financial assets/liabilities with a variable rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate the amortisation plan and the effective interest rate for the entire life of the investment, that is, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.

Loans, investments held to maturity and financial assets available for sale, payables and securities issued are measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. These commissions, which must be directly attributable to the single financial asset or liability, modify the original effective interest rate, thereby the effective interest rate associated to the transaction differs from contractual interest rate. Transaction costs do not include costs/income referred to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as commissions of services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. commissions for facility and arrangement) and, lastly, intragroup costs and income.

With reference to loans, the following costs are considered directly attributable to the financial instrument: fees paid to distribution networks, fees paid for the origination and/or the participation in syndicated loans and lastly, up-front fees correlated to loans disbursed at rates exceeding market rates. Income considered in the calculation of amortised cost includes: up-front fees correlated to loans disbursed at rates below market rates, income for the participation of syndicated loans and brokerage commissions received.

For securities not classified as held for trading, the following are considered transaction costs: commissions on contracts with brokers operating on the Italian stock exchange, commissions paid to dealers operating on the Italian and foreign stock and bond markets defined on the basis of the commission tables. Stamp duty is not considered in amortised cost since immaterial.

Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, amounts paid to Exchanges and remuneration paid to Independent auditors for the activities performed for each single issue, while amortised cost does not consider commissions paid to rating agencies, legal and advisory/review expenses for the annual update of prospectuses, the costs for the use of indexes and commissions which originate during the life of the bond issue.

Amortised cost is also applied for the measurement of loss incurred by the financial instruments listed above as well as for the measurement of instruments issued or purchased at a value other than fair value. The latter are measured at fair value, instead of the amount collected or paid, by discounting expected future cash flows at a rate equal to the effective interest rate of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous registration in the income statement of a financial charge or income; after initial recognition, these are measured at amortised cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, also structured assets and liabilities which are not measured at fair value through profit and loss for which the embedded derivative has been separated from the financial instrument are measured at amortised cost.

The amortised cost measurement criterion is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recorded through profit and loss. The financial instrument is again measured at amortised cost in the case of hedge termination; from that moment, the fair value changes recorded before are amortised, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged part, until the natural expiry of the hedge. Furthermore, as already mentioned in the paragraph relative to measurement criteria of due to and from banks and customers and securities issued, measurement at amortised cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a definite maturity or revocable loans.

## **Impairment of assets**

### **Impairment of financial assets**

At every balance sheet date the financial assets not classified under Financial assets held for trading or Financial assets designated at fair value through profit and loss are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of these assets is not fully recoverable.

A permanent loss occurs if there is objective evidence of a reduction in future cash flows with respect to those originally estimated, following specific events; the loss must be quantified in a reliable way and must be incurred and not merely expected.

The measurement of impairment is carried out on an individual basis for financial assets which present specific evidence of losses and collectively for financial assets for which individual measurement is not required or which do not lead to adjustments. Collective measurement is based on the identification of portfolios of financial assets with the same risk characteristics with respect to the borrower/issuer, the economic sector, the geographical area, the presence of any guarantees and other relevant factors.

With reference to loans to customers and due from banks, positions attributed the status of bad loan, unlikely to pay or past due loan according to the definitions of the Bank of Italy, consistent with IAS/IFRS, are subject to individual measurement.

These non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure. Cash flows relative to loans which are deemed to be recovered in the short term are not discounted, since the time value is immaterial.

Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement.

Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series, founded on observable elements at measurement date, that enable to estimate the value of the latent loss in each loan category. Measurement also considers the risk connected to the borrower's country of residence.

The determination of provisions on performing loans is carried out by identifying the highest possible synergies (as permitted by the various legislations) with the supervisory approach contained in the regulations known as "Basel 3". In particular, the parameters of the calculation model set out in the supervisory provisions, namely Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards. This time period is reduced to six months for counterparties who are natural persons. This reduction is based on a statistically significant sample of mortgages that showed an average period of six months between the first missed payment and the classification as default. The time period of a year is decreased by 30% for the factoring segment, in order to take into account certain specific characteristics related to the activity of acquiring short-term trade receivables.

The amount of the provision also reflects the phase of the economic cycle through an appropriate corrective factor: an annually updated adjusting coefficient, estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient is determined by regulatory segment and is equal to the ratio of the default rates estimated for the following 12 months on the basis of the scenario available in the fourth quarter (used in ICAAP) to actual PD. Cyclical coefficients are updated annually and submitted to the Chief Risk Officer for approval.

With reference to assets available for sale, the process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down.

The impairment indicators are essentially divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equities - external quantitative indicators deriving from the market values of the company.

Within the first category, the following indicators are considered significant: the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating. With respect to the second category, a significant or prolonged reduction in fair value below the initial recognition value is particularly important. Specifically, in relation to the latter amount, a fair value reduction of over 30% is considered significant, and a reduction of over 24 months is considered a "prolonged" continuous reduction. If one of these thresholds is exceeded, impairment of the security is carried out. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

The amount of the impairment is calculated with reference to the fair value of the financial asset.

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

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

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

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

Qualitative indicators include:

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

Quantitative indicators include:

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

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

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

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

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

Value in use is determined by discounting future cash flows.

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

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

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

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

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

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

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

The book value of the CGUs must be determined in a manner consistent with the criterion used to determine their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these form part of the core business. In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs' book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process. Consequently, these assets and liabilities must be properly allocated to the associated CGUs.

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

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

finite life.

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

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

For the determination of the value in use the cash flows must be discounted at a rate that reflects the present valuations of the time value of money and the asset's specific risks. Specifically, the discount rates used incorporate the present market conditions with reference to the risk-free component and the premiums for the risk associated with the equity component observed over a sufficiently long time period to reflect different market conditions and economic cycles. Also, given the diverse risks of the respective operating areas, different Beta coefficients are used for each CGU. All the resulting rates have been corrected to take into account the "Country Risk".

The cash flows produced by the international subsidiaries are estimated in the currency in which they are generated and translated into euro using the spot exchange rate as at the date of the determination of the value in use.

### **Business combinations**

Business combinations are governed by IFRS 3.

The transfer of control over a company (or over a group of assets managed together as a single business) is considered a business combination.

To this end, control is deemed to have transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns by exercising its power over the investee.

IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as for example in the case of exchange of equity investments, the identification of the acquirer must occur considering other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash consideration, the entity which issues new shares.

The acquisition, and therefore the initial consolidation of the acquired entity, must be recognised in the books on the date in which the acquirer effectively obtains control over the acquired company or businesses. When the combination occurs via an exchange of voting ordinary equity instruments, the date of the exchange usually coincides with the date of the acquisition. However, it is always necessary to verify that there are no agreements which may lead to transfer of control prior to the date of the exchange.

The consideration transferred as part of a business combination is equal to the sum of the fair value, at the exchange date, of the transferred assets, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.

In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the purchase price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. For the determination of fair value of financial instruments, see the chapter A.4 – Information on fair value and note that, in the case of shares quoted on active markets, fair value is represented by Stock Exchange price at acquisition date or, should that not be available, the last price available.

Purchase price at acquisition date includes any adjustments to the cost contingent on future events, if provided for by the combination agreement and only if the adjustment is probable, can be measured reliably and realised within the twelve months subsequent to the date of acquisition of control. Instead, any restoration related to any loss in the value of the assets used as consideration is not included in purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.

Acquisition costs refer to the charges incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for legal opinions and audit of accounts, preparation of information documents required by the law, as well as advisory fees sustained to identify potential acquisition targets if the contract provides for the payment of success fees as well as debt securities' or equities' registration and issue costs. Acquisition costs must be recognised as charges when incurred and when the related services are provided, except for the costs relating to the issue of debt securities or equities which must be recognised in accordance with IAS 32 and IAS 39.

Business combinations must be accounted for using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date.

Moreover, for each business combination, any minority interest in the acquired company can be recognised at fair value (therefore increasing the consideration transferred) or in proportion to the minority investment in the net identifiable assets of the acquired companies.

If control is achieved in stages, the acquirer recalculates its previous interest in the acquired company at the acquisition date fair value. Any difference with respect to the previous carrying amount is taken to income statement.

Excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased, where present, by minority interests (determined as above) as well as the fair value of the stakes already held by the acquirer, and the fair value of acquired assets and liabilities should be recognised as goodwill. Conversely, such difference is taken to the income statement when the latter exceed the sum of the consideration, minority interests and the fair value of the stakes already held.



The accounting for business combination can be determined provisionally by the end of the year in which the combination is realised and must be completed within twelve months of the acquisition date.

In accordance with IFRS 10, acquisitions of further stakes in companies which are already controlled are accounted for as a capital transaction or as a transaction with shareholders acting in their capacity as shareholders. For this reason, the difference between the cost of the acquisition and the book value of the minority stakes acquired is posted to group shareholders' equity; in the same way, the sale of minority stakes without ceding control does not generate gains or losses in the income statement but is posted to group shareholders' equity.

The following transactions are outside the scope of business combinations: transactions aimed at acquiring control over one or more entities which are not part of the company's business; transactions aimed at acquiring transitory control; transactions conducted for organisational purposes, therefore between two or more companies or businesses which are already part of the Intesa Sanpaolo Group, and which do not entail changes in control, independently of the extent of minority interests in each of the combining entities before and after the business combinations (business combinations involving entities under common control). These transactions are considered immaterial. Therefore, since there are no specific provisions in IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.

Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities.

Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:

- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

#### **Criteria for the preparation of segment reporting**

The Intesa Sanpaolo Group's segment reporting is based on the elements that the management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8.

The Intesa Sanpaolo Group's organisational model is structured into six business areas, each with specific operating responsibilities: Banca dei Territori, Corporate and Investment Banking, International Subsidiary Banks, Asset Management, Private Banking and Insurance. In addition to these operating areas there are the following support structures: Group Treasury, Capital Light Bank and the Head Office Departments concentrated in the Corporate Centre.

The attribution of economic and balance sheet results to the various sectors is based on the accounting principles used in the preparation and presentation of the consolidated financial statements. Use of the same accounting standards allowed segment data and consolidated data to be effectively reconciled. To represent results more effectively and give a better understanding of the components that generated them, the reclassified income statement for each reporting segment is presented with values that express the contribution made by each segment to the Group's results.

With regard to the measurement of revenues and costs deriving from intra-segment transactions, the application of a contribution model at multiple Internal Transfer Rates for the various maturities permits the correct attribution of net interest income to the divisions.

Specific contractual agreements between the Group companies regulate the application of transfer pricing for economic components relative to transactions which set out the distribution of results between product companies/service units and relationship entities/customer units. Each segment is charged direct costs and, for the part pertaining to it, the operating costs of central structures other than those typical of holding structures. Therefore, for services carried out by central structures for operating business units, charges are calculated on the basis of services actually rendered, while the costs of guidance and control activities have remained allocated to the Corporate Centre. Business units' profits are shown net of the tax effect, calculated by applying the main components underlying the effective tax rate, in line with the Group tax policy.

Business areas are disclosed net of intragroup relations within each area and gross of intragroup relations between different business areas.

For each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the instructions issued by the Bank of Italy in compliance with the regulations in force. For asset management, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.

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

### A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

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

The following table shows financial instrument reclassifications mainly carried out in 2008. No reclassifications were made in 2016.

| Type of financial instrument | Previous portfolio                     | New portfolio | Book value<br>at<br>31.12.2016 | Fair value<br>at<br>31.12.2016 | Income components<br>in case of no transfer<br>(before tax) |            | Annual income<br>components<br>(before tax) |            |
|------------------------------|--|---------------|--------------------------------|--------------------------------|---|------------|---|------------|
|                              |  |               |                                |                                | Valuation   | Other      | Valuation                                   | Other      |
|                              |  |               |                                |                                |   |            |   |            |
| Debt securities              | Financial assets held<br>for trading   | Loans         | 458                            | 429                            | -12   | 6          | -1  | 9          |
| Debt securities              | Financial assets<br>available for sale | Loans         | 5,133                          | 4,241                          | -152  | 120        | 56  | 116        |
| Loans                        | Financial assets<br>available for sale | Loans         | 6                              | 6                              | -   | -          | -   | -          |
| <b>TOTAL</b>                 |  |               | <b>5,597</b>                   | <b>4,676</b>                   | <b>-164</b>   | <b>126</b> | <b>55</b>                                   | <b>125</b> |

The income components related to net increases attributable to the risk profile being hedged of reclassified assets amount to 62 million euro.

Had the Group not reclassified the above financial assets, negative income components would have been recognised for an amount of 164 million euro (before tax), instead of positive income components of 55 million euro, generating a negative effect of 219 million euro (before tax), broken down as follows:

- write-off of the positive income components recognised during the year following the 55 million euro transfer. Of this amount, 7 million euro relates to adjustments and 62 million euro to fair value increases following hedges;
- reversal of the negative income components which would have been recognised had no transfer taken place, totalling 164 million euro. Of this amount, 16 million euro refers to adjustments, 62 million euro to fair value increases due to hedges and 210 million euro to the decrease in Valuation reserves.

Moreover, had no reclassification taken place, other positive income components amounting to 1 million euro would have not been recognised.

Overall, starting from the respective reclassification dates, reclassified assets as at 31 December 2016 would have been written down by 918 million euro, of which 24 million to be recognised in the income statement (negative components for 2008: 460 million euro, positive components for 2009: 73 million euro, positive components for 2010: 92 million euro, negative components for 2011: 11 million euro, positive components for 2012: 135 million euro, positive components for 2013: 94 million euro, positive components for 2014: 60 million euro, positive components for 2015: 2 million euro and negative components for 2016: 9 million euro) and 894 million euro to be recognised in the Valuation reserve in Shareholders' equity (against 684 million euro as at 31 December 2015 with a negative net variation of 210 million euro had no transfer occurred).

As at 31 December 2016, reclassifications amount to a nominal 4,626 million euro. Of this amount:

- 3,920 million euro was reclassified by 1 November 2008 and therefore taking as reference the value of these assets as at 1 July 2008 if already present as at that date in the portfolio, or with reference to the purchase price if this took place after 1 July 2008, or at nominal value for loans issued after that date;
- 706 million euro was reclassified after 1 November 2008 and therefore on the basis of fair value as at the date of reclassification; the latter figure also refers to reclassifications carried out in 2009 concerning structured credit products arising from the transformation of unfunded instruments (derivatives) into funded instruments (securities), while maintaining the same risk profile to which the Group is exposed.

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

No portfolio transfers were made in 2016.

#### A.3.3 Transfer of financial assets held for trading

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

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

The effective interest rate attributable to the reclassified securities portfolio is equal to 3.37% and estimated cash flows at the date financial assets were reclassified amount to 4,622 million euro.

## A.4 – INFORMATION ON FAIR VALUE

### General principles

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Financial and Market Risks Head Office Department and also applied to the Parent Company and to all consolidated subsidiaries.

The first part of the document, "General principles", once a favourable opinion has been given by the Group Financial Risks Committee and the Managing Director and CEO, is approved and revised at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The second part, "Detailed methods", is reviewed, approved and revised at least on an annual basis by the Group Financial Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposal of which falls to the Group Risk Manager area.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.

A bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:

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

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

The Group considers a market to be active when transactions in an asset or liability occur with sufficient frequency and volume to provide useful information for determining price on an ongoing basis. An instrument is considered listed on an active market if prices reflecting normal market transactions are promptly and regularly available from stock exchanges, brokers, intermediaries, principal-to-principal markets, listing services or authorised entities and such prices are representative of effective, regular market transactions.

In specific cases regulated by internal policies and despite being quoted on regulated markets, adequate research is carried out in order to verify the significance of official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, widening or increase of the bid-ask spread, reduction or total lack of market for new issuances, limited publicly-available information), analyses of the transactions or of the quoted prices must be carried out. A reduction in the volume or the level of activity alone may not indicate that the price of a transaction or the quoted price does not represent fair value or that the transaction in that market is not ordinary. If an entity determines that a transaction price or quoted price does not represent fair value (e.g., non-ordinary transactions) an adjustment to the transaction prices or listed prices is required if the entity uses those prices as the basis for fair value measurement and that adjustment may be significant with respect to the fair value as a whole.

### The fair value of financial instruments

The presence of official quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of the financial assets and liabilities contained in the trading book.

If there is no active market, the fair value is determined using measurement techniques aimed, ultimately, at establishing the price the product would have had, at the measurement date, in an arm's length exchange motivated by normal business considerations. An entity must use measurement techniques that are appropriate for the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and reducing the use of unobservable inputs to a minimum. Such techniques include:

- reference to market values indirectly connected to the instrument to be valued and deduced from products with the same risk profile;
- valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the valuator.

The choice of the above methods is not optional, because they must be applied in hierarchical order: the availability of a price stated in an active market prevents the use of one of the other measurement approaches.

### Inputs of the measurement techniques

The inputs are defined as the assumptions that market operators would have used to determine the price of the asset or the liability, including assumptions regarding risk, such as, for example, the risk relating to a particular measurement technique used to measure fair value or the risk relating to the inputs of the measurement technique. The inputs may be observable or unobservable.

Observable inputs are those produced using market data, such as publicly available information on operations or actual events, which reflects the assumptions that market operators would use in determining the price of the asset or the liability.

Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

### Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). In particular:

- Fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date.
- Fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs (the comparable approach).
- Fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the measurement techniques rather than the measurement techniques themselves.

The document “Fair Value Hierarchy Rules” defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.

For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.

The following are considered as level 1 financial instruments: contributed bonds (i.e. quoted on the EuroMTS circuit, or for which at least three bid and ask prices can be continuously derived from the main price contribution international platforms), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds, spot exchange rates, derivatives for which quotations are available on an active market (for example, exchange traded futures and options) 4 and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and the checklist does not identify any critical issues in terms of liquidity risk or counterparty risk.

Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.

Such techniques include:

- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);
- valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).

In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretionary parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final valuation.

The following are measured using level 2 input models:

- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;

<sup>4</sup> Bonds valued using official closing prices and/or fixing provided by local authorities (central bank, monetary authority or local stock exchange) may be classified as level 1, but only for foreign branches and international banks and pursuant to local regulatory requirements, where the decentralised Risk Management units confirm that there is an active market, and when the Risk Management Department expressly authorises it.

- ABS for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters which may be presumed from the market;
- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers;
- loans measured through the discounting of future cash flows.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

- debt securities and complex credit derivatives (CDOs) included among structured credit products and credit derivatives on index tranches;
- hedge funds not included in level 1;
- funds, shareholding and other equities measured using models based on discounted cash flows;
- some loans, of a smaller amount, classified in the available-for-sale portfolio;
- some transactions in derivatives or structured bonds, measured using level 3 inputs.

### Identification, certification and treatment of market data and the sources for measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Market Data Reference Guide – a document prepared and updated by the Financial and Market Risks Department on the basis of the Group's Internal Regulations approved by the Management bodies of the Parent Company and Group Companies – has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate for the valuation of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in valuations carried out for third parties under Service Level Agreements, entered into in advance. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources. For each market parameter category the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price.

The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Financial and Market Risks Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

### Valuation of financial instruments and Model Risk Management

The valuation of financial instruments entails the following phases:

- identification of the measurement sources: for each asset class, the Fair Value Policy and Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- validation and processing of market data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.
- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement. The validation process is particularly important when a new financial instrument is introduced to the operations, or when it is considered necessary to update the pricing models for already managed products. In both cases, the validation consists of adapting an existing pricing model or developing new pricing models. In all cases, the models used for the pricing are subject to an internal certification process that involves the various competent structures or independent companies, in highly complex or particularly critical cases;
- periodic monitoring of the consistency of the valuation models over time: the monitoring consists in checking the adherence to the market of the valuation model in order to promptly discover any gaps and start the necessary verifications and interventions.

In general, Model Risk is represented by the possibility that the price of a financial instrument is materially influenced by the valuation approach chosen. In the case of complex financial instruments, for which there is no standard valuation method in the market, or during periods when new valuation methods are being established in the market, it is possible that different methods may consistently value the elementary instruments of reference, but provide differing valuations for exotic instruments. The model risk is monitored through a series of analyses and checks carried out at different stages, aimed at certifying the various valuation

methods used by the Parent Company (“Model Validation”), at regularly monitoring the performance of the models in operation to promptly identify any deviation from the market (“Model Risk Monitoring”) and at identifying any adjustments to be made to the valuations (“Model Risk Adjustment”, see the section below “Adjustments adopted to reflect model risk and other uncertainties related to the valuation”).

#### *Model Validation*

In general, all the valuation models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). The internal certification process is activated when a new financial instrument that requires an adjustment to the existing valuation methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the valuation of existing contracts. The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:

- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model’s ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Financial and Market Risks Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official valuations. If the analysis identifies a significant “Model Risk”, which, however, is within the limits of the approach’s ability to correctly manage the related contracts, the Risk Management Department selects a supplementary approach to determine the appropriate adjustments to be made to the mark to market, and validates the supplemented approach.

#### *Model Risk Monitoring*

The performance of the valuation models in operation is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:

- repricing of contributed elementary instruments: verifying the model’s ability to replicate the market prices of all the quoted instruments considered to be relevant and sufficiently liquid. For interest rate derivatives, an automatic repricing system for elementary financial instruments is used in the Bank’s Front Office systems, which enables the systematic verification of any deviations between the model and the market. Where significant deviations are found, especially outside the market bid-ask quotes, the impact on the respective trading portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified;
- comparison with benchmarks: the monitoring method described above is further enhanced by the extensive use of data supplied by qualified external providers (e.g. Markit), which provide consensus valuations from leading market counterparties for interest rate instruments (swaps, basis swaps, cap/floor, European and Bermuda swaptions, CMS, CMS spread options), equity instruments (options on indexes and on single stocks), credit instruments (CDS) and commodity instruments (options on commodity indexes). Such information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. Any significant gap between the model and benchmark data is quantified with respect to the average bid-ask spread supplied by the outside provider and therefore treated as in the previous case. The possibility of extending the comparison with benchmarks to other instruments or underlying assets is constantly monitored;
- comparison with market prices: verification against prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

#### **Adjustments adopted to reflect model risk and other uncertainties related to the valuation**

If problems are found by the Model Validation process or the Model Risk Monitoring process in the calculation of the fair value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.

In addition to the adjustments relating to the above mentioned factors, also other types of adjustments (“Mark-to-Market Adjustment”) relating to other factors that may influence the valuation are included. These factors essentially involve:

- high and/or complex risk profile;
- illiquidity of the positions determined by temporary or structural market conditions or in relation to the amount of assets held (in case of excessive concentration);
- valuation difficulties due to the lack of liquid and observable market parameters.

For illiquid products an adjustment is made to the fair value. This adjustment is generally not very relevant for instruments for which the measurement is supplied directly by an active market (level 1). Specifically, highly liquid quoted securities<sup>5</sup> are valued directly at mid-price, whereas for quoted securities with low liquidity the bid price is used for long positions and the ask price for short positions. Bonds that are not quoted are valued according to credit spreads that differ based on the position of the security (long or short).

Conversely, for derivatives for which fair value is determined with a valuation technique (levels 2 and 3), the adjustment may be calculated with different means according to the availability on the market of bid and ask prices and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.

Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, to be discussed in further detail below) and for which the respective adjustments have been calculated, are connected to risks on Commodities, on Dividends and Variance Swaps, FOI (Consumer price index for blue and white-collar worker households) inflation and options on inflation, on specific indexes such as Rendistato, volatility of 12-month cap indexes, correlations between swap rates and “quanto” correlation (connected to pay offs and index-linking expressed in different currencies).

The management process of the Mark-to-Market Adjustment is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Risk Management Department. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.

For new products, the decision to apply Mark-to-Market Adjustment processes is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.

#### A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds), on the valuation models used.

##### I. Valuation model for non-contributed securities

The valuation of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:

- o contributed and liquid securities of the same issuer;
- o credit default swaps on the same reference entity;
- o contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case the different seniority of the security to be priced is considered relatively to the issuer’s debt structure.

In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.

Similarly, with respect to financial liabilities designated at fair value through profit and loss, the credit spread of the Intesa Sanpaolo Group is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market prices and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level.

Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the “fair” credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.

If there is also an embedded option, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and the illiquidity of the underlying assets. This component is calculated on the basis of the type of option and its maturity.

##### II. Valuation models for interest rate, foreign exchange, equity, inflation, commodity and credit derivatives

Following the crisis of 2007, the market progressively introduced a series of adjustments linked to the credit and liquidity risk, with impacts on both the income statement and the capital, collectively shown as XVA.

The Intesa Sanpaolo Group introduced the Credit and Debt Value Adjustment (CVA/DVA) in the past, and has implemented the Funding Value Adjustment (FVA) with effect from 31 March 2016. Accordingly, the fair value of an OTC derivative instrument is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether or not the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the liquidity and counterparty risk.

- a. For CSA transactions with characteristics that reduce counterparty and liquidity risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and considering the rate of remuneration for the collateral as the discount rate for the future cash flows. Given that the rate of remuneration for the collateral is generally an overnight rate, and the corresponding discount curve is constructed based on the market prices of Overnight Indexed Swap (OIS) instruments, this approach is called “OIS discounting”
- b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and liquidity risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of

<sup>5</sup> Securities are considered liquid if they have a maturity of more than 6 months, and at least five contributors of bid and ask prices can be identified that meet the conditions established in the Fair Value Policy, with a bid-ask spread within a set limit.

the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument (see point above), and several additional valuation components related to the counterparty and liquidity risk premium, referred to jointly as XVA:

1. an initial valuation component, called Bilateral Credit Value Adjustment (bCVA), takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty, and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The bCVA depends on the probability of default and the Loss Given Default depends on the total exposure of the two counterparties. The latter must be calculated taking into account any counterparty risk mitigation agreements, particularly netting and collateralisation agreements;
2. a second assessment component, the so-called Funding Value Adjustment (FVA), takes into consideration the liquidity risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

For derivatives measurement, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.

Interest rate, foreign exchange, equity, inflation, commodity and credit derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific valuation models, fed by input parameters (such as, for example, yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.

The table below illustrates the main models used to measure OTC derivatives on the basis of the category of underlying asset.

| Underlying class      | Valuation models   | Market data and input parameters  |
|-----------------------|--|---|
| Interest rate         | Net Present Value, Black, SABR, Libor Market Model, 1- and 2-factor Hull-White, Mixture of 1- and 2-factor Hull-White, Bivariate lognormal, Rendistato. Haan replication | Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates.                      |
| Foreign exchange rate | Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV)  | Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations   |
| Equity                | Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Jump Diffusion   | Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations       |
| Inflation             | Bifactorial Inflation  | Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates                     |
| Commodity             | Net present Value Commodity, Generalised Black-Scholes, Independent Forward  | Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets. "quanto" volatility and correlations |
| Loans                 | Net present Value, Black Model   | Probability of default, Recovery rate.  |

As envisaged by IFRS 13, in determining fair value, the Intesa Sanpaolo Group also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer's own credit risk.

### III. Valuation model for structured credit products

Regarding ABSs, if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs) or, where parameters cannot be observed, estimated parameters (level 3 inputs, where significant).

In this case, the cash flows are obtained from info providers or specialised platforms; the spreads are gathered from prices available on the market/consensus platforms, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures. The results of these analyses are subject to backtesting with actual sales prices.



In the case of securitised high-yield loans to European corporate borrowers (CLO HY loans), valuation techniques call for calculation of the net present value of the expected cash flows, determined through specialised platforms, discounted using market spreads. When modelling expected future flows, account is taken of all contractual aspects of the CLO HY loans that may influence the waterfall. For this asset class, the process of determining fair value also involves stress of the main unobservable variables and a credit analysis aimed at identifying any weaknesses of the individual assets securing the CLOs that results in a revision of the input parameters.

With regard to debt securities and complex credit derivatives (funded and unfunded CDOs) the fair value is determined based on a quantitative model which estimates joint losses on collateral with a simulation of the relevant cash flows which uses copula functions.

The most significant factors considered in the simulation – for each collateral – are the risk-neutral probability of default derived from market spreads, recovery rates, the correlation between the value of collateral present in the structure and the expected residual life of the contract.

For spreads, the valuation process incorporates, as promptly as possible, all the market inputs (including synthetic indexes such as LCDX, Levx and CMBX) considered to be significant: consensus parameters calculated by multi-contribution platforms and market spread estimates made available by major dealers are used.

The Market Data Reference Guide, which sets out credit spread contribution sources, was moreover integrated with specific policies for the other inputs such as correlations and recovery rates.

For specific types of collateral, such as trust preferred securities, the probability of default is estimated using the Expected Default Frequency from Moody's - KMV.

In order to incorporate high market dislocation and intense market illiquidity phenomena in valuations, a series of corrections have been prepared for valuations referred to the main input parameters; in particular:

- o stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (50% for REITS underlying securities);
- o stress of asset value correlation: inter and intra correlations have been increased and decreased by 15% or 25% depending on the type of product;
- o stress of spreads: the spreads, used to determine the marginal distributions of defaults, have been increased by 25%;
- o stress of expected residual lives: the latter have been increased by 1 year.

Each of these modules contributes to the definition of a sensitivity grid of the value to the single parameter; results are then aggregated assuming independence between the single elements.

After this valuation, credit analyses on underlying assets were fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the ABS/CDO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point. The results of this analysis are condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.) which are summarised in an indicator representing credit quality. On the basis of the value of this synthetic indicator, specific thresholds have been identified which correspond to a number of downgrades, so as to proceed to a consistent adjustment in the valuation. Lastly, for this class of products, an additional adjustment may be applied, subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

With respect to credit derivatives on index tranches, off-the-run series are valued at level 3 when no reliable and verifiable quotes are available from the Financial and Market Risks Department. Fair value is determined based on the quotes of series being issued, adjusted to reflect the different underlying.

#### **IV. Valuation of equities with relative and absolute models**

Financial instruments for which fair value is determined using level 2 inputs also include equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers. Multipliers are used under the comparable companies' or comparable transactions' approach. In the former case, reference is made to a sample of comparable listed companies, therefore the stock prices from which the multiples to measure the investment are deducted. In the latter case, reference is made to the trading prices of the market related to comparable companies registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions. Equities to which the above "relative" models are not applied are valued using "absolute" valuation models. In particular, these models are based on flows which substantially anticipate the measurement of the stock value by estimating the cash flows it can generate over time, discounted using a rate that is in line with the risk level of the instrument, equity models or equity-income models.

#### **V. The valuation model for hedge funds**

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to funds managed through the use of a Management Account Fund infrastructure, which ensures full daily transparency of the assets underlying the funds, and funds not managed according to such a platform.

For funds managed in the Managed Account platform, the Net Asset Value (NAV) provided by the Fund Administrator is considered as the fund's fair value. It is not deemed necessary to apply the two prudential adjustments described below to the NAV, since:

- o the adjustment for counterparty risk is not necessary because the Managed Account platform is subject to limited recourse clauses and non-petition provisions, through which each Managed Account Fund achieves contractual separation/segregation of assets and manager. Intesa Sanpaolo effectively holds 100% of the quotas of the MAF;
- o the adjustment for illiquidity risk is not necessary because there is a delivery in kind clause, according to which the fund's assets may be transferred to Intesa Sanpaolo's books and liquidated, where necessary.

Moreover, a due diligence confirmed that the valuation model used by the Fund Administrator is consistent with the Intesa Sanpaolo's Fair Value Policy.

If the daily full transparency analysis were to bring to light additional elements of risk, mark-to-market adjustments would be applied in accordance with Intesa Sanpaolo's Fair Value Policy.

The platform's characteristics make it possible to perform an analysis of the financial instruments underlying the funds and to assign the fair value hierarchy level based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

For funds not managed in the Managed Account platform, the operating NAV (Net Asset Value) provided by the Fund Administrator is used. However, this value may be prudentially adjusted by the Risk Management Department, during the valuation of inventories for accounting purposes, on the basis of an individual valuation process aimed at verifying specific idiosyncratic risks, mainly identified as follows:

- o counterparty risk
- o illiquidity risk.

Specifically, the first risk driver – counterparty risk - relates to the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, which is a potential source of risk in case of default. The resulting prudential adjustment to the operational NAV differs according to whether this activity is concentrated in a single name or is diversified across several service providers.

With regard to the illiquidity drivers, these relate to the risk intrinsic to the valuation of the fund assets, therefore, the prudential adjustment is applied based on the availability of prices or certain weaknesses in the valuation policies used by the fund.

The application of the foregoing prudential adjustments (counterparty risk and illiquidity risk) is subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

## VI. Other level 2 and 3 valuation models

Loans are included among financial instruments whose fair value is determined on a recurring basis through level 2 inputs. In particular, for medium- and long-term assets and liabilities measurement is carried out by discounting future cash flows. This is based on the discount rate adjustment approach, in which the risk factors connected to the granting of loans are taken into consideration in the rate used to discount future cash flows.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

| (thousands of euro)  |                            |   |                                   |                                   |                 |                          |                            |  |
|--|----------------------------|---|-----------------------------------|-----------------------------------|-----------------|--------------------------|----------------------------|--|
| Financial assets/ liabilities  | Valuation technique        | Main non-observable input   | Minimum value of range of changes | Maximum value of range of changes | Unit            | Favourable changes in FV | Unfavourable changes in FV |  |
| Securities   | Discounting Cash Flows     | Credit Spread   | -44                               | 63                                | %               | 42,384                   | -59,157                    |  |
| Structured securities  | Black model                | Volatility  | -23                               | 14                                | %               | 37                       | -65                        |  |
| ABSs   | Discounting Cash Flows     | Credit Spread   | -30                               | 28                                | %               | 1,290                    | -1,335                     |  |
| ABSs   | Discounting Cash Flows     | Recovery rate   | -25                               | 10                                | %               | 605                      | -1,512                     |  |
| CLOs Cash  | Discounting Cash Flows     | Credit Spread   | -16                               | 69                                | %               | 3,596                    | -15,766                    |  |
| CLOs Cash  | Discounting Cash Flows     | Recovery rate   | -25                               | 10                                | %               | 27                       | -68                        |  |
| CLOs Cash  | Discounting Cash Flows     | CPR   | -10                               | 10                                | %               | 442                      | -442                       |  |
| CDOs   | Gaussian copula            | Credit Spread   | -25                               | 25                                | %               | 655                      | -655                       |  |
| CDOs   | Gaussian copula            | Joint default correlation   | -10                               | 10                                | %               | 107                      | -107                       |  |
| CDOs   | Gaussian copula            | Recovery rate   | -25                               | 10                                | %               | 288                      | -719                       |  |
| OTC derivatives subject to FV adjustment for CVA/DVA - Non-performing counterparties | bCVA                       | Loss Given Default Rate (LGD)                                       | 0                                 | 100                               | %               | 20,194                   | -11,630                    |  |
| OTC derivatives subject to FV adjustment for CVA/DVA - Performing counterparties     | bCVA                       | Probability of default (PD) based on counterparty's internal rating | CCC                               | BBB                               | Internal rating | 251                      | -226                       |  |
| OTC derivatives - Equity basket option   | Black - Scholes model      | Correlation between underlying equity baskets                       | 2.22                              | 93.20                             | %               | 545                      | -322                       |  |
| OTC derivatives - Spread option on swap rates  | Lognormale bivariato model | Correlation between swap rates                                      | -61.04                            | 97.35                             | %               | 892                      | -318                       |  |
| OTC derivatives - Equity option  | Black - Scholes model      | Historical volatility - EuroClass                                   | 35.70                             | 75.51                             | %               | 391                      | -368                       |  |
| OTC derivatives - JPY swaption   | Black model                | Historical volatility - swap rate                                   | 16.83                             | 56.83                             | %               | 2,135                    | -319                       |  |

#### A.4.2 Valuation processes and sensitivity

For a description of the valuation processes used by the Group for instruments measured at level 3 in a recurring and non-recurring manner, see paragraphs A.4.1 and A.4.5 respectively.

As required by IFRS 13, for the financial assets and liabilities measured at level 3 the following table lists the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value.

| Financial assets/liabilities                       | Non-observable parameters                                  | Sensitivity<br>(thousands of<br>euro) | Change in non-<br>observable<br>parameter |
|--|--|---------------------------------------|---|
| Held for trading and available for sale securities | Credit spread  | -219                                  | 1 bp                                      |
| Held for trading and available for sale securities | Correlation  | -8                                    | 1%  |
| Held for trading and available for sale securities | CPR  | -44                                   | -1%                                       |
| Held for trading and available for sale securities | Recovery rate  | -92                                   | -1%                                       |
| OTC Derivatives - Equity                           | Historical volatility for the underlying Euro Class S.p.a. | -191                                  | 10%                                       |
| OTC Derivatives - Interest rate                    | Correlation for spread options between swap rates          | -208                                  | 0.1                                       |
| OTC Derivatives - Equity                           | Correlation between underlying equity baskets              | -194                                  | 0.1                                       |
| OTC Derivatives - Interest rate                    | JPY swaption volatility                                    | -644                                  | 10%                                       |

Moreover, the sensitivity analysis performed on level 3 structured credit products highlights a negative change in fair value, referring to complex credit derivatives, for an amount not material when the following parameters change:

- risk-neutral probability of default derived from market spreads (10%);
  - recovery rate (from 5% to 25%, based on the type of risk of the underlying product);
  - correlation between the value of collateral present in the structure (from 25% to 80%, based on the type of risk of the underlying product);
- expected residual life of the contract (one-year increase over the expected term).

#### A.4.3. Fair value hierarchy

With regard to financial assets and liabilities measured at fair value on a recurring basis, the Intesa Sanpaolo Group carries out level changes based on the following guidelines.

For **debt securities**, the transition from level 3 to level 2 occurs if the significant parameters used as inputs in the valuation technique are, as at the reference date, observable on the market. The transition from level 3 to level 1 occurs when, as at the reference date, it has been determined that an active market exists, as defined in IFRS 13. The transition from level 2 to level 3 occurs when, as at the reference date, some of the significant parameters used in determining fair value are not directly observable on the market.

For **OTC derivatives**, the initial choice of the level of fair value hierarchy depends on the degree of significance and observability of the parameters used to determine the risk free component. Calculation of the component linked to the risk of insolvency of the counterparty/issuer, with unobservable parameters, may involve reclassification to level 3. In particular, this occurs when:

- the counterparty has a non-performing credit status and positive current exposure;
- with regard to the netting set, the ratio of the bilateral Credit Value Adjustment (bCVA) component and the total fair value is higher than a significant threshold and there is significant sensitivity to downgrading.

For **equity instruments** recognised among assets available for sale, change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, the Group reclassifies from level 3 to level 2;
- when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable) and others are not available. In this case, the Group uses valuation techniques that use unobservable inputs.

#### A.4.4. Other information

For information regarding the highest and best use as required by IFRS 13, refer to the description at the bottom of Table A.4.5.4 with regard to non-financial assets.

The Intesa Sanpaolo Group does not exercise the exception envisaged under paragraph 48 of IFRS 13 (fair value based on net position) regarding financial assets and liabilities with positions that offset one another with regard to market risk and counterparty risk.

## Quantitative information

### A.4.5. Fair value hierarchy

#### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level

(millions of euro)

| Assets / liabilities at fair value                                       | 31.12.2016     |               |              | 31.12.2015     |               |              |
|--|----------------|---------------|--------------|----------------|---------------|--------------|
|  | Level 1        | Level 2       | Level 3      | Level 1        | Level 2       | Level 3      |
| 1. Financial assets held for trading                                     | 10,685         | 31,978        | 950          | 17,994         | 32,546        | 1,057        |
| of which: Equities   | 885            | -             | -            | 900            | -             | -            |
| of which: quotas of UCI  | 584            | 86            | 165          | 1,299          | 140           | 256          |
| 2. Financial assets designated at fair value through profit or loss      | 62,341         | 1,072         | 452          | 51,847         | 1,200         | 616          |
| of which: Equities   | 1,295          | -             | -            | 1,024          | -             | -            |
| of which: quotas of UCI  | 57,438         | -             | 127          | 47,030         | -             | 120          |
| 3. Financial assets available for sale                                   | 137,354        | 6,341         | 2,997        | 120,876        | 8,208         | 2,318        |
| of which: Equities   | 1,765          | 2,728         | 970          | 1,540          | 3,163         | 966          |
| of which: quotas of UCI  | 7,942          | 30            | 1,663        | 7,136          | 48            | 1,149        |
| 4. Hedging derivatives   | -              | 6,214         | 20           | -              | 7,039         | 20           |
| 5. Property and equipment  | -              | -             | -            | -              | -             | -            |
| 6. Intangible assets   | -              | -             | -            | -              | -             | -            |
| <b>Total</b>   | <b>210,380</b> | <b>45,605</b> | <b>4,419</b> | <b>190,717</b> | <b>48,993</b> | <b>4,011</b> |
| 1. Financial liabilities held for trading                                | 12,983         | 31,541        | 266          | 11,217         | 31,972        | 333          |
| 2. Financial liabilities designated at fair value through profit or loss | -              | 57,187        | -            | -              | 47,022        | -            |
| 3. Hedging derivatives   | -              | 9,024         | 4            | -              | 8,228         | 6            |
| <b>Total</b>   | <b>12,983</b>  | <b>97,752</b> | <b>270</b>   | <b>11,217</b>  | <b>87,222</b> | <b>339</b>   |

As highlighted in the table, financial instruments measured at fair value – level 3 include:

- 970 million euro of equities, i.e. equity interests that cannot be recognised as investments in associates or companies subject to joint control;
- 1,955 million euro of units of UCIs. These include the units of the Atlante Fund for 337 million euro and the units of the F2I Fund – Italian Fund for Infrastructure for 149 million euro.

In addition to the transfers relating to financial assets and liabilities measured at level 3 as detailed in the tables below, note that the following transfers were made in 2016:

- from level 1 to level 2:
  - o financial assets held for trading for 264 million euro (book value as at 31 December 2016);
  - o financial assets designated at fair value through profit and loss for 131 million euro (book value as at 31 December 2016);
  - o financial assets available for sale for 379 million euro (book value as at 31 December 2016);
  - o financial liabilities held for trading for 9 million euro (book value as at 31 December 2016).
- from level 2 to level 1:
  - o financial assets held for trading for 207 million euro (book value as at 31 December 2016);
  - o financial assets designated at fair value through profit and loss for 110 million euro (book value as at 31 December 2016);
  - o financial assets available for sale for 572 million euro (book value as at 31 December 2016);
  - o financial liabilities held for trading for 950 million euro (book value as at 31 December 2016).

Transfers between fair value levels derive from the empirical observation of phenomena inherent in the instrument in question or its market.

The transfer from level 1 to level 2 is due to an adequate number of contributors no longer being present, namely to the limited number of investors holding the existing float. These cases often occur when approaching maturity of the instruments. Conversely, securities that have limited liquidity and number of negotiations upon issue – classified, therefore, as level 2 – are transferred to level 1 when the existence of an active market is identified.

As at 31 December 2016, the impact of non-performance risk (Credit Value Adjustment and Debt Value Adjustment) in the determination of the fair value of financial instruments, and financial and credit derivatives, amounted to a reduction of 267 million euro in positive fair value and a reduction of 51 million euro in negative fair value.

**A.4.5.2. Annual changes in assets measured at fair value on a recurring basis (level 3)**

(millions of euro)

|                                 | Financial assets held for trading | Financial assets designated at fair value through profit or loss | Financial assets available for sale | Hedging derivatives | Property and equipment | Intangible assets |
|---------------------------------|-----------------------------------|--|-------------------------------------|---------------------|------------------------|-------------------|
| <b>1. Initial amount</b>        | <b>1,057</b>                      | <b>616</b>   | <b>2,318</b>                        | <b>20</b>           | -                      | -                 |
| <b>2. Increases</b>             | <b>538</b>                        | <b>74</b>  | <b>2,385</b>                        | <b>3</b>            | -                      | -                 |
| 2.1 Purchases                   | 324                               | 28   | 1,764                               | -                   | -                      | -                 |
| 2.2 Gains recognised in:        | 44                                | 10   | 320                                 | 3                   | -                      | -                 |
| 2.2.1 Income statement          | 44                                | 10   | 12                                  | 3                   | -                      | -                 |
| - of which capital gains        | 40                                | 9  | 3                                   | 3                   | -                      | -                 |
| 2.2.2 Shareholders' equity      | X                                 | X  | 308                                 | -                   | -                      | -                 |
| 2.3 Transfers from other levels | 148                               | 36   | 130                                 | -                   | -                      | -                 |
| 2.4 Other increases             | 22                                | -  | 171                                 | -                   | -                      | -                 |
| <b>3. Decreases</b>             | <b>-645</b>                       | <b>-238</b>  | <b>-1,706</b>                       | <b>-3</b>           | -                      | -                 |
| 3.1 Sales                       | -296                              | -28  | -509                                | -                   | -                      | -                 |
| 3.2 Reimbursements              | -90                               | -45  | -123                                | -                   | -                      | -                 |
| 3.3 Losses recognised in:       | -180                              | -1   | -547                                | -3                  | -                      | -                 |
| 3.3.1 Income statement          | -180                              | -1   | -248                                | -3                  | -                      | -                 |
| - of which capital losses       | -144                              | -  | -248                                | -3                  | -                      | -                 |
| 3.3.2 Shareholders' equity      | X                                 | X  | -299                                | -                   | -                      | -                 |
| 3.4 Transfers to other levels   | -67                               | -10  | -5                                  | -                   | -                      | -                 |
| 3.5 Other decreases             | -12                               | -154   | -522                                | -                   | -                      | -                 |
| <b>4. Final amount</b>          | <b>950</b>                        | <b>452</b>   | <b>2,997</b>                        | <b>20</b>           | -                      | -                 |

**A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (level 3)**

(millions of euro)

|                                 | Financial liabilities held for trading | Financial liabilities designated at fair value through profit or loss | Hedging derivatives |
|---------------------------------|--|---|---------------------|
| <b>1. Initial amount</b>        | <b>333</b>                             | -   | <b>6</b>            |
| <b>2. Increases</b>             | <b>10</b>                              | -   | -                   |
| 2.1 Issues                      | -                                      | -   | -                   |
| 2.2 Losses recognised in:       | 3                                      | -   | -                   |
| 2.2.1 Income statement          | 3                                      | -   | -                   |
| - of which capital losses       | 3                                      | -   | -                   |
| 2.2.2 Shareholders' equity      | X                                      | X   | -                   |
| 2.3 Transfers from other levels | -                                      | -   | -                   |
| 2.4 Other increases             | 7                                      | -   | -                   |
| <b>3. Decreases</b>             | <b>-77</b>                             | -   | <b>-2</b>           |
| 3.1 Reimbursements              | -                                      | -   | -                   |
| 3.2 Repurchases                 | -                                      | -   | -                   |
| 3.3 Gains recognised in:        | -76                                    | -   | -2                  |
| 3.3.1 Income statement          | -76                                    | -   | -2                  |
| - of which capital gains        | -74                                    | -   | -2                  |
| 3.3.2 Shareholders' equity      | X                                      | X   | -                   |
| 3.4 Transfers to other levels   | -1                                     | -   | -                   |
| 3.5 Other decreases             | -                                      | -   | -                   |
| <b>4. Final amount</b>          | <b>266</b>                             | -   | <b>4</b>            |

"Financial liabilities held for trading" refer to derivative contracts with a negative fair value.

Transfers from and to other levels described in the above tables were carried out in accordance with the guidelines described in paragraph A.4.3 - Fair value hierarchy.

For more exhaustive information on the sensitivity of financial instruments to changes in the main input parameters, reference should be made to the analyses of the trading book in Part E of these Notes to the consolidated financial statements.

**A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level**

(millions of euro)

| Assets/liabilities not measured at fair value<br>or measured at fair value on a non-recurring basis | 31.12.2016     |               |                | 31.12.2015     |                |               |                |                |
|---|----------------|---------------|----------------|----------------|----------------|---------------|----------------|----------------|
|   | Book<br>value  | Level 1       | Level 2        | Level 3        | Book<br>value  | Level 1       | Level 2        | Level 3        |
| 1. Investments held to maturity   | 1,241          | 422           | 866            | -              | 1,386          | 555           | 898            | -              |
| 2. Due from banks   | 53,146         | -             | 40,669         | 12,364         | 34,445         | 58            | 20,977         | 13,339         |
| 3. Loans to customers   | 364,713        | 1,474         | 261,573        | 112,194        | 350,010        | 1,064         | 238,533        | 120,829        |
| 4. Investment property  | 136            | -             | -              | 155            | 357            | -             | -              | 383            |
| 5. Non-current assets held for sale and discontinued operations                                     | 312            | -             | -              | 315            | 27             | -             | -              | 30             |
| <b>Total</b>  | <b>419,548</b> | <b>1,896</b>  | <b>303,108</b> | <b>125,028</b> | <b>386,225</b> | <b>1,677</b>  | <b>260,408</b> | <b>134,581</b> |
| 1. Due to banks   | 72,641         | -             | 58,890         | 13,319         | 59,327         | -             | 44,537         | 14,603         |
| 2. Due to customers   | 291,876        | 114           | 257,681        | 34,613         | 255,258        | 183           | 216,446        | 39,183         |
| 3. Securities issued  | 94,783         | 42,702        | 49,721         | 3,322          | 110,144        | 49,110        | 60,349         | 2,669          |
| 4. Liabilities associated with non-current assets   | 272            | -             | 255            | 17             | -              | -             | -              | -              |
| <b>Total</b>  | <b>459,572</b> | <b>42,816</b> | <b>366,547</b> | <b>51,271</b>  | <b>424,729</b> | <b>49,293</b> | <b>321,332</b> | <b>56,455</b>  |

**Financial assets and liabilities**

For assets and liabilities not measured at fair value (securities held to maturity, loans and loans represented by securities, amounts due to customers and securities issued), the Group measures fair value by calculating the present value of future cash flows at a rate that incorporates the estimate of the main risks and uncertainties associated with the financial instrument to be measured (discount rate adjustment approach).

In particular, the interest rate used to discount the future cash flows is determined by taking into account the following risk factors:

- interest rate risk, which represents the rate offered by the market for each unit of capital provided to risk-free counterparties;
- credit risk, which is the premium for having provided capital to counterparties with insolvency risk;
- the cost of liquidity connected to credit.

For fixed rate instruments, the cash flows are those envisaged by the contracts. For floating rate instruments, the future cash flows are determined based on forward rates, implicit in the zero coupon interest rate curves observed at the various fixing dates and differentiated by indexation type.

The value of the risk premium (credit spread) is determined per individual position, through acquisition of the risk class (LGD) and rating (PD). These amounts, together with the average residual financial life, constitute the guideline for acquisition of the credit spread. The spread curve is determined based on the same rules for securities issued by Intesa Sanpaolo as well.

The following assumptions were used in determining the fair values indicated in table A.4.5.4:

- for debt securities classified under held to maturity and for loans represented by securities, the same rules envisaged for the fair value measurement of other categories of securities are used;
- for securities issued, the rules used are the same as those applied to securities under assets;
- the book value is calculated as the reasonable approximation of fair value for:
  - o demand financial items (assets and liabilities) or financial items with an original maturity equal to or less than 18 months and residual maturity equal to or less than 12 months which, in the table, are presented in the column corresponding to level 2 of the fair value hierarchy except for demand loans presented in the column corresponding to level 3 of the fair value hierarchy;
  - o non-performing assets, which in the table are included in the column corresponding to level 3 of the fair value hierarchy.

**Non-financial assets**

Regarding investment property, for which the fair value is calculated only for the purposes of information to be provided in the Notes to the financial statements, reference is made to values determined, mainly via independent expert opinions, considering transactions at current prices in an active market for similar real estate properties, in the same location and conditions as well as subject to similar conditions in terms of rentals and other contracts.

**A.5 – INFORMATION ON “DAY ONE PROFIT/LOSS”**

Under IAS 39, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument on initial recognition is normally the “transaction price”, i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.

The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is always intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy. Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.

Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with. For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).

This difference shall be recognised in the income statement only when it arises from changes of the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.

When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of “on the book” transactions falling under the Bank's investing activities, the Day-One-Profits earned on level 3 transactions (including in the above “on the book” management) are taken to the income statement when the Group entity (the investment bank) carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.

The above regulation applies only to those instruments which fall in one of the classes which can be recognised at fair value through profit and loss (Fair Value Option and Trading Book). Indeed, only for the latter, the difference between the transaction price and the fair value would be taken to the income statement upon initial recognition.

The following table shows the DOP amount trend deferred in the balance sheet, indicating the portion taken to the income statement.

(millions of euro)

|                                      |          |
|--------------------------------------|----------|
| <b>1. Initial amount</b>             | <b>1</b> |
| <b>2. Increases</b>                  | -        |
| 2.1 New transactions                 | -        |
| <b>3. Decreases</b>                  | -        |
| 3.1 Releases to the income statement | -        |
| <b>4. Final amount</b>               | <b>1</b> |

## Part B – Information on the consolidated balance sheet

### ASSETS

#### SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

##### 1.1 Cash and cash equivalents: breakdown

(millions of euro)

|  | 31.12.2016   | 31.12.2015   |
|--|--------------|--------------|
| a) Cash                                  | 3,177        | 3,324        |
| b) On demand deposits with Central Banks | 5,509        | 6,020        |
| <b>TOTAL</b>                             | <b>8,686</b> | <b>9,344</b> |

#### SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - CAPTION 20

##### 2.1 Financial assets held for trading: breakdown

(millions of euro)

|                                   | 31.12.2016    |               |            | 31.12.2015    |               |              |
|-----------------------------------|---------------|---------------|------------|---------------|---------------|--------------|
|                                   | Level 1       | Level 2       | Level 3    | Level 1       | Level 2       | Level 3      |
| <b>A. Cash assets</b>             |               |               |            |               |               |              |
| 1. Debt securities                | 8,559         | 2,775         | 339        | 15,106        | 2,691         | 311          |
| 1.1 structured securities         | 322           | 107           | 6          | 649           | 149           | 6            |
| 1.2 other debt securities         | 8,237         | 2,668         | 333        | 14,457        | 2,542         | 305          |
| 2. Equities                       | 885           | -             | -          | 900           | -             | -            |
| 3. Quotas of UCI                  | 584           | 86            | 165        | 1,299         | 140           | 256          |
| 4. Loans                          | -             | -             | -          | -             | -             | -            |
| 4.1 reverse repurchase agreements | -             | -             | -          | -             | -             | -            |
| 4.2 other                         | -             | -             | -          | -             | -             | -            |
| <b>Total A</b>                    | <b>10,028</b> | <b>2,861</b>  | <b>504</b> | <b>17,305</b> | <b>2,831</b>  | <b>567</b>   |
| <b>B. Derivatives</b>             |               |               |            |               |               |              |
| 1. Financial derivatives          | 654           | 27,910        | 426        | 689           | 28,848        | 475          |
| 1.1 trading                       | 654           | 27,446        | 425        | 689           | 28,439        | 475          |
| 1.2 fair value option             | -             | -             | -          | -             | -             | -            |
| 1.3 other                         | -             | 464           | 1          | -             | 409           | -            |
| 2. Credit derivatives             | 3             | 1,207         | 20         | -             | 867           | 15           |
| 2.1 trading                       | 3             | 1,207         | 7          | -             | 867           | 2            |
| 2.2 fair value option             | -             | -             | -          | -             | -             | -            |
| 2.3 other                         | -             | -             | 13         | -             | -             | 13           |
| <b>Total B</b>                    | <b>657</b>    | <b>29,117</b> | <b>446</b> | <b>689</b>    | <b>29,715</b> | <b>490</b>   |
| <b>TOTAL (A+B)</b>                | <b>10,685</b> | <b>31,978</b> | <b>950</b> | <b>17,994</b> | <b>32,546</b> | <b>1,057</b> |

The caption above includes the securities connected with securitisation transactions for a total amount of approximately 1,340 million euro, of which 983 million euro is senior, 321 million euro is mezzanine and 36 million euro is junior.



**2.1 Of which: Banking group**

(millions of euro)

|                                   | 31.12.2016    |               |            | 31.12.2015    |               |              |
|-----------------------------------|---------------|---------------|------------|---------------|---------------|--------------|
|                                   | Level 1       | Level 2       | Level 3    | Level 1       | Level 2       | Level 3      |
| <b>A. Cash assets</b>             |               |               |            |               |               |              |
| 1. Debt securities                | 8,336         | 2,745         | 339        | 14,892        | 2,629         | 302          |
| 1.1 structured securities         | 322           | 107           | 6          | 649           | 149           | 6            |
| 1.2 other debt securities         | 8,014         | 2,638         | 333        | 14,243        | 2,480         | 296          |
| 2. Equities                       | 885           | -             | -          | 900           | -             | -            |
| 3. Quotas of UCI                  | 381           | 86            | 120        | 908           | 140           | 209          |
| 4. Loans                          | -             | -             | -          | -             | -             | -            |
| 4.1 reverse repurchase agreements | -             | -             | -          | -             | -             | -            |
| 4.2 other                         | -             | -             | -          | -             | -             | -            |
| <b>Total A</b>                    | <b>9,602</b>  | <b>2,831</b>  | <b>459</b> | <b>16,700</b> | <b>2,769</b>  | <b>511</b>   |
| <b>B. Derivatives</b>             |               |               |            |               |               |              |
| 1. Financial derivatives          | 646           | 27,909        | 426        | 689           | 28,846        | 475          |
| 1.1 trading                       | 646           | 27,445        | 425        | 689           | 28,437        | 475          |
| 1.2 fair value option             | -             | -             | -          | -             | -             | -            |
| 1.3 other                         | -             | 464           | 1          | -             | 409           | -            |
| 2. Credit derivatives             | -             | 1,207         | 20         | -             | 864           | 15           |
| 2.1 trading                       | -             | 1,207         | 7          | -             | 864           | 2            |
| 2.2 fair value option             | -             | -             | -          | -             | -             | -            |
| 2.3 other                         | -             | -             | 13         | -             | -             | 13           |
| <b>Total B</b>                    | <b>646</b>    | <b>29,116</b> | <b>446</b> | <b>689</b>    | <b>29,710</b> | <b>490</b>   |
| <b>TOTAL (A+B)</b>                | <b>10,248</b> | <b>31,947</b> | <b>905</b> | <b>17,389</b> | <b>32,479</b> | <b>1,001</b> |

**2.1 Of which: Insurance companies**

(millions of euro)

|                                   | 31.12.2016 |           |           | 31.12.2015 |           |           |
|-----------------------------------|------------|-----------|-----------|------------|-----------|-----------|
|                                   | Level 1    | Level 2   | Level 3   | Level 1    | Level 2   | Level 3   |
| <b>A. Cash assets</b>             |            |           |           |            |           |           |
| 1. Debt securities                | 223        | 30        | -         | 214        | 62        | 9         |
| 1.1 structured securities         | -          | -         | -         | -          | -         | -         |
| 1.2 other debt securities         | 223        | 30        | -         | 214        | 62        | 9         |
| 2. Equities                       | -          | -         | -         | -          | -         | -         |
| 3. Quotas of UCI                  | 203        | -         | 45        | 391        | -         | 47        |
| 4. Loans                          | -          | -         | -         | -          | -         | -         |
| 4.1 reverse repurchase agreements | -          | -         | -         | -          | -         | -         |
| 4.2 other                         | -          | -         | -         | -          | -         | -         |
| <b>Total A</b>                    | <b>426</b> | <b>30</b> | <b>45</b> | <b>605</b> | <b>62</b> | <b>56</b> |
| <b>B. Derivatives</b>             |            |           |           |            |           |           |
| 1. Financial derivatives          | 8          | 1         | -         | -          | 2         | -         |
| 1.1 trading                       | 8          | 1         | -         | -          | 2         | -         |
| 1.2 fair value option             | -          | -         | -         | -          | -         | -         |
| 1.3 other                         | -          | -         | -         | -          | -         | -         |
| 2. Credit derivatives             | 3          | -         | -         | -          | 3         | -         |
| 2.1 trading                       | 3          | -         | -         | -          | 3         | -         |
| 2.2 fair value option             | -          | -         | -         | -          | -         | -         |
| 2.3 other                         | -          | -         | -         | -          | -         | -         |
| <b>Total B</b>                    | <b>11</b>  | <b>1</b>  | <b>-</b>  | <b>-</b>   | <b>5</b>  | <b>-</b>  |
| <b>TOTAL (A+B)</b>                | <b>437</b> | <b>31</b> | <b>45</b> | <b>605</b> | <b>67</b> | <b>56</b> |

## 2.2 Financial assets held for trading: borrower/issuer breakdown

(millions of euro)

|                                  | 31.12.2016    | Of which:     |                     |                 | 31.12.2015    |
|----------------------------------|---------------|---------------|---------------------|-----------------|---------------|
|                                  |               | Banking group | Insurance companies | Other companies |               |
| <b>A) CASH ASSETS</b>            |               |               |                     |                 |               |
| <b>1. Debt securities</b>        | <b>11,673</b> | <b>11,420</b> | <b>253</b>          | -               | <b>18,108</b> |
| a) Governments and Central Banks | 6,784         | 6,558         | 226                 | -               | 10,616        |
| b) Other public entities         | 559           | 559           | -                   | -               | 384           |
| c) Banks                         | 1,859         | 1,848         | 11                  | -               | 3,730         |
| d) Other issuers                 | 2,471         | 2,455         | 16                  | -               | 3,378         |
| <b>2. Equities</b>               | <b>885</b>    | <b>885</b>    | -                   | -               | <b>900</b>    |
| a) Banks                         | 39            | 39            | -                   | -               | 36            |
| b) Other issuers                 | 846           | 846           | -                   | -               | 864           |
| - insurance companies            | 24            | 24            | -                   | -               | 83            |
| - financial institutions         | 61            | 61            | -                   | -               | 55            |
| - non-financial companies        | 761           | 761           | -                   | -               | 726           |
| - other                          | -             | -             | -                   | -               | -             |
| <b>3. Quotas of UCI</b>          | <b>835</b>    | <b>587</b>    | <b>248</b>          | -               | <b>1,695</b>  |
| <b>4. Loans</b>                  | -             | -             | -                   | -               | -             |
| a) Governments and Central Banks | -             | -             | -                   | -               | -             |
| b) Other public entities         | -             | -             | -                   | -               | -             |
| c) Banks                         | -             | -             | -                   | -               | -             |
| d) Other counterparties          | -             | -             | -                   | -               | -             |
| <b>Total A</b>                   | <b>13,393</b> | <b>12,892</b> | <b>501</b>          | -               | <b>20,703</b> |
| <b>B) DERIVATIVES</b>            |               |               |                     |                 |               |
| a) Banks                         | 16,790        | 16,778        | 12                  | -               | 17,358        |
| b) Customers                     | 13,430        | 13,430        | -                   | -               | 13,536        |
| <b>Total B</b>                   | <b>30,220</b> | <b>30,208</b> | <b>12</b>           | -               | <b>30,894</b> |
| <b>TOTAL (A+B)</b>               | <b>43,613</b> | <b>43,100</b> | <b>513</b>          | -               | <b>51,597</b> |

## SECTION 3 - FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS - CAPTION 30

## 3.1 Financial assets designated at fair value through profit and loss: breakdown

(millions of euro)

|                           | 31.12.2016    |              |            | 31.12.2015    |              |            |
|---------------------------|---------------|--------------|------------|---------------|--------------|------------|
|                           | Level 1       | Level 2      | Level 3    | Level 1       | Level 2      | Level 3    |
| 1. Debt securities        | 3,575         | 1,062        | 67         | 3,513         | 1,192        | 113        |
| 1.1 structured securities | -             | -            | -          | -             | -            | -          |
| 1.2 other debt securities | 3,575         | 1,062        | 67         | 3,513         | 1,192        | 113        |
| 2. Equities               | 1,295         | -            | -          | 1,024         | -            | -          |
| 3. Quotas of UCI          | 57,438        | -            | 127        | 47,030        | -            | 120        |
| 4. Loans                  | 33            | 10           | 258        | 280           | 8            | 383        |
| 4.1 structured            | -             | 10           | -          | -             | 8            | -          |
| 4.2 other                 | 33            | -            | 258        | 280           | -            | 383        |
| <b>Total</b>              | <b>62,341</b> | <b>1,072</b> | <b>452</b> | <b>51,847</b> | <b>1,200</b> | <b>616</b> |
| <b>Cost</b>               | <b>60,125</b> | <b>1,051</b> | <b>439</b> | <b>50,211</b> | <b>1,172</b> | <b>615</b> |

**3.1 Of which: Banking group**

(millions of euro)

|                           | 31.12.2016 |            |            | 31.12.2015 |            |            |
|---------------------------|------------|------------|------------|------------|------------|------------|
|                           | Level 1    | Level 2    | Level 3    | Level 1    | Level 2    | Level 3    |
| 1. Debt securities        | -          | 929        | 64         | -          | 954        | 69         |
| 1.1 structured securities | -          | -          | -          | -          | -          | -          |
| 1.2 other debt securities | -          | 929        | 64         | -          | 954        | 69         |
| 2. Equities               | -          | -          | -          | -          | -          | -          |
| 3. Quotas of UCI          | 12         | -          | 107        | 12         | -          | 101        |
| 4. Loans                  | -          | 10         | -          | -          | 8          | -          |
| 4.1 structured            | -          | 10         | -          | -          | 8          | -          |
| 4.2 other                 | -          | -          | -          | -          | -          | -          |
| <b>Total</b>              | <b>12</b>  | <b>939</b> | <b>171</b> | <b>12</b>  | <b>962</b> | <b>170</b> |
| <b>Cost</b>               | <b>24</b>  | <b>933</b> | <b>159</b> | <b>25</b>  | <b>953</b> | <b>167</b> |

In this category the Group has classified some debt securities with embedded derivatives, debt securities subject to financial hedging, equity investments held, directly or through funds, in companies involved in the venture capital business and loans connected to the LECOIP for the employment agreements, terminated early, of its employees and those of Group companies, managed based on fair value.

On the basis of the loans included in the aggregate, no hedges were arranged and no credit derivatives or similar instruments exist to mitigate the relevant credit risk. The amount of relevant annual and total fair value change attributable to the credit risk changes occurred in the period is immaterial.

**3.1 Of which: Insurance companies**

(millions of euro)

|                           | 31.12.2016    |            |            | 31.12.2015    |            |            |
|---------------------------|---------------|------------|------------|---------------|------------|------------|
|                           | Level 1       | Level 2    | Level 3    | Level 1       | Level 2    | Level 3    |
| 1. Debt securities        | 3,575         | 133        | 3          | 3,513         | 238        | 44         |
| 1.1 structured securities | -             | -          | -          | -             | -          | -          |
| 1.2 other debt securities | 3,575         | 133        | 3          | 3,513         | 238        | 44         |
| 2. Equities               | 1,295         | -          | -          | 1,024         | -          | -          |
| 3. Quotas of UCI          | 57,426        | -          | 20         | 47,018        | -          | 19         |
| 4. Loans                  | 33            | -          | 258        | 280           | -          | 383        |
| 4.1 structured            | -             | -          | -          | -             | -          | -          |
| 4.2 other                 | 33            | -          | 258        | 280           | -          | 383        |
| <b>Total</b>              | <b>62,329</b> | <b>133</b> | <b>281</b> | <b>51,835</b> | <b>238</b> | <b>446</b> |
| <b>Cost</b>               | <b>60,101</b> | <b>118</b> | <b>280</b> | <b>50,186</b> | <b>219</b> | <b>448</b> |

Assets designated at fair value essentially included assets with respect to insurance policies where the total risk is borne by the policyholders (so-called Class D).

**3.2 Financial assets designated at fair value through profit and loss: borrower/issuer breakdown**

|                                  | 31.12.2016    | Of which:     |                     |                 | (millions of euro) |
|----------------------------------|---------------|---------------|---------------------|-----------------|--------------------|
|                                  |               | Banking group | Insurance companies | Other companies | 31.12.2015         |
| <b>1. Debt securities</b>        | <b>4,704</b>  | <b>993</b>    | <b>3,711</b>        | -               | <b>4,818</b>       |
| a) Governments and Central Banks | 3,965         | 725           | 3,240               | -               | 4,071              |
| b) Other public entities         | 9             | 1             | 8                   | -               | 12                 |
| c) Banks                         | 447           | 250           | 197                 | -               | 496                |
| d) Other issuers                 | 283           | 17            | 266                 | -               | 239                |
| <b>2. Equities</b>               | <b>1,295</b>  | -             | <b>1,295</b>        | -               | <b>1,024</b>       |
| a) Banks                         | 134           | -             | 134                 | -               | 562                |
| b) Other issuers                 | 1,161         | -             | 1,161               | -               | 462                |
| - insurance companies            | 29            | -             | 29                  | -               | 26                 |
| - financial institutions         | 12            | -             | 12                  | -               | 10                 |
| - non-financial companies        | -             | -             | -                   | -               | -                  |
| - other                          | 1,120         | -             | 1,120               | -               | 426                |
| <b>3. Quotas of UCI</b>          | <b>57,565</b> | <b>119</b>    | <b>57,446</b>       | -               | <b>47,150</b>      |
| <b>4. Loans</b>                  | <b>301</b>    | <b>10</b>     | <b>291</b>          | -               | <b>671</b>         |
| a) Governments and Central Banks | -             | -             | -                   | -               | -                  |
| b) Other public entities         | -             | -             | -                   | -               | -                  |
| c) Banks                         | 301           | 10            | 291                 | -               | 671                |
| d) Other counterparties          | -             | -             | -                   | -               | -                  |
| <b>TOTAL</b>                     | <b>63,865</b> | <b>1,122</b>  | <b>62,743</b>       | -               | <b>53,663</b>      |

**SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - CAPTION 40****4.1 Financial assets available for sale: breakdown**

|                            | 31.12.2016     |              |              | 31.12.2015     |              |              |
|----------------------------|----------------|--------------|--------------|----------------|--------------|--------------|
|                            | Level 1        | Level 2      | Level 3      | Level 1        | Level 2      | Level 3      |
| 1. Debt securities         | 127,647        | 3,563        | 361          | 112,200        | 4,956        | 200          |
| 1.1 Structured securities  | -              | -            | -            | -              | -            | -            |
| 1.2 Other debt securities  | 127,647        | 3,563        | 361          | 112,200        | 4,956        | 200          |
| 2. Equities                | 1,765          | 2,728        | 970          | 1,540          | 3,163        | 966          |
| 2.1 Measured at fair value | 1,765          | 2,728        | 958          | 1,540          | 3,163        | 952          |
| 2.2 Measured at cost       | -              | -            | 12           | -              | -            | 14           |
| 3. Quotas of UCI           | 7,942          | 30           | 1,663        | 7,136          | 48           | 1,149        |
| 4. Loans                   | -              | 20           | 3            | -              | 41           | 3            |
| <b>TOTAL</b>               | <b>137,354</b> | <b>6,341</b> | <b>2,997</b> | <b>120,876</b> | <b>8,208</b> | <b>2,318</b> |

Loans, as illustrated in Part A – Accounting policies, refer to portions of syndicated loans underwritten and destined to be subsequently sold.

Financial assets available for sale (equities measured at fair value – level 2) include the stakes issued by the Bank of Italy in application of Law Decree 133 of 30 November 2013, converted into Law 5 of 29 January 2014, and as a consequence of the amendments to the articles of association approved by the Bank of Italy's general meeting on 23 December 2013 and entered into force on 31 December 2013.

During 2016 Intesa Sanpaolo sold - at nominal value, equal to the book value - a total stake of approximately 3.8% in the capital of the Bank of Italy, for an equivalent value of approximately 287 million euro. The number of shares held dropped from 110,014 to 98,539 (32.8% of capital), for a carrying value of 2,463 million euro.

For the 2016 Financial Statements, in order to check the stake in the Bank of Italy's capital, in compliance with the provisions of IFRS 13, reference was made to the value expressed by the market transactions performed throughout 2015 and 2016; IFRS 13 establishes that the fair value must be determined according to a hierarchy of criteria that assigns top priority to market input and less importance to inputs unobservable on the market. These transactions, also performed by other holders of the supervisory authority's capital, were deemed significant as they involved various market operators and implied the transfer of a considerable component of the Bank of Italy's capital. The transactions in question were all performed at the nominal value of the stakes, equal to 25,000 euro each. The fair value of the stakes consequently equalled the one recognised in Intesa Sanpaolo financial statements, i.e. 2,463 million. The above considerations are also borne out by the opinion issued at the end of a year by an independent expert.

Finally, it should be noted that the measurement of the stake in the Bank of Italy according to the direct transactions method entails the classification of the investment to the category of instruments with level 2 fair value.

#### 4.1 Of which: Banking group

(millions of euro)

|                            | 31.12.2016    |              |              | 31.12.2015    |              |              |
|----------------------------|---------------|--------------|--------------|---------------|--------------|--------------|
|                            | Level 1       | Level 2      | Level 3      | Level 1       | Level 2      | Level 3      |
| 1. Debt securities         | 58,962        | 2,914        | 243          | 46,256        | 3,893        | 156          |
| 1.1 Structured securities  | -             | -            | -            | -             | -            | -            |
| 1.2 Other debt securities  | 58,962        | 2,914        | 243          | 46,256        | 3,893        | 156          |
| 2. Equities                | 191           | 2,728        | 970          | 68            | 3,046        | 861          |
| 2.1 Measured at fair value | 191           | 2,728        | 958          | 68            | 3,046        | 847          |
| 2.2 Measured at cost       | -             | -            | 12           | -             | -            | 14           |
| 3. Quotas of UCI           | 262           | 2            | 1,112        | 478           | 17           | 715          |
| 4. Loans                   | -             | 20           | 3            | -             | 41           | 3            |
| <b>TOTAL</b>               | <b>59,415</b> | <b>5,664</b> | <b>2,328</b> | <b>46,802</b> | <b>6,997</b> | <b>1,735</b> |

#### 4.1 Of which: Insurance companies

(millions of euro)

|                            | 31.12.2016    |            |            | 31.12.2015    |              |            |
|----------------------------|---------------|------------|------------|---------------|--------------|------------|
|                            | Level 1       | Level 2    | Level 3    | Level 1       | Level 2      | Level 3    |
| 1. Debt securities         | 68,685        | 649        | 118        | 65,944        | 1,063        | 44         |
| 1.1 Structured securities  | -             | -          | -          | -             | -            | -          |
| 1.2 Other debt securities  | 68,685        | 649        | 118        | 65,944        | 1,063        | 44         |
| 2. Equities                | 1,574         | -          | -          | 1,472         | -            | -          |
| 2.1 Measured at fair value | 1,574         | -          | -          | 1,472         | -            | -          |
| 2.2 Measured at cost       | -             | -          | -          | -             | -            | -          |
| 3. Quotas of UCI           | 7,680         | 28         | 551        | 6,658         | 31           | 434        |
| 4. Loans                   | -             | -          | -          | -             | -            | -          |
| <b>TOTAL</b>               | <b>77,939</b> | <b>677</b> | <b>669</b> | <b>74,074</b> | <b>1,094</b> | <b>478</b> |

#### 4.1 Of which: Other companies

As at 31 December 2016 there were no financial assets available for sale attributable to other companies. At the end of 2015, 222 million euro were attributable to other companies, of which 117 million euro referred to equities with level 2 fair value and 105 million euro to equities with level 3 fair value.

**4.2 Financial assets available for sale: borrower/issuer breakdown**

|                                  | 31.12.2016     | Of which:     |                     |                 | (millions of euro)<br>31.12.2015 |
|----------------------------------|----------------|---------------|---------------------|-----------------|----------------------------------|
|                                  |                | Banking group | Insurance companies | Other companies |                                  |
| <b>1. Debt securities</b>        | <b>131,571</b> | <b>62,119</b> | <b>69,452</b>       | -               | <b>117,356</b>                   |
| a) Governments and Central Banks | 112,877        | 57,350        | 55,527              | -               | 102,045                          |
| b) Other public entities         | 301            | 95            | 206                 | -               | 389                              |
| c) Banks                         | 6,387          | 2,150         | 4,237               | -               | 5,871                            |
| d) Other issuers                 | 12,006         | 2,524         | 9,482               | -               | 9,051                            |
| <b>2. Equities</b>               | <b>5,463</b>   | <b>3,889</b>  | <b>1,574</b>        | -               | <b>5,669</b>                     |
| a) Banks                         | 2,621          | 2,547         | 74                  | -               | 2,909                            |
| b) Other issuers                 | 2,842          | 1,342         | 1,500               | -               | 2,760                            |
| - insurance companies            | 81             | 6             | 75                  | -               | 81                               |
| - financial institutions         | 369            | 366           | 3                   | -               | 405                              |
| - non-financial companies        | 2,392          | 970           | 1,422               | -               | 2,274                            |
| - other                          | -              | -             | -                   | -               | -                                |
| <b>3. Quotas of UCI</b>          | <b>9,635</b>   | <b>1,376</b>  | <b>8,259</b>        | -               | <b>8,333</b>                     |
| <b>4. Loans</b>                  | <b>23</b>      | <b>23</b>     | -                   | -               | <b>44</b>                        |
| a) Governments and Central Banks | -              | -             | -                   | -               | -                                |
| b) Other public entities         | -              | -             | -                   | -               | -                                |
| c) Banks                         | 2              | 2             | -                   | -               | 3                                |
| d) Other counterparties          | 21             | 21            | -                   | -               | 41                               |
| <b>TOTAL</b>                     | <b>146,692</b> | <b>67,407</b> | <b>79,285</b>       | -               | <b>131,402</b>                   |

Equities issued by non-financial companies include 170 million euro resulting from the conversion of loans.

**4.3 Financial assets available for sale with specific hedges**

|  | 31.12.2016    | Of which:     |                     |                 | (millions of euro)<br>31.12.2015 |
|--|---------------|---------------|---------------------|-----------------|----------------------------------|
|  |               | Banking group | Insurance companies | Other companies |                                  |
| <b>1. Financial assets with specific fair value hedges</b> | <b>37,666</b> | <b>37,666</b> | -                   | -               | <b>33,444</b>                    |
| a) Interest rate risk                                      | 37,327        | 37,327        | -                   | -               | 32,875                           |
| b) Price risk  | -             | -             | -                   | -               | 222                              |
| c) Foreign exchange risk                                   | -             | -             | -                   | -               | -                                |
| d) Credit risk   | -             | -             | -                   | -               | -                                |
| e) Various risks   | 339           | 339           | -                   | -               | 347                              |
| <b>2. Financial assets with specific cash flow hedges</b>  | -             | -             | -                   | -               | -                                |
| a) Interest rate risk                                      | -             | -             | -                   | -               | -                                |
| b) Foreign exchange risk                                   | -             | -             | -                   | -               | -                                |
| c) Other   | -             | -             | -                   | -               | -                                |
| <b>TOTAL</b>   | <b>37,666</b> | <b>37,666</b> | -                   | -               | <b>33,444</b>                    |

**Impairment tests for financial assets available for sale**

As required under IFRS, financial assets available for sale are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The Intesa Sanpaolo Group's policy for managing impairment testing calls for the verification of the presence of impairment indicators and the determination of any losses.

The impairment indicators are essentially divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equities - external quantitative indicators deriving from the market values of the company.

Within the first category, the following indicators, for example, are considered significant: the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating.

With respect to the second category, a significant or prolonged reduction in fair value below the initial recognition value is particularly important. Specifically, in relation to the initial recognition value, a fair value reduction of over 30% is considered "significant", and a continuous reduction of over 24 months is considered a "prolonged" reduction. If one of these thresholds is exceeded, impairment of the security is carried out. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

The amount of the impairment is calculated with reference to the fair value of the financial asset.

The tests performed indicated the need for adjustments to the value of several equity investments. The main adjustments affected the Atlante Fund (167 million euro), the National Interbank Deposit Guarantee Fund - Voluntary Scheme (14 million euro attributable to the write-down of the Voluntary Scheme's investment in CR Cesena), Palladio Holding (12 million euro), Prelios (9 million euro), the Atlante Private Equity Fund (9 million euro) and Milanosesto (6 million euro).

In the case of the investment in the Atlante Fund, the payment of 182 million euro called up by the Fund on 3 January 2017, which in the 2016 Financial Statements is classified as a commitment, was also written down accordingly. The write-down in question of 60 million euro was allocated to caption 190 of the income statement, "Net provisions for risks and charges". Accordingly, the amount of the charge attributable to the Atlante Fund in the 2016 income statement is 227 million euro.

In addition, adjustments to the value of the debt instruments issued by Quattrodue of 15 million euro were recognised.

**SECTION 5 - INVESTMENTS HELD TO MATURITY - CAPTION 50****5.1 Investments held to maturity: breakdown**

(millions of euro)

|                              | 31.12.2016   |            |            |          | 31.12.2015   |            |            |          |
|------------------------------|--------------|------------|------------|----------|--------------|------------|------------|----------|
|                              | Book value   | Fair value |            |          | Book value   | Fair value |            |          |
|                              |              | Level 1    | Level 2    | Level 3  |              | Level 1    | Level 2    | Level 3  |
| 1. Debt securities           | 1,241        | 422        | 866        | -        | 1,386        | 555        | 898        | -        |
| <i>Structured securities</i> | -            | -          | -          | -        | -            | -          | -          | -        |
| <i>Other</i>                 | 1,241        | 422        | 866        | -        | 1,386        | 555        | 898        | -        |
| 2. Loans                     | -            | -          | -          | -        | -            | -          | -          | -        |
| <b>TOTAL</b>                 | <b>1,241</b> | <b>422</b> | <b>866</b> | <b>-</b> | <b>1,386</b> | <b>555</b> | <b>898</b> | <b>-</b> |

For the illustration of the criteria for the determination of the fair value reference should be made to Part A – Accounting policies.

**5.1 Of which: Banking group**

(millions of euro)

|                              | 31.12.2016   |            |            |          | 31.12.2015   |            |            |          |
|------------------------------|--------------|------------|------------|----------|--------------|------------|------------|----------|
|                              | Book value   | Fair value |            |          | Book value   | Fair value |            |          |
|                              |              | Level 1    | Level 2    | Level 3  |              | Level 1    | Level 2    | Level 3  |
| 1. Debt securities           | 1,241        | 422        | 866        | -        | 1,386        | 555        | 898        | -        |
| <i>Structured securities</i> | -            | -          | -          | -        | -            | -          | -          | -        |
| <i>Other</i>                 | 1,241        | 422        | 866        | -        | 1,386        | 555        | 898        | -        |
| 2. Loans                     | -            | -          | -          | -        | -            | -          | -          | -        |
| <b>TOTAL</b>                 | <b>1,241</b> | <b>422</b> | <b>866</b> | <b>-</b> | <b>1,386</b> | <b>555</b> | <b>898</b> | <b>-</b> |

**5.2 Investments held to maturity: borrowers/issuers**

|                                  | 31.12.2016   | Of which:     |                     |                 | (millions of euro) |
|----------------------------------|--------------|---------------|---------------------|-----------------|--------------------|
|                                  |              | Banking group | Insurance companies | Other companies | 31.12.2015         |
| <b>1. Debt securities</b>        | <b>1,241</b> | <b>1,241</b>  | -                   | -               | <b>1,386</b>       |
| a) Governments and Central Banks | 1,241        | 1,241         | -                   | -               | 1,243              |
| b) Other public entities         | -            | -             | -                   | -               | -                  |
| c) Banks                         | -            | -             | -                   | -               | 103                |
| d) Other issuers                 | -            | -             | -                   | -               | 40                 |
| <b>2. Loans</b>                  | -            | -             | -                   | -               | -                  |
| a) Governments and Central Banks | -            | -             | -                   | -               | -                  |
| b) Other public entities         | -            | -             | -                   | -               | -                  |
| c) Banks                         | -            | -             | -                   | -               | -                  |
| d) Other counterparties          | -            | -             | -                   | -               | -                  |
| <b>TOTAL</b>                     | <b>1,241</b> | <b>1,241</b>  | -                   | -               | <b>1,386</b>       |
| <b>TOTAL FAIR VALUE</b>          | <b>1,288</b> | <b>1,288</b>  | -                   | -               | <b>1,453</b>       |

**5.3 Investments held to maturity with specific hedges**

As at 31 December 2016, no investments held to maturity with specific hedges were recorded.

**SECTION 6 – DUE FROM BANKS – CAPTION 60****6.1 Due from banks: breakdown**

|                                   | Book value    | 31.12.2016 |               |               | 31.12.2015    |            |               |               |
|-----------------------------------|---------------|------------|---------------|---------------|---------------|------------|---------------|---------------|
|                                   |               | Fair value |               |               | Book value    | Fair value |               |               |
|                                   |               | Level 1    | Level 2       | Level 3       |               | Level 1    | Level 2       | Level 3       |
| <b>A. Due from Central Banks</b>  | <b>27,351</b> | -          | <b>22,583</b> | <b>1,858</b>  | <b>7,898</b>  | -          | <b>2,555</b>  | <b>5,343</b>  |
| 1. Time deposits                  | 1,265         |            |               |               | 1,348         |            |               |               |
| 2. Compulsory reserve             | 25,223        |            |               |               | 6,229         |            |               |               |
| 3. Repurchase agreements          | -             |            |               |               | 82            |            |               |               |
| 4. Other                          | 863           |            |               |               | 239           |            |               |               |
| <b>B. Due from banks</b>          | <b>25,795</b> | -          | <b>18,086</b> | <b>10,506</b> | <b>26,547</b> | <b>58</b>  | <b>18,422</b> | <b>7,996</b>  |
| 1. Loans                          | 25,009        | -          | 17,591        | 10,256        | 25,775        | -          | 18,039        | 7,725         |
| 1.1 Current accounts and deposits | 10,375        |            |               |               | 9,202         |            |               |               |
| 1.2 Time deposits                 | 1,689         |            |               |               | 1,332         |            |               |               |
| 1.3 Other loans                   | 12,945        |            |               |               | 15,241        |            |               |               |
| - Reverse repurchase agreements   | 3,978         |            |               |               | 5,655         |            |               |               |
| - Financial leases                | 3             |            |               |               | 3             |            |               |               |
| - Other                           | 8,964         |            |               |               | 9,583         |            |               |               |
| 2. Debt securities                | 786           | -          | 495           | 250           | 772           | 58         | 383           | 271           |
| 2.1 Structured                    | -             |            |               |               | -             |            |               |               |
| 2.2 Other                         | 786           |            |               |               | 772           |            |               |               |
| <b>TOTAL</b>                      | <b>53,146</b> | -          | <b>40,669</b> | <b>12,364</b> | <b>34,445</b> | <b>58</b>  | <b>20,977</b> | <b>13,339</b> |

The fair value is indicated only where required by specific instructions from the Bank of Italy.

There were no non-performing assets due from banks as at 31 December 2016, whereas such assets amounted to 3 million euro as at 31 December 2015.



**6.1 Of which: Banking group**

(millions of euro)

|                                   | 31.12.2016    |            |               |               | 31.12.2015    |            |               |               |
|-----------------------------------|---------------|------------|---------------|---------------|---------------|------------|---------------|---------------|
|                                   | Book value    | Fair value |               |               | Book value    | Fair value |               |               |
|                                   |               | Level 1    | Level 2       | Level 3       |               | Level 1    | Level 2       | Level 3       |
| <b>A. Due from Central Banks</b>  | <b>27,351</b> | -          | <b>22,583</b> | <b>1,858</b>  | <b>7,898</b>  | -          | <b>2,555</b>  | <b>5,343</b>  |
| 1. Time deposits                  | 1,265         |            |               |               | 1,348         |            |               |               |
| 2. Compulsory reserve             | 25,223        |            |               |               | 6,229         |            |               |               |
| 3. Repurchase agreements          | -             |            |               |               | 82            |            |               |               |
| 4. Other                          | 863           |            |               |               | 239           |            |               |               |
| <b>B. Due from banks</b>          | <b>24,923</b> | -          | <b>17,833</b> | <b>9,887</b>  | <b>25,734</b> | <b>58</b>  | <b>18,197</b> | <b>7,408</b>  |
| 1. Loans                          | 24,178        | -          | 17,379        | 9,637         | 24,982        | -          | 17,834        | 7,137         |
| 1.1 Current accounts and deposits | 9,547         |            |               |               | 8,415         |            |               |               |
| 1.2 Time deposits                 | 1,686         |            |               |               | 1,326         |            |               |               |
| 1.3 Other loans                   | 12,945        |            |               |               | 15,241        |            |               |               |
| - Reverse repurchase agreements   | 3,978         |            |               |               | 5,655         |            |               |               |
| - Financial leases                | 3             |            |               |               | 3             |            |               |               |
| - Other                           | 8,964         |            |               |               | 9,583         |            |               |               |
| 2. Debt securities                | 745           | -          | 454           | 250           | 752           | 58         | 363           | 271           |
| 2.1 Structured                    | -             |            |               |               | -             |            |               |               |
| 2.2 Other                         | 745           |            |               |               | 752           |            |               |               |
| <b>TOTAL</b>                      | <b>52,274</b> | -          | <b>40,416</b> | <b>11,745</b> | <b>33,632</b> | <b>58</b>  | <b>20,752</b> | <b>12,751</b> |

The fair value is indicated only where required by specific instructions from the Bank of Italy.

**6.1 Of which: Insurance companies**

(millions of euro)

|                                   | 31.12.2016 |            |            |            | 31.12.2015 |            |            |            |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                                   | Book value | Fair value |            |            | Book value | Fair value |            |            |
|                                   |            | Level 1    | Level 2    | Level 3    |            | Level 1    | Level 2    | Level 3    |
| <b>A. Due from Central Banks</b>  | -          | -          | -          | -          | -          | -          | -          | -          |
| 1. Time deposits                  | -          |            |            |            | -          |            |            |            |
| 2. Compulsory reserve             | -          |            |            |            | -          |            |            |            |
| 3. Repurchase agreements          | -          |            |            |            | -          |            |            |            |
| 4. Other                          | -          |            |            |            | -          |            |            |            |
| <b>B. Due from banks</b>          | <b>862</b> | -          | <b>253</b> | <b>609</b> | <b>776</b> | -          | <b>225</b> | <b>551</b> |
| 1. Loans                          | 821        | -          | 212        | 609        | 756        | -          | 205        | 551        |
| 1.1 Current accounts and deposits | 821        |            |            |            | 756        |            |            |            |
| 1.2 Time deposits                 | -          |            |            |            | -          |            |            |            |
| 1.3 Other loans                   | -          |            |            |            | -          |            |            |            |
| - Reverse repurchase agreements   | -          |            |            |            | -          |            |            |            |
| - Financial leases                | -          |            |            |            | -          |            |            |            |
| - Other                           | -          |            |            |            | -          |            |            |            |
| 2. Debt securities                | 41         | -          | 41         | -          | 20         | -          | 20         | -          |
| 2.1 Structured                    | -          |            |            |            | -          |            |            |            |
| 2.2 Other                         | 41         |            |            |            | 20         |            |            |            |
| <b>TOTAL</b>                      | <b>862</b> | -          | <b>253</b> | <b>609</b> | <b>776</b> | -          | <b>225</b> | <b>551</b> |

The fair value is indicated only where required by specific instructions from the Bank of Italy.

**6.1 Of which Other companies**

As at 31 December 2016 amounts due from banks referring to other companies amount to 10 million euro and consist of current accounts and deposits for 7 million euro and term deposits for 3 million euro, (total fair value amounting to 10 million euro). As at 31 December 2015 amounts due from banks were 37 million euro, of which 31 million euro was attributable to current accounts and deposits and 6 million euro to term deposits (total fair value of 37 million euro).

**6.2 Due from banks with specific hedges**

(millions of euro)

|  | 31.12.2016 | 31.12.2015 |
|--|------------|------------|
| <b>1. Due from banks with specific fair value hedges</b> | <b>454</b> | <b>463</b> |
| a) Interest rate risk                                    | 412        | 424        |
| b) Foreign exchange risk                                 | -          | -          |
| c) Credit risk   | -          | -          |
| d) Various risks   | 42         | 39         |
| <b>2. Due from banks with specific cash flow hedges</b>  | <b>-</b>   | <b>-</b>   |
| a) Interest rate risk                                    | -          | -          |
| b) Foreign exchange risk                                 | -          | -          |
| c) Other   | -          | -          |
| <b>TOTAL</b>   | <b>454</b> | <b>463</b> |

**6.3 Financial leases**

Financial lease receivables included under Due from banks were immaterial as at 31 December 2016.

**SECTION 7 – LOANS TO CUSTOMERS – CAPTION 70****7.1 Loans to customers: breakdown**

(millions of euro)

|   | 31.12.2016     |                             |               |              |                |                | 31.12.2015     |                             |               |              |                |                |
|---|----------------|-----------------------------|---------------|--------------|----------------|----------------|----------------|-----------------------------|---------------|--------------|----------------|----------------|
|   | Book value     |                             |               | Fair value   |                |                | Book value     |                             |               | Fair value   |                |                |
|   | Performing     | Non-performing<br>purchased | other         | Level 1      | Level 2        | Level 3        | Performing     | Non-performing<br>purchased | other         | Level 1      | Level 2        | Level 3        |
| <b>Loans</b>  | <b>320,523</b> | <b>7</b>                    | <b>29,716</b> | <b>-</b>     | <b>255,346</b> | <b>107,246</b> | <b>303,539</b> | <b>9</b>                    | <b>33,021</b> | <b>-</b>     | <b>229,370</b> | <b>119,197</b> |
| 1. Current accounts   | 21,142         | -                           | 3,652         |              |                |                | 24,535         | -                           | 4,156         |              |                |                |
| 2. Reverse repurchase agreements  | 29,940         | -                           | -             |              |                |                | 21,449         | -                           | -             |              |                |                |
| 3. Mortgages  | 145,342        | 3                           | 17,093        |              |                |                | 138,036        | 5                           | 18,059        |              |                |                |
| 4. Credit card loans, personal loans<br>and transfer of one fifth of salaries | 16,740         | -                           | 604           |              |                |                | 17,531         | -                           | 712           |              |                |                |
| 5. Finance leases   | 13,525         | -                           | 3,147         |              |                |                | 14,298         | -                           | 3,916         |              |                |                |
| 6. Factoring  | 10,638         | -                           | 139           |              |                |                | 9,733          | -                           | 246           |              |                |                |
| 7. Other loans  | 83,196         | 4                           | 5,081         |              |                |                | 77,957         | 4                           | 5,932         |              |                |                |
| <b>Debt securities</b>  | <b>14,423</b>  | <b>-</b>                    | <b>44</b>     | <b>1,474</b> | <b>6,227</b>   | <b>4,948</b>   | <b>13,385</b>  | <b>-</b>                    | <b>56</b>     | <b>1,064</b> | <b>9,163</b>   | <b>1,632</b>   |
| 8. Structured securities  | 11             | -                           | -             |              |                |                | 10             | -                           | 10            |              |                |                |
| 9. Other debt securities  | 14,412         | -                           | 44            |              |                |                | 13,375         | -                           | 46            |              |                |                |
| <b>TOTAL</b>  | <b>334,946</b> | <b>7</b>                    | <b>29,760</b> | <b>1,474</b> | <b>261,573</b> | <b>112,194</b> | <b>316,924</b> | <b>9</b>                    | <b>33,077</b> | <b>1,064</b> | <b>238,533</b> | <b>120,829</b> |

The fair value is indicated only where required by specific instructions from the Bank of Italy.

The illustration of the criteria used to determine fair value is contained in Part A – Accounting policies.

Loans to customers include loans disbursed on public funds under administration for which Group banks hold the risk in the amount of 96 million euro.

The caption above includes the securities connected with securitisation transactions for a total amount of approximately 5,670 million euro, of which 5,552 million euro is senior, 84 million euro is mezzanine and 34 million euro is junior.

**7.1 Of which: Banking group**

(millions of euro)

|  | 31.12.2016     |                |               |              |                |                | 31.12.2015     |            |               |              |                |                |
|--|----------------|----------------|---------------|--------------|----------------|----------------|----------------|------------|---------------|--------------|----------------|----------------|
|  | Book value     |                | Fair value    |              |                | Book value     |                | Fair value |               |              |                |                |
|  | Performing     | Non-performing | Level 1       | Level 2      | Level 3        | Performing     | Non-performing | Level 1    | Level 2       | Level 3      |                |                |
|  | purchased      | other          |               |              |                | purchased      | other          |            |               |              |                |                |
| <b>Loans</b>   | <b>320,518</b> | <b>7</b>       | <b>29,716</b> | -            | <b>255,344</b> | <b>107,243</b> | <b>303,536</b> | <b>9</b>   | <b>33,021</b> | -            | <b>229,367</b> | <b>119,197</b> |
| 1. Current accounts  | 21,142         | -              | 3,652         |              |                |                | 24,535         | -          | 4,156         |              |                |                |
| 2. Reverse repurchase agreements   | 29,940         | -              | -             |              |                |                | 21,449         | -          | -             |              |                |                |
| 3. Mortgages   | 145,342        | 3              | 17,093        |              |                |                | 138,036        | 5          | 18,059        |              |                |                |
| 4. Credit card loans, personal loans and transfer of one fifth of salaries | 16,740         | -              | 604           |              |                |                | 17,531         | -          | 712           |              |                |                |
| 5. Finance leases  | 13,525         | -              | 3,147         |              |                |                | 14,298         | -          | 3,916         |              |                |                |
| 6. Factoring   | 10,638         | -              | 139           |              |                |                | 9,733          | -          | 246           |              |                |                |
| 7. Other loans   | 83,191         | 4              | 5,081         |              |                |                | 77,954         | 4          | 5,932         |              |                |                |
| <b>Debt securities</b>   | <b>11,679</b>  | -              | <b>44</b>     | <b>1,474</b> | <b>6,227</b>   | <b>2,204</b>   | <b>11,948</b>  | -          | <b>56</b>     | <b>1,064</b> | <b>7,743</b>   | <b>1,615</b>   |
| 8. Structured securities   | 11             | -              | -             |              |                |                | 10             | -          | 10            |              |                |                |
| 9. Other debt securities   | 11,668         | -              | 44            |              |                |                | 11,938         | -          | 46            |              |                |                |
| <b>TOTAL</b>   | <b>332,197</b> | <b>7</b>       | <b>29,760</b> | <b>1,474</b> | <b>261,571</b> | <b>109,447</b> | <b>315,484</b> | <b>9</b>   | <b>33,077</b> | <b>1,064</b> | <b>237,110</b> | <b>120,812</b> |

The fair value is indicated only where required by specific instructions from the Bank of Italy.

**7.1 Of which: Insurance companies**

As at 31 December 2016, 22 million euro was attributable to insurance companies, of which 5 million euro was attributable to other performing loans and 17 million euro to other performing debt securities (total fair value of 22 million euro). As at 31 December 2015, loans due from customers were related to insurance companies in the amount of 20 million euro, of which 3 million euro was attributable to other performing loans and 17 million euro to other performing debt securities (total fair value of 20 million euro).

**7.1 Of which: Other companies**

As at 31 December 2016, loans to customers relating to other companies amounted to 2,727 million euro and consisted entirely of performing debt securities (total fair value of 2,727 million euro). As at 31 December 2015 they amounted to 1,420 million euro, also attributable to other performing debt securities (total fair value of 1,420 million euro).

**7.2 Loans to customers: borrower/issuer breakdown**

(millions of euro)

|                           | 31.12.2016     |                |               | 31.12.2015     |                |               |
|---------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                           | Performing     | Non-performing |               | Performing     | Non-performing |               |
|                           |                | purchased      | other         |                | purchased      | other         |
| <b>1. Debt securities</b> | <b>14,423</b>  | -              | <b>44</b>     | <b>13,385</b>  | -              | <b>56</b>     |
| a) Governments            | 4,064          | -              | -             | 4,036          | -              | -             |
| b) Other public entities  | 4,611          | -              | 26            | 4,792          | -              | 28            |
| c) Other issuers          | 5,748          | -              | 18            | 4,557          | -              | 28            |
| - non-financial companies | 1,274          | -              | 17            | 1,463          | -              | 28            |
| - financial institutions  | 4,357          | -              | 1             | 2,978          | -              | -             |
| - insurance companies     | 52             | -              | -             | 51             | -              | -             |
| - other                   | 65             | -              | -             | 65             | -              | -             |
| <b>2. Loans</b>           | <b>320,523</b> | <b>7</b>       | <b>29,716</b> | <b>303,539</b> | <b>9</b>       | <b>33,021</b> |
| a) Governments            | 6,897          | -              | 9             | 7,999          | -              | 9             |
| b) Other public entities  | 10,402         | -              | 318           | 11,307         | -              | 279           |
| c) Other counterparties   | 303,224        | 7              | 29,389        | 284,233        | 9              | 32,733        |
| - non-financial companies | 159,289        | 4              | 24,776        | 156,830        | 9              | 27,671        |
| - financial institutions  | 50,897         | -              | 682           | 39,651         | -              | 802           |
| - insurance companies     | 34             | -              | -             | 46             | -              | -             |
| - other                   | 93,004         | 3              | 3,931         | 87,706         | -              | 4,260         |
| <b>TOTAL</b>              | <b>334,946</b> | <b>7</b>       | <b>29,760</b> | <b>316,924</b> | <b>9</b>       | <b>33,077</b> |

**7.2 Of which: Banking group**

(millions of euro)

|                           | 31.12.2016     |                |               | 31.12.2015     |                |               |
|---------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                           | Performing     | Non-performing |               | Performing     | Non-performing |               |
|                           |                | purchased      | other         |                | purchased      | other         |
| <b>1. Debt securities</b> | <b>11,679</b>  | -              | <b>44</b>     | <b>11,948</b>  | -              | <b>56</b>     |
| a) Governments            | 4,064          | -              | -             | 4,036          | -              | -             |
| b) Other public entities  | 4,611          | -              | 26            | 4,792          | -              | 28            |
| c) Other issuers          | 3,004          | -              | 18            | 3,120          | -              | 28            |
| - non-financial companies | 1,274          | -              | 17            | 1,463          | -              | 28            |
| - financial institutions  | 1,630          | -              | 1             | 1,558          | -              | -             |
| - insurance companies     | 52             | -              | -             | 51             | -              | -             |
| - other                   | 48             | -              | -             | 48             | -              | -             |
| <b>2. Loans</b>           | <b>320,518</b> | <b>7</b>       | <b>29,716</b> | <b>303,536</b> | <b>9</b>       | <b>33,021</b> |
| a) Governments            | 6,897          | -              | 9             | 7,999          | -              | 9             |
| b) Other public entities  | 10,402         | -              | 318           | 11,307         | -              | 279           |
| c) Other counterparties   | 303,219        | 7              | 29,389        | 284,230        | 9              | 32,733        |
| - non-financial companies | 159,289        | 4              | 24,776        | 156,830        | 9              | 27,671        |
| - financial institutions  | 50,895         | -              | 682           | 39,649         | -              | 802           |
| - insurance companies     | 34             | -              | -             | 46             | -              | -             |
| - other                   | 93,001         | 3              | 3,931         | 87,705         | -              | 4,260         |
| <b>TOTAL</b>              | <b>332,197</b> | <b>7</b>       | <b>29,760</b> | <b>315,484</b> | <b>9</b>       | <b>33,077</b> |

**7.2 Of which: Insurance companies**

As at 31 December 2016 there was 22 million euro attributable to insurance companies, of which 2 million euro relating to loans to financial institutions, 17 million euro to debt securities of other issuers and 3 million euro to loans to other parties, whereas as at 31 December 2015 there were 20 million euro, of which 2 million euro relating to loans to financial institutions, 17 million euro to debt securities of other issuers and 1 million euro to loans to other parties.

**7.2 Of which: Other companies**

As at 31 December 2016, 2,727 million euro was attributable to other companies, consisting entirely of debt securities issued by financial institutions, whereas as at 31 December 2015 there was 1,420 million euro, also consisting of debt securities issued by financial institutions.

**7.3 Loans to customers with specific hedges**

(millions of euro)

|  | 31.12.2016    | 31.12.2015    |
|--|---------------|---------------|
| <b>1. Loans to customers with specific fair value hedges</b> | <b>17,191</b> | <b>18,627</b> |
| a) Interest rate risk  | 16,589        | 18,014        |
| b) Foreign exchange risk                                     | -             | -             |
| c) Credit risk   | -             | -             |
| d) Various risks   | 602           | 613           |
| <b>2. Loans to customers with specific cash flow hedges</b>  | <b>-</b>      | <b>-</b>      |
| a) Interest rate risk  | -             | -             |
| b) Foreign exchange risk                                     | -             | -             |
| c) Other   | -             | -             |
| <b>TOTAL</b>   | <b>17,191</b> | <b>18,627</b> |

As illustrated in Part A – Accounting policies and Part E – Information on risks and relative hedging policies, loans to customers are hedged via specific fair value hedges of the interest rate risk as well as via the stabilisation of the interest flows (cash flow hedges) of floating rate funding, to the extent that this is used to finance fixed rate loans, and via macro fair value hedges.

**7.4 Financial leases**

(millions of euro)

| Time bands                    | 31.12.2016           |                        |                                    |              |                  |                                      |
|-------------------------------|----------------------|------------------------|------------------------------------|--------------|------------------|--------------------------------------|
|                               | Non-performing loans | Minimum lease payments |                                    |              | Gross investment |                                      |
|                               |                      | Capital                | of which guaranteed residual value | Interest     |                  | of which unguaranteed residual value |
| Up to 3 months                | 375                  | 470                    | -                                  | 127          | 972              | 4                                    |
| Between 3 and 12 months       | 1,342                | 1,280                  | -                                  | 361          | 2,983            | 12                                   |
| Between 1 and 5 years         | 1,200                | 4,851                  | -                                  | 1,412        | 7,463            | 37                                   |
| Over 5 years                  | 177                  | 6,485                  | -                                  | 1,114        | 7,776            | 5                                    |
| Unspecified maturity          | -                    | 1                      | -                                  | -            | 1                | -                                    |
| <b>Total, gross</b>           | <b>3,094</b>         | <b>13,087</b>          | <b>-</b>                           | <b>3,014</b> | <b>19,195</b>    | <b>58</b>                            |
| Loans for assets to be leased | 53                   | 548                    | -                                  | -            | 601              | -                                    |
| Adjustments                   | -                    | -110                   | -                                  | -            | -110             | -                                    |
| - collective                  | -                    | -110                   | -                                  | -            | -110             | -                                    |
| <b>Total, net</b>             | <b>3,147</b>         | <b>13,525</b>          | <b>-</b>                           | <b>3,014</b> | <b>19,686</b>    | <b>58</b>                            |

The interest portion has been fully written down.

**SECTION 8 – HEDGING DERIVATIVES – CAPTION 80 OF ASSETS**

Concerning the objectives and the strategies underlying hedging transactions see the information provided in Part E – Information on risks and relative hedging policies, Section 2 – Market risks.  
Derivatives are considered listed only if traded on regulated markets.

**8.1 Hedging derivatives: breakdown by type of hedge and level**

(millions of euro)

|                                 | Fair value 31.12.2016 |              |           | Notional value<br>31.12.2016 | Fair value 31.12.2015 |              |           | Notional value<br>31.12.2015 |
|---------------------------------|-----------------------|--------------|-----------|------------------------------|-----------------------|--------------|-----------|------------------------------|
|                                 | Level 1               | Level 2      | Level 3   |                              | Level 1               | Level 2      | Level 3   |                              |
| <b>A) Financial derivatives</b> | -                     | <b>6,214</b> | <b>20</b> | <b>150,096</b>               | -                     | <b>7,039</b> | <b>20</b> | <b>150,890</b>               |
| 1) fair value                   | -                     | 6,214        | 20        | 149,655                      | -                     | 7,027        | 20        | 146,527                      |
| 2) cash flows                   | -                     | -            | -         | 441                          | -                     | 12           | -         | 4,363                        |
| 3) foreign investments          | -                     | -            | -         | -                            | -                     | -            | -         | -                            |
| <b>B) Credit derivatives</b>    | -                     | -            | -         | -                            | -                     | -            | -         | -                            |
| 1) fair value                   | -                     | -            | -         | -                            | -                     | -            | -         | -                            |
| 2) cash flows                   | -                     | -            | -         | -                            | -                     | -            | -         | -                            |
| <b>Total</b>                    | <b>-</b>              | <b>6,214</b> | <b>20</b> | <b>150,096</b>               | <b>-</b>              | <b>7,039</b> | <b>20</b> | <b>150,890</b>               |

**8.1 Of which: Banking group**

(millions of euro)

|                                 | Fair value 31.12.2015 |              |           | Notional value<br>31.12.2016 | Fair value 31.12.2015 |              |           | Notional value<br>31.12.2015 |
|---------------------------------|-----------------------|--------------|-----------|------------------------------|-----------------------|--------------|-----------|------------------------------|
|                                 | Level 1               | Level 2      | Level 3   |                              | Level 1               | Level 2      | Level 3   |                              |
| <b>A) Financial derivatives</b> | -                     | <b>6,214</b> | <b>20</b> | <b>150,010</b>               | -                     | <b>7,038</b> | <b>20</b> | <b>150,877</b>               |
| 1) fair value                   | -                     | 6,214        | 20        | 149,655                      | -                     | 7,027        | 20        | 146,527                      |
| 2) cash flows                   | -                     | -            | -         | 355                          | -                     | 11           | -         | 4,350                        |
| 3) foreign investments          | -                     | -            | -         | -                            | -                     | -            | -         | -                            |
| <b>B) Credit derivatives</b>    | -                     | -            | -         | -                            | -                     | -            | -         | -                            |
| 1) fair value                   | -                     | -            | -         | -                            | -                     | -            | -         | -                            |
| 2) cash flows                   | -                     | -            | -         | -                            | -                     | -            | -         | -                            |
| <b>Total</b>                    | -                     | <b>6,214</b> | <b>20</b> | <b>150,010</b>               | -                     | <b>7,038</b> | <b>20</b> | <b>150,877</b>               |

**8.1 Of which: Other companies**

As at 31 December 2016 there was an insignificant amount attributable to other companies, all of which hedged cash flows through level 2 derivatives (notional amount of 86 million euro), whereas the amount at the end of 2015 was 1 million euro, also hedging cash flows through level 2 derivatives (notional amount of 13 million euro).

**8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge**

(millions of euro)

| Operations/Type of hedge                      | FAIR VALUE         |                       |             |            |               | Generic    | CASH FLOWS |         | FOREIGN INVESTM. |
|---|--------------------|-----------------------|-------------|------------|---------------|------------|------------|---------|------------------|
|   | Specific           |                       |             |            |               |            | Specific   | Generic |                  |
|   | interest rate risk | foreign exchange risk | credit risk | price risk | various risks |            |            |         |                  |
| 1. Financial assets available for sale        | 130                | -                     | -           | -          | -             | X          | -          | X       | X                |
| 2. Loans                                      | 84                 | -                     | -           | X          | -             | X          | -          | X       | X                |
| 3. Investments held to maturity               | X                  | -                     | -           | X          | -             | X          | -          | X       | X                |
| 4. Portfolio                                  | X                  | X                     | X           | X          | X             | 87         | X          | -       | X                |
| 5. Other transactions                         | 1                  | -                     | -           | -          | -             | X          | -          | X       | -                |
| <b>Total assets</b>                           | <b>215</b>         | -                     | -           | -          | -             | <b>87</b>  | -          | -       | -                |
| 1. Financial liabilities                      | 4,747              | -                     | -           | X          | 551           | X          | -          | X       | X                |
| 2. Portfolio                                  | X                  | X                     | X           | X          | X             | 634        | X          | -       | X                |
| <b>Total liabilities</b>                      | <b>4,747</b>       | -                     | -           | -          | <b>551</b>    | <b>634</b> | -          | -       | -                |
| 1. Forecast transactions                      | X                  | X                     | X           | X          | X             | X          | -          | X       | X                |
| 2. Financial assets and liabilities portfolio | X                  | X                     | X           | X          | X             | -          | X          | -       | -                |

**8.2 Of which: Banking group**

| Operations/Type of hedge                      | FAIR VALUE         |                       |             |            |               |            | CASH FLOWS |          | FOREIGN INVESTM. |
|---|--------------------|-----------------------|-------------|------------|---------------|------------|------------|----------|------------------|
|   | Specific           |                       |             |            |               | Generic    | Specific   | Generic  |                  |
|   | interest rate risk | foreign exchange risk | credit risk | price risk | various risks |            |            |          |                  |
| 1. Financial assets available for sale        | 130                | -                     | -           | -          | -             | X          | -          | X        | X                |
| 2. Loans                                      | 84                 | -                     | -           | X          | -             | X          | -          | X        | X                |
| 3. Investments held to maturity               | X                  | -                     | -           | X          | -             | X          | -          | X        | X                |
| 4. Portfolio                                  | X                  | X                     | X           | X          | X             | 87         | X          | -        | X                |
| 5. Other transactions                         | 1                  | -                     | -           | -          | -             | X          | -          | X        | -                |
| <b>Total assets</b>                           | <b>215</b>         | <b>-</b>              | <b>-</b>    | <b>-</b>   | <b>-</b>      | <b>87</b>  | <b>-</b>   | <b>-</b> | <b>-</b>         |
| 1. Financial liabilities                      | 4,747              | -                     | -           | X          | 551           | X          | -          | X        | X                |
| 2. Portfolio                                  | X                  | X                     | X           | X          | X             | 634        | X          | -        | X                |
| <b>Total liabilities</b>                      | <b>4,747</b>       | <b>-</b>              | <b>-</b>    | <b>-</b>   | <b>551</b>    | <b>634</b> | <b>-</b>   | <b>-</b> | <b>-</b>         |
| 1. Forecast transactions                      | X                  | X                     | X           | X          | X             | X          | -          | X        | X                |
| 2. Financial assets and liabilities portfolio | X                  | X                     | X           | X          | X             | -          | X          | -        | -                |

The table indicates positive fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.

These mainly refer to specific fair value hedges of liabilities issued, as well as generic fair value hedges of demand positions under liabilities (core deposits).

**8.2 Of which: Other companies**

As at 31 December 2016, the amount pertaining to other companies, relating entirely to the macro-hedging of the cash flows from financial assets, was immaterial.

**SECTION 9 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 90****9.1 Fair value change of financial assets in hedged portfolios: breakdown by hedged portfolios**

|  | 31.12.2016 |               |                     |                 | 31.12.2015 |  |
|--|------------|---------------|---------------------|-----------------|------------|--|
|  |            |               |                     |                 | Of which:  |  |
|  |            | Banking group | Insurance companies | Other companies |            |  |
| <b>1. Positive fair value change</b>   | <b>321</b> | <b>321</b>    | -                   | -               | <b>110</b> |  |
| 1.1. of specific portfolios            | 321        | 321           | -                   | -               | 110        |  |
| a) loans                               | 321        | 321           | -                   | -               | 110        |  |
| b) financial assets available for sale | -          | -             | -                   | -               | -          |  |
| 1.2. overall                           | -          | -             | -                   | -               | -          |  |
| <b>2. Negative fair value change</b>   | <b>-</b>   | <b>-</b>      | <b>-</b>            | <b>-</b>        | <b>-</b>   |  |
| 2.1. of specific portfolios            | -          | -             | -                   | -               | -          |  |
| a) loans                               | -          | -             | -                   | -               | -          |  |
| b) financial assets available for sale | -          | -             | -                   | -               | -          |  |
| 2.2. overall                           | -          | -             | -                   | -               | -          |  |
| <b>TOTAL</b>                           | <b>321</b> | <b>321</b>    | <b>-</b>            | <b>-</b>        | <b>110</b> |  |

**9.2 Assets hedged by macrohedging of interest rate risk**

| Hedged assets                | (millions of euro) |               |
|------------------------------|--------------------|---------------|
|                              | 31.12.2016         | 31.12.2015    |
| 1. Loans                     | 39,128             | 22,681        |
| 2. Assets available for sale | -                  | -             |
| 3. Portfolio                 | -                  | -             |
| <b>TOTAL</b>                 | <b>39,128</b>      | <b>22,681</b> |

The table shows assets hedged by macrohedging of interest rate risk. The increase may be attributed to a further extension of the activation of macro-hedges of interest-rate risk on loans undertaken in 2015. Additional information on fair value hedging is available in Part E – Information on risks and relative hedging policies of the Notes to the consolidated financial statements.



## SECTION 10 – EQUITY INVESTMENTS – CAPTION 100

## 10.1 Equity investments: information on equity interests

|  | Registered office   | Place of business | Type of relationship | INVESTMENT       |                               | Votes available % |       |
|--|---|-------------------|----------------------|------------------|-------------------------------|-------------------|-------|
|  |   |                   |                      | direct ownership | % held                        |                   |       |
| <b>A. COMPANIES SUBJECT TO JOINT CONTROL</b>         |   |                   |                      |                  |                               |                   |       |
| 1  | Allfunds Bank S.A.<br>Capital Euro 27,040,620 in shares of Euro 30  | Alcobendas        | Alcobendas           | 7                | Eurizon Capital SGR           | 50.00             | 50.00 |
| 2  | Augusto S.r.l.<br>Capital Euro 10,000 in shares of Euro 1   | Milano            | Milano               | 7                | Intesa Sanpaolo               | 5.00              | 5.00  |
| 3  | Colombo S.r.l.<br>Capital Euro 10,000 in shares of Euro 1   | Milano            | Milano               | 7                | Intesa Sanpaolo               | 5.00              | 5.00  |
| 4  | Diocleziano S.r.l.<br>Capital Euro 10,000 in shares of Euro 1   | Milano            | Milano               | 7                | Intesa Sanpaolo               | 5.00              | 5.00  |
| 5  | Immobiliare Novoli S.P.A.<br>Capital Euro 26,000,000 in shares of Euro 1  | Firenze           | Firenze              | 7                | Cassa di Risparmio di Firenze | 50.00             | 50.00 |
| 6  | Manucor S.p.A.<br>Capital Euro 10,000,000 in shares of Euro 1   | Milano            | Sessa Aurunca        | 7                | Intesa Sanpaolo               | 72.75             | 45.50 |
| 7  | Mir Capital Management S.A.<br>Capital Euro 31,000 in shares of Euro 1  | Luxembourg        | Luxembourg           | 7                | Private Equity International  | 50.00             | 50.00 |
| 8  | Mir Capital S.C.A. SICAR<br>Capital Euro 46,830,000 in shares of Euro 1   | Luxembourg        | Luxembourg           | 7                | Private Equity International  | 50.00             | 50.00 |
| 9  | PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management<br>Capital HRK 56,000,000 in shares of HRK 1,000 | Zagreb            | Zagreb               | 7                | Privredna Banka Zagreb        | 50.00             | 50.00 |
| 10   | Tangenziale Esterna S.p.A.<br>Capital Euro 464,945,000.00 in shares of Euro 1   | Milano            | Milano               | 7                | Intesa Sanpaolo               | 2.58              | 2.58  |
| 11   | Tangenziali Esterne di Milano S.p.A.<br>Capital Euro 220,344,608.25 in shares of Euro 0.75  | Milano            | Milano               | 7                | Intesa Sanpaolo               | 17.53             | 17.53 |
| 12   | Themys Investimenti S.p.A.<br>Capital Euro 448,998 in shares of Euro 1  | Milano            | Milano               | 7                | Imi Investimenti              | 50.00             | 50.00 |
| 13   | Vub Generali Dochochkova Spravcovska Spolocnost A.S.<br>Capital Euro 10,090,976 in shares of Euro 33,194                              | Bratislava        | Bratislava           | 7                | Vseobecna Uverova Banka       | 50.00             | 50.00 |
| <b>B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b> |   |                   |                      |                  |                               |                   |       |
| 1  | Adriano Lease Sec S.r.l.<br>Capital Euro 10,000 in shares of Euro 1   | Conegliano        | Conegliano           | 4                | Intesa Sanpaolo               | 5.00              | 5.00  |
| 2  | Ambienta Società di Gestione del Risparmio S.p.A.<br>Capital Euro 1,500,000 in shares of Euro 100                                     | Milano            | Milano               | 4                | Intesa Sanpaolo               | 20.00             | 20.00 |
| 3  | Autostrada Pedemontana Lombarda S.p.A.<br>Capital Euro 300,926,000 in shares of Euro 1,000  | Assago            | Assago               | 4                | Intesa Sanpaolo               | 17.37             | 17.37 |
| 4  | Autostrade Lombarde S.p.A.<br>Capital Euro 467,726,626 in shares of Euro 1  | Brescia           | Brescia              | 4                | Intesa Sanpaolo               | 42.45             | 42.45 |
| 5  | Bank of Qingdao co. LTD<br>Capital CNY 4,058,712,749 in shares of CNY 1   | Qingdao           | Qingdao              | 4                | Intesa Sanpaolo               | 15.33             | 15.33 |
| 6  | Cassa di Risparmio di Fermo S.p.A.<br>Capital Euro 39,241,087.50 in shares of Euro 51.65  | Fermo             | Fermo                | 4                | Intesa Sanpaolo               | 33.33             | 33.33 |
| 7  | Class Digital Service S.r.l.<br>Capital Euro 100,000 in shares of Euro 0.01   | Milano            | Milano               | 4                | Intesa Sanpaolo               | 31.25             | 31.25 |
| 8  | Compagnia Aerea Italiana S.p.A.<br>Capital Euro 80,225,043.26 in shares of Euro 0.01  | Fiumicino         | Fiumicino            | 4                | Intesa Sanpaolo               | 32.21             | 32.21 |
| 9  | Cr Firenze Mutui S.r.l.<br>Capital Euro 10,000 in shares of Euro 1  | Conegliano Veneto | Conegliano Veneto    | 8                | C.R. di Firenze               | 10.00             | 10.00 |
| 10   | Destination Italia S.p.A.<br>Capital Euro 2,112,450 in shares of Euro 211.25  | Milano            | Milano               | 4                | Intesa Sanpaolo               | 38.00             | 38.00 |
| 11   | Emisys Capital SGR S.p.A.<br>Capital Euro 1,400,000 in shares of Euro 1   | Milano            | Milano               | 4                | Imi Investimenti              | 35.00             | 35.00 |
| 12   | Equiter S.p.A.<br>Capital Euro 132,003,599 in shares of Euro 1  | Torino            | Torino               | 4                | Intesa Sanpaolo               | 38.27             | 38.27 |
| 13   | Euromilano S.p.A.<br>Capital Euro 1,356,582 in shares of Euro 15.51   | Milano            | Milano               | 4                | Intesa Sanpaolo               | 43.43             | 43.43 |
| 14   | Eurotlx Società di Intermediazione Mobiliare S.p.A.<br>Capital Euro 5,000,000 in shares of Euro 1.00                                  | Milano            | Milano               | 4                | Banca Imi                     | 15.00             | 15.00 |
| 15   | Fenice S.r.l.<br>Capital Euro 41,885,033.59 in shares of Euro 0.01  | Milano            | Milano               | 4                | Intesa Sanpaolo               | 9.08              | 9.08  |

|   | Registered office | Place of business   | Type of relationship | INVESTMENT   |                       | Votes available %     |
|---|-------------------|---------------------|----------------------|--|-----------------------|-----------------------|
|   |                   |                     |                      | direct ownership                                     | % held                |                       |
| 16 Focus Investments S.p.A.<br>Capital Euro 183,333.30 in shares of Euro 0.14   | Milano            | Milano              | 4                    | Intesa Sanpaolo                                      | 8.33                  | 25.00                 |
| 17 Ism Investimenti S.p.A.<br>Capital Euro 6,654,902 in shares of Euro 1  | Mantova           | Mantova             | 4                    | Imi Investimenti                                     | 27.36                 | 27.36                 |
| 18 Italconsult S.p.A.<br>Capital Euro 20,483,420 in shares of Euro 1  | Roma              | Roma                | 4                    | Intesa Sanpaolo                                      | 20.00                 | 20.00                 |
| 19 Leonardo Technology S.p.A.<br>Capital Euro 242,081 in shares of Euro 1   | Milano            | Milano              | 4                    | Intesa Sanpaolo                                      | 26.60                 | 26.60                 |
| 20 Mandarin Capital Management S.A.<br>Capital Euro 271,000 in shares of Euro 10                                      | Luxembourg        | Luxembourg          | 4                    | Private Equity International                         | 20.00                 | 20.00                 |
| 21 Manzoni S.r.l. (b)<br>Capital Euro 8,285,457 in shares of Euro 1   | Milano            | Milano              | 4                    | Private Equity International                         | 27.39                 | 53.00                 |
| 22 Marketwall S.r.l.<br>Capital Euro 20,409 in shares of Euro 1   | Milano            | Milano              | 4                    | Intesa Sanpaolo                                      | 33.00                 | 33.00                 |
| 23 Mezzanove Capital Management S.a.r.l.<br>Capital Euro 12,500 in shares of Euro 25                                  | Luxembourg        | Luxembourg          | 4                    | Private Equity International                         | 47.00                 | 47.00                 |
| 24 Misr International Towers Co.<br>Capital EGP 50,000,000 in shares of EGP 10  | Cairo             | Cairo               | 4                    | Bank of Alexandria                                   | 27.86                 | 27.86                 |
| 25 Network Impresa S.p.A.<br>Capital Euro 2,849,500 in shares of Euro 1   | Limena            | Limena              | 4                    | CR Veneto  | 28.95                 | 28.95                 |
| 26 Nuovo Trasporto Viaggiatori S.p.A.<br>Capital Euro 57,207,886.11 in shares of Euro 0.09                            | Roma              | Roma                | 4                    | Intesa Sanpaolo                                      | 24.46                 | 24.46                 |
| 27 Penghua Fund Management Co. Ltd.<br>Capital CNY 150,000,000 in shares of CNY 1                                     | Shenzhen          | Shenzhen            | 4                    | Eurizon Capital SGR                                  | 49.00                 | 49.00                 |
| 28 Pietra S.r.l.<br>Capital Euro 40,000 in shares of Euro 1   | Milano            | Milano              | 4                    | Intesa Sanpaolo                                      | 22.22                 | 22.22                 |
| 29 Portocittà S.p.A.<br>Capital Euro 10,000 in shares of Euro 1   | Trieste           | Pozzuolo del Friuli | 4                    | Intesa Sanpaolo<br>C.R. del Friuli Venezia Giulia    | 12.50<br>12.50        | 12.50<br>12.50        |
| 30 R.C.N. Finanziaria S.p.A.<br>Capital Euro 1,000,000 in shares of Euro 0.50   | Mantova           | Mantova             | 4                    | Intesa Sanpaolo                                      | 23.96                 | 23.96                 |
| 31 Schuttrange Nucleus S.c.a.<br>Capital Euro 31,000 in shares of Euro 0.01   | Luxembourg        | Luxembourg          | 4                    | Banca Imi  | 15.74                 | 15.74                 |
| 32 Sicily Investments S.a.r.l.<br>Capital Euro 12,500 in shares of Euro 25  | Luxembourg        | Luxembourg          | 4                    | Intesa Sanpaolo                                      | 25.20                 | 25.20                 |
| 33 Slovak Banking Credit Bureau s.r.o.<br>Capital Euro 9,958.17 in shares of Euro 3,319.39                            | Bratislava        | Bratislava          | 4                    | Vseobecna Uverova Banka                              | 33.33                 | 33.33                 |
| 34 Smia S.p.A.<br>Capital Euro 1,470,199 in shares of Euro 0.05   | Roma              | Roma                | 4                    | Intesa Sanpaolo<br>Banca Fideuram<br>C.R. di Firenze | 38.57<br>0.63<br>0.42 | 38.57<br>0.63<br>0.42 |
| 35 Società di Progetto Autostrada Diretta Brescia Milano S.p.A.<br>Capital Euro 175,089,677.89 in shares of Euro 0.53 | Brescia           | Brescia             | 4                    | Intesa Sanpaolo                                      | 0.05                  | 0.05                  |
| 36 Solar Express S.r.l.<br>Capital Euro 116,000 in shares of Euro 1   | Firenze           | Firenze             | 4                    | Intesa Sanpaolo                                      | 40.00                 | 40.00                 |
| 37 Trinacria Capital S.a.r.l.<br>Capital Euro 12,500 in shares of Euro 25   | Luxembourg        | Luxembourg          | 4                    | Intesa Sanpaolo                                      | 25.20                 | 25.20                 |
| 38 Umbria Export Società Consortile a.r.l.<br>Capital Euro 108,500 in shares of Euro 0.01                             | Perugia           | Perugia             | 4                    | Intesa Sanpaolo                                      | 33.87                 | 33.87                 |
| 39 Unimatica S.p.A.<br>Capital Euro 500,000 in shares of Euro 500   | Bologna           | Bologna             | 4                    | Infogroup  | 25.00                 | 25.00                 |
| 40 Varese Investimenti S.p.A.<br>Capital Euro 4,350,000 in shares of Euro 10  | Varese            | Varese              | 4                    | Intesa Sanpaolo                                      | 40.00                 | 40.00                 |
| 41 Venture Capital Partners SGR S.p.A. S.p.A.<br>Capital Euro 750,000 in shares of Euro 0.50                          | Milano            | Milano              | 4                    | Imi Investimenti                                     | 40.00                 | 40.00                 |
| 42 Cargotalia S.p.A. in liquidation<br>Capital Euro 8,700,000 in shares of Euro 1                                     | Milano            | Milano              | 4                    | Intesa Sanpaolo                                      | 33.33                 | 33.33                 |
| 43 Consorzio Bancario SIR S.p.A. in liquidation<br>Capital Euro 1,515,151.42 in shares of Euro 0.01                   | Roma              | Roma                | 4                    | Intesa Sanpaolo                                      | 38.49                 | 38.49                 |
| 44 Europrogetti e Finanza S.p.A. in liquidation<br>Capital Euro 5,636,400 in shares of Euro 0.30                      | Roma              | Roma                | 4                    | Intesa Sanpaolo                                      | 15.97                 | 15.97                 |
| 45 Impianti S.r.l. in liquidation<br>Capital Euro 92,952 in shares of Euro 1  | Milano            | Milano              | 4                    | Intesa Sanpaolo                                      | 27.95                 | 27.95                 |
| 46 Impresol S.r.l. in liquidation<br>Capital Euro 112,100 in shares of Euro 1   | Milano            | Milano              | 4                    | RI.Estate  | 30.00                 | 30.00                 |

|  | Registered office | Place of business | Type of relationship | INVESTMENT       |        | Votes available % |
|--|-------------------|-------------------|----------------------|------------------|--------|-------------------|
|  |                   |                   |                      | direct ownership | % held |                   |
| 47 Iniziative Immobiliari Industriali S.p.A. In liquidation<br>Capital Euro 510,000 in shares of Euro 0.51         | Arquà Polesine    | Arquà Polesine    | 4                    | C.R. del Veneto  | 20.00  | 20.00             |
| 48 Sviluppo Industriale S.p.A. under arrangement with creditors<br>Capital Euro 628,444.32 in shares of Euro 22.26 | Pistoia           | Pistoia           | 4                    | CR Pistoia       | 28.27  | 28.27             |

(a) Type of relationship:

- 1 - majority of voting rights at Ordinary Shareholders' Meeting;
- 2 - dominant influence at Ordinary Shareholders' Meeting;
- 3 - agreements with other shareholders;
- 4 - company subject to significant influence;
- 5 - unitary management as defined in Art. 26.1 of "Legislative Decree 87/92";
- 6 - unitary management as defined in Art. 26.2 of "Legislative Decree 87/92";
- 7 - joint control;
- 8 - Other relationship.

(b) Please note that the Intesa Sanpaolo Group's exposure to the variable returns generated by Manzoni equals approximately 22%, also considering the portion held by a third-party UCI in turn invested by the subsidiary Private Equity International, and classified as an AFS investment. Furthermore, please note that Manzoni is subject to control pursuant to Article 2359 of the Italian Civil Code. However, given the low exposure of the ISP Group to both positive and negative variable returns generated by this company, control pursuant to IFRS ceased to exist. Therefore, since the fourth quarter of 2016 the investee has been consolidated at equity.

The illustration of the criteria and the methods for the definition of the consolidation area and the motivations which determine that a company is subject to joint control or significant influence is contained in Part A – Accounting policies, to which reference should be made.

## 10.2 Individually material equity investments: book value, fair value and dividends received

|  | Book value   | Fair value | Dividends received (a) |
|--|--------------|------------|------------------------|
| (millions of euro)                                   |              |            |                        |
| <b>A. COMPANIES SUBJECT TO JOINT CONTROL</b>         |              |            |                        |
| 1 Allfunds Bank S.A.                                 | 111          | -          | 41                     |
| 2 Mir Capital S.C.A. Sicar                           | 33           | -          | -                      |
| <b>B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b> |              |            |                        |
| 1 Autostrada Pedemontana Lombarda S.p.A.             | 40           | -          | -                      |
| 2 Autostrade Lombarde S.p.A.                         | 129          | -          | -                      |
| 3 Bank of Qingdao Co. Ltd                            | 426          | 445        | 17                     |
| 4 Cassa di Risparmio di Fermo S.p.A.                 | 56           | -          | 1                      |
| 5 Equiter S.p.A.                                     | 103          | -          | 3                      |
| 6 Manzoni S.r.l.                                     | 45           | -          | 6                      |
| 7 Penghua Fund Management Co. Ltd.                   | 174          | -          | 27                     |
| <b>TOTAL</b>   | <b>1,117</b> | <b>445</b> | <b>95</b>              |

(a) Dividends are received by group companies and are thus netted.

## 10.3 Individually material equity investments: financial information

|  | Cash and cash equivalents | Financial assets | Non-financial assets | Financial liabilities | Non-financial liabilities | Total revenues | Interest margin | Adjustments to/write-backs on property, equipment and intangible assets | Income (loss) before tax from continuing operations | Income (loss) after tax from continuing operations | Income (loss) after tax from discontinued operations | Net income (loss) (1) | Other comprehensive income (net of tax) (2) | Consolidated comprehensive income (3) = (1) + (2) |
|--|---------------------------|------------------|----------------------|-----------------------|---------------------------|----------------|-----------------|---|---|--|--|-----------------------|---|---|
| <b>A. COMPANIES SUBJECT TO JOINT CONTROL</b>         |                           |                  |                      |                       |                           |                |                 |   |   |  |  |                       |   |   |
| Allfunds Bank S.A.                                   | 183                       | 562              | 220                  | 605                   | 186                       | 735            | 1               | -   | 96  | 69   | -  | 69                    | -   | 69  |
| Mir Capital S.C.A. Sicar                             | 43                        | 23               | -                    | -                     | -                         | 48             | -               | -   | 3   | 3  | -  | 3                     | -   | 3   |
| <b>B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b> |                           |                  |                      |                       |                           |                |                 |   |   |  |  |                       |   |   |
| Autostrada Pedemontana Lombarda S.p.A.               | X                         | 16               | 631                  | 200                   | 219                       | 14             | X               | X   | -6  | -6   | -  | -6                    | -   | -6  |
| Autostrade Lombarde S.p.A.                           | X                         | 535              | 5                    | 6                     | 44                        | 11             | X               | X   | 1   | 3  | -  | 3                     | -   | 3   |
| Bank of Qingdao Co. Ltd                              | X                         | 24,874           | 688                  | 25,229                | 725                       | 709            | X               | X   | 223   | 172  | -  | 172                   | 29  | 201   |
| Cassa di Risparmio di Fermo S.p.A.                   | X                         | 1,675            | 77                   | 1,504                 | 97                        | 58             | X               | X   | 10  | 6  | -  | 6                     | -2  | 4   |
| Equiter S.p.A.                                       | X                         | 197              | 63                   | -                     | 10                        | -              | X               | X   | -   | -  | -  | -                     | -   | -   |
| Manzoni S.r.l.                                       | X                         | 163              | -                    | -                     | -                         | 94             | X               | X   | 94  | 93   | -  | 93                    | -   | 93  |
| Penghua Fund Management Co. Ltd.                     | X                         | 217              | 39                   | 81                    | 119                       | 272            | X               | X   | 90  | 67   | -  | 67                    | -   | 67  |

|  | Total Shareholders' Equity | Proportionate equity | Goodwill   | Other changes | Consolidated book value |
|--|----------------------------|----------------------|------------|---------------|-------------------------|
| <b>A. COMPANIES SUBJECT TO JOINT CONTROL</b>         |                            |                      |            |               |                         |
| Allfunds Bank S.A.                                   | 174                        | 87                   | 24         | -             | 111                     |
| Mir Capital S.C.A. Sicar                             | 66                         | 33                   | -          | -             | 33                      |
| <b>B. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b> |                            |                      |            |               |                         |
| Autostrada Pedemontana Lombarda S.p.A.               | 232                        | 40                   | -          | -             | 40                      |
| Autostrade Lombarde S.p.A.                           | 490                        | 208                  | -          | -79           | 129                     |
| Bank of Qingdao Co. Ltd                              | 2,333                      | 358                  | 53         | 15            | 426                     |
| Cassa di Risparmio di Fermo S.p.A.                   | 167                        | 56                   | -          | -             | 56                      |
| Equiter S.p.A.                                       | 250                        | 96                   | 7          | -             | 103                     |
| Manzoni S.r.l.                                       | 163                        | 45                   | -          | -             | 45                      |
| Penghua Fund Management Co. Ltd.                     | 232                        | 114                  | 60         | -             | 174                     |
|  | <b>4,107</b>               | <b>1,037</b>         | <b>144</b> | <b>-64</b>    | <b>1,117</b>            |

## 10.4 Individually immaterial equity investments: financial information

|   | Book value of investments in associates and companies subject to joint control | Total assets | Total liabilities | Total revenues | Income (loss) after tax from continuing operations | Income (loss) after tax from discontinued operations | Net income (loss) (1) | Other comprehensive income (net of tax) (2) | Consolidated comprehensive income (3) = (1) + (2) |
|---|--|--------------|-------------------|----------------|--|--|-----------------------|---|---|
| <b>COMPANIES SUBJECT TO JOINT CONTROL</b>         |  |              |                   |                |  |  |                       |   |   |
|   | 62   | 2,222        | 1,563             | 225            | -14  | -  | -14                   | -51   | -65   |
| <b>COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE</b> |  |              |                   |                |  |  |                       |   |   |
|   | 99   | 6,773        | 6,186             | 3,969          | 378  | -  | 378                   | 17  | 395   |

**10.5 Equity investments: annual changes**

(millions of euro)

|                                      | 31.12.2016   | Of which:     |                     |                 | 31.12.2015   |
|--------------------------------------|--------------|---------------|---------------------|-----------------|--------------|
|                                      |              | Banking group | Insurance companies | Other companies |              |
| <b>A. Initial amount</b>             | <b>1,727</b> | <b>1,374</b>  | <b>2</b>            | <b>351</b>      | <b>1,944</b> |
| <b>B. Increases</b>                  | <b>468</b>   | <b>302</b>    | <b>-</b>            | <b>166</b>      | <b>386</b>   |
| B.1 purchases                        | 51           | 51            | -                   | -               | 64           |
| of which business combinations       | -            | -             | -                   | -               | -            |
| B.2 write-backs                      | -            | -             | -                   | -               | 39           |
| B.3 revaluations                     | 223          | 177           | -                   | 46              | 205          |
| B.4 other changes                    | 194          | 74            | -                   | 120             | 78           |
| <b>C. Decreases</b>                  | <b>-917</b>  | <b>-441</b>   | <b>-2</b>           | <b>-474</b>     | <b>-603</b>  |
| C.1 sales                            | -557         | -248          | -                   | -309            | -112         |
| C.2 impairment losses <sup>(a)</sup> | -135         | -79           | -1                  | -55             | -132         |
| C.3 other changes                    | -225         | -114          | -1                  | -110            | -359         |
| <b>D. Final amount</b>               | <b>1,278</b> | <b>1,235</b>  | <b>-</b>            | <b>43</b>       | <b>1,727</b> |
| <b>E. Total revaluations</b>         | <b>2,651</b> | <b>2,572</b>  | <b>-</b>            | <b>79</b>       | <b>2,428</b> |
| <b>F. Total impairment losses</b>    | <b>1,924</b> | <b>1,860</b>  | <b>1</b>            | <b>63</b>       | <b>1,789</b> |

<sup>(a)</sup> Includes - 38 million euro due to losses on investments in associates and companies subject to joint control carried at equity.

**10.6 Significant judgments and assumptions to establish the existence of joint control or significant influence**

Entities are considered to be companies subject to joint control if control is contractually shared between the Group and one or more other parties, or where the decisions about the relevant activities require the unanimous consent from all parties sharing control.

Companies are considered subject to significant influence (associates), when the Group holds 20% or more of the voting rights (including "potential" voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates. Certain companies in which the Group holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

**10.7 Commitments referred to investments in companies subject to joint control**

As at 31 December 2016 there were commitments to subscribe the recapitalisations of Themys Investimenti S.p.A. for approximately 14 million euro (there is an additional commitment of 17 million euro regarding the equity instruments) and of Tangenziale Esterna S.p.A. for 8 million euro.

**10.8 Commitments referred to investments in companies subject to significant influence**

As at 31 December 2016 there were commitments to subscribe the recapitalisations of Compagnia Aerea Italiana S.p.A. (Alitalia CAI) for 7 million, of Nuovo Trasporti Viaggiatori S.p.A. for 10 million, of Società Di Progetto Autostrada Diretta Brescia Milano S.p.A. for 6 million and of Autostrade Lombarde S.p.A. for 5 million.

**10.9 Significant restrictions**

In terms of significant restrictions on the ability of the associates subject to joint control or significant influence to transfer funds to the participating entity, the following cases are noted:

With reference to Alitalia SAI (New Alitalia), indirectly controlled by the Group through the stake in Alitalia – CAI (renamed Compagnia Aerea Italiana on 1 January 2015), subject to significant influence, the contractual agreements provide for the company to be able to distribute dividends to the shareholders only when complying with certain parameters in terms of net income and liquidity margins.

Regarding the investment in Nuovo Trasporto Viaggiatori (NTV), subject to significant influence, the financial agreements provide for the company to be able to distribute dividends within the limits of the resources available after the fulfilment of the obligations, with repayment priority and depending on the company reaching certain financial parameters and in any case up to the limit of 25% of the cash flows after debt servicing and establishing the reserves required by the restructuring agreement.

Furthermore, worth noting is that some Private Equity investments, pursuant to the Articles of Association, entail some limitations to distributing profits in proportion to the stakes held, in order to ensure, towards certain investors and until reaching specific thresholds, distributions that are more than proportional to the stake held.

### 10.10 Other information

For most of the companies subject to joint control or significant influence, the timing regarding the availability of the financial statements at the end of the year is not compatible with the terms set for the closure of Intesa Sanpaolo's consolidated financial statements; on this point, for the application of the equity method, reference is made to the last accounting reports available that, in most cases, include the interim statement of the first 9 months for the listed associates or the last financial statements or half-yearly report available for the other associates. In any case, when the accounts of the associate or joint venture used in the application of the equity method refer to a date that is different from that of Intesa Sanpaolo's financial statements, adjustments are made to take into account the effects of operations or significant events which took place between that date and the reference date of Intesa Sanpaolo's financial statements.

### Impairment tests of investments

As required under IFRS, equity investments are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.

With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. Impairment indicators can essentially be divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating; quantitative indicators, represented by a decrease in fair value below carrying amount of more than 30% or for a period of more than 24 months, a market capitalisation lower than the company's net book value, in the case of securities listed on active markets, a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill, or distribution by the investee of a dividend that is higher than its total income. If impairment indicators are detected the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.

In particular, where impairment indicators were recorded with respect to certain investments, analyses were carried out based on market methodologies (direct or comparable transactions and market multiples) or alternatively "fundamental" analyses based on an estimate of the expected discounted cash flows or, finally, on alternative methods. The results of these assessments led to the recognition of impairment losses.

In detail, the most significant impairment losses related to the equity investments in Re Consult/A4 Holding (56 million euro), Compagnia Aerea Italiana - CAI (17 million euro), Tangenziali Esterne di Milano (16 million euro) and Autostrade Lombarde (15 million euro). It should be noted that the adjustment to CAI is attributable to the write-down of the tranches of the capital increase approved by the company in 2014 and paid by Intesa Sanpaolo in 2016, for which an allocation had already been made to the provision for risks and charges that was released concurrently with the above write-down, thus effectively resulting in no impact on the net result for 2016.

In terms of any differences between the market values and the "fundamental" values provided by the values in use, reference is made to the considerations on impairment testing of goodwill in the relative chapter of these Notes to the consolidated financial statements. Furthermore, the estimate of cash flows and discounting rates in the assessment of equity investments was also carried out on a prudential basis.

## SECTION 11 – TECHNICAL INSURANCE RESERVES REASSURED WITH THIRD PARTIES – CAPTION 110

## 11.1 Technical insurance reserves reassured with third parties: breakdown

(millions of euro)

|   | 31.12.2016 | 31.12.2015 |
|---|------------|------------|
| <b>A. Non-life business</b>   | <b>16</b>  | <b>20</b>  |
| A.1 premiums reserves   | 7          | 9          |
| A.2 claims reserves   | 9          | 11         |
| A.3 other reserves  | -          | -          |
| <b>B. Life business</b>   | <b>1</b>   | <b>2</b>   |
| B.1 mathematical reserves   | -          | -          |
| B.2 reserves for amounts to be disbursed  | 1          | 2          |
| B.3 other reserves  | -          | -          |
| <b>C. Technical reserves for investment risks<br/>to be borne by the insured</b>                    | <b>-</b>   | <b>-</b>   |
| C.1 reserves for contracts with disbursements connected<br>with investment funds and market indices | -          | -          |
| C.2 reserves from pension fund management   | -          | -          |
| <b>D. Total insurance reserves carried by reinsurers</b>  | <b>17</b>  | <b>22</b>  |

## 11.2 Change in caption 110 Technical insurance reserves reassured with third parties

Technical insurance reserves reassured with third parties recorded no significant changes during the year as at 31 December 2016.

## SECTION 12 – PROPERTY AND EQUIPMENT – CAPTION 120

## 12.1 Property and equipment used in operations: breakdown of assets measured at cost

(millions of euro)

|   | 31.12.2016   | Of which:        |                        |                    | 31.12.2015   |
|---|--------------|------------------|------------------------|--------------------|--------------|
|   |              | Banking<br>group | Insurance<br>companies | Other<br>companies |              |
| <b>1. Property and equipment owned</b>                        | <b>4,755</b> | <b>4,674</b>     | <b>13</b>              | <b>68</b>          | <b>4,993</b> |
| a) land   | 1,391        | 1,383            | 7                      | 1                  | 1,523        |
| b) buildings  | 2,574        | 2,511            | 2                      | 61                 | 2,719        |
| c) furniture  | 233          | 232              | 1                      | -                  | 252          |
| d) electronic equipment                                       | 504          | 504              | -                      | -                  | 448          |
| e) other  | 53           | 44               | 3                      | 6                  | 51           |
| <b>2. Property and equipment acquired under finance lease</b> | <b>17</b>    | <b>17</b>        | <b>-</b>               | <b>-</b>           | <b>17</b>    |
| a) land   | 7            | 7                | -                      | -                  | 7            |
| b) buildings  | 8            | 8                | -                      | -                  | 9            |
| c) furniture  | -            | -                | -                      | -                  | -            |
| d) electronic equipment                                       | 1            | 1                | -                      | -                  | 1            |
| e) other  | 1            | 1                | -                      | -                  | -            |
| <b>Total</b>  | <b>4,772</b> | <b>4,691</b>     | <b>13</b>              | <b>68</b>          | <b>5,010</b> |

Property and equipment used in operations of other companies include 46 million euro attributable to Risanamento, of which 41 million relating to buildings.

**12.2 Investment property: breakdown of assets measured at cost**

(millions of euro)

|   | Book value | 31.12.2016 |         |            | Book value | 31.12.2015 |         |            |
|---|------------|------------|---------|------------|------------|------------|---------|------------|
|   |            | Fair value |         |            |            | Fair value |         |            |
|   |            | Level 1    | Level 2 | Level 3    |            | Level 1    | Level 2 | Level 3    |
| <b>1. Property and equipment owned</b>                        | <b>136</b> | -          | -       | <b>155</b> | <b>357</b> | -          | -       | <b>383</b> |
| a) land   | 16         | -          | -       | 24         | 78         | -          | -       | 93         |
| b) buildings  | 120        | -          | -       | 131        | 279        | -          | -       | 290        |
| <b>2. Property and equipment acquired under finance lease</b> | -          | -          | -       | -          | -          | -          | -       | -          |
| a) land   | -          | -          | -       | -          | -          | -          | -       | -          |
| b) buildings  | -          | -          | -       | -          | -          | -          | -       | -          |
| <b>TOTAL</b>  | <b>136</b> | -          | -       | <b>155</b> | <b>357</b> | -          | -       | <b>383</b> |

**12.2 Of which: Banking group**

(millions of euro)

|   | Book value | 31.12.2016 |         |            | Book value | 31.12.2015 |         |            |
|---|------------|------------|---------|------------|------------|------------|---------|------------|
|   |            | Fair value |         |            |            | Fair value |         |            |
|   |            | Level 1    | Level 2 | Level 3    |            | Level 1    | Level 2 | Level 3    |
| <b>1. Property and equipment owned</b>                        | <b>135</b> | -          | -       | <b>154</b> | <b>81</b>  | -          | -       | <b>107</b> |
| a) land   | 16         | -          | -       | 24         | 16         | -          | -       | 31         |
| b) buildings  | 119        | -          | -       | 130        | 65         | -          | -       | 76         |
| <b>2. Property and equipment acquired under finance lease</b> | -          | -          | -       | -          | -          | -          | -       | -          |
| a) land   | -          | -          | -       | -          | -          | -          | -       | -          |
| b) buildings  | -          | -          | -       | -          | -          | -          | -       | -          |
| <b>TOTAL</b>  | <b>135</b> | -          | -       | <b>154</b> | <b>81</b>  | -          | -       | <b>107</b> |

**12.2 Of which: Other companies**

(millions of euro)

|   | Book value | 31.12.2016 |         |          | Book value | 31.12.2015 |         |            |
|---|------------|------------|---------|----------|------------|------------|---------|------------|
|   |            | Fair value |         |          |            | Fair value |         |            |
|   |            | Level 1    | Level 2 | Level 3  |            | Level 1    | Level 2 | Level 3    |
| <b>1. Property and equipment owned</b>                        | <b>1</b>   | -          | -       | <b>1</b> | <b>276</b> | -          | -       | <b>276</b> |
| a) land   | -          | -          | -       | -        | 62         | -          | -       | 62         |
| b) buildings  | 1          | -          | -       | 1        | 214        | -          | -       | 214        |
| <b>2. Property and equipment acquired under finance lease</b> | -          | -          | -       | -        | -          | -          | -       | -          |
| a) land   | -          | -          | -       | -        | -          | -          | -       | -          |
| b) buildings  | -          | -          | -       | -        | -          | -          | -       | -          |
| <b>TOTAL</b>  | <b>1</b>   | -          | -       | <b>1</b> | <b>276</b> | -          | -       | <b>276</b> |

**12.3 Property and equipment used in operations: breakdown of revalued assets**

Not applicable to the Group.

**12.4 Investment property: breakdown of assets measured at fair value**

Not applicable to the Group.



## 12.5 Property and equipment used in operations: annual changes

(millions of euro)

|  | Land         | Buildings    | Furniture    | Electronic equipment | Other      | Total         |
|--|--------------|--------------|--------------|----------------------|------------|---------------|
| <b>A. Gross initial carrying amount</b>                                | <b>1,547</b> | <b>4,673</b> | <b>1,144</b> | <b>3,567</b>         | <b>450</b> | <b>11,381</b> |
| A.1 Total net adjustments  | -17          | -1,945       | -892         | -3,118               | -399       | -6,371        |
| <b>A.2 Net initial carrying amount</b>                                 | <b>1,530</b> | <b>2,728</b> | <b>252</b>   | <b>449</b>           | <b>51</b>  | <b>5,010</b>  |
| <b>B. Increases</b>  | <b>229</b>   | <b>277</b>   | <b>24</b>    | <b>228</b>           | <b>28</b>  | <b>786</b>    |
| B.1 Purchases  | -            | 49           | 23           | 222                  | 15         | 309           |
| <i>of which business combinations</i>                                  | -            | -            | -            | 25                   | -          | 25            |
| B.2 Capitalised improvement costs                                      | -            | 46           | -            | -                    | 1          | 47            |
| B.3 Write-backs  | -            | -            | -            | -                    | -          | -             |
| B.4 Positive fair value differences recognised in:                     | -            | -            | -            | -                    | -          | -             |
| <i>a) shareholders' equity</i>   | -            | -            | -            | -                    | -          | -             |
| <i>b) income statement</i>   | -            | -            | -            | -                    | -          | -             |
| B.5 Positive foreign exchange differences                              | -            | -            | -            | -                    | -          | -             |
| B.6 Transfer from investment property                                  | -            | -            | -            | -                    | -          | -             |
| B.7 Other changes  | 229          | 182          | 1            | 6                    | 12         | 430           |
| <b>C. Decreases</b>  | <b>-361</b>  | <b>-423</b>  | <b>-43</b>   | <b>-172</b>          | <b>-25</b> | <b>-1,024</b> |
| C.1 Sales  | -312         | -228         | -            | -1                   | -2         | -543          |
| <i>of which business combinations</i>                                  | -            | -            | -            | -                    | -          | -             |
| C.2 Depreciation   | -            | -124         | -42          | -152                 | -12        | -330          |
| C.3 Impairment losses recognised in:                                   | -1           | -12          | -            | -3                   | -4         | -20           |
| <i>a) shareholders' equity</i>   | -            | -            | -            | -                    | -          | -             |
| <i>b) income statement</i>   | -1           | -12          | -            | -3                   | -4         | -20           |
| C.4 Negative fair value differences recognised in:                     | -            | -            | -            | -                    | -          | -             |
| <i>a) shareholders' equity</i>   | -            | -            | -            | -                    | -          | -             |
| <i>b) income statement</i>   | -            | -            | -            | -                    | -          | -             |
| C.5 Negative foreign exchange differences                              | -            | -            | -            | -                    | -          | -             |
| C.6 Transfer to:   | -12          | -7           | -            | -                    | -          | -19           |
| <i>a) investment property</i>  | -            | -7           | -            | -                    | -          | -7            |
| <i>b) non-current assets held for sale and discontinued operations</i> | -12          | -            | -            | -                    | -          | -12           |
| C.7 Other changes  | -36          | -52          | -1           | -16                  | -7         | -112          |
| <b>D. Net final carrying amount</b>                                    | <b>1,398</b> | <b>2,582</b> | <b>233</b>   | <b>505</b>           | <b>54</b>  | <b>4,772</b>  |
| D.1 Total net adjustments  | 18           | 2,081        | 934          | 3,273                | 415        | 6,721         |
| <b>D.2 Gross final carrying amount</b>                                 | <b>1,416</b> | <b>4,663</b> | <b>1,167</b> | <b>3,778</b>         | <b>469</b> | <b>11,493</b> |
| <b>E. Measurement at cost</b>  | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>             | <b>-</b>   | <b>-</b>      |

The sub-caption "Sales" and the sub-caption "Other changes" relating to land and buildings include a transaction to develop a real-estate portfolio used in operations, consisting of a value of the property of approximately 173 million euro and a capital gain of 314 million euro, respectively.

**12.5 Of which: Banking group**

(millions of euro)

|  | Land         | Buildings    | Furniture    | Electronic equipment | Other      | Total         |
|--|--------------|--------------|--------------|----------------------|------------|---------------|
| <b>A. Gross initial carrying amount</b>                                | <b>1,524</b> | <b>4,574</b> | <b>1,140</b> | <b>3,566</b>         | <b>441</b> | <b>11,245</b> |
| A.1 Total net adjustments  | -17          | -1,915       | -889         | -3,117               | -396       | -6,334        |
| <b>A.2 Net initial carrying amount</b>                                 | <b>1,507</b> | <b>2,659</b> | <b>251</b>   | <b>449</b>           | <b>45</b>  | <b>4,911</b>  |
| <b>B. Increases</b>  | <b>214</b>   | <b>271</b>   | <b>24</b>    | <b>228</b>           | <b>21</b>  | <b>758</b>    |
| B.1 Purchases  | -            | 48           | 23           | 222                  | 11         | 304           |
| <i>of which business combinations</i>                                  | -            | -            | -            | 25                   | -          | 25            |
| B.2 Capitalised improvement costs                                      | -            | 46           | -            | -                    | 1          | 47            |
| B.3 Write-backs  | -            | -            | -            | -                    | -          | -             |
| B.4 Positive fair value differences recognised in                      | -            | -            | -            | -                    | -          | -             |
| <i>a) shareholders' equity</i>   | -            | -            | -            | -                    | -          | -             |
| <i>b) income statement</i>   | -            | -            | -            | -                    | -          | -             |
| B.5 Positive foreign exchange differences                              | -            | -            | -            | -                    | -          | -             |
| B.6 Transfer from investment property                                  | -            | -            | -            | -                    | -          | -             |
| B.7 Other changes  | 214          | 177          | 1            | 6                    | 9          | 407           |
| <b>C. Decreases</b>  | <b>-331</b>  | <b>-411</b>  | <b>-43</b>   | <b>-172</b>          | <b>-21</b> | <b>-978</b>   |
| C.1 Sales  | -282         | -218         | -            | -1                   | -2         | -503          |
| <i>of which business combinations</i>                                  | -            | -            | -            | -                    | -          | -             |
| C.2 Depreciation   | -            | -122         | -42          | -152                 | -10        | -326          |
| C.3 Impairment losses recognised in                                    | -1           | -12          | -            | -3                   | -2         | -18           |
| <i>a) shareholders' equity</i>   | -            | -            | -            | -                    | -          | -             |
| <i>b) income statement</i>   | -1           | -12          | -            | -3                   | -2         | -18           |
| C.4 Negative fair value differences recognised in                      | -            | -            | -            | -                    | -          | -             |
| <i>a) shareholders' equity</i>   | -            | -            | -            | -                    | -          | -             |
| <i>b) income statement</i>   | -            | -            | -            | -                    | -          | -             |
| C.5 Negative foreign exchange differences                              | -            | -            | -            | -                    | -          | -             |
| C.6 Transfer to  | -12          | -7           | -            | -                    | -          | -19           |
| <i>a) investment property</i>  | -            | -7           | -            | -                    | -          | -7            |
| <i>b) non-current assets held for sale and discontinued operations</i> | -12          | -            | -            | -                    | -          | -12           |
| C.7 Other changes  | -36          | -52          | -1           | -16                  | -7         | -112          |
| <b>D. Net final carrying amount</b>                                    | <b>1,390</b> | <b>2,519</b> | <b>232</b>   | <b>505</b>           | <b>45</b>  | <b>4,691</b>  |
| D.1 Total net adjustments  | 18           | 2,049        | 931          | 3,272                | 408        | 6,678         |
| <b>D.2 Gross final carrying amount</b>                                 | <b>1,408</b> | <b>4,568</b> | <b>1,163</b> | <b>3,777</b>         | <b>453</b> | <b>11,369</b> |
| <b>E. Measurement at cost</b>  | -            | -            | -            | -                    | -          | -             |

**12.5 Of which: Insurance companies**

(millions of euro)

|   | Land       | Buildings  | Furniture | Electronic equipment | Other     | Total      |
|---|------------|------------|-----------|----------------------|-----------|------------|
| <b>A. Gross initial carrying amount</b>                         | <b>22</b>  | <b>14</b>  | <b>3</b>  | <b>-</b>             | <b>3</b>  | <b>42</b>  |
| A.1 Total net adjustments                                       | -          | -7         | -2        | -                    | -3        | -12        |
| <b>A.2 Net initial carrying amount</b>                          | <b>22</b>  | <b>7</b>   | <b>1</b>  | <b>-</b>             | <b>-</b>  | <b>30</b>  |
| <b>B. Increases</b>   | <b>15</b>  | <b>5</b>   | <b>-</b>  | <b>-</b>             | <b>7</b>  | <b>27</b>  |
| B.1 Purchases   | -          | -          | -         | -                    | 4         | 4          |
| <i>of which business combinations</i>                           | -          | -          | -         | -                    | -         | -          |
| B.2 Capitalised improvement costs                               | -          | -          | -         | -                    | -         | -          |
| B.3 Write-backs   | -          | -          | -         | -                    | -         | -          |
| B.4 Positive fair value differences recognised in               | -          | -          | -         | -                    | -         | -          |
| a) shareholders' equity   | -          | -          | -         | -                    | -         | -          |
| b) income statement   | -          | -          | -         | -                    | -         | -          |
| B.5 Positive foreign exchange differences                       | -          | -          | -         | -                    | -         | -          |
| B.6 Transfer from investment property                           | -          | -          | -         | -                    | -         | -          |
| B.7 Other changes   | 15         | 5          | -         | -                    | 3         | 23         |
| <b>C. Decreases</b>   | <b>-30</b> | <b>-10</b> | <b>-</b>  | <b>-</b>             | <b>-4</b> | <b>-44</b> |
| C.1 Sales   | -30        | -10        | -         | -                    | -         | -40        |
| <i>of which business combinations</i>                           | -          | -          | -         | -                    | -         | -          |
| C.2 Depreciation  | -          | -          | -         | -                    | -2        | -2         |
| C.3 Impairment losses recognised in                             | -          | -          | -         | -                    | -2        | -2         |
| a) shareholders' equity   | -          | -          | -         | -                    | -         | -          |
| b) income statement   | -          | -          | -         | -                    | -2        | -2         |
| C.4 Negative fair value differences recognised in               | -          | -          | -         | -                    | -         | -          |
| a) shareholders' equity   | -          | -          | -         | -                    | -         | -          |
| b) income statement   | -          | -          | -         | -                    | -         | -          |
| C.5 Negative foreign exchange differences                       | -          | -          | -         | -                    | -         | -          |
| C.6 Transfer to   | -          | -          | -         | -                    | -         | -          |
| a) investment property  | -          | -          | -         | -                    | -         | -          |
| b) non-current assets held for sale and discontinued operations | -          | -          | -         | -                    | -         | -          |
| C.7 Other changes   | -          | -          | -         | -                    | -         | -          |
| <b>D. Net final carrying amount</b>                             | <b>7</b>   | <b>2</b>   | <b>1</b>  | <b>-</b>             | <b>3</b>  | <b>13</b>  |
| D.1 Total net adjustments                                       | -          | 7          | 2         | -                    | 7         | 16         |
| <b>D.2 Gross final carrying amount</b>                          | <b>7</b>   | <b>9</b>   | <b>3</b>  | <b>-</b>             | <b>10</b> | <b>29</b>  |
| <b>E. Measurement at cost</b>                                   | <b>-</b>   | <b>-</b>   | <b>-</b>  | <b>-</b>             | <b>-</b>  | <b>-</b>   |

**12.5 Of which: Other companies**

(millions of euro)

|  | Land     | Buildings | Furniture | Electronic equipment | Other    | Total     |
|--|----------|-----------|-----------|----------------------|----------|-----------|
| <b>A. Gross initial carrying amount</b>                                | <b>1</b> | <b>85</b> | <b>1</b>  | <b>1</b>             | <b>6</b> | <b>94</b> |
| A.1 Total net adjustments  | -        | -23       | -1        | -1                   | -        | -25       |
| <b>A.2 Net initial carrying amount</b>                                 | <b>1</b> | <b>62</b> | <b>-</b>  | <b>-</b>             | <b>6</b> | <b>69</b> |
| <b>B. Increases</b>  | <b>-</b> | <b>1</b>  | <b>-</b>  | <b>-</b>             | <b>-</b> | <b>1</b>  |
| B.1 Purchases  | -        | 1         | -         | -                    | -        | 1         |
| <i>of which business combinations</i>                                  | -        | -         | -         | -                    | -        | -         |
| B.2 Capitalised improvement costs                                      | -        | -         | -         | -                    | -        | -         |
| B.3 Write-backs  | -        | -         | -         | -                    | -        | -         |
| B.4 Positive fair value differences recognised in                      | -        | -         | -         | -                    | -        | -         |
| a) <i>shareholders' equity</i>   | -        | -         | -         | -                    | -        | -         |
| b) <i>income statement</i>   | -        | -         | -         | -                    | -        | -         |
| B.5 Positive foreign exchange differences                              | -        | -         | -         | -                    | -        | -         |
| B.6 Transfer from investment property                                  | -        | -         | -         | -                    | -        | -         |
| B.7 Other changes  | -        | -         | -         | -                    | -        | -         |
| <b>C. Decreases</b>  | <b>-</b> | <b>-2</b> | <b>-</b>  | <b>-</b>             | <b>-</b> | <b>-2</b> |
| C.1 Sales  | -        | -         | -         | -                    | -        | -         |
| <i>of which business combinations</i>                                  | -        | -         | -         | -                    | -        | -         |
| C.2 Depreciation   | -        | -2        | -         | -                    | -        | -2        |
| C.3 Impairment losses recognised in                                    | -        | -         | -         | -                    | -        | -         |
| a) <i>shareholders' equity</i>   | -        | -         | -         | -                    | -        | -         |
| b) <i>income statement</i>   | -        | -         | -         | -                    | -        | -         |
| C.4 Negative fair value differences recognised in                      | -        | -         | -         | -                    | -        | -         |
| a) <i>shareholders' equity</i>   | -        | -         | -         | -                    | -        | -         |
| b) <i>income statement</i>   | -        | -         | -         | -                    | -        | -         |
| C.5 Negative foreign exchange differences                              | -        | -         | -         | -                    | -        | -         |
| C.6 Transfer to  | -        | -         | -         | -                    | -        | -         |
| a) <i>investment property</i>  | -        | -         | -         | -                    | -        | -         |
| b) <i>non-current assets held for sale and discontinued operations</i> | -        | -         | -         | -                    | -        | -         |
| C.7 Other changes  | -        | -         | -         | -                    | -        | -         |
| <b>D. Net final carrying amount</b>                                    | <b>1</b> | <b>61</b> | <b>-</b>  | <b>-</b>             | <b>6</b> | <b>68</b> |
| D.1 Total net adjustments  | -        | 25        | 1         | 1                    | -        | 27        |
| <b>D.2 Gross final carrying amount</b>                                 | <b>1</b> | <b>86</b> | <b>1</b>  | <b>1</b>             | <b>6</b> | <b>95</b> |
| <b>E. Measurement at cost</b>  | <b>-</b> | <b>-</b>  | <b>-</b>  | <b>-</b>             | <b>-</b> | <b>-</b>  |

## 12.6 Investment property: annual changes

(millions of euro)

|   | TOTAL      |             | Of which:     |            |                     |           |                 |             |
|---|------------|-------------|---------------|------------|---------------------|-----------|-----------------|-------------|
|   |            |             | Banking group |            | Insurance companies |           | Other companies |             |
|   | Land       | Buildings   | Land          | Buildings  | Land                | Buildings | Land            | Buildings   |
| <b>A. Gross initial carrying amount</b>                         | <b>78</b>  | <b>343</b>  | <b>16</b>     | <b>123</b> | -                   | -         | <b>62</b>       | <b>220</b>  |
| A.1 Total net adjustments                                       | -          | -64         | -             | -58        | -                   | -         | -               | -6          |
| <b>A.2 Net initial carrying amount</b>                          | <b>78</b>  | <b>279</b>  | <b>16</b>     | <b>65</b>  | -                   | -         | <b>62</b>       | <b>214</b>  |
| <b>B. Increases</b>   | <b>1</b>   | <b>68</b>   | <b>1</b>      | <b>65</b>  | -                   | -         | -               | <b>3</b>    |
| B.1 Purchases   | 1          | 4           | 1             | 4          | -                   | -         | -               | -           |
| of which business combinations                                  | -          | -           | -             | -          | -                   | -         | -               | -           |
| B.2 Capitalised improvement costs                               | -          | -           | -             | -          | -                   | -         | -               | -           |
| B.3 Positive fair value differences                             | -          | -           | -             | -          | -                   | -         | -               | -           |
| B.4 Write-backs   | -          | -           | -             | -          | -                   | -         | -               | -           |
| B.5 Positive foreign exchange differences                       | -          | -           | -             | -          | -                   | -         | -               | -           |
| B.6 Transfer from property used in operations                   | -          | 7           | -             | 7          | -                   | -         | -               | -           |
| B.7 Other changes   | -          | 57          | -             | 54         | -                   | -         | -               | 3           |
| <b>C. Decreases</b>   | <b>-63</b> | <b>-227</b> | <b>-1</b>     | <b>-11</b> | -                   | -         | <b>-62</b>      | <b>-216</b> |
| C.1 Sales   | -1         | -11         | -1            | -5         | -                   | -         | -               | -6          |
| of which business combinations                                  | -          | -           | -             | -          | -                   | -         | -               | -           |
| C.2 Depreciation  | -          | -2          | -             | -2         | -                   | -         | -               | -           |
| C.3 Negative fair value differences                             | -          | -           | -             | -          | -                   | -         | -               | -           |
| C.4 Impairment losses   | -          | -2          | -             | -1         | -                   | -         | -               | -1          |
| C.5 Negative foreign exchange differences                       | -          | -           | -             | -          | -                   | -         | -               | -           |
| C.6 Transfer to other assets                                    | -62        | -210        | -             | -1         | -                   | -         | -62             | -209        |
| a) property used in operations                                  | -          | -           | -             | -          | -                   | -         | -               | -           |
| b) non-current assets held for sale and discontinued operations | -62        | -210        | -             | -1         | -                   | -         | -62             | -209        |
| C.7 Other changes   | -          | -2          | -             | -2         | -                   | -         | -               | -           |
| <b>D. Final carrying amount</b>                                 | <b>16</b>  | <b>120</b>  | <b>16</b>     | <b>119</b> | -                   | -         | -               | <b>1</b>    |
| D.1 Total net adjustments                                       | -          | 68          | -             | 61         | -                   | -         | -               | 7           |
| <b>D.2 Gross final carrying amount</b>                          | <b>16</b>  | <b>188</b>  | <b>16</b>     | <b>180</b> | -                   | -         | -               | <b>8</b>    |
| <b>E. Fair value measurement</b>                                | <b>24</b>  | <b>131</b>  | <b>24</b>     | <b>130</b> | -                   | -         | -               | <b>1</b>    |

The increases of the other companies refer to Risanamento's investment property.

## 12.7 Commitments to purchase property and equipment

Commitments to purchase property and equipment in existence as at 31 December 2016 amounted to approximately 2 million euro.

## SECTION 13 – INTANGIBLE ASSETS - CAPTION 130

## 13.1 Intangible assets: breakdown by type of asset

(millions of euro)

|   | 31.12.2016         |                        | Banking group      |                        | Of which: Insurance companies |                        | Other companies    |                        | 31.12.2015         |                        |
|---|--------------------|------------------------|--------------------|------------------------|-------------------------------|------------------------|--------------------|------------------------|--------------------|------------------------|
|   | Finite useful life | Indefinite useful life | Finite useful life | Indefinite useful life | Finite useful life            | Indefinite useful life | Finite useful life | Indefinite useful life | Finite useful life | Indefinite useful life |
| <b>A.1 Goodwill</b>                       | <b>X</b>           | <b>4,059</b>           | <b>X</b>           | <b>3,565</b>           | <b>X</b>                      | <b>494</b>             | <b>X</b>           | <b>-</b>               | <b>X</b>           | <b>3,914</b>           |
| A.1.1 Group                               | x                  | 4,059                  | x                  | 3,565                  | x                             | 494                    | x                  | -                      | x                  | 3,914                  |
| A.1.2 Minority interests                  | x                  | -                      | x                  | -                      | x                             | -                      | x                  | -                      | x                  | -                      |
| <b>A.2 Other intangible assets</b>        | <b>1,452</b>       | <b>1,882</b>           | <b>1,255</b>       | <b>1,882</b>           | <b>197</b>                    | <b>-</b>               | <b>-</b>           | <b>-</b>               | <b>1,399</b>       | <b>1,882</b>           |
| A.2.1 Assets measured at cost             | 1,452              | 1,882                  | 1,255              | 1,882                  | 197                           | -                      | -                  | -                      | 1,399              | 1,882                  |
| a) Internally generated intangible assets | 948                | -                      | 948                | -                      | -                             | -                      | -                  | -                      | 768                | -                      |
| b) Other assets                           | 504                | 1,882                  | 307                | 1,882                  | 197                           | -                      | -                  | -                      | 631                | 1,882                  |
| A.2.2 Assets measured at fair value       | -                  | -                      | -                  | -                      | -                             | -                      | -                  | -                      | -                  | -                      |
| a) Internally generated intangible assets | -                  | -                      | -                  | -                      | -                             | -                      | -                  | -                      | -                  | -                      |
| b) Other assets                           | -                  | -                      | -                  | -                      | -                             | -                      | -                  | -                      | -                  | -                      |
| <b>Total</b>                              | <b>1,452</b>       | <b>5,941</b>           | <b>1,255</b>       | <b>5,447</b>           | <b>197</b>                    | <b>494</b>             | <b>-</b>           | <b>-</b>               | <b>1,399</b>       | <b>5,796</b>           |

The allocation of goodwill between “Cash Generating Units” is reported in the following table.

(millions of euro)

| CGUs/Goodwill                    | 31.12.2016   | 31.12.2015   |
|----------------------------------|--------------|--------------|
| Banca dei Territori              | 1,214        | 1,091        |
| Corporate and Investment Banking | -            | -            |
| Insurance                        | 494          | 494          |
| Asset Management                 | 1,060        | 1,038        |
| Private Banking                  | 1,291        | 1,291        |
| International Subsidiary Banks   | -            | -            |
| Bank of Alexandria (Egypt)       | -            | -            |
| Pravex Bank (Ukraine)            | -            | -            |
| <b>Total</b>                     | <b>4,059</b> | <b>3,914</b> |

For a breakdown of the CGUs, see the next chapter “Information on intangible assets and goodwill”.

## 13.2 Intangible assets: annual changes

(millions of euro)

|  | Goodwill      | Other intangible assets:<br>internally generated |                           | Other intangible assets:<br>other |                           | Total         |
|--|---------------|--|---------------------------|-----------------------------------|---------------------------|---------------|
|  |               | Finite<br>useful life                            | Indefinite<br>useful life | Finite<br>useful life             | Indefinite<br>useful life |               |
| <b>A. Gross initial carrying amount</b>                                      | <b>20,168</b> | <b>3,200</b>                                     | -                         | <b>8,141</b>                      | <b>2,384</b>              | <b>33,893</b> |
| A.1 Total net adjustments  | -16,254       | -2,432   | -                         | -7,510                            | -502                      | -26,698       |
| <b>A.2 Net initial carrying amount</b>                                       | <b>3,914</b>  | <b>768</b>                                       | -                         | <b>631</b>                        | <b>1,882</b>              | <b>7,195</b>  |
| <b>B. Increases</b>  | <b>146</b>    | <b>526</b>                                       | -                         | <b>120</b>                        | -                         | <b>792</b>    |
| B.1 Purchases  | 146           | 4  | -                         | 117                               | -                         | 267           |
| <i>of which business combinations</i>  | 146           | -  | -                         | -                                 | -                         | 146           |
| B.2 Increases of internally generated intangible assets                      | X             | 517  | -                         | -                                 | -                         | 517           |
| B.3 Write-backs  | X             | -  | -                         | -                                 | -                         | -             |
| B.4 Positive fair value differences recognised in                            | -             | -  | -                         | -                                 | -                         | -             |
| - shareholders' equity   | X             | -  | -                         | -                                 | -                         | -             |
| - income statement   | X             | -  | -                         | -                                 | -                         | -             |
| B.5 Positive foreign exchange differences                                    | -             | -  | -                         | -                                 | -                         | -             |
| B.6 Other changes  | -             | 5  | -                         | 3                                 | -                         | 8             |
| <b>C. Decreases</b>  | <b>-1</b>     | <b>-346</b>                                      | -                         | <b>-247</b>                       | -                         | <b>-594</b>   |
| C.1 Sales  | -             | -3   | -                         | -                                 | -                         | -3            |
| <i>of which business combinations</i>  | -             | -  | -                         | -                                 | -                         | -             |
| C.2 Impairment losses  | -             | -330   | -                         | -247                              | -                         | -577          |
| - Amortisation   | X             | -330   | -                         | -247                              | -                         | -577          |
| - Write-downs recognised in  | -             | -  | -                         | -                                 | -                         | -             |
| <i>shareholders' equity</i>  | X             | -  | -                         | -                                 | -                         | -             |
| <i>income statement</i>  | -             | -  | -                         | -                                 | -                         | -             |
| C.3 Negative fair value differences recognised in                            | -             | -  | -                         | -                                 | -                         | -             |
| - shareholders' equity   | X             | -  | -                         | -                                 | -                         | -             |
| - income statement   | X             | -  | -                         | -                                 | -                         | -             |
| C.4 Transfer to non-current assets held for sale and discontinued operations | -             | -13  | -                         | -                                 | -                         | -13           |
| C.5 Negative foreign exchange differences                                    | -1            | -  | -                         | -                                 | -                         | -1            |
| C.6 Other changes  | -             | -  | -                         | -                                 | -                         | -             |
| <b>D. Net final carrying amount</b>  | <b>4,059</b>  | <b>948</b>                                       | -                         | <b>504</b>                        | <b>1,882</b>              | <b>7,393</b>  |
| D.1 Total net adjustments  | 16,254        | 2,762  | -                         | 7,757                             | 502                       | 27,275        |
| <b>E. Gross final carrying amount</b>  | <b>20,313</b> | <b>3,710</b>                                     | -                         | <b>8,261</b>                      | <b>2,384</b>              | <b>34,668</b> |
| <b>F. Measurement at cost</b>  | -             | -  | -                         | -                                 | -                         | -             |

## 13.2 Of which: Banking group

(millions of euro)

|  | Goodwill      | Other intangible assets:<br>internally generated |                           | Other intangible assets:<br>other |                           | Total         |
|--|---------------|--|---------------------------|-----------------------------------|---------------------------|---------------|
|  |               | Finite<br>useful life                            | Indefinite<br>useful life | Finite<br>useful life             | Indefinite<br>useful life |               |
| <b>A. Gross initial carrying amount</b>                                      | <b>18,901</b> | <b>3,193</b>                                     | -                         | <b>7,201</b>                      | <b>2,384</b>              | <b>31,679</b> |
| A.1 Total net adjustments  | -15,481       | -2,425   | -                         | -6,797                            | -502                      | -25,205       |
| <b>A.2 Net initial carrying amount</b>                                       | <b>3,420</b>  | <b>768</b>                                       | -                         | <b>404</b>                        | <b>1,882</b>              | <b>6,474</b>  |
| <b>B. Increases</b>  | <b>146</b>    | <b>526</b>                                       | -                         | <b>118</b>                        | -                         | <b>790</b>    |
| B.1 Purchases  | 146           | 4  | -                         | 115                               | -                         | 265           |
| <i>of which business combinations</i>  | 146           | -  | -                         | -                                 | -                         | 146           |
| B.2 Increases of internally generated intangible assets                      | X             | 517  | -                         | -                                 | -                         | 517           |
| B.3 Write-backs  | X             | -  | -                         | -                                 | -                         | -             |
| B.4 Positive fair value differences recognised in                            | -             | -  | -                         | -                                 | -                         | -             |
| - shareholders' equity   | X             | -  | -                         | -                                 | -                         | -             |
| - income statement   | X             | -  | -                         | -                                 | -                         | -             |
| B.5 Positive foreign exchange differences                                    | -             | -  | -                         | -                                 | -                         | -             |
| B.6 Other changes  | -             | 5  | -                         | 3                                 | -                         | 8             |
| <b>C. Decreases</b>  | <b>-1</b>     | <b>-346</b>                                      | -                         | <b>-215</b>                       | -                         | <b>-562</b>   |
| C.1 Sales  | -             | -3   | -                         | -                                 | -                         | -3            |
| <i>of which business combinations</i>  | -             | -  | -                         | -                                 | -                         | -             |
| C.2 Impairment losses  | -             | -330   | -                         | -215                              | -                         | -545          |
| - Amortisation   | X             | -330   | -                         | -215                              | -                         | -545          |
| - Write-downs recognised in  | -             | -  | -                         | -                                 | -                         | -             |
| <i>shareholders' equity</i>  | X             | -  | -                         | -                                 | -                         | -             |
| <i>income statement</i>  | -             | -  | -                         | -                                 | -                         | -             |
| C.3 Negative fair value differences recognised in                            | -             | -  | -                         | -                                 | -                         | -             |
| - shareholders' equity   | X             | -  | -                         | -                                 | -                         | -             |
| - income statement   | X             | -  | -                         | -                                 | -                         | -             |
| C.4 Transfer to non-current assets held for sale and discontinued operations | -             | -13  | -                         | -                                 | -                         | -13           |
| C.5 Negative foreign exchange differences                                    | -1            | -  | -                         | -                                 | -                         | -1            |
| C.6 Other changes  | -             | -  | -                         | -                                 | -                         | -             |
| <b>D. Net final carrying amount</b>  | <b>3,565</b>  | <b>948</b>                                       | -                         | <b>307</b>                        | <b>1,882</b>              | <b>6,702</b>  |
| D.1 Total net adjustments  | 15,481        | 2,755  | -                         | 7,012                             | 502                       | 25,750        |
| <b>E. Gross final carrying amount</b>  | <b>19,046</b> | <b>3,703</b>                                     | -                         | <b>7,319</b>                      | <b>2,384</b>              | <b>32,452</b> |
| <b>F. Measurement at cost</b>  | -             | -  | -                         | -                                 | -                         | -             |



**13.2 Of which: Insurance companies**

(millions of euro)

|  | Goodwill     | Other intangible assets:<br>internally generated |                           | Other intangible assets:<br>other |                           | Total        |
|--|--------------|--|---------------------------|-----------------------------------|---------------------------|--------------|
|  |              | Finite<br>useful life                            | Indefinite<br>useful life | Finite<br>useful life             | Indefinite<br>useful life |              |
| <b>A. Gross initial carrying amount</b>                                      | <b>1,230</b> | <b>7</b>   | -                         | <b>940</b>                        | -                         | <b>2,177</b> |
| A.1 Total net adjustments  | -736         | -7   | -                         | -713                              | -                         | -1,456       |
| <b>A.2 Net initial carrying amount</b>                                       | <b>494</b>   | -  | -                         | <b>227</b>                        | -                         | <b>721</b>   |
| <b>B. Increases</b>  | -            | -  | -                         | <b>2</b>                          | -                         | <b>2</b>     |
| B.1 Purchases  | -            | -  | -                         | 2                                 | -                         | 2            |
| <i>of which business combinations</i>  | -            | -  | -                         | -                                 | -                         | -            |
| B.2 Increases of internally generated intangible assets                      | X            | -  | -                         | -                                 | -                         | -            |
| B.3 Write-backs  | X            | -  | -                         | -                                 | -                         | -            |
| B.4 Positive fair value differences recognised in                            | -            | -  | -                         | -                                 | -                         | -            |
| - shareholders' equity   | X            | -  | -                         | -                                 | -                         | -            |
| - income statement   | X            | -  | -                         | -                                 | -                         | -            |
| B.5 Positive foreign exchange differences                                    | -            | -  | -                         | -                                 | -                         | -            |
| B.6 Other changes  | -            | -  | -                         | -                                 | -                         | -            |
| <b>C. Decreases</b>  | -            | -  | -                         | <b>-32</b>                        | -                         | <b>-32</b>   |
| C.1 Sales  | -            | -  | -                         | -                                 | -                         | -            |
| <i>of which business combinations</i>  | -            | -  | -                         | -                                 | -                         | -            |
| C.2 Impairment losses  | -            | -  | -                         | -32                               | -                         | -32          |
| - Amortisation   | X            | -  | -                         | -32                               | -                         | -32          |
| - Write-downs recognised in  | -            | -  | -                         | -                                 | -                         | -            |
| <i>shareholders' equity</i>  | X            | -  | -                         | -                                 | -                         | -            |
| <i>income statement</i>  | -            | -  | -                         | -                                 | -                         | -            |
| C.3 Negative fair value differences recognised in                            | -            | -  | -                         | -                                 | -                         | -            |
| - shareholders' equity   | X            | -  | -                         | -                                 | -                         | -            |
| - income statement   | X            | -  | -                         | -                                 | -                         | -            |
| C.4 Transfer to non-current assets held for sale and discontinued operations | -            | -  | -                         | -                                 | -                         | -            |
| C.5 Negative foreign exchange differences                                    | -            | -  | -                         | -                                 | -                         | -            |
| C.6 Other changes  | -            | -  | -                         | -                                 | -                         | -            |
| <b>D. Net final carrying amount</b>  | <b>494</b>   | -  | -                         | <b>197</b>                        | -                         | <b>691</b>   |
| D.1 Total net adjustments  | 736          | 7  | -                         | 745                               | -                         | 1,488        |
| <b>E. Gross final carrying amount</b>  | <b>1,230</b> | <b>7</b>   | -                         | <b>942</b>                        | -                         | <b>2,179</b> |
| <b>F. Measurement at cost</b>  | -            | -  | -                         | -                                 | -                         | -            |

**13.2 Of which: Other companies**

As at 31 December 2016 gross goodwill was 37 million euro, fully written down, attributable to other companies, unchanged compared to the end of 2015.

**13.3 Other information**

As at 31 December 2016 there were commitments relating to investments in intangible assets, primarily software, of approximately 46 million euro.

**Information on intangible assets and goodwill**

The application of IFRS 3 to the accounting of acquisitions may lead to the recognition of new intangible assets and goodwill. In the case of the Intesa Sanpaolo Group, the merger between Banca Intesa and Sanpaolo IMI and the subsequent acquisitions (of the asset management portfolio of former Nextra, CR Firenze, Pravex Bank, Intesa Vita, the bank branches and Banca Monte Parma) led to the recognition of significant amounts for intangible assets and goodwill.

During 2016 the acquisitions of Eurizon SLJ Capital (65%), an English asset management and financial advisory firm, and Banca ITB (90%), an online bank that provides payment systems and dedicated solely to the tobacconist channel, were completed. The above transactions, accounted for in accordance with IFRS 3, entailed the recognition of new goodwill totalling 146 million euro, including 23 million euro attributable to the Asset Management CGU and 123 million euro allocated to the Banca dei Territori CGU.

The table below summarises the values of the intangible assets and goodwill recorded in the consolidated financial statements with the related performance during the year, subdivided by Cash Generating Unit (CGU), which represent the groups of assets subject to impairment testing on goodwill in order to determine the recoverable amount.

| CGU   | (millions of euro)                 |             |  |                         |                                       |
|---|------------------------------------|-------------|--|-------------------------|---------------------------------------|
|   | Financial Statements<br>31.12.2015 | Amort.      | Eurizon SLJ<br>Capital and Banca<br>ITB acquisitions | Other<br>changes<br>(a) | Financial<br>Statements<br>31.12.2016 |
| <b>BANCA DEI TERRITORI</b>                            | <b>2,621</b>                       | <b>-3</b>   | <b>123</b>   | <b>-</b>                | <b>2,741</b>                          |
| - Asset management intangibles - distribution         | -                                  | -           | -  | -                       | -                                     |
| - Insurance intangibles - distribution                | 23                                 | -3          | -  | -                       | 20                                    |
| - Brand name intangibles                              | 1,507                              | -           | -  | -                       | 1,507                                 |
| - Goodwill  | 1,091                              | -           | 123  | -                       | 1,214                                 |
| <b>CORPORATE AND INVESTMENT BANKING</b>               | <b>-</b>                           | <b>-</b>    | <b>-</b>   | <b>-</b>                | <b>-</b>                              |
| - Brand name intangibles                              | -                                  | -           | -  | -                       | -                                     |
| - Goodwill  | -                                  | -           | -  | -                       | -                                     |
| <b>ASSET MANAGEMENT</b>                               | <b>1,038</b>                       | <b>-</b>    | <b>23</b>  | <b>-1</b>               | <b>1,060</b>                          |
| - Asset management intangibles - production           | -                                  | -           | -  | -                       | -                                     |
| - Goodwill  | 1,038                              | -           | 23   | -1                      | 1,060                                 |
| <b>PRIVATE BANKING</b>                                | <b>1,789</b>                       | <b>-123</b> | <b>-</b>   | <b>-</b>                | <b>1,666</b>                          |
| - Asset management intangibles - prod. and distribut. | 123                                | -123        | -  | -                       | -                                     |
| - Brand name intangibles                              | 375                                | -           | -  | -                       | 375                                   |
| - Goodwill  | 1,291                              | -           | -  | -                       | 1,291                                 |
| <b>INSURANCE</b>                                      | <b>719</b>                         | <b>-32</b>  | <b>-</b>   | <b>-</b>                | <b>687</b>                            |
| - Insurance intangibles - production                  | 225                                | -32         | -  | -                       | 193                                   |
| - Goodwill  | 494                                | -           | -  | -                       | 494                                   |
| <b>INTERNATIONAL BANKS</b>                            | <b>-</b>                           | <b>-</b>    | <b>-</b>   | <b>-</b>                | <b>-</b>                              |
| <b>BANK OF ALEXANDRIA (Egypt)</b>                     | <b>-</b>                           | <b>-</b>    | <b>-</b>   | <b>-</b>                | <b>-</b>                              |
| <b>PRAVEX BANK (Ukraine)</b>                          | <b>-</b>                           | <b>-</b>    | <b>-</b>   | <b>-</b>                | <b>-</b>                              |
| <b>GROUP TOTAL</b>                                    | <b>6,167</b>                       | <b>-158</b> | <b>146</b>   | <b>-1</b>               | <b>6,154</b>                          |
| - Asset management intangible                         | 123                                | -123        | -  | -                       | -                                     |
| - Insurance intangible                                | 248                                | -35         | -  | -                       | 213                                   |
| - Brand name intangible                               | 1,882                              | -           | -  | -                       | 1,882                                 |
| - Goodwill  | 3,914                              | -           | 146  | -1                      | 4,059                                 |

(a) Other changes include exchange differences on goodwill recognised on the acquisition of Eurizon SLI Capital

The intangible assets recognised include the intangible asset related to customers, represented by the measurement of the insurance portfolio. Such asset, with a finite life, is originally measured by discounting the income margin cash flows over a period representing the residual life, contractual or estimated, of relationships existing at the time of the business combination.

The amortisation period for the intangible asset relating to the portfolio of assets under management (AUM), the residual value of which was allocated to the Private Banking Division, was completed at the end of 2016. As a result, there were no intangible assets of this kind at 31 December 2016.

Conversely, it is noted that the intangible core deposit had been written down in full in the 2013 financial statements, due to the results of the impairment test performed.

The brand name, an intangible asset related to marketing, was also measured. This asset is considered to have an indefinite life since it is expected to contribute for an indefinite period of time to the formation of income flows.

For the intangible assets with a finite useful life, the amortisation for the year was recognised to the income statement (under 210 Net adjustments to/recoveries on intangible assets) for a total of 158 million euro gross of the tax effect (approximately 105 million euro net of tax).

Based on IAS 36, both intangible assets with an indefinite useful life and goodwill are submitted to impairment testing on an annual basis to verify recoverability of their value. In addition, intangible assets with a finite useful life must be tested for impairment whenever there is evidence of impairment indicators. The recoverable amount consists of the higher of the fair value less costs to sell and the value in use.

Lastly, it should be mentioned that IAS 36, for the purpose of calculating the value in use of intangibles subject to impairment testing, states that reference must be made to cash flows arising from intangible asset in its current condition (as at the impairment test date), with no distinction between cash flows arising from the asset initially recognised according to IFRS 3 and those relating to the asset outstanding at the impairment test date. This because it would be difficult, especially with regard to extraordinary transactions between businesses or changes in the asset following significant turnover in volumes, customers, contracts, etc., to separate flows relating to the original asset from others.

This concept can also be applied in impairment testing of goodwill to calculate the Value in use of the CGUs, for which the cash flows have to be considered with regard to all assets and liabilities of that CGU and not only the assets and liabilities for which goodwill was recognised on application of IFRS 3.

As in previous financial statements, given the volatility of the financial markets and the available market values for calculation of the recoverable amount, the value in use was used in the impairment tests for the 2016 financial statements.

It is noted that the tests mentioned above did not concern the Corporate and Investment Banking, International Subsidiary Banks and Bank of Alexandria and Pravex Bank CGUs in consideration of the absence, as of the date of the test, of intangible assets with an indefinite life to be subject to impairment test.

Furthermore, the methods and assumptions of the impairment test procedures for intangible assets and goodwill defined by management were approved by the Board of Directors prior to approval of the draft financial statements for 2016.

## Impairment testing of intangibles

### Insurance portfolio

Valuation of the insurance portfolio uses models normally applied to determine the embedded value, by discounting flows representing the income margins over a period deemed to express the residual maturity of the insurance portfolio in force outstanding at the valuation date. The resulting value, considered to have a finite life, is amortised at variable rates over a period representing the residual life of the insurance contracts. For the 2016 financial statements, the amortisation of the asset for the year was recognised to the income statement. The amortisation for the year amounted to approximately 14% of the carrying amount of the asset at the end of 2015 (amortisation for a total of 35 million euro gross of the tax effect). The analyses conducted during the year on the main impairment indicators were updated and extended for this type of intangible as well. However, a thorough recalculation of value of the intangible asset was not performed since the trend of the insurance business did not present any particular critical issues in 2016.

The table below provides the value of mathematical reserves (including the components that in the IFRS financial statements are classified under financial liabilities of the insurance segment) detailing the various product types that contributed to the initial valuation of the insurance portfolio.

| Insurance portfolio | (millions of euro)                             |                               |
|---------------------|--|-------------------------------|
|                     | 31.12.2016                                     | Change compared to 31.12.2015 |
|                     | <b>MODEL TECHNICAL RESERVES <sup>(a)</sup></b> |                               |
| Traditional         | 73,404   | + 1.6%                        |
| Pension funds       | 2,269  | + 14.5%                       |
| Unit-linked         | 57,836   | + 21.0%                       |
| Index-linked        | 1  | -99.7%                        |
| <b>TOTAL</b>        | <b>133,510</b>                                 | <b>+ 9.2%</b>                 |

<sup>(a)</sup> The mathematical reserve and the premium reserve are included. The figure is gross of the "shadow reserve".

Technical reserves increased by approximately 9% in 2016, exceeding 133 billion euro at year-end. The increase in reserves for traditional products equalled about 2% compared to the end of 2015, for a total amount – in December 2016 – totalling 73 billion euro. In addition, the increase in the reserves for unit-linked products (+21% in the year) was significant, with overall total reserves of approximately 58 billion euro (in December 2016). Lastly, the decrease in reserves for index-linked products – now essentially nil – was due to the choice, first made in 2008 and also applied in the year under review, not to establish and market new products in this segment.

An analysis of product profitability and operating costs did not yield any indication of possible impairment of the asset. Financial parameters – including as regards the performance of securities in portfolio – were essentially no different from those recorded in 2015.

The following table presents a summary of the values of insurance intangibles according to the relevant CGU.

(millions of euro)

| CGU                                  | Financial statements<br>31.12.2015 | Amortisation | Other changes | Financial statements<br>31.12.2016 |
|--------------------------------------|------------------------------------|--------------|---------------|------------------------------------|
| <b>Banca dei Territori</b>           |                                    |              |               |                                    |
| Insurance intangibles - distribution | 23                                 | -3           | -             | 20                                 |
| <b>Insurance</b>                     |                                    |              |               |                                    |
| Insurance intangibles - production   | 225                                | -32          | -             | 193                                |
| <b>GROUP TOTAL</b>                   | <b>248</b>                         | <b>-35</b>   | <b>-</b>      | <b>213</b>                         |

### Brand name

IFRS 3 considers the “brand name” a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process.

For this purpose please note that the term “brand” is used in accounting standards with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.

With reference to acquisition of the Sanpaolo IMI Group, it was decided to limit the analysis to just two brands: the corporate brand Sanpaolo IMI, intended as an “umbrella” brand to which the brands of the network banks were related, and the brand of the subsidiary Banca Fideuram since it is an autonomous entity strongly recognised on the market for the placement of financial products through a network of financial advisors. Both are considered intangibles with indefinite useful life since they are deemed to contribute indefinitely to the formation of income flows. Market methods and fundamental, flow-based methods have been used in the initial valuation of the two brands. Value was determined as the average of the values obtained using the various methods.

As this intangible asset has no independent cash flows, for impairment testing purposes for the financial statements it was included in the verification of the retention of goodwill for the various CGUs. As discussed in further detail below, the results of the impairment test did not suggest a need for an impairment loss on the brand name intangible asset.

### Impairment testing of CGUs and goodwill

#### Definition of Cash Generating Units (CGUs)

For impairment testing purposes, the estimation of the value in use relating to intangible assets with an indefinite life (including goodwill) that do not generate cash flows unless jointly with other assets, as per IAS 36, requires the preliminary assignment of such intangible assets to relatively independent business units, able to generate cash flows strongly independent of those produced in other business areas, but interdependent within the business unit generating them.

In IAS/IFRS terminology such business units are known as Cash Generating Units (CGUs). The meaning of the impairment test is significant for identification of the CGUs.

IAS 36 indicates the necessity to correlate the level at which the goodwill is tested with the level of internal reporting at which management controls the increases and decreases of such value. Definition of the level closely depends on the organisational models adopted and on the managerial responsibilities governing the operating guidelines and monitoring activity. Organisational models may ignore (and in the case of the Intesa Sanpaolo Group they do ignore) the network of legal entities through which operations are carried out, and are instead very often closely designed around the definition of business operating segments as envisaged by IFRS 8. Furthermore, the identification of CGUs for goodwill impairment test purposes is consistent with the definition of the recoverable amount of an asset - which is in itself the base for impairment tests - according to which the relevant item is the amount that the company expects to recover from that asset, considering any synergies with other assets.

Therefore, in accordance with the criteria applied for the determination of the prices of the business combinations that gave rise to goodwill recognition, the recoverable amount for impairment testing purposes of the CGU to which goodwill is allocated must include not only the value of external (or universal) synergies but also the internal ones, the reason being that the specific acquirer may obtain additional value from the integration of activities obtained through business combinations, according to its business model.

The Intesa Sanpaolo Group’s organisational model envisages that:

- management decisions be highly centralised at the level of the heads of the operational segments;
- strategies, identification of new products or services and commercial penetration initiatives be outlined and directed centrally for each operating division;
- planning processes and reporting systems be managed at the operational segment level;
- specialised transversal areas be defined to provide support and develop products benefiting many subsidiaries;
- the management of financial risks also be highly centralised in order to maintain, also as a result of regulatory provisions, a balance between the capital allocation policies and the financial risks in development of the various business lines;
- the divisions operate in homogeneous markets or sectors in terms of economic characteristics and development level.

As a result of this centralisation, income flows are highly dependent on the policies set up at the operational segment level, based on balanced development of the entire division and not of the individual operating areas or legal entities considered individually.

The business units identified in the Intesa Sanpaolo Group are as follows:

- Banca dei Territori;
- Corporate and Investment Banking;
- Insurance;
- Asset Management;
- Private Banking;
- International Subsidiary Banks.

For the foregoing reasons, the operating divisions cited above correspond, in general terms, to the Group's CGUs, while also representing the core business areas considered for segment reporting.

These divisions are considered representative of cash generating units since each constitutes the smallest group of assets generating independent incoming cash flows and, as mentioned above, also the minimum level set by the Parent Company Intesa Sanpaolo for planning and reporting processes. Therefore, this is the minimum level to which goodwill may be allocated and monitored according to non-arbitrary criteria.

The International Subsidiary Banks Division needs specific comments, given the particular structure and conditions under which it operates.

It should firstly be mentioned that the cash flows of the various Group companies forming this business unit are strictly dependent upon policies formulated by Division Governance Centres and Head Office Departments of the Parent Company. These policies are defined and implemented in compliance with a management plan designed to develop the entire Division in an organised manner, and not focusing only on the individual companies' strategies. Specifically, the expansion strategies for the various operating units, the identification and development of new credit, savings and service products, limits to the assumption of financial risk, commercial penetration and operations specialisation initiatives are outlined and steered at central level, following a portfolio strategy, and not devolved to the individual subsidiaries. Therefore, there is strong interaction of the flows that, at the same time, requires both single and integrated governance of all companies in the Division, and the central monitoring and control of operations of the overall business activities of the Division.

However, it is important to consider that not all factors affecting the correlation and interdependence of cash flows within the Division can be controlled by the Division's Head Office Departments.

In fact, there are circumstances outside the Group that could have varying levels of impact on the capacity to systematically manage CGU flows and control over their generation. These are circumstances largely determined in the wider sense by the conditions of the environment in which the various entities are located.

Indeed, for Banks operating abroad, the effects of country risk must be considered: i.e. the risk linked to economic, political and institutional events in the country in which the subsidiary and its business activities are based.

In view of the above, if the cash flows that the Parent Company expects from activities generated by a foreign subsidiary are deeply influenced - in terms of extent, quality and trends - by institutional, economic and political circumstances in the country in which the subsidiary is based, this subsidiary cannot be considered an integral part of the single management model for the CGU which it belongs to. The company in such a situation must, therefore, even if only temporarily, be excluded from the CGU, regardless of the Group Management's willingness to keep it within the CGU, due to the above-mentioned factors over which the Bank and Group's management clearly have no influence. The flows of the company, in fact, would be influenced to a greater extent by the country's conditions than by the unitary and centralised management policy adopted by the Division and, therefore, for impairment testing purposes, the company must be subjected to independent valuation until the conditions for the systemic central control of cash flows of the subsidiary are restored.

With regard to the Ukrainian Pravex Bank, for the purposes of the 2008 impairment testing, careful consideration of the economic and institutional events unfolding in Ukraine, which was undergoing a deep economic and currency crisis, and prudent assessment of their impact on the operational variables of the subsidiary in question, especially from the point of view of their interdependence on variables of the entire CGU, resulted in classification of this company as a completely separate CGU, treating it separately from the Group's International Subsidiary Banks Division.

With regard to the subsidiary Bank of Alexandria, for the purposes of the 2011 impairment testing the bank was separated from the International Subsidiary Banks CGU due to a profound political crisis in Egypt.

For the purposes of the 2016 impairment testing, it was deemed appropriate to maintain the decisions made with respect to the previous financial statements, and thus to consider Pravex Bank and Bank of Alexandria as autonomous, distinct CGUs from the Group's International Subsidiary Banks Division in conducting the impairment test for the consolidated and separate financial statements. However, it bears recalling that the goodwill associated with Pravex Bank and Bank of Alexandria were fully written down in conjunction with the impairment tests for the 2008 and 2011 financial statements, respectively.

In Pravex Bank's and Bank of Alexandria's cases, the separate assessment of the banks for impairment testing purposes, which will continue until conditions in the respective countries have been stabilised, does not affect the Group's intention to support the development of the subsidiaries.

### **Book value of the CGUs**

The book value of the CGUs must be determined in a manner consistent with the criterion for estimating their recoverable amount. For a banking business, the cash flows generated by a CGU cannot be identified without considering the cash flows deriving from financial assets/liabilities, as these represent the core business. In other words, the recoverable amount of the CGUs is influenced by the aforementioned cash flows and therefore the CGUs' book value must include financial assets/liabilities in accordance with the scope of the recoverable amount estimate process.

Consequently, these assets and liabilities must be properly allocated to the associated CGUs.

On this basis (so-called "equity side"), the book value of Intesa Sanpaolo's CGUs may be determined in terms of contribution to consolidated shareholders' equity including the minority interest.

Accordingly, the carrying amount of the CGUs composed of companies belonging to a single operating division was determined by summing up the individual contributions to the balance sheet.

However, where the Parent Company or other Group companies contribute to multiple CGUs from a management standpoint, and this division is not represented in accounting information, management values must be used. In this specific case, the

management driver was identified as each division's "regulatory capital", which represents the capital absorption necessary to handle the types of risk envisaged by the regulatory supervision rules.

The table below provides the book values of the CGUs and the goodwill and brand name allocations to each. The values, determined for impairment testing purposes, include the portion of goodwill attributable to minority interests (included in the last column with minority interests).

| CGU                              | Values        | Value as at 31.12.2016 |                               |                     |
|----------------------------------|---------------|------------------------|-------------------------------|---------------------|
|                                  |               | Book value             | of which goodwill Group share | of which brand name |
| Banca dei Territori              | 15,961        | 1,214                  | 1,507                         | 115                 |
| Corporate and Investment Banking | 16,441        | -                      | -                             | 140                 |
| Insurance                        | 5,105         | 494                    | -                             | 1                   |
| Asset Management                 | 2,184         | 1,060                  | -                             | 12                  |
| Private Banking                  | 3,360         | 1,291                  | 375                           | -                   |
| International Subsidiary Banks   | 5,915         | -                      | -                             | 87                  |
| Bank of Alexandria (Egypt)       | 333           | -                      | -                             | 67                  |
| Pravex Bank (Ukraine)            | 34            | -                      | -                             | -                   |
| <b>GROUP TOTAL</b>               | <b>49,333</b> | <b>4,059</b>           | <b>1,882</b>                  | <b>422</b>          |

#### Criteria for estimates of CGUs' value in use

The value in use of CGUs is determined by estimating the present value of future cash flows that may be expected to be generated by the CGUs. These cash flows are normally estimated by using the latest publicly available business plan or, in its absence, through the drawing up by management of an internal forecast plan.

The forecasting period for the analysis usually consists of a maximum of five years. The cash flow of the final year of the forecast is projected in perpetuity (through the use of perpetual return formulae, or, alternatively, temporary return formulae, if it is not realistic to expect the assets subject to measurement to generate positive cash flows over the long term), using an appropriate growth rate "g" for the purposes of the so-called "terminal value." The rate "g" is determined by assuming as growth factor the rate of increase in the gross domestic product of the countries in which the cash flows are generated.

Alternatively, terminal value could be determined on the basis of a final sale or liquidation value.

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

Also, given the diverse risks of the respective operating areas, different Beta coefficients must be used for each CGU. All the resulting rates have been adjusted to take into account the "Country Risk".

#### Cash flow estimates

Also with regard to calculation of the value in use of CGUs for impairment testing purposes for the 2016 financial statements, the volatility of financial markets and the uncertainties regarding the future macroeconomic environment make the definition of near-term future cash flows from operating activities and the identification of growth rates in order to calculate the Terminal value of CGUs particularly complex.

The medium-term forecasting scenario of reference (for the Eurozone and Italy only, since goodwill is no longer carried in regard to the international network) has been drawn up by the Intesa Sanpaolo Research Department taking account of the forecasts of the main Italian and international organisations and institutions.

In 2016 growth in the Eurozone was essentially in line with forecasts (1.6% compared to 1.5%). A slightly lower growth rate is forecast for 2017-2020 (annual average of 1.5%).

In 2016 the growth of the Italian economy was marginally lower than 1%, essentially in line with the forecasts of a modest recovery formulated one year ago. At present, economic indicators suggest that the phase of recovery of economic activity will continue in 2017, without a change of pace from the very slow growth that has characterised recent years. In the reference scenario, growth is expected to strengthen in subsequent years, due in part to improved exports, and in part to more robust investment performance.

The scenario of growth at or below potential and inflation expectations far from the 2% target represent the main justifications for a scenario of official rates stable at levels near zero until the fourth quarter of 2018.

A process of partial normalisation of monetary policy is predicted to begin at the end of 2018, following the gradual discontinuation of the financial asset purchasing programme. Projections beyond the first two years (and thus after 2018) are based on the hypothesis of a gradual return of rates to a "through-the-cycle" average level consistent with potential growth estimates for the Eurozone and the ECB's inflation target (close to but below 2%). In its Ageing Report 2015, the European Commission uses a potential growth estimate of 1% for the Eurozone. In the AMECO database, the potential growth rate for the period 2017-2018 is 1.2%-1.3%, compared with annual average growth of 1.5% for GDP at constant prices in 1996-2016 and a consensus forecast of 1.2% YoY for the period 2019-2026. As for inflation, the average change in the harmonised index for the period 1999-2016 was 1.75%, whereas the average consensus forecast for the period 2019-2026 is 1.85%. The resulting target value for the Euribor rate is within the range of 2.8%-3.3%. This value was calculated by combining the potential growth estimates for the Eurozone provided by the European Commission and long-term consensus forecasts for inflation, while assuming growth of the Euribor consistent with nominal growth expectations. For forecasting purposes, it was assumed that progress

towards the target value would occur at a rate of approximately half a percentage point per year, corresponding to a rate increase every six months.

The target value resulting from the forecast by the Intesa Sanpaolo Research Department of 1.58% should be compared with an average Euribor rate of 2.1% in the period 1999-2016 and an average consensus estimate for the period of 2022-2026, also of 2.1%. As a result, the 2021 forecast is far below both the historical average and the target value.

At the end of 2016 longer-term rates had already shown a reversal of the trend, driven by the performance of the U.S. market, the global recovery of inflation expectations and a series of better-than-expected economic data. The ECB's purchasing programmes and commitment to keep rates unchanged for a long time in 2017 should continue to blunt the upwards pressure exerted by the movements of the U.S. dollar curve, which in the coming years will be affected by the cautious monetary tightening undertaken by the Federal Reserve and the risk of overheating of the U.S. economy. The mitigating impact will be stronger on shorter maturities than on the longer end.

Finally, the scenario assumes a further increase in risk premiums on Italian debt in 2017, following the modest rise seen in 2016. The sharp revision of the scenario is due to mounting political instability and the retraction of the protective net extended by monetary authorities in recent years. As a result, the reference scenario predicts an increase in the ten-year BTP-Bund spread to 190-200 bps, without significant declines in 2018. Only in 2019-2021, when it is predicted that a virtuous scenario of accelerating growth and falling debt will occur, in an environment of continuing low interest rates, will the spread fall towards 150 and then 120 bps.

In the banking scenario, it should firstly be observed that in 2016 credit to the private sector recovered modestly, driven by loans to households, and in particular by loans for the purchase of houses, the growth of which accelerated during the year, driven by very favourable mortgage conditions for borrowers, with rates at all-time lows. Despite favourable credit conditions, loans to businesses remained disappointing: short-term loans continued to fall sharply, whereas the increase in medium-term loans was more moderate. Overall, the loan sector thus contracted during the year, compared to the growth of 1.3% estimated for 2016 in the previous year.

Lagging significantly behind the economic recovery, a clear resumption of growth of loans to businesses will only be seen in the second half of 2017, although at the annual average level performance is expected to remain stagnant.

Monetary conditions will remain favourable to credit recovery for an extended period. However, the increase in loans to businesses will continue to be restrained, above all due to demand factors, such as corporate deleveraging and diversification in favour of market sources of funding, in a scenario of continuing very moderate GDP growth. Lending policies will nonetheless retain a conservative tone, above all in the next few years, in view of the still high level of non-performing loans. The new supervisory and regulatory structures, oriented towards stricter prudential standards, will also result in the same outcome.

For households, who remain financially sound, the lending scenario is positive. Loan levels will continue to rise in 2017-2021, driven by the gradual recovery of the real-estate market and interest rates that will remain near all-time lows in the next few years. As regards bank funding, the trends seen in 2016 confirmed the previous values, and specifically the growth in deposits and the decline for bonds. In terms of deposits, the notable trend of the demand component continued, while time deposits are still down.

Looking forward, the modest lending performance and extensive refinancing from the ECB will limit the need for customer deposits, whose decline is expected to continue in 2017 as well. The abundant available liquidity will favour the containment of the cost of funding. At the same time, a reorganisation of banks' liabilities in favour of deposits will be confirmed, with net redemptions of bonds placed with retail customers, also in light of the new bail-in scenario. Accordingly, bond volumes will continue to decline throughout the period ending in 2021.

In 2016 bank rates continued to drop. Rates on new loans to businesses reached new all-time lows during the year, despite continuing high credit risk, and then stabilised in the last few months of the year. The cost of funding continued to fall, due in part to the reduced weight of bonds. However, the spread narrowed.

Looking forward, accommodating monetary policy will continue to facilitate loose loan pricing conditions. At the same time, credit risk is expected to decrease gradually, whereas there will continue to be considerable competition surrounding loans to the best customers. In 2017 loan rates are expected to fall further at the annual average level, while essentially stabilising at the levels of the end of 2016, given the lack of change in the monetary rates scenario. The projected normalisation of monetary policy between 2018 and 2019 and the related recovery of reference rates will be followed by a gradual increase in loan rates.

In 2017 the mark-down is expected to remain essentially unchanged from the very negative levels reached in 2016. A trend towards a gradual improvement is expected to begin at the end of 2018 and continue in 2019-2020, due to the projected increase in the Euribor. In 2017 the mark-up is expected to decline further in the comparison of annual averages, but to remain essentially stable compared to the end of 2015 and high compared to pre-crisis levels, given the low levels of monetary rates. The reduction will resume in 2018 as market rates begin to rise once more.

Finally, in 2016 the asset management sector (mutual funds, portfolio management schemes and insurance reserves) was solid, recording net inflows and increasing asset volumes, despite the negative effects of volatility and uncertainty on the markets. These latter factors also affected the composition of inflows, influenced by the uneven performance of money market funds, which are highly susceptible to market performance. The scenario considered for the 2015 impairment test envisaged an increase in mutual fund assets of 12.1% in 2016, whereas the actual figure was just 1.6%. After a very positive start to the year for portfolio management schemes, due in part to the performance of traditional insurance policies, flows stabilised at decidedly more modest levels (growth estimate of 5.2% for 2016 in the previous year compared to the actual figure of 1.5%). Finally, new life insurance business slowed: on one hand, very low rates slowed down traditional products, and on the other hand the negative market trend made unit-linked products unattractive.

The continuation of a scenario of abundant liquidity and very low rates will facilitate the stability of the segment in 2017, also driven by the ongoing process of repositioning of households' portfolios. There will continue to be a movement into assets under management from assets under administration and, in part, from bank bonds. Finally, market performance expectations are cautious, due in part to the uncertainty of the political scenario, a factor that restrains volume growth.

| Italy                          | 2016  | (values as a percentage) |       |      |      |      |
|--------------------------------|-------|--------------------------|-------|------|------|------|
|                                |       | 2017                     | 2018  | 2019 | 2020 | 2021 |
| <b>REAL ECONOMY</b>            |       |                          |       |      |      |      |
| Real GDP Italy                 | 0.9   | 1.0                      | 1.2   | 1.3  | 1.4  | 1.5  |
| Consumer prices Italy          | -0.1  | 0.8                      | 1.3   | 1.6  | 1.8  | 1.8  |
| Period-end ECB rate            | -     | -                        | 0.25  | 0.75 | 1.25 | 1.25 |
| 3-month Euribor rate           | -0.26 | -0.32                    | -0.24 | 0.45 | 1.23 | 1.58 |
| 10-year IRS                    | 0.5   | 0.9                      | 1.4   | 1.8  | 2.1  | 2.3  |
| 10-year BTP                    | 1.5   | 2.5                      | 3.0   | 3.2  | 3.2  | 3.2  |
| Spread vs. Bund (basis points) | 139   | 198                      | 194   | 170  | 146  | 123  |
| <b>BANKING SECTOR</b>          |       |                          |       |      |      |      |
| Loans                          | -1.2  | 0.6                      | 1.4   | 1.8  | 2.2  | 2.5  |
| Direct customer deposits       | -1.2  | -0.6                     | 0.4   | 1.4  | 1.8  | 2.0  |
| Loan rate                      | 3.06  | 2.95                     | 2.97  | 3.36 | 3.80 | 4.05 |
| Funding rate                   | 0.94  | 0.82                     | 0.81  | 0.99 | 1.21 | 1.33 |
| Average customer spread        | 2.12  | 2.13                     | 2.17  | 2.37 | 2.59 | 2.72 |
| Mutual funds                   | 1.6   | 5.5                      | 5.8   | 5.0  | 4.2  | 4.1  |
| Portfolio management           | 1.5   | 3.6                      | 4.0   | 3.2  | 3.1  | 3.1  |
| Life technical reserves        | 6.0   | 7.0                      | 6.8   | 6.6  | 6.2  | 5.9  |

Considering the macroeconomic scenario described above, a forecast period of five years (2017-2021) was considered for the 2016 impairment test. This choice was dictated by the fact that the macroeconomic scenario predicted for 2019 (the third year of the forecast period) reflects what is still a depressed situation, particularly as regards interest rates, and thus cannot be incorporated into the cash flow "at full capacity". Specifically, 2019 includes expectations of a marginal increase in interest rates, which are the reflection of a hypothesis of official rates of zero (or negative rates in the case of the Euribor) in 2018, due to the ECB's commitment to keep rates unchanged even after the end of the government bond purchasing programme, which is expected to occur in late 2017 (see the most recent ECB press release of 19 January 2017 on monetary policy). This scenario is in addition to the forecast of modest growth in loans in the next two years (YoY growth of 0.6%-1.4%). Combined, these projections have a significant impact on the profitability of the retail banking business, which is closely correlated to the above two variables.

In fact, it bears recalling that in various financial valuation techniques, such as that used to determine value in use, the value of a company at the end of the flow forecast period, the so-called terminal value, is normally determined by infinite compounding, at an appropriate "g" rate, of the cash flow achievable in the long term. With respect to the impairment test as at 31 December 2016, as the macroeconomic scenario considered rests on the assumption that "normalised" conditions will be restored only in 2021, the Group's profitability in 2019 is not to be regarded as its "normal" profitability in the long term and thus to be projected into perpetuity.

It is believed that the exceptional market rate conditions resulting from the expansionary monetary policy tied to the contingent macroeconomic situation may gradually be removed during the period considered and thus it is deemed reasonable to consider a gradually normalised scenario when defining projections in perpetuity.

Specifically, for the period 2017-2021, the detailed internal estimates used take account of the development of the macroeconomic scenario and do not consider the effect of managerial levers, except for the initiatives already considered in the 2017 budget. With specific regard to 2021, which represents the basis of reference for the cash flows at "full capacity" to be projected in perpetuity for the purposes of terminal value, the estimate has been prepared by defining a "normalisation" scenario. This scenario of gradual normalisation of macroeconomic parameters in 2021 has been determined by referring, where possible, to authoritative international sources (primarily the European Commission's Ageing Report, an authoritative source for estimating medium to long-term macroeconomic projections). The purpose of this approach is to ensure that the reference scenario is as far as possible independent of subjective choices on the selection of estimate criteria or benchmarks.

In any event, it may be observed that this scenario is nonetheless characterised by extreme prudence. Specifically, the 3-month Euribor rate, which represents one of the parameters with the greatest effect on the profitability of banking business, forecast for 2021 is 50 bps below the historical average value of that parameter during the period 1999-2016 and the related consensus estimate for the period 2022-26.

The net income projected for the forecast years has been adjusted, in accordance with IAS 36, to account for non-monetary components and the minority-interest share of net income, as well as to exclude the effects of any reorganisation and restructuring transactions. In addition, cash flows include those allocated to the various CGUs deriving from central corporate assets. In accordance with the equity-side approach mentioned above in relation to the determination of the carrying values of CGUs, the cash flows used for impairment testing include the flows correlated with financial assets and liabilities, given that these represent the company's core business.



Among various financial valuation techniques, such as that used for the estimate of the value in use, the value of a company at the end of the flow forecast period, the so-called terminal value is normally determined by infinite compounding, at an appropriate "g" rate, of the cash flow achievable "at full capacity". This rate, even if subject to time variations, may be assumed to be constant or decreasing (or increasing in rarer circumstances).

As an alternative to the terminal value estimation methodology, doctrine also envisages (i) the exit multiple approach and (ii) the approach based on an estimation of the liquidation value of the company. Specifically, with regard to approach (i) it should be mentioned that an exit multiple estimate has complex (and potentially subjective) elements that become even more marked at times of market uncertainty and volatility such as now.

Approach (ii) is valid only for companies due to be wound up on termination of the forecasting period, and therefore not applicable with a view to a business as a going concern.

In the decisions to be taken with regard to the criteria for extrapolating cash flows beyond the forecasting period, account must be taken of the market context in which the prospective scenario is being determined.

Regarding the impairment test as at 31 December 2016, in line with the impairment tests of the previous years the average growth rate of Italy's nominal GDP was determined, observed and forecast in the 2008-2021 period (it should be noted that, in consideration of the impairment made in the 2013 financial statements, no goodwill is allocated to the International Subsidiary Banks CGU and, consequently, it is not necessary to calculate the "g" rate for the purpose of the goodwill test for the foreign countries where the Group operates).

The decision made in terms of observation period for the growth rates, considering the current particular macroeconomic situation, calls for specific consideration.

Real GDP dynamics in recent years were negative or only marginally positive due to the economic-financial crisis. A turnaround from the current scenario of macroeconomic crisis took place already in 2015, very gradually resulting in a process of growth in the following years. In order to consider both the entire period of crisis experienced, beginning in 2008, and the prospects of an economic recovery beginning in 2015, the growth rate for estimating terminal value was calculated as the average GDP rates for the 2008-2021 period, inasmuch as this period was deemed sufficiently extensive to include, and thus average, a period of severe crisis and a prospective period of a return to a scenario of economic growth.

In short, the reference period is characterised by logics of prudence since it considers, on the one side, the financial crisis beginning in 2008 and, on the other, the expectation of economic growth until 2021.

In particular, for the CGUs that show intangibles with an indefinite life on the balance sheet date, and therefore to be subject to an impairment test, the "g" rate was determined with reference to Italy, since the country of operation of these CGUs (Banca dei Territori, Insurance, Asset Management, Private Banking) is mainly Italy.

Expected real GDP and inflation figures used to calculate "g" rate were drawn from the forecasts prepared by the Intesa Sanpaolo Research Department described above.

Italy presents a negative value for its average real growth rate for the period 2008-2021. Since the "g" rate is used to determine terminal value, it was considered realistic and rational not to assume negative real growth to be projected infinitely. Accordingly, for Italian CGUs, for calculation purposes, real average growth was assumed to be zero and the "g" rate thus corresponded with the average increase in inflation for the period 2008-2021.

Furthermore, with a prudential approach, it was checked that the "g" rate was not higher than Italy's GDP growth rate in 2021 or, for each CGU, the growth rate of the last year of analytical forecasting.

#### *Cash flow discounting rates*

For the determination of the value in use the cash flows must be discounted at a rate that reflects the present market valuations, the time value of money and the asset's specific risks.

In practice, the first characteristic (current market conditions) translates into the calculation of all parameters based on the latest available information as at the reference date of the estimate, so as to best take into account the current market assessments.

The second characteristic (consistency between risks/flows and rates) must follow the specificity of flows used for impairment testing of the CGUs. This rate (in its various components) must therefore be decided by observing the specific nature of flows used to assess each CGU, in order to maintain coherence and consistency with the flows. Specifically, consistency becomes important with regard to inflation, country risk and other risk factors that, according to IAS 36, may be expressed in the flows or rate. It is important to point out that a characteristic common to all CGUs recording goodwill (and, in general, intangibles with an indefinite life) is the long-term perspective of flows used to estimate the CGU value in use. In fact, by its very nature, goodwill has an indefinite useful life, and therefore future cash flows are normally infinitely projectable.

This long term perspective should be reflected in all discounting rate benchmarks by means of the appropriate selection of each, in such a way that they express normalised conditions in the long term.

The discounting rate should normally include the cost of the various sources of funding of the asset to be assessed, in other words the equity cost and debt cost (i.e. WACC, weighted average capital cost). However, in the case of a banking entity, it is estimated according to an equity-side approach, that is to say by considering only the cost of equity capital (Ke), in a manner consistent with the methods for determining cash flows, which, as stated above, include those deriving from financial assets and liabilities.

The cost of capital is determined using the Capital Asset Pricing Model (CAPM). Based on this model, the cost of capital is calculated as the sum of risk-free rate and a risk premium, in turn dependent on the specific risks implicit in the business activities (i.e. both business segment risk and country risk).

The cost of capital is determined net of taxes, in order to ensure consistency with the discounted cash flows.

As the various CGUs of the Intesa Sanpaolo Group operate in different business segments and with different risk factors, the specific costs of capital of each CGU were identified.

It should be noted that, since cash flows were determined in nominal terms, discounting rates were also determined in nominal terms, meaning that they incorporate inflation expectations.

Entering into the details of the various components that contribute to the determination of discounting rates, it may be remarked that:

- in regard to the risk-free component and the country risk premium (CRP), reference was made to the current extremely low values with respect to the general interest rate scenario. Although the level of interest rates is not expected to increase significantly (at least in the short/medium-term), it is in any case appropriate to reflect on whether the current situation may or may not reasonably be expected to last beyond the so-called "explicit period" of forecasting of the financial flows for the assessments regarding the impairment tests. In fact, as is common knowledge, terminal value, calculated as the perpetual

return of cash flows "at full capacity" after the forecast period, is an important component to calculate the value of the CGUs: in this sense the reflection must focus on the analysis of the current macroeconomic context, to check whether the current level of interest rates may be representative of an ordinary situation and, therefore, can be incorporated in the discount rate of the flow implied in the terminal value, according to a long-term calculation logic, such as the one underlying the impairment test process. Based on the situation described above, the currently low level of interest rates (especially in the risk-free component), heavily affected by the monetary policies of the ECB, will unlikely persist beyond the medium term; therefore, considering the aforementioned long-term prospect that must guide the impairment test, for the 2016 Financial Statements it was deemed appropriate to adopt an approach consistent with the 2015 Financial Statements, involving the use of differentiated discount rates for the discounting of the cash flows of the CGUs:

- o concerning the risk-free component included in the discounting rate of the cash flows of the explicit forecasting horizon, a decision was made to use the average monthly return (December 2016) of the 10-year German Government bonds (Bund);
- o concerning the risk-free component included in the discounting rate of the cash flow of the terminal value (cash flow projectable beyond the period of explicit forecasting), a decision was made to use the average annual return of 10-year German government bonds (Bund) forecast in 2021, which is the last year of flow forecast period, internally estimated based on the medium-term forecast scenario mentioned previously. The macro-economic forecasts considered, with reference to interest rates, estimate in 2018 a return to «normalised» conditions and therefore infinitely projectable for the purpose of the terminal value, according to the long-term logic underlying the impairment test.

In line with the above, also for the CRP a methodology was considered that envisages the use of differentiated values; the considerations for this choice, as a consequence, are the same as those already shown above and are essentially based on the "exceptional nature" of the interest rate level observed at present. In addition, it should be noted that there is no goodwill allocated to CGUs other than those (mainly) operating in Italy - the "country risk" essentially coincides with the "Italy risk". The CRP, therefore, in the methodological choices for the impairment test of goodwill for the purpose of the 2016 Financial Statements, was calculated as follows:

- o concerning the CRP included in the discount rate of the financial flows of the "explicit" forecast time period, the average BTP-Bund spread of December 2016 was considered;
- o concerning the CRP included in the discount rate of the financial flows of the terminal value, the average annual BTP-Bund spread estimated in 2021 was considered, based on the medium-term forecast scenario mentioned previously. For the purposes of terminal value, risk-free rates and country-risk spreads 130 bps higher than the current values at year-end overall were prudentially considered;
- the equity risk premium – represented by the difference between stock market yield and the Return on Investment on risk-free securities determined in reference to a sufficiently wide time horizon – was calculated on the basis of historical data, given its higher degree of reliability and visibility and also in the light of the current macroeconomic context, which reflects particularly volatile stock market prices not always representative of economic "fundamentals," while also creating a framework of uncertainty within which it is difficult to formulate reliable forecasts of results in order to estimate the equity risk premium implicit in stock market quotations. Specifically, the geometric mean for the equity risk premium was used, recorded on the US market for the period 1928-2016, adjusted for the differential between the US inflation rate and the German inflation rate (the market used as the basis for risk-free calculation);
- the Beta coefficient, which measures the specific degree of risk of an individual company or business sector, was calculated by identifying a sample of companies, comparable in business terms, for each CGU, and with reference to this sample the average or median Beta figure used was that recorded on a monthly basis over a five-year period.

#### Summary of growth rates and discounting rates used

The following table presents a summary, for each CGU subject to impairment test, of the parameters relevant to determining value in use: weighted average 2017-2021 growth rates, the "g" growth rates for terminal value, the various discounting rates and inflation rates.

| CGU                                   | RATES/PARAMETERS | NOMINAL GROWTH RATES<br>FOR IMPAIRMENT TEST<br>(PERIOD 2017 - 2021) | NOMINAL DISCOUNTING RATES |                     |            |                     | LONG-TERM "G" GROWTH RATES |       | INFLATION RATES |
|---------------------------------------|------------------|---|---------------------------|---------------------|------------|---------------------|----------------------------|-------|-----------------|
|                                       |                  |   | 2016 flows                | 2016 Terminal Value | 2015 flows | 2015 Terminal Value | 2016                       | 2015  | 2016            |
| <b>CGU subject to impairment test</b> |                  |   |                           |                     |            |                     |                            |       |                 |
| Banca dei Territori                   |                  | 52.66% (1)  | 9.07%                     | 10.39%              | 7.52%      | 8.37%               | 1.45%                      | 1.55% | 1.45%           |
| Insurance                             |                  | 8.77%   | 7.36%                     | 8.68%               | 7.29%      | 8.14%               | 1.45%                      | 1.55% | 1.45%           |
| Asset Management                      |                  | 8.64%   | 7.95%                     | 9.27%               | 7.52%      | 8.36%               | 1.45%                      | 1.55% | 1.45%           |
| Private Banking                       |                  | 9.67%   | 7.03%                     | 8.34%               | 6.77%      | 7.62%               | 1.45%                      | 1.55% | 1.45%           |

(1) For the Banca dei Territori CGU, the 2018 - 2021 nominal growth rate is shown, since for 2017, given the continuation of the unusual market scenario characterised by interest rates at particularly low levels, and even negative levels on short maturities, the allocations of the corporate centre's costs to the CGU result in a negative flow.

#### Impairment testing results

The outcomes of the impairment test showed how, as at 31 December 2016, the values in use of each of the four CGUs that feature allocated goodwill were higher than the respective book values. Thus it was not necessary to proceed to any impairment of the intangible assets with an indefinite life.

It is specified that, for the sake of completeness of the analysis, the value in use was calculated also for the CGUs to which intangible assets with an indefinite life are no longer allocated, as they are written down in the previous financial statements. The Group's total value in use was confirmed to be greater than the sum of the carrying amounts of the individual CGUs.

Based on its market valuation, the Group's value in use is higher than its market capitalisation. The price of Intesa Sanpaolo ordinary shares at 30 December 2016 (2.43 euro) was down compared to the end of the previous year (approximately -21%). The sharp decline in price during the first half of the year (-45%) was in contrast to a recovery in the second half. The decrease in the price of the Intesa Sanpaolo stock in 2016 exceeded the decline in the FTSE MIB index during the same period (-10%) but was

less than the change in the index of Italian banking securities (-38%). The price of Intesa Sanpaolo stock was thus affected by the market conditions of Italian bank securities and the measures implemented to bail out several institutions, albeit to a lesser extent than the reference index, which was more severely impacted by factors unrelated to the performance of the business choices established by the Group.

It is expected that these difficulties may be overcome within a reasonably short period of time and that the market will then resume valuation of individual financial institutions according to their individual performances and not as part of a system that needs to procure internal resources to face situations of difficulty.

The target price estimates, published in December 2016 and early January 2017 by investment firms and financial analysts assigned to the Intesa Sanpaolo Group, are currently concentrated around 2.7 euro on average, with maximum values of up to 2.9 euro. This latter figure is essentially consistent with the Group's equity per share. Compared to the end of 2015, the target price is down by approximately 27%.

In any event, it bears observing that market valuations have different characteristics from the "fundamental" assessment represented by value in use.

The following may be observed regarding the valuations expressed by financial analysts:

- for 2017-2019 analysts estimate earnings dynamics consistent with the prospective performance calculated by management;
- the cost of the capital used (in not particularly frequent cases, where this parameter is explicitly stated) is often determined in overall terms at Group level and generally at values that are slightly higher than the average value calculated for the purpose of the value in use for the impairment test shown previously. In any case, the cost of capital used to discount the flow of the terminal value falls within the range identified by the analysts;
- the growth rates used for the purposes of terminal value, where explicitly stated, were close to those used in impairment testing;
- similarly to the observations made for the impairment test of the 2015 Financial Statements, from the methodological standpoint, multiples, applied to current market quotations or expected profitability for the coming years, were often used (in terms of P/E or ROE); these are thus methods that provide a fair value, rather than a long-term value in use.

It bears observing that the valuations in question were intended for financial investors and thus aimed to determine prices and values in the short term.

Finally, it is believed that impairment tests must be performed with the awareness of the fact that, although financial and monetary markets are in the process of returning to normality, the current crisis will continue to have a deep impact on expected short- and medium-term cash flows from operating activities, without however affecting the Intesa Sanpaolo Group's primary sources of income and competitive edges. In consideration of such factors, value in use is considered to be a better expression of the recoverable value of the Group's operating activities in the current market situation.

Accordingly, in developing the valuation model, caution was applied both when estimating forecast cash flows and choosing financial parameters:

- expected cash flows do not take account of managerial actions, except for the effects of the actions considered in the 2017 budget, but they do take account of the full allocation to the CGUs of the financial effects of the services provided by the Corporate Centre;
- the cost of capital was determined analytically, based on parameters taken from the markets for each CGU, depending on the different risk of the respective businesses, also considering analytically the various risk factors; furthermore, the cost of capital used for the purpose of the terminal value considers the effects of a return to "normalised" conditions of the general context of interest rates and considers risk-free rates and country-risk spreads of over 130 bps higher overall than the current values at year-end used to discount cash flows in the explicit forecast period. As a consequence, the average weighted value obtained is essentially in line with the Intesa Sanpaolo's cost of capital expressed by the market and within the range of the average rates used by the investment firms in the latest reports on Intesa Sanpaolo's stock. In addition, the total cost of capital for the purposes of terminal value is far above the yield of 7.75% of the Additional Tier 1 (AT1) securities issued in January 2017 by Intesa Sanpaolo, which, while similar to capital instruments, present lower risk than shares. The yield of the recently issued AT1 securities is also higher than that of the similar securities issued in January 2016 (7%), in a manner consistent with the change in the Group's cost of capital implicit in the terminal value compared to the 2015 impairment test;
- the "g" rate, for the purpose of terminal value for Italy, which represents the area of absolute prevalence for the CGUs with residual goodwill, has been set at zero in real terms.

The parameters and information used to test the recoverability of intangible assets with indefinite useful life are significantly influenced by the macroeconomic environment and financial market trends, which might undergo changes that cannot be predicted at the present time. If, in the future, the macroeconomic scenario should deteriorate with respect to the assumptions, this would have effects on the estimate of the various CGUs' cash flows and on the main assumptions adopted, which could yield results in the financial statements of the coming years different from those outlined in these Financial Statements.

#### *Sensitivity analyses*

Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out, as required by the IAS/IFRS.

In particular, for CGUs that present residual values of intangibles with indefinite useful lives, the impact on the value in use of an increase of up to 50 bps in discounting rates and a decrease of up to 50 bps in the growth rate for terminal value purposes was verified. In addition, analyses were conducted of changes in the value in use resulting from a decrease in the cash flows used for terminal value purposes. No events of impairment would emerge in any of the CGUs tested, even in the event of an increase in discounting rates of 50 bps or a decrease in the "g" rate of 50 bps or a decrease in the terminal value cash flow of 10%.

Even the extremely penalising adoption of a simultaneous 50 bps increase in discounting rates and 50 bps decrease in the "g" growth rate (and thus to a negative level in real terms for Italy) would not result in the estimation of a value in use that is lower than the book value for any of the CGUs tested.

The table below illustrates the sensitivity (in percentage terms) of the value in use of the CGUs that present residual intangible assets with indefinite useful lives to changes in the “g” rate or discounting rate of +/-10 basis points, as well as a reduction in the cash flows used for terminal value purposes of 10%.

| CGU                 | Sensitivity | CHANGE IN VALUE IN USE                  |                                       |  |
|---------------------|-------------|---|---------------------------------------|--|
|                     |             | Sensitivity to growth rate “g” - 10 bps | Sensitivity to discount rate + 10 bps | Sensitivity to Terminal value cash flows - 10% |
| Banca dei Territori |             | -0.93%                                  | -1.22%                                | -7.71%   |
| Insurance           |             | -1.03%                                  | -1.31%                                | -7.07%   |
| Asset Management    |             | -0.95%                                  | -1.23%                                | -6.98%   |
| Private Banking     |             | -1.11%                                  | -1.40%                                | -7.29%   |

Based on the table above, changes in the Ke (increasing) or the “g” (decreasing) values within 10 bps would lead to a general decrease in the values in use ranging between 0.93% and 1.40%. A 10% decrease in the flow considered for the terminal value would lead to reductions in values in use of 7.07% to 7.71%.

Still considering stress testing, analyses were performed with the aim of determining the limits for the main inputs, beyond which impairment testing of the CGUs would require the recognition of impairment. The following table presents the “g” growth rates and discounting rates for each CGU that would result in a value in use in line with its carrying amounts, assuming equal cash flows to be discounted.

| CGU                 | Sensitivity | “g” growth rate | Difference compared to the “g” rate used | TV discounting |   |
|---------------------|-------------|-----------------|--|----------------|---|
|                     |             |                 |  | rate           | Difference compared to the Ke discounting rate used |
| Banca dei Territori |             | -0.24%          | -169 bps                                 | 11.70%         | 131 bps   |
| Insurance           |             | -4.25%          | -570 bps                                 | 12.96%         | 428 bps   |
| Asset Management    |             | -57.01%         | -5.846 bps                               | 45.10%         | 3.583 bps   |
| Private Banking     |             | n.a             | n.a <sup>(1)</sup>                       | n.a            | n.a <sup>(1)</sup>                                  |

<sup>(1)</sup> For the Private Banking CGU, the flows discounted over the explicit forecasting period are already above the carrying amount. Accordingly, the sensitivity analysis on the parameters that affect the discounted terminal value, provided that flows are equal, is not applicable, since it would never result in a reduction in terminal value that would bring the CGU's value in use to values near its carrying amount.

As shown by the data contained in the table, the values in use of the CGUs would reduce until the book values, with consequent impairment problems, only in correspondence with the significant worsening of the discounting rates (Ke) and the “g” growth rates.

**SECTION 14 – TAX ASSETS AND LIABILITIES – CAPTION 140 OF ASSETS AND CAPTION 80 OF LIABILITIES****14.1 Deferred tax assets: breakdown**

Deferred tax assets, recognised with regard to deductible temporary differences, totalled 11,131 million euro, of which 10,037 million euro refers to taxes recorded through profit and loss and 1,094 million euro to taxes with a balancing entry under shareholders' equity.

The first of these amounts refers to tax losses brought forward, to the portion of tax benefits not offset in relation to adjustments to loans deductible in future years, to provisions for risks and charges, and to the benefit from realignment of the taxable value of goodwill, trademarks and other intangible assets pursuant to Article 15, par. 10, 10-bis and 10-ter of Law Decree 185/2008. Deferred tax assets recorded as a balancing entry under shareholders' equity almost exclusively refer to tax on negative valuation reserves for financial assets available for sale, to the cash flow hedges and to recognition of actuarial losses on personnel funds.

**14.2 Deferred tax liabilities: breakdown**

Deferred tax liabilities amounted to 1,541 million euro and the balancing entry is mostly in the income statement (1,107 million euro) as well as in shareholders' equity (434 million euro).

**14.3 Changes in deferred tax assets (through profit and loss)**

|  | 31.12.2016    | Of which:                |                                |                            | 31.12.2015    |
|--|---------------|--------------------------|--------------------------------|----------------------------|---------------|
|  |               | <i>Banking<br/>group</i> | <i>Insurance<br/>companies</i> | <i>Other<br/>companies</i> |               |
| <b>1. Initial amount</b>                                 | <b>10,257</b> | <b>9,969</b>             | <b>268</b>                     | <b>20</b>                  | <b>10,231</b> |
| <b>2. Increases</b>                                      | <b>617</b>    | <b>538</b>               | <b>79</b>                      | <b>-</b>                   | <b>877</b>    |
| 2.1 Deferred tax assets recognised in the period         | 407           | 343                      | 64                             | -                          | 582           |
| a) related to previous years                             | 19            | 19                       | -                              | -                          | 67            |
| b) due to changes in accounting criteria                 | -             | -                        | -                              | -                          | -             |
| c) value recoveries                                      | -             | -                        | -                              | -                          | -             |
| d) other   | 388           | 324                      | 64                             | -                          | 515           |
| 2.2 New taxes or tax rate increases                      | -             | -                        | -                              | -                          | -             |
| 2.3 Other increases                                      | 210           | 195                      | 15                             | -                          | 277           |
| 2.4 Business combinations                                | -             | -                        | -                              | -                          | 18            |
| <b>3. Decreases</b>                                      | <b>-837</b>   | <b>-794</b>              | <b>-38</b>                     | <b>-5</b>                  | <b>-851</b>   |
| 3.1 Deferred tax assets eliminated in the period         | -650          | -615                     | -34                            | -1                         | -420          |
| a) reversals   | -535          | -532                     | -2                             | -1                         | -300          |
| b) write-offs  | -             | -                        | -                              | -                          | -4            |
| c) due to changes in accounting criteria                 | -             | -                        | -                              | -                          | -             |
| d) other   | -115          | -83                      | -32                            | -                          | -116          |
| 3.2 Tax rate reductions                                  | -             | -                        | -                              | -                          | -32           |
| 3.3 Other decreases                                      | -187          | -179                     | -4                             | -4                         | -399          |
| a) changes into tax credits pursuant to Law no. 214/2011 | -13           | -13                      | -                              | -                          | -31           |
| b) other   | -174          | -166                     | -4                             | -4                         | -368          |
| 3.4 Business combinations                                | -             | -                        | -                              | -                          | -             |
| <b>4. Final amount</b>                                   | <b>10,037</b> | <b>9,713</b>             | <b>309</b>                     | <b>15</b>                  | <b>10,257</b> |

Other increases recorded under point 2.3 mainly include the reversal of netting performed in the previous year.

Other decreases as per point 3.3 essentially include netting performed during the year between deferred tax assets and liabilities.

Other decreases a) changes into tax credits pursuant to Law 214/2011 refers to the conversion into tax credits of deferred tax assets pursuant to Law 214/2011 deriving from Adjustments to loans deductible in future years and Goodwill, trademarks and other intangibles already recognised in the financial statements as at 31 December 2014, as also shown in the following detail table.

These changes can take place in the presence of statutory tax losses, for an amount equal to the product of the loss for the year recognised in the financial statements of the previous year of the consolidated companies and the ratio of deferred tax assets to the sum of share capital and reserves presented in the aforementioned financial statements, or with reference to the deferred tax assets recognised in the financial statements of the previous year of the consolidated companies relating to the same type of negative components for the portion of these that contributed to tax losses or negative net production values, deemed significant for IRES and IRAP purposes, respectively.

**14.3.1 Changes in deferred tax assets eligible for transformation into tax credits (through profit and loss) (Law 214/2011)**

(millions of euro)

|                              | 31.12.2016   | Of which:     |                     |                 | 31.12.2015   |
|------------------------------|--------------|---------------|---------------------|-----------------|--------------|
|                              |              | Banking group | Insurance companies | Other companies |              |
| <b>1. Initial amount</b>     | <b>8,749</b> | <b>8,733</b>  | <b>16</b>           | <b>-</b>        | <b>8,824</b> |
| <b>2. Increases</b>          | <b>275</b>   | <b>273</b>    | <b>2</b>            | <b>-</b>        | <b>262</b>   |
| <b>3. Decreases</b>          | <b>-533</b>  | <b>-531</b>   | <b>-2</b>           | <b>-</b>        | <b>-337</b>  |
| 3.1 Reversals                | -316         | -316          | -                   | -               | -69          |
| 3.2 Changes into tax credits | -13          | -13           | -                   | -               | -31          |
| a) from losses for the year  | -13          | -13           | -                   | -               | -31          |
| b) from fiscal losses        | -            | -             | -                   | -               | -            |
| 3.3 Other decreases          | -204         | -202          | -2                  | -               | -237         |
| <b>4. Final amount</b>       | <b>8,491</b> | <b>8,475</b>  | <b>16</b>           | <b>-</b>        | <b>8,749</b> |

**14.4 Changes in deferred tax liabilities (through profit and loss)**

(millions of euro)

|   | 31.12.2016   | Of which:     |                     |                 | 31.12.2015   |
|---|--------------|---------------|---------------------|-----------------|--------------|
|   |              | Banking group | Insurance companies | Other companies |              |
| <b>1. Initial amount</b>                              | <b>1,161</b> | <b>780</b>    | <b>337</b>          | <b>44</b>       | <b>1,031</b> |
| <b>2. Increases</b>                                   | <b>409</b>   | <b>391</b>    | <b>18</b>           | <b>-</b>        | <b>529</b>   |
| 2.1 Deferred tax liabilities recognised in the period | 120          | 120           | -                   | -               | 181          |
| a) related to previous years                          | -            | -             | -                   | -               | 66           |
| b) due to changes in accounting criteria              | -            | -             | -                   | -               | -            |
| c) other  | 120          | 120           | -                   | -               | 115          |
| 2.2 New taxes or tax rate increases                   | -            | -             | -                   | -               | -            |
| 2.3 Other increases                                   | 289          | 271           | 18                  | -               | 317          |
| 2.4 Business combinations                             | -            | -             | -                   | -               | 31           |
| <b>3. Decreases</b>                                   | <b>-463</b>  | <b>-367</b>   | <b>-78</b>          | <b>-18</b>      | <b>-399</b>  |
| 3.1 Deferred tax liabilities eliminated in the period | -191         | -114          | -77                 | -               | -159         |
| a) reversals  | -76          | -76           | -                   | -               | -111         |
| b) due to changes in accounting criteria              | -            | -             | -                   | -               | -            |
| c) other  | -115         | -38           | -77                 | -               | -48          |
| 3.2 Tax rate reductions                               | -            | -             | -                   | -               | -49          |
| 3.3 Other decreases                                   | -272         | -253          | -1                  | -18             | -191         |
| 3.4 Business combinations                             | -            | -             | -                   | -               | -            |
| <b>4. Final amount</b>                                | <b>1,107</b> | <b>804</b>    | <b>277</b>          | <b>26</b>       | <b>1,161</b> |

Other increases recorded under point 2.3 mainly include the reversal of netting performed in the previous year. Other decreases as per point 3.3 essentially include netting performed during the year between deferred tax assets and liabilities.

**14.5 Changes in deferred tax assets (recorded in equity)**

|  | 31.12.2016   |                  | Of which:              |                    | (millions of euro) |
|--|--------------|------------------|------------------------|--------------------|--------------------|
|  |              | Banking<br>group | Insurance<br>companies | Other<br>companies | 31.12.2015         |
| <b>1. Initial amount</b>                         | <b>1,138</b> | <b>1,009</b>     | <b>129</b>             | -                  | <b>1,179</b>       |
| <b>2. Increases</b>                              | <b>291</b>   | <b>291</b>       | -                      | -                  | <b>286</b>         |
| 2.1 Deferred tax assets recognised in the period | 237          | 237              | -                      | -                  | 144                |
| a) related to previous years                     | 1            | 1                | -                      | -                  | 40                 |
| b) due to changes in accounting criteria         | -            | -                | -                      | -                  | 2                  |
| c) other   | 236          | 236              | -                      | -                  | 102                |
| 2.2 New taxes or tax rate increases              | -            | -                | -                      | -                  | 9                  |
| 2.3 Other increases                              | 54           | 54               | -                      | -                  | 128                |
| 2.4 Business combinations                        | -            | -                | -                      | -                  | 5                  |
| <b>3. Decreases</b>                              | <b>-335</b>  | <b>-318</b>      | <b>-17</b>             | -                  | <b>-327</b>        |
| 3.1 Deferred tax assets eliminated in the period | -148         | -131             | -17                    | -                  | -286               |
| a) reversals                                     | -117         | -117             | -                      | -                  | -241               |
| b) write-offs                                    | -            | -                | -                      | -                  | -                  |
| c) due to changes in accounting criteria         | -            | -                | -                      | -                  | -                  |
| d) other   | -31          | -14              | -17                    | -                  | -45                |
| 3.2 Tax rate reductions                          | -            | -                | -                      | -                  | -14                |
| 3.3 Other decreases                              | -187         | -187             | -                      | -                  | -27                |
| 3.4 Business combinations                        | -            | -                | -                      | -                  | -                  |
| <b>4. Final amount</b>                           | <b>1,094</b> | <b>982</b>       | <b>112</b>             | -                  | <b>1,138</b>       |

**14.6 Changes in deferred tax liabilities (recorded in equity)**

|   | 31.12.2016  |                  | Of which:              |                    | (millions of euro) |
|---|-------------|------------------|------------------------|--------------------|--------------------|
|   |             | Banking<br>group | Insurance<br>companies | Other<br>companies | 31.12.2015         |
| <b>1. Initial amount</b>                              | <b>698</b>  | <b>249</b>       | <b>446</b>             | <b>3</b>           | <b>630</b>         |
| <b>2. Increases</b>                                   | <b>96</b>   | <b>85</b>        | <b>11</b>              | -                  | <b>384</b>         |
| 2.1 Deferred tax liabilities recognised in the period | 74          | 74               | -                      | -                  | 230                |
| a) related to previous years                          | -           | -                | -                      | -                  | -                  |
| b) due to changes in accounting criteria              | -           | -                | -                      | -                  | -                  |
| c) other  | 74          | 74               | -                      | -                  | 230                |
| 2.2 New taxes or tax rate increases                   | -           | -                | -                      | -                  | -                  |
| 2.3 Other increases                                   | 22          | 11               | 11                     | -                  | 134                |
| 2.4 Business combinations                             | -           | -                | -                      | -                  | 20                 |
| <b>3. Decreases</b>                                   | <b>-360</b> | <b>-234</b>      | <b>-123</b>            | <b>-3</b>          | <b>-316</b>        |
| 3.1 Deferred tax liabilities eliminated in the period | -223        | -100             | -123                   | -                  | -232               |
| a) reversals  | -59         | -59              | -                      | -                  | -177               |
| b) due to changes in accounting criteria              | -           | -                | -                      | -                  | -                  |
| c) other  | -164        | -41              | -123                   | -                  | -55                |
| 3.2 Tax rate reductions                               | -           | -                | -                      | -                  | -36                |
| 3.3 Other decreases                                   | -137        | -134             | -                      | -3                 | -48                |
| 3.4 Business combinations                             | -           | -                | -                      | -                  | -                  |
| <b>4. Final amount</b>                                | <b>434</b>  | <b>100</b>       | <b>334</b>             | -                  | <b>698</b>         |

**Probability test on deferred taxation**

IAS 12 requires for deferred tax assets and liabilities to be recognised according to the following criteria:

- taxable temporary differences: a deferred tax liability must be recognised for all taxable temporary differences;
- deductible temporary differences: a deferred tax asset must be recognised for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilised. Deferred tax assets not recognised in the past - inasmuch as the requirements for recognition have not been met - must be recognised during the year in which those requirements are met.

The book value of deferred tax assets must therefore be tested each year to determine whether it is reasonably certain that taxable income will be earned in the future and thus that the deferred tax assets may be recovered.

Given the significant amount of deferred tax assets carried among the Group's assets, including in the 2016 financial statements, as for previous financial statements, an analysis was conducted to verify projections of future profitability sufficient to ensure the recovery of those deferred tax assets and thus justify recognising and continuing to carrying them (a procedure known as a "probability test").

Nevertheless, in conducting the probability test for the deferred tax assets carried in the Group's financial statements as at 31 December 2016, as in the case of the 2011-2015 financial statements, assets arising from temporary deductible differences associated with impairment losses on loans, as well as goodwill and other intangible assets with indefinite useful lives<sup>6</sup> ("eligible deferred tax assets" and "eligible temporary differences"), if carried in the financial statements within 2014, were considered separately. In this regard, it bears noting that, effective from the tax period ended 31 December 2011, deferred tax assets (for corporate income tax or IRES) recognised to account for tax losses due to the deferred deduction of eligible temporary differences are eligible for conversion into tax credits (article 2, paragraph 56-bis, of Law Decree 225 of 29 December 2010, introduced by article 9 of Law Decree 201 of 6 December 2011). Effective from the 2013 tax period, a similar conversion is allowed where the regional business tax (IRAP) return shows a negative net production value also in relation to IRAP deferred tax assets that pertain to eligible temporary differences that have contributed to determining the negative net production value (article 2, paragraph 56-bis.1, of Law Decree 225 of 29 December 2010, introduced by Law 147/2013). The above conversion process forms – which are in addition to that already envisaged for cases in which the separate financial statements show a loss for the year (article 2, paragraphs 55 and 56, of Law Decree 225/2010, as most recently amended by Law 147/2013) – provide an additional, supplementary recovery method suited to ensuring the recovery of eligible deferred tax assets in all situations, regardless of the company's future profitability. If in a given year there are surplus eligible temporary differences with respect to taxable income or net production value, the recovery of deferred tax assets takes the form not of a decrease in current taxes, but rather the recognition of deferred tax assets on the tax loss or the negative net production value, convertible into tax credits pursuant to article 2, paragraphs 56-bis and 56-bis.1, of Law Decree 225/2010. The convertibility of deferred tax assets on tax losses and negative net production values that result from eligible temporary differences is therefore a sufficient condition for the recognition of eligible deferred tax assets, excluding them from the area of application of the probability test.

An additional limit to the straight convertibility of deferred tax assets was introduced by art. 11 of Law Decree 59 of 3 May 2016, modified by Law Decree 237 of 23 December 2016 which has subordinated the transformation into tax credits of the eligible deferred tax assets which were not matched by an actual prepayment of taxes ("type 2 DTA") to the payment of an annual fee, equal to 1.5% of their overall value, for the years 2016-2030. No fee is due for the transformation into tax credits of the eligible deferred tax assets which were matched by an actual prepayment of greater taxes ("type 1 DTA"). Considering that the eligible deferred tax assets recognised by the Companies that are part of the fiscal consolidation of Intesa Sanpaolo resulted from "type 1 DTA", the Group was not actually concerned by this measure.

Based on the above, the probability test involved:

- a) identifying deferred tax assets, other than those associated with impairment losses on loans, goodwill and other intangible assets with indefinite useful lives ("ineligible deferred tax assets") carried in the consolidated financial statements;
- b) analysing such ineligible deferred tax assets and the deferred tax liabilities carried in the consolidated financial statements, distinguishing them by causal relationship and thus by foreseeable recovery timing;
- c) provisionally determining the amount of the Group's future earnings in order to verify its ability to recover the recognised deferred tax assets set forth in point a) above.

The analysis conducted indicated a taxable base that was more than sufficient and adequate to allow recovery of the deferred tax assets carried in the financial statements as at 31 December 2016.

#### **Unused tax losses**

In the 2016 financial statements, deferred tax assets are entered, which derive from tax losses brought forward for about 150 million euro, referring to the Luxembourg subsidiary Intesa Sanpaolo Holding International (ISPHI).

As at 31 December 2008, against the more than 2 billion euro in prior tax losses accumulated by ISPHI (mainly deriving from the impairment and disposal of the South American investments), usable without time limits, deferred tax assets were entered in the Group's financial statements for 572 million euro, calculated based on the tax rate then in force in Luxembourg (28.59%).

In the following years, the profitability of the subsidiary (in addition to ISPBL, Luxgest Asset Management and Intesa Sanpaolo Servitia, which participate in the same local fiscal consolidation) and the restatements following the changes in the local rates taking place in the meantime (the rate increased from 2011 to 28.80% and from 2013 to 29.22%; as from 1 January 2017 it has been reduced to 27.08%, and from 1 January 2018 it will be reduced to 26.01%), reduced the above-mentioned deferred tax assets by about 420 million euro.

The analyses carried out in relation to the income forecasts of the subsidiaries confirm the ability of the Luxembourg fiscal consolidation to use the losses against which DTAs are recognised. The tax losses still to be absorbed at the end of 2016 amount to 572 million euro.

<sup>6</sup> With art. 17 of Law Decree 83 of 27 June 2015, the convertibility into tax credits was excluded (for any reason provided for by Law Decree 225 of 29 December 2010) of the deferred tax assets relating "to the value of the goodwill and the other intangible assets entered for the first time starting from the financial statements relating to the year underway at the date the provision comes into force", i.e. starting from 2015.



## SECTION 15 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES - CAPTION 150 OF ASSETS AND CAPTION 90 OF LIABILITIES

### 15.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset

(millions of euro)

|  | 31.12.2016 |           | Of which: |            | 31.12.2015 |
|--|------------|-----------|-----------|------------|------------|
|  | Total      | Banking   | Insurance | Other      | Total      |
|  | Book value | group     | companies | companies  | Book value |
| <b>A. Non-current assets held for sale</b>                                 |            |           |           |            |            |
| A.1 Financial assets   | 3          | -         | -         | 3          | -          |
| A.2 Investments in associates and companies subject to joint control       | -          | -         | -         | -          | -          |
| A.3 Property and equipment   | 305        | 29        | -         | 276        | 27         |
| A.4 Intangible assets  | -          | -         | -         | -          | -          |
| A.5 Other  | 4          | -         | -         | 4          | -          |
| <b>Total A</b>   | <b>312</b> | <b>29</b> | <b>-</b>  | <b>283</b> | <b>27</b>  |
| <i>of which cost</i>   | <i>312</i> | <i>29</i> | <i>-</i>  | <i>283</i> | <i>27</i>  |
| <i>of which Fair value Level 1</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 2</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 3</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <b>B. Discontinued operations</b>  |            |           |           |            |            |
| B.1 Financial assets held for trading                                      | -          | -         | -         | -          | -          |
| B.2 Financial assets designated at fair value through profit and loss      | -          | -         | -         | -          | -          |
| B.3 Financial assets available for sale                                    | -          | -         | -         | -          | -          |
| B.4 Investments held to maturity   | -          | -         | -         | -          | -          |
| B.5 Due from banks   | -          | -         | -         | -          | -          |
| B.6 Loans to customers   | -          | -         | -         | -          | -          |
| B.7 Investments in associates and companies subject to joint control       | -          | -         | -         | -          | -          |
| B.8 Property and equipment   | -          | -         | -         | -          | -          |
| B.9 Intangible assets  | -          | -         | -         | -          | -          |
| B.10 Other   | -          | -         | -         | -          | -          |
| <b>Total B</b>   | <b>-</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>   | <b>-</b>   |
| <i>of which cost</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 1</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 2</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 3</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <b>C. Liabilities associated with non-current assets held for sale</b>     |            |           |           |            |            |
| C.1 Debts  | 255        | -         | -         | 255        | -          |
| C.2 Securities   | -          | -         | -         | -          | -          |
| C.3 Other  | 17         | -         | -         | 17         | -          |
| <b>Total C</b>   | <b>272</b> | <b>-</b>  | <b>-</b>  | <b>272</b> | <b>-</b>   |
| <i>of which cost</i>   | <i>272</i> | <i>-</i>  | <i>-</i>  | <i>272</i> | <i>-</i>   |
| <i>of which Fair value Level 1</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 2</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 3</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <b>D. Liabilities associated with discontinued operations</b>              |            |           |           |            |            |
| D.1 Due to banks   | -          | -         | -         | -          | -          |
| D.2 Due to customers   | -          | -         | -         | -          | -          |
| D.3 Securities issued  | -          | -         | -         | -          | -          |
| D.4 Financial liabilities held for trading                                 | -          | -         | -         | -          | -          |
| D.5 Financial liabilities designated at fair value through profit and loss | -          | -         | -         | -          | -          |
| D.6 Allowances   | -          | -         | -         | -          | -          |
| D.7 Other  | -          | -         | -         | -          | -          |
| <b>Total D</b>   | <b>-</b>   | <b>-</b>  | <b>-</b>  | <b>-</b>   | <b>-</b>   |
| <i>of which cost</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 1</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 2</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |
| <i>of which Fair value Level 3</i>   | <i>-</i>   | <i>-</i>  | <i>-</i>  | <i>-</i>   | <i>-</i>   |

The caption includes mainly real-estate assets to be sold in the near future held by Cassa di Risparmio del Veneto, Risanamento and Banca Intesa a.d., Beograd.

### 15.2 Other information

There is no other significant information to note as at 31 December 2016.

### 15.3 Information on companies subject to significant influence not carried at equity

As at 31 December 2016, there were no investments in companies subject to significant influence not carried at equity and classified as held for sale.

## SECTION 16 – OTHER ASSETS – CAPTION 160

### 16.1 Other assets: breakdown

|  | Total        | Of which:     |                     |                 |
|--|--------------|---------------|---------------------|-----------------|
|  |              | Banking group | Insurance companies | Other companies |
| Amounts to be credited and items under processing                    | 910          | 910           | -                   | -               |
| Amounts due from tax authorities relating to insurance business      | 1,811        | -             | 1,811               | -               |
| Amounts to be debited - deriving from securities transactions        | 269          | 256           | 13                  | -               |
| Assets originating from financial leases and loan recovery           | 239          | 83            | -                   | 156             |
| Real-estate portfolio under construction and portfolio held for sale | 705          | 4             | -                   | 701             |
| Leasehold improvements   | 105          | 105           | -                   | -               |
| Cheques and other instruments held                                   | 259          | 259           | -                   | -               |
| Transit items  | 44           | 44            | -                   | -               |
| Other  | 3,895        | 3,069         | 818                 | 8               |
| <b>TOTAL 31.12.2016</b>  | <b>8,237</b> | <b>4,730</b>  | <b>2,642</b>        | <b>865</b>      |
| <b>TOTAL 31.12.2015</b>  | <b>8,121</b> | <b>5,024</b>  | <b>2,131</b>        | <b>966</b>      |

The real-estate portfolio under construction and portfolio earmarked for disposal is mainly attributable to Risanamento.

## LIABILITIES

### SECTION 1 – DUE TO BANKS – CAPTION 10

#### 1.1 Due to banks: breakdown

|   | 31.12.2016    | <i>Of which:</i>         |                                |                            | 31.12.2015         |
|---|---------------|--------------------------|--------------------------------|----------------------------|--------------------|
|   |               | <i>Banking<br/>group</i> | <i>Insurance<br/>companies</i> | <i>Other<br/>companies</i> |                    |
|   |               |                          |                                |                            | (millions of euro) |
| <b>1. Due to Central Banks</b>                                    | <b>48,037</b> | <b>48,037</b>            | -                              | -                          | <b>32,659</b>      |
| <b>2. Due to banks</b>  | <b>24,604</b> | <b>24,401</b>            | <b>16</b>                      | <b>187</b>                 | <b>26,668</b>      |
| 2.1 Current accounts and deposits                                 | 3,968         | 3,949                    | 15                             | 4                          | 5,564              |
| 2.2 Time deposits   | 3,348         | 3,348                    | -                              | -                          | 3,786              |
| 2.3 Loans   | 16,076        | 15,893                   | -                              | 183                        | 17,061             |
| 2.3.1 Repurchase agreements                                       | 8,449         | 8,449                    | -                              | -                          | 8,555              |
| 2.3.2 Other   | 7,627         | 7,444                    | -                              | 183                        | 8,506              |
| 2.4 Debts for commitments to repurchase<br>own equity instruments | 187           | 187                      | -                              | -                          | 181                |
| 2.5 Other debts   | 1,025         | 1,024                    | 1                              | -                          | 76                 |
| <b>TOTAL (Book value)</b>   | <b>72,641</b> | <b>72,438</b>            | <b>16</b>                      | <b>187</b>                 | <b>59,327</b>      |
| Fair value - Level 1  | -             | -                        | -                              | -                          | -                  |
| Fair value - Level 2  | 58,890        | 58,702                   | 1                              | 187                        | 44,537             |
| Fair value - Level 3  | 13,319        | 13,304                   | 15                             | -                          | 14,603             |
| <b>TOTAL (fair value)</b>   | <b>72,209</b> | <b>72,006</b>            | <b>16</b>                      | <b>187</b>                 | <b>59,140</b>      |

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.

Repurchase agreements related to assets sold not derecognised are detailed in Part E - Section C.2.

The amount under Debts for commitments to repurchase own equity instruments refers to put options sold with minority stakes of fully consolidated equity investments as underlying asset, attributable to the Put & Call Agreement to purchase 9.75% of Bank of Alexandria for a total of approximately 186 million euro.

The repurchase agreements presented in the table include long-term repurchase transactions with a total carrying amount of 1,164 million euro, of which 500 million euro is attributable to the Parent Company, relating to the various cases described below.

The first case involves de-risking transactions finalised in previous years with the twofold aim of both funding the Group's operations (through repurchase transactions) and reducing the credit risks associated with the portfolio of securities issued (through the acquisition of financial guarantees).

The repurchase transactions, with a carrying amount of 655 million euro (of which 200 million euro attributable to the Parent Company) have a non-replaceable underlying portfolio of Italian government securities (with maturities from 2019 to 2033). In addition, with reference to the Parent Company, securities issued by local and public corporate entities of Eurozone nations (with maturities from 2017 to 2018), hedged against interest rate risk through IRS (asset swap) contracts. These contracts were already recorded in the financial statements at the time of execution of the repurchase transactions and recognised under financial assets available for sale and, in the case of the Parent Company, as loans to customers. Their maturity and nominal value coincide with those of the securities; the financial guarantees have a duration shorter than the maturity of the underlying securities.

The second case regards transactions with a book value of 273 million euro (of which 64 million euro attributable to the Parent Company), with total duration of approximately 4 years and, in some cases, amortisation of the notional amount over time. These transactions were finalised in previous years in the context of public finance activity and consist of medium-/long-term repurchase agreements aimed at funding the purchase of securities issued by Italy and by Italian regions. These transactions have been carried out with various counterparties and, only in some cases, have maturities that correspond to those of the securities purchased. In addition, an IRS has also been entered into between the parties to hedge interest rate risk. Lastly, the Group has provided additional collateral for the counterparty.

Being collateralised, this form of medium-/long-term funding has allowed the Bank to obtain a better net return on its investments in securities than it would have obtained by raising funds through other forms of financing with the same time horizon but not collateralised by the same guarantee structure.

For the sake of completeness, a third case is reported: it consists of long-term repurchase agreements with a book value of 236 million euro (entirely attributable to the Parent Company), entered into with the sole purpose of raising new funding using securities already outstanding in the Bank's portfolio, mainly classified as loans to customers (already hedged against interest-rate risk with IRS contracts).

The maturities of the repurchase agreements (to 2017 and in one case to 2039) are in some cases equal to the maturities of the underlying securities. It is possible to substitute securities which are sold but not derecognised.

For recognition purposes, an assessment was conducted aimed at understanding the purpose underlying the contractual agreements, taking into account the instructions provided by the supervisory authorities in Bank of Italy/Consob/IVASS Document No. 6 of 8 March 2013, "Accounting treatment of 'long-term structured repurchase agreements'."

The analysis focused on the structure, cash flows and risks associated with the transactions and was aimed at verifying whether the cases described above were similar to the long-term structured repurchase agreements described in the above Document, and, in order to be compliant with the principle of the prevalence of substance over form, whether the indicators illustrated in IAS 39, the Guidance on Implementing, paragraph B.6, according to which the transaction may be considered substantially similar to a credit derivative contract, and, in particular, a credit default swap, were present.

With respect to the first case, the repurchase agreements were not concurrent with the purchases of the securities and execution of the interest rate swaps, inasmuch as the securities and derivative instruments were already present in the portfolio. In addition, buying securities and entering into derivatives occurred with market counterparties other than those with which the repurchase agreements were entered into.

With respect to the second case, although the repurchase agreements were concurrent with the purchases of the securities and execution of the interest rate swaps, those agreements were entered into with different counterparties and, in some cases, for nominal values and maturities less than those of the securities.

Lastly, with respect to the third case, the specific purpose for which they were undertaken, demonstrated by the substitutability of the securities underlying the repurchase agreements, excludes a correlation between the various phases and differentiates the transactions from those described in the above-mentioned Document. The securities had already been recognised and the counterparties with which the transactions were undertaken were different.

Consequently, in all cases the analysis shows elements of differentiation from the long-term structured repurchase agreements described in the aforementioned Document and grounds supporting the inapplicability of the guidelines envisaged in IAS 39, Guidance on Implementing, paragraph B.6. All of the transactions pertaining to the cases described above have therefore been recognised, considering the individual contractual components separately.

#### **1.2 Breakdown of caption 10 Due to banks: subordinated debts**

There are no subordinated debts as at 31 December 2016.

#### **1.3 Breakdown of caption 10 Due to banks: structured debts**

There are no structured debts as at 31 December 2016.

#### **1.4 Due to banks with specific hedges**

As at 31 December 2016, debts with fair value hedges against interest rate risk amounted to 36,731 million euro.

#### **1.5 Financial lease payables**

There are no financial lease payables due to banks as at 31 December 2016.

**SECTION 2 – DUE TO CUSTOMERS – CAPTION 20****2.1 Due to customers: breakdown**

(millions of euro)

|   | 31.12.2016     | Of which:      |                     |                 | 31.12.2015     |
|---|----------------|----------------|---------------------|-----------------|----------------|
|   |                | Banking group  | Insurance companies | Other companies |                |
| 1. Current accounts and deposits                              | 224,687        | 224,687        | -                   | -               | 182,062        |
| 2. Time deposits  | 33,047         | 33,047         | -                   | -               | 43,278         |
| 3. Loans  | 28,453         | 28,453         | -                   | -               | 24,573         |
| 3.1 Repurchase agreements                                     | 24,561         | 24,561         | -                   | -               | 20,416         |
| 3.2 Other   | 3,892          | 3,892          | -                   | -               | 4,157          |
| 4. Debts for commitments to repurchase own equity instruments | 131            | 131            | -                   | -               | 130            |
| 5. Other debts  | 5,558          | 5,516          | 42                  | -               | 5,215          |
| <b>TOTAL (Book value)</b>                                     | <b>291,876</b> | <b>291,834</b> | <b>42</b>           | <b>-</b>        | <b>255,258</b> |
| Fair value - Level 1  | 114            | 72             | 42                  | -               | 183            |
| Fair value - Level 2  | 257,681        | 257,681        | -                   | -               | 216,446        |
| Fair value - Level 3  | 34,613         | 34,613         | -                   | -               | 39,183         |
| <b>TOTAL (fair value)</b>                                     | <b>292,408</b> | <b>292,366</b> | <b>42</b>           | <b>-</b>        | <b>255,812</b> |

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.

Repurchase agreements related to assets sold not derecognised are detailed in Part E – Section C.2.

The amount under Debts for commitments to repurchase own equity instruments refers to put options sold with minority stakes of fully consolidated equity investments as underlying asset, mainly attributable to the Put & Call Agreement to purchase 16.52% of Cassa di Risparmio di Pistoia for a total of approximately 85 million euro.

**2.2 Breakdown of caption 20 Due to customers: subordinated debts**

There are no subordinated debts as at 31 December 2016.

**2.3 Breakdown of caption 20 Due to customers: structured debts**

As at 31 December 2016, the amount under Due to customers included structured debts of 47 million euro.

**2.4 Due to customers with specific hedges**

As at 31 December 2016, debts with specific hedges included under Due to customers are immaterial.

**2.5 Financial lease payables**

As at 31 December 2016, financial lease payables included under Due to customers are immaterial.

## SECTION 3 – SECURITIES ISSUED - CAPTION 30

## 3.1 Securities issued: breakdown

(millions of euro)

|                   | Book value    | 31.12.2016    |               |              | 31.12.2015     |               |               |              |
|-------------------|---------------|---------------|---------------|--------------|----------------|---------------|---------------|--------------|
|                   |               | Fair value    |               |              | Fair value     |               |               |              |
|                   |               | Level 1       | Level 2       | Level 3      | Level 1        | Level 2       | Level 3       |              |
| <b>Securities</b> |               |               |               |              |                |               |               |              |
| 1. bonds          | 88,280        | 42,702        | 44,106        | 2,434        | 101,727        | 49,110        | 51,954        | 2,648        |
| 1.1 structured    | 5,326         | 575           | 4,575         | 146          | 7,596          | 514           | 7,070         | 15           |
| 1.2 other         | 82,954        | 42,127        | 39,531        | 2,288        | 94,131         | 48,596        | 44,884        | 2,633        |
| 2. other          | 6,503         | -             | 5,615         | 888          | 8,417          | -             | 8,395         | 21           |
| 2.1 structured    | -             | -             | -             | -            | -              | -             | -             | -            |
| 2.2 other         | 6,503         | -             | 5,615         | 888          | 8,417          | -             | 8,395         | 21           |
| <b>TOTAL</b>      | <b>94,783</b> | <b>42,702</b> | <b>49,721</b> | <b>3,322</b> | <b>110,144</b> | <b>49,110</b> | <b>60,349</b> | <b>2,669</b> |

Embedded derivatives that have satisfied the conditions set forth by IAS 39 as at their issue date for separation from the host contract as at 31 December 2016 have a negative fair value of 356 million euro.

The illustration of the criteria used to determine fair value is contained in Part A – Accounting policies.

## 3.1 Of which: Banking group

(millions of euro)

|                   | Book value    | 31.12.2016    |               |              | 31.12.2015     |               |               |              |
|-------------------|---------------|---------------|---------------|--------------|----------------|---------------|---------------|--------------|
|                   |               | Fair value    |               |              | Fair value     |               |               |              |
|                   |               | Level 1       | Level 2       | Level 3      | Level 1        | Level 2       | Level 3       |              |
| <b>Securities</b> |               |               |               |              |                |               |               |              |
| 1. bonds          | 87,028        | 42,702        | 42,854        | 2,434        | 100,477        | 49,110        | 50,704        | 2,648        |
| 1.1 structured    | 5,326         | 575           | 4,575         | 146          | 7,596          | 514           | 7,070         | 15           |
| 1.2 other         | 81,702        | 42,127        | 38,279        | 2,288        | 92,881         | 48,596        | 43,634        | 2,633        |
| 2. other          | 6,476         | -             | 5,588         | 888          | 8,299          | -             | 8,277         | 21           |
| 2.1 structured    | -             | -             | -             | -            | -              | -             | -             | -            |
| 2.2 other         | 6,476         | -             | 5,588         | 888          | 8,299          | -             | 8,277         | 21           |
| <b>TOTAL</b>      | <b>93,504</b> | <b>42,702</b> | <b>48,442</b> | <b>3,322</b> | <b>108,776</b> | <b>49,110</b> | <b>58,981</b> | <b>2,669</b> |

## 3.1 Of which: Insurance companies

As at 31 December 2016, a total of 1,252 million euro related to insurance companies, fully attributable to level-2 other bonds (fair value 1,252 million euro), which at the end of 2015 amounted to 1,250 million euro.

## 3.1 Of which: Other companies

As at 31 December 2016, a total of 27 million euro related to other companies, fully attributable to level-2 other securities (fair value 27 million euro), which at the end of 2015 amounted to 118 million euro.

## 3.2 Breakdown of caption 30 Securities issued: subordinated securities

The complete list of subordinated securities eligible for regulatory purposes is presented in Part F – Information on capital. The amount of subordinated securities included under Securities issued totalled 15,066 million euro.

## 3.3 Breakdown of caption 30 Securities issued: securities with specific hedges

(millions of euro)

|  | 31.12.2016    | 31.12.2015    |
|--|---------------|---------------|
| <b>1. Securities with specific fair value hedges</b> | <b>68,482</b> | <b>80,463</b> |
| a) Interest rate risk                                | 67,624        | 78,518        |
| b) Foreign exchange risk                             | -             | -             |
| c) Various risks                                     | 858           | 1,945         |
| <b>2. Securities with specific cash flow hedges</b>  | <b>335</b>    | <b>180</b>    |
| a) Interest rate risk                                | 335           | 180           |
| b) Foreign exchange risk                             | -             | -             |
| c) Other   | -             | -             |
| <b>TOTAL</b>   | <b>68,817</b> | <b>80,643</b> |

## SECTION 4 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 40

## 4.1 Financial liabilities held for trading: breakdown

(millions of euro)

|                            | Nominal<br>or notional<br>value | 31.12.2016    |               |            | Fair<br>value <sup>(*)</sup> | Nominal<br>or notional<br>value | 31.12.2015    |               |            | Fair<br>value <sup>(*)</sup> |
|----------------------------|---------------------------------|---------------|---------------|------------|------------------------------|---------------------------------|---------------|---------------|------------|------------------------------|
|                            |                                 | Level 1       | Level 2       | Level 3    |                              |                                 | Level 1       | Level 2       | Level 3    |                              |
| <b>A. CASH LIABILITIES</b> |                                 |               |               |            |                              |                                 |               |               |            |                              |
| 1. Due to banks            | 3,811                           | 4,132         | 25            | -          | 4,157                        | 2,879                           | 3,032         | 141           | -          | 3,173                        |
| 2. Due to customers        | -                               | -             | -             | -          | -                            | 545                             | 542           | -             | -          | 542                          |
| 3. Debt securities         | 5,304                           | 5,098         | 27            | -          | X                            | 5,245                           | 4,533         | 528           | -          | X                            |
| 3.1 Bonds                  | -                               | -             | -             | -          | X                            | -                               | -             | -             | -          | X                            |
| 3.1.1 structured           | -                               | -             | -             | -          | X                            | -                               | -             | -             | -          | X                            |
| 3.1.2 other bonds          | -                               | -             | -             | -          | X                            | -                               | -             | -             | -          | X                            |
| 3.2 Other                  | 5,304                           | 5,098         | 27            | -          | X                            | 5,245                           | 4,533         | 528           | -          | X                            |
| 3.2.1 structured           | 5,304                           | 5,098         | 27            | -          | X                            | 5,245                           | 4,533         | 528           | -          | X                            |
| 3.2.2 other                | -                               | -             | -             | -          | X                            | -                               | -             | -             | -          | X                            |
| <b>Total A</b>             | <b>9,115</b>                    | <b>9,230</b>  | <b>52</b>     | <b>-</b>   | <b>4,157</b>                 | <b>8,669</b>                    | <b>8,107</b>  | <b>669</b>    | <b>-</b>   | <b>3,715</b>                 |
| <b>B. DERIVATIVES</b>      |                                 |               |               |            |                              |                                 |               |               |            |                              |
| 1. Financial derivatives   | X                               | 3,743         | 30,237        | 247        | X                            | X                               | 3,100         | 30,379        | 315        | X                            |
| 1.1 Trading                | X                               | 3,741         | 29,995        | 133        | X                            | X                               | 3,100         | 30,071        | 181        | X                            |
| 1.2 Fair value option      | X                               | 2             | -             | -          | X                            | X                               | -             | -             | -          | X                            |
| 1.3 Other                  | X                               | -             | 242           | 114        | X                            | X                               | -             | 308           | 134        | X                            |
| 2. Credit derivatives      | X                               | 10            | 1,252         | 19         | X                            | X                               | 10            | 924           | 18         | X                            |
| 2.1 Trading                | X                               | 10            | 1,252         | 19         | X                            | X                               | 10            | 924           | 18         | X                            |
| 2.2 Fair value option      | X                               | -             | -             | -          | X                            | X                               | -             | -             | -          | X                            |
| 2.3 Other                  | X                               | -             | -             | -          | X                            | X                               | -             | -             | -          | X                            |
| <b>Total B</b>             | <b>X</b>                        | <b>3,753</b>  | <b>31,489</b> | <b>266</b> | <b>X</b>                     | <b>X</b>                        | <b>3,110</b>  | <b>31,303</b> | <b>333</b> | <b>X</b>                     |
| <b>TOTAL (A+B)</b>         | <b>X</b>                        | <b>12,983</b> | <b>31,541</b> | <b>266</b> | <b>X</b>                     | <b>X</b>                        | <b>11,217</b> | <b>31,972</b> | <b>333</b> | <b>X</b>                     |

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

## 4.1 Of which: Banking group

(millions of euro)

|                            | Nominal<br>or notional<br>value | 31.12.2016    |               |            | Fair<br>value <sup>(*)</sup> | Nominal<br>or notional<br>value | 31.12.2015    |               |            | Fair<br>value <sup>(*)</sup> |
|----------------------------|---------------------------------|---------------|---------------|------------|------------------------------|---------------------------------|---------------|---------------|------------|------------------------------|
|                            |                                 | Level 1       | Level 2       | Level 3    |                              |                                 | Level 1       | Level 2       | Level 3    |                              |
| <b>A. CASH LIABILITIES</b> |                                 |               |               |            |                              |                                 |               |               |            |                              |
| 1. Due to banks            | 3,811                           | 4,132         | 25            | -          | 4,157                        | 2,879                           | 3,032         | 141           | -          | 3,173                        |
| 2. Due to customers        | -                               | -             | -             | -          | -                            | 545                             | 542           | -             | -          | 542                          |
| 3. Debt securities         | 5,304                           | 5,098         | 27            | -          | X                            | 5,245                           | 4,533         | 528           | -          | X                            |
| 3.1 Bonds                  | -                               | -             | -             | -          | X                            | -                               | -             | -             | -          | X                            |
| 3.1.1 structured           | -                               | -             | -             | -          | X                            | -                               | -             | -             | -          | X                            |
| 3.1.2 other bonds          | -                               | -             | -             | -          | X                            | -                               | -             | -             | -          | X                            |
| 3.2 Other                  | 5,304                           | 5,098         | 27            | -          | X                            | 5,245                           | 4,533         | 528           | -          | X                            |
| 3.2.1 structured           | 5,304                           | 5,098         | 27            | -          | X                            | 5,245                           | 4,533         | 528           | -          | X                            |
| 3.2.2 other                | -                               | -             | -             | -          | X                            | -                               | -             | -             | -          | X                            |
| <b>Total A</b>             | <b>9,115</b>                    | <b>9,230</b>  | <b>52</b>     | <b>-</b>   | <b>4,157</b>                 | <b>8,669</b>                    | <b>8,107</b>  | <b>669</b>    | <b>-</b>   | <b>3,715</b>                 |
| <b>B. DERIVATIVES</b>      |                                 |               |               |            |                              |                                 |               |               |            |                              |
| 1. Financial derivatives   | X                               | 3,741         | 30,160        | 245        | X                            | X                               | 3,100         | 30,249        | 314        | X                            |
| 1.1 Trading                | X                               | 3,741         | 29,918        | 131        | X                            | X                               | 3,100         | 29,941        | 180        | X                            |
| 1.2 Fair value option      | X                               | -             | -             | -          | X                            | X                               | -             | -             | -          | X                            |
| 1.3 Other                  | X                               | -             | 242           | 114        | X                            | X                               | -             | 308           | 134        | X                            |
| 2. Credit derivatives      | X                               | 10            | 1,246         | 19         | X                            | X                               | 10            | 911           | 18         | X                            |
| 2.1 Trading                | X                               | 10            | 1,246         | 19         | X                            | X                               | 10            | 911           | 18         | X                            |
| 2.2 Fair value option      | X                               | -             | -             | -          | X                            | X                               | -             | -             | -          | X                            |
| 2.3 Other                  | X                               | -             | -             | -          | X                            | X                               | -             | -             | -          | X                            |
| <b>Total B</b>             | <b>X</b>                        | <b>3,751</b>  | <b>31,406</b> | <b>264</b> | <b>X</b>                     | <b>X</b>                        | <b>3,110</b>  | <b>31,160</b> | <b>332</b> | <b>X</b>                     |
| <b>TOTAL (A+B)</b>         | <b>X</b>                        | <b>12,981</b> | <b>31,458</b> | <b>264</b> | <b>X</b>                     | <b>X</b>                        | <b>11,217</b> | <b>31,829</b> | <b>332</b> | <b>X</b>                     |

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

A.1 Due to banks and A.2 Due to customers include short selling.

A.3.2.1 Other structured debt securities includes capital protected certificates for 5,125 million euro, which amounted to 5,060 million euro at the end of 2015.

**4.1 Of which: Insurance companies**

(millions of euro)

|                            | 31.12.2016                |            |         |         |                | 31.12.2015                |            |         |         |                |
|----------------------------|---------------------------|------------|---------|---------|----------------|---------------------------|------------|---------|---------|----------------|
|                            | Nominal or notional value | Fair value |         |         | Fair value (*) | Nominal or notional value | Fair value |         |         | Fair value (*) |
|                            |                           | Level 1    | Level 2 | Level 3 |                |                           | Level 1    | Level 2 | Level 3 |                |
| <b>A. CASH LIABILITIES</b> |                           |            |         |         |                |                           |            |         |         |                |
| 1. Due to banks            | -                         | -          | -       | -       | -              | -                         | -          | -       | -       | -              |
| 2. Due to customers        | -                         | -          | -       | -       | -              | -                         | -          | -       | -       | -              |
| 3. Debt securities         | -                         | -          | -       | -       | X              | -                         | -          | -       | -       | X              |
| 3.1 Bonds                  | -                         | -          | -       | -       | X              | -                         | -          | -       | -       | X              |
| 3.1.1 structured           | -                         | -          | -       | -       | X              | -                         | -          | -       | -       | X              |
| 3.1.2 other bonds          | -                         | -          | -       | -       | X              | -                         | -          | -       | -       | X              |
| 3.2 Other                  | -                         | -          | -       | -       | X              | -                         | -          | -       | -       | X              |
| 3.2.1 structured           | -                         | -          | -       | -       | X              | -                         | -          | -       | -       | X              |
| 3.2.2 other                | -                         | -          | -       | -       | X              | -                         | -          | -       | -       | X              |
| <b>Total A</b>             | -                         | -          | -       | -       | -              | -                         | -          | -       | -       | -              |
| <b>B. DERIVATIVES</b>      |                           |            |         |         |                |                           |            |         |         |                |
| 1. Financial derivatives   | X                         | 2          | 77      | 2       | X              | X                         | -          | 130     | 1       | X              |
| 1.1 Trading                | X                         | -          | 77      | 2       | X              | X                         | -          | 130     | 1       | X              |
| 1.2 Fair value option      | X                         | 2          | -       | -       | X              | X                         | -          | -       | -       | X              |
| 1.3 Other                  | X                         | -          | -       | -       | X              | X                         | -          | -       | -       | X              |
| 2. Credit derivatives      | X                         | -          | 6       | -       | X              | X                         | -          | 13      | -       | X              |
| 2.1 Trading                | X                         | -          | 6       | -       | X              | X                         | -          | 13      | -       | X              |
| 2.2 Fair value option      | X                         | -          | -       | -       | X              | X                         | -          | -       | -       | X              |
| 2.3 Other                  | X                         | -          | -       | -       | X              | X                         | -          | -       | -       | X              |
| <b>Total B</b>             | X                         | 2          | 83      | 2       | X              | X                         | -          | 143     | 1       | X              |
| <b>TOTAL (A+B)</b>         | X                         | 2          | 83      | 2       | X              | X                         | -          | 143     | 1       | X              |

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

**4.2 Breakdown of caption 40 Financial liabilities held for trading: subordinated liabilities**

As at 31 December 2016 there are no subordinated liabilities classified under Financial liabilities held for trading.

**4.3 Breakdown of caption 40 Financial liabilities held for trading: structured debts**

The Group has structured debts of 5,218 million euro classified under Financial liabilities held for trading as at 31 December 2016.

**SECTION 5 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS – CAPTION 50****5.1 Financial liabilities designated at fair value: breakdown**

(millions of euro)

|                     | 31.12.2016    |            |               |          |                | 31.12.2015    |            |               |          |                |
|---------------------|---------------|------------|---------------|----------|----------------|---------------|------------|---------------|----------|----------------|
|                     | Nominal value | Fair value |               |          | Fair value (*) | Nominal value | Fair value |               |          | Fair value (*) |
|                     |               | Level 1    | Level 2       | Level 3  |                |               | Level 1    | Level 2       | Level 3  |                |
| 1. Due to banks     | -             | -          | -             | -        | -              | -             | -          | -             | -        | -              |
| 1.1 structured      | -             | -          | -             | -        | X              | -             | -          | -             | -        | X              |
| 1.2 other           | -             | -          | -             | -        | X              | -             | -          | -             | -        | X              |
| 2. Due to customers | 57,188        | -          | 57,187        | -        | 57,188         | 47,022        | -          | 47,022        | -        | 47,022         |
| 2.1 structured      | 4             | -          | 3             | -        | X              | -             | -          | -             | -        | X              |
| 2.2 other           | 57,184        | -          | 57,184        | -        | X              | 47,022        | -          | 47,022        | -        | X              |
| 3. Debt securities  | -             | -          | -             | -        | -              | -             | -          | -             | -        | -              |
| 3.1 structured      | -             | -          | -             | -        | X              | -             | -          | -             | -        | X              |
| 3.2 other           | -             | -          | -             | -        | X              | -             | -          | -             | -        | X              |
| <b>TOTAL</b>        | <b>57,188</b> | <b>-</b>   | <b>57,187</b> | <b>-</b> | <b>57,188</b>  | <b>47,022</b> | <b>-</b>   | <b>47,022</b> | <b>-</b> | <b>47,022</b>  |

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.



**5.1 Of which: Banking group**

As at 31 December 2016, there were level 2 structured debts to customers amounting to 3 million euro (nominal value 4 million euro), while at the end of 2015 there were no financial liabilities designated at fair value through profit and loss.

**5.1 Of which: Insurance companies**

(millions of euro)

|                     | 31.12.2016    |            |               |          | Fair value (*) | 31.12.2015    |            |               |          | Fair value (*) |
|---------------------|---------------|------------|---------------|----------|----------------|---------------|------------|---------------|----------|----------------|
|                     | Nominal value | Fair value |               |          |                | Nominal value | Fair value |               |          |                |
|                     |               | Level 1    | Level 2       | Level 3  |                |               | Level 1    | Level 2       | Level 3  |                |
| 1. Due to banks     | -             | -          | -             | -        | -              | -             | -          | -             | -        | -              |
| 1.1 structured      | -             | -          | -             | -        | X              | -             | -          | -             | -        | X              |
| 1.2 other           | -             | -          | -             | -        | X              | -             | -          | -             | -        | X              |
| 2. Due to customers | 57,184        | -          | 57,184        | -        | 57,184         | 47,022        | -          | 47,022        | -        | 47,022         |
| 2.1 structured      | -             | -          | -             | -        | X              | -             | -          | -             | -        | X              |
| 2.2 other           | 57,184        | -          | 57,184        | -        | X              | 47,022        | -          | 47,022        | -        | X              |
| 3. Debt securities  | -             | -          | -             | -        | -              | -             | -          | -             | -        | -              |
| 3.1 structured      | -             | -          | -             | -        | X              | -             | -          | -             | -        | X              |
| 3.2 other           | -             | -          | -             | -        | X              | -             | -          | -             | -        | X              |
| <b>TOTAL</b>        | <b>57,184</b> | <b>-</b>   | <b>57,184</b> | <b>-</b> | <b>57,184</b>  | <b>47,022</b> | <b>-</b>   | <b>47,022</b> | <b>-</b> | <b>47,022</b>  |

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

Liabilities designated at fair value through profit and loss as at 31 December 2016 essentially included amounts owed to policyholders who have taken out mainly financial policies for which insurance risk is not deemed significant.

**5.2 Breakdown of caption 50 Financial liabilities designated at fair value: subordinated liabilities**

There are no subordinated liabilities classified under Financial liabilities designated at fair value as at 31 December 2016.

**SECTION 6 – HEDGING DERIVATIVES – CAPTION 60****6.1. Hedging derivatives: breakdown by type of hedge and level**

(millions of euro)

|                                 | Fair value 31.12.2016 |              |          | Notional value | Fair value 31.12.2015 |              |          | Notional value |
|---------------------------------|-----------------------|--------------|----------|----------------|-----------------------|--------------|----------|----------------|
|                                 | Level 1               | Level 2      | Level 3  |                | Level 1               | Level 2      | Level 3  |                |
| <b>A. Financial derivatives</b> | -                     | <b>9,024</b> | <b>4</b> | <b>118,437</b> | -                     | <b>8,228</b> | <b>6</b> | <b>78,566</b>  |
| 1. Fair value                   | -                     | 6,988        | 4        | 110,113        | -                     | 6,180        | 6        | 70,769         |
| 2. Cash flows                   | -                     | 2,036        | -        | 8,324          | -                     | 2,048        | -        | 7,797          |
| 3. Foreign investments          | -                     | -            | -        | -              | -                     | -            | -        | -              |
| <b>B. Credit derivatives</b>    | -                     | -            | -        | -              | -                     | -            | -        | -              |
| 1. Fair value                   | -                     | -            | -        | -              | -                     | -            | -        | -              |
| 2. Cash flows                   | -                     | -            | -        | -              | -                     | -            | -        | -              |
| <b>TOTAL</b>                    | <b>-</b>              | <b>9,024</b> | <b>4</b> | <b>118,437</b> | <b>-</b>              | <b>8,228</b> | <b>6</b> | <b>78,566</b>  |

**6.1 Of which: Banking group**

(millions of euro)

|                                 | Fair value 31.12.2016 |              |          | Notional value | Fair value 31.12.2015 |              |          | Notional value |
|---------------------------------|-----------------------|--------------|----------|----------------|-----------------------|--------------|----------|----------------|
|                                 | Level 1               | Level 2      | Level 3  |                | Level 1               | Level 2      | Level 3  |                |
| <b>A. Financial derivatives</b> | -                     | <b>9,024</b> | <b>4</b> | <b>118,413</b> | -                     | <b>8,224</b> | <b>6</b> | <b>78,336</b>  |
| 1. Fair value                   | -                     | 6,988        | 4        | 110,113        | -                     | 6,180        | 6        | 70,769         |
| 2. Cash flows                   | -                     | 2,036        | -        | 8,300          | -                     | 2,044        | -        | 7,567          |
| 3. Foreign investments          | -                     | -            | -        | -              | -                     | -            | -        | -              |
| <b>B. Credit derivatives</b>    | -                     | -            | -        | -              | -                     | -            | -        | -              |
| 1. Fair value                   | -                     | -            | -        | -              | -                     | -            | -        | -              |
| 2. Cash flows                   | -                     | -            | -        | -              | -                     | -            | -        | -              |
| <b>TOTAL</b>                    | <b>-</b>              | <b>9,024</b> | <b>4</b> | <b>118,413</b> | <b>-</b>              | <b>8,224</b> | <b>6</b> | <b>78,336</b>  |

**6.1 Of which: Other companies**

As at 31 December 2016, the amount attributable to other companies, referring to cash flow hedge through financial derivatives (notional value 24 million), is immaterial, while at the end of 2015 there were 4 million under the same caption (notional value 230 million).

**6.2. Hedging derivatives: breakdown by hedged portfolio and type of hedge**

| Operations/Type of hedge                      | FAIR VALUE         |                       |             |            |               |              | CASH FLOWS |              | FOREIGN INVESTM. |
|---|--------------------|-----------------------|-------------|------------|---------------|--------------|------------|--------------|------------------|
|   | Specific           |                       |             |            |               | Generic      | Specific   | Generic      |                  |
|   | interest rate risk | foreign exchange risk | credit risk | price risk | various risks |              |            |              |                  |
| 1. Financial assets available for sale        | 762                | -                     | -           | -          | 80            | X            | -          | X            | X                |
| 2. Loans                                      | 3,949              | -                     | -           | X          | 294           | X            | -          | X            | X                |
| 3. Investments held to maturity               | X                  | -                     | -           | X          | -             | X            | -          | X            | X                |
| 4. Portfolio                                  | X                  | X                     | X           | X          | X             | 1,224        | X          | 4            | X                |
| 5. Other transactions                         | -                  | -                     | -           | -          | -             | X            | -          | X            | -                |
| <b>Total assets</b>                           | <b>4,711</b>       | <b>-</b>              | <b>-</b>    | <b>-</b>   | <b>374</b>    | <b>1,224</b> | <b>-</b>   | <b>4</b>     | <b>-</b>         |
| 1. Financial liabilities                      | 583                | -                     | -           | X          | 98            | X            | 9          | X            | X                |
| 2. Portfolio                                  | X                  | X                     | X           | X          | X             | 2            | X          | 2,023        | X                |
| <b>Total liabilities</b>                      | <b>583</b>         | <b>-</b>              | <b>-</b>    | <b>-</b>   | <b>98</b>     | <b>2</b>     | <b>9</b>   | <b>2,023</b> | <b>-</b>         |
| 1. Forecast transactions                      | X                  | X                     | X           | X          | X             | X            | -          | X            | X                |
| 2. Financial assets and liabilities portfolio | X                  | X                     | X           | X          | X             | -            | X          | -            | -                |

**6.2 Of which: Banking group**

| Operations/Type of hedge                      | FAIR VALUE         |                       |             |            |               |              | CASH FLOWS |              | FOREIGN INVESTM. |
|---|--------------------|-----------------------|-------------|------------|---------------|--------------|------------|--------------|------------------|
|   | Specific           |                       |             |            |               | Generic      | Specific   | Generic      |                  |
|   | interest rate risk | foreign exchange risk | credit risk | price risk | various risks |              |            |              |                  |
| 1. Financial assets available for sale        | 762                | -                     | -           | -          | 80            | X            | -          | X            | X                |
| 2. Loans                                      | 3,949              | -                     | -           | X          | 294           | X            | -          | X            | X                |
| 3. Investments held to maturity               | X                  | -                     | -           | X          | -             | X            | -          | X            | X                |
| 4. Portfolio                                  | X                  | X                     | X           | X          | X             | 1,224        | X          | 4            | X                |
| 5. Other transactions                         | -                  | -                     | -           | -          | -             | X            | -          | X            | -                |
| <b>Total assets</b>                           | <b>4,711</b>       | <b>-</b>              | <b>-</b>    | <b>-</b>   | <b>374</b>    | <b>1,224</b> | <b>-</b>   | <b>4</b>     | <b>-</b>         |
| 1. Financial liabilities                      | 583                | -                     | -           | X          | 98            | X            | 9          | X            | X                |
| 2. Portfolio                                  | X                  | X                     | X           | X          | X             | 2            | X          | 2,023        | X                |
| <b>Total liabilities</b>                      | <b>583</b>         | <b>-</b>              | <b>-</b>    | <b>-</b>   | <b>98</b>     | <b>2</b>     | <b>9</b>   | <b>2,023</b> | <b>-</b>         |
| 1. Forecast transactions                      | X                  | X                     | X           | X          | X             | X            | -          | X            | X                |
| 2. Financial assets and liabilities portfolio | X                  | X                     | X           | X          | X             | -            | X          | -            | -                |

The table indicates negative fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.

These mainly refer to specific fair value hedges of loans disbursed and generic cash flow hedge derivatives of portfolios of liabilities. These cash flow hedges refer to floating rate securities used to fund fixed rate investments.

There are also specific fair value hedges of financial liabilities and financial assets available for sale and generic fair value hedges of loans.

**6.2 Of which: Other companies**

As at 31 December 2016, the amount pertaining to other companies and referring entirely to general hedges of financial assets was immaterial.

## SECTION 7 - FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS - CAPTION 70

### 7.1 Fair value change of financial liabilities in hedged portfolios

|  | 31.12.2016 | Of which:        |                        |                    | (millions of euro)<br>31.12.2015 |
|--|------------|------------------|------------------------|--------------------|----------------------------------|
|  |            | Banking<br>group | Insurance<br>companies | Other<br>companies |                                  |
| 1. Positive fair value change of financial liabilities | 773        | 773              | -                      | -                  | 1,017                            |
| 2. Negative fair value change of financial liabilities | -          | -                | -                      | -                  | -3                               |
| <b>TOTAL</b>   | <b>773</b> | <b>773</b>       | <b>-</b>               | <b>-</b>           | <b>1,014</b>                     |

The balance of the changes in value of liabilities subject to macrohedging (MCH) against interest rate risk is recorded in this caption. For the above macrohedging, the Group took advantage of the option emerged after the definition of the IAS 39 carve out.

### 7.2 Financial liabilities hedged by macrohedging of interest rate risk: breakdown

|              | 31.12.2016    | (millions of euro)<br>31.12.2015 |
|--------------|---------------|----------------------------------|
| 1. Debts     | -             | -                                |
| 2. Portfolio | 12,684        | 20,839                           |
| <b>TOTAL</b> | <b>12,684</b> | <b>20,839</b>                    |

The table shows liabilities hedged by macrohedging of interest risk. The group adopts the macrohedging, limited to coverage of core deposits.

## SECTION 8 – TAX LIABILITIES – CAPTION 80

For information on this section, see Section 14 of Assets.

## SECTION 9 - LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 90

For information on this section, see Section 15 of Assets.

**SECTION 10 – OTHER LIABILITIES – CAPTION 100****10.1 Other liabilities: breakdown**

|   | (millions of euro) |                          |                                |                            |
|---|--------------------|--------------------------|--------------------------------|----------------------------|
|   | 31.12.2016         | <i>Of which:</i>         |                                |                            |
|   |                    | <i>Banking<br/>group</i> | <i>Insurance<br/>companies</i> | <i>Other<br/>companies</i> |
| Due to suppliers                                  | 1,420              | 1,310                    | 84                             | 26                         |
| Amounts due to third parties                      | 401                | 401                      | -                              | -                          |
| Transit items                                     | 26                 | 26                       | -                              | -                          |
| Adjustments for portfolio items to be settled     | 90                 | 90                       | -                              | -                          |
| Amounts to be credited and items under processing | 867                | 867                      | -                              | -                          |
| Personnel charges                                 | 283                | 278                      | 5                              | -                          |
| Due to social security entities                   | 171                | 169                      | 2                              | -                          |
| Guarantees given and commitments                  | 383                | 383                      | -                              | -                          |
| Due to tax authorities                            | 1,275              | 606                      | 666                            | 3                          |
| Other   | 7,028              | 6,143                    | 870                            | 15                         |
| <b>TOTAL 31.12.2016</b>                           | <b>11,944</b>      | <b>10,273</b>            | <b>1,627</b>                   | <b>44</b>                  |
| <b>TOTAL 31.12.2015</b>                           | <b>11,566</b>      | <b>10,155</b>            | <b>1,360</b>                   | <b>51</b>                  |

**SECTION 11 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 110****11.1 Employee termination indemnities: annual changes**

|                                       | (millions of euro) |                          |                                |                            |              |
|---------------------------------------|--------------------|--------------------------|--------------------------------|----------------------------|--------------|
|                                       | 31.12.2016         | <i>Of which:</i>         |                                |                            | 31.12.2015   |
|                                       |                    | <i>Banking<br/>group</i> | <i>Insurance<br/>companies</i> | <i>Other<br/>companies</i> |              |
| <b>A. Initial amount</b>              | <b>1,353</b>       | <b>1,346</b>             | <b>5</b>                       | <b>2</b>                   | <b>1,480</b> |
| <b>B. Increases</b>                   | <b>279</b>         | <b>279</b>               | <b>-</b>                       | <b>-</b>                   | <b>117</b>   |
| B.1 Provisions in the year            | 28                 | 28                       | -                              | -                          | 21           |
| B.2 Other                             | 251                | 251                      | -                              | -                          | 96           |
| <i>of which business combinations</i> | 2                  | 2                        | -                              | -                          | 2            |
| <b>C. Decreases</b>                   | <b>-229</b>        | <b>-229</b>              | <b>-</b>                       | <b>-</b>                   | <b>-244</b>  |
| C.1 Benefits paid                     | -45                | -45                      | -                              | -                          | -64          |
| C.2 Other                             | -184               | -184                     | -                              | -                          | -180         |
| <i>of which business combinations</i> | -                  | -                        | -                              | -                          | -            |
| <b>D. Final amount</b>                | <b>1,403</b>       | <b>1,396</b>             | <b>5</b>                       | <b>2</b>                   | <b>1,353</b> |

C.1 refers to benefits paid as at 31 December 2016.

For greater detail on actuarial calculations, see Section 12.3 – Post employment defined benefit plans.

**11.2 Other information**

The value of employee termination indemnities qualifying as unfunded defined benefit plans totalled 1,403 million euro as at December 2016, while at the end of 2015 it amounted to 1,353 million euro.

## SECTION 12 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 120

## 12.1 Allowances for risks and charges: breakdown

(millions of euro)

|  | 31.12.2016   | Of which:     |                     |                 | 31.12.2015   |
|--|--------------|---------------|---------------------|-----------------|--------------|
|  |              | Banking group | Insurance companies | Other companies |              |
| <b>1. Post employment benefits</b>               | <b>1,025</b> | <b>1,024</b>  | <b>1</b>            | <b>-</b>        | <b>859</b>   |
| <b>2. Other allowances for risks and charges</b> | <b>2,402</b> | <b>2,297</b>  | <b>16</b>           | <b>89</b>       | <b>2,621</b> |
| 2.1 Legal disputes                               | 744          | 739           | 4                   | 1               | 823          |
| 2.2 Personnel charges                            | 612          | 602           | 10                  | -               | 630          |
| 2.3 Other  | 1,046        | 956           | 2                   | 88              | 1,168        |
| <b>TOTAL</b>                                     | <b>3,427</b> | <b>3,321</b>  | <b>17</b>           | <b>89</b>       | <b>3,480</b> |

1 – Post employment benefits include allowances for defined benefit plans, illustrated in point 12.3 below.  
The contents of 2 – Other allowances for risks and charges are illustrated in point 12.4 below.

## 12.2 Allowances for risks and charges: annual changes

(millions of euro)

|   | TOTAL                    |                  | Of which:                |                  |                          |                  |                          |                  |
|---|--------------------------|------------------|--------------------------|------------------|--------------------------|------------------|--------------------------|------------------|
|   | Post employment benefits | Other allowances | Banking group            |                  | Insurance companies      |                  | Other companies          |                  |
|   |                          |                  | Post employment benefits | Other allowances | Post employment benefits | Other allowances | Post employment benefits | Other allowances |
| <b>A. Initial amount</b>                    | <b>859</b>               | <b>2,621</b>     | <b>858</b>               | <b>2,491</b>     | <b>1</b>                 | <b>18</b>        | <b>-</b>                 | <b>112</b>       |
| <b>B. Increases</b>                         | <b>453</b>               | <b>781</b>       | <b>453</b>               | <b>769</b>       | <b>-</b>                 | <b>7</b>         | <b>-</b>                 | <b>5</b>         |
| B.1 Provisions in the year                  | 30                       | 723              | 30                       | 715              | -                        | 7                | -                        | 1                |
| B.2 Time value changes                      | 22                       | 13               | 22                       | 13               | -                        | -                | -                        | -                |
| B.3 Changes due to discount rate variations | -                        | 1                | -                        | 1                | -                        | -                | -                        | -                |
| B.4 Other                                   | 401                      | 44               | 401                      | 40               | -                        | -                | -                        | 4                |
| of which business combinations              | -                        | -                | -                        | -                | -                        | -                | -                        | -                |
| <b>C. Decreases</b>                         | <b>-287</b>              | <b>-1,000</b>    | <b>-287</b>              | <b>-963</b>      | <b>-</b>                 | <b>-9</b>        | <b>-</b>                 | <b>-28</b>       |
| C.1 Uses in the year                        | -20                      | -712             | -20                      | -683             | -                        | -7               | -                        | -22              |
| C.2 Changes due to discount rate variations | -                        | -                | -                        | -                | -                        | -                | -                        | -                |
| C.3 Other                                   | -267                     | -288             | -267                     | -280             | -                        | -2               | -                        | -6               |
| of which business combinations              | -                        | -                | -                        | -                | -                        | -                | -                        | -                |
| <b>D. Final amount</b>                      | <b>1,025</b>             | <b>2,402</b>     | <b>1,024</b>             | <b>2,297</b>     | <b>1</b>                 | <b>16</b>        | <b>-</b>                 | <b>89</b>        |

As at 31 December 2016 the variations due to changes in the discounting rate totalled 1 million euro and were attributable to the Parent Company and network banks.

## 12.3 Post employment defined benefit plans

**1. Illustration of the characteristics of the funds and related risks**

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability of the Bank, according to IAS 19 “Employee Benefits”, is determined via the “projected unit credit method” by an independent actuary.

The defined benefit plans, in which the companies of the Intesa Sanpaolo Group are co-obliged, can be distinguished in:

- internal supplementary pension funds;
- external supplementary pension funds.

Internal funds include:

- Three defined benefit plans in force for the London branch, relating to the former Cariplo, Banca Commerciale Italiana and Banco Ambrosiano Veneto branches. The private pension funds have been set up by the UK employers to integrate the levels of the local state pension, which has always been very low. The London branches of Banca Commerciale Italiana, Cariplo and Banco Ambrosiano Veneto set up defined benefit plans for their employees at the time of their opening, under the form of Trusts incorporated under English law and managed by Boards of Trustees, appointed partly by the employers and partly by beneficiaries. Such funds are operational for employees hired until the end of 1999 for Banco Ambrosiano Veneto and Cariplo and until the end of 2000 for Banca Commerciale Italiana. In general, all funds guarantee a pension payable when the beneficiary turns 65 and the benefit is determined, with different rules for the various funds, on the basis of the annual gross wage received in the last year of service;
- Post-retirement medical plan and other benefits for employees of Bank of Alexandria (Egypt): defined benefit plans providing health coverage and other benefits to employees, even after retirement. The bank is responsible for the costs and risks related to the disbursement of said benefits;

- Defined benefit plans in effect within Banca Intesa Beograd: these are long-term benefits established by the Collective Contract (which refers to provisions of law in the Republic of Serbia) for employees in service to be paid upon termination of employment.

External funds include:

- Supplementary pension fund for employees of Istituto Bancario San Paolo di Torino “Cassa di Previdenza Integrativa per il Personale dell’Istituto Bancario San Paolo di Torino”, a fund with legal status, full economic independence and independent asset management;
- Complementary pension fund for the Employees of Banco di Napoli “Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A”, an entity with legal status and independent asset management. The fund includes the following: employees enrolled in the plan and other beneficiaries from former Banco di Napoli; retired employees receiving Supplementary Pension Cheques, formerly the SANPAOLO IMI internal fund; current and retired employees of the Cassa di Risparmio di Bologna, formerly enrolled in the Complementary pension fund for the Employees of said Cassa, transferred to the Complementary pension fund for the employees of the Banco di Napoli in 2004; retired employees of the Complementary pension fund former Fin.Opi, transferred to the Fund in question on 1 June 2005; current and retired employees of the Banca Popolare dell’Adriatico, formerly enrolled in the Company pension fund for the employees of the former Banca Popolare dell’Adriatico, transferred to the Fund in question on 3 June 2006; retired employees of Cassa di Risparmio di Udine e Pordenone, formerly enrolled in the Complementary pension fund for the Employees of said Cassa, transferred to the Fund in 2006; retired employees of the Cassa di Risparmio di Forlì, formerly enrolled in the Complementary pension fund for the Employees of said Cassa, transferred to the Fund in question on 1 January 2007; retired employees of the former Carive internal Fund, transferred to that fund on 1 January 2008; retired employees of the former CR Firenze FIP internal fund, transferred to the mentioned Fund on 1 January 2010; retired employees of the Cassa di Risparmio di Terni e Narni internal fund, transferred to the mentioned Fund on 1 January 2010; retired employees of the Cassa di Risparmio di Pistoia e Pescia internal fund, transferred to that fund on 1 September 2012; retired tax-collection personnel of the Supplementary pension fund for tax-collection personnel formerly employed by Cariplo, transferred to the fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary pension fund for employees of Mediocredito Lombardo S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Pension Fund for key Managers, former Key Managers and entitled parties of former Comit, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the “Casse del Centro” Pension Funds, in particular those enrolled in the Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Città di Castello, Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Foligno, Company supplementary pension AGO fund for employees of Cassa di Risparmio di Spoleto, Supplementary/complementary pension fund for the mandatory pension for employees of Cassa di Risparmio di Rieti, Pension fund for the Employees of Cassa di Risparmio della Provincia di Viterbo and Company supplementary pension fund for employees of Cassa di Risparmio di Ascoli Piceno, transferred to the Fund in question on 1 January 2015; retired employees already formerly enrolled in the Company Supplementary pension of INPS benefits for employees of Cassa di Risparmio di Civitavecchia, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary fund of SIL – Società Italiana Leasing S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Banca Monte Parma, transferred to the Fund in question on 1 January 2016; employees and retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of the former Crediop hired before 30 September 1989, transferred to the Fund in question on 1 January 2016; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Cassa di Risparmio di Mirandola, transferred to the Fund in question on 1 April 2016.

It is necessary to specify that if the Fund, after approval of the financial statements, shows a technical imbalance according to the statutory method, the Articles of Association envisage immediate settlement by the Banks jointly responsible;

- Pension fund for the employees of Cariplo, a fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment in addition to AGO cheques to former Cariplo employees already retired on 30 June 1998;
- A defined benefit plan at the New York branch: the fund was established in 1977 by the branch of Banca Commerciale Italiana and guarantees a pension treatment to all the employees resident in the United States who have been in service at the Bank for at least 5 years. The benefit is considered to be matured even if the employment relationship ceases in advance. The benefit is calculated based on the highest average wage considering three consecutive years out of the last 10 years of service, or, if the employment relationship ceases before, based on the average wage in the last three years of service. The fund is no longer managed by the New York branch, but has been fully transferred to the Prudential Fund (a defined benefit plan that manages the positions of members);
- Pension fund for employees of Cassa di Risparmio di Padova e Rovigo – retired employee section. This fund has legal status, full economic independence pursuant to article 12 of the Italian Civil Code and is independently managed;
- Pension fund of Cassa di Risparmio di Firenze: fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment to Cassa employees in service as at 31 December 1990 and already enrolled in the former “contracted-out” fund.

With regard to the investment and integrated risk management policies, the Funds verify the level of coverage and the possible outcomes under various scenarios. For this purpose, various investment configurations and portfolio mixes and allocations are defined to satisfy the pension and profitability objectives as adequately as possible.

**2. Changes in the year of net liabilities (assets) with defined benefits and redemption rights**

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability is determined by the “projected unit credit method” and is recorded in the balance sheet net of any plan assets. Moreover, with application of the new revised IAS 19 from 1 January 2013, actuarial profits and losses calculated in the valuation process for the plans are immediately recognised in the statement of comprehensive income and, therefore, in shareholders’ equity.

(millions of euro)

| Pension plan liabilities<br>defined benefit obligations     | 31.12.2016                             |                   |                   | 31.12.2015                             |                   |                   |
|---|--|-------------------|-------------------|--|-------------------|-------------------|
|   | Employee<br>termination<br>indemnities | Internal<br>plans | External<br>plans | Employee<br>termination<br>indemnities | Internal<br>plans | External<br>plans |
| <b>Initial amount</b>                                       | <b>1,354</b>                           | <b>241</b>        | <b>3,407</b>      | <b>1,480</b>                           | <b>318</b>        | <b>3,758</b>      |
| Current service costs                                       | 8                                      | 3                 | 32                | 6                                      | 3                 | 28                |
| Recognised past service costs                               | -                                      | -                 | -                 | -                                      | -                 | -                 |
| Interest expense  | 20                                     | 10                | 74                | 15                                     | 15                | 55                |
| Actuarial losses due to changes in financial assumptions    | 94                                     | 31                | 302               | -                                      | 6                 | -                 |
| Actuarial losses due to changes in demographic assumptions  | -                                      | -                 | 50                | 15                                     | -                 | 25                |
| Actuarial losses based on past experience                   | -                                      | 12                | -                 | -                                      | 1                 | 132               |
| Positive exchange differences                               | -                                      | -                 | 1                 | -                                      | 10                | 3                 |
| Increases - business combinations                           | 2                                      | -                 | -                 | -                                      | -                 | -                 |
| Participants’ contributions                                 | X                                      | -                 | -                 | X                                      | -                 | -                 |
| Actuarial profits due to changes in financial assumptions   | -4                                     | -12               | -                 | -91                                    | -8                | -351              |
| Actuarial profits due to changes in demographic assumptions | -                                      | -                 | -20               | -                                      | -                 | -55               |
| Actuarial profits based on past experience                  | -20                                    | -                 | -155              | -11                                    | -1                | -68               |
| Negative exchange differences                               | -                                      | -75               | -                 | -                                      | -                 | -                 |
| Benefits paid   | -48                                    | -5                | -194              | -64                                    | -7                | -216              |
| Decreases - business combinations                           | -                                      | -1                | -                 | -                                      | -                 | -                 |
| Curtailements of the fund                                   | X                                      | -                 | -                 | X                                      | -                 | -                 |
| Settlements of the fund                                     | X                                      | -2                | -33               | X                                      | -96               | -                 |
| Other increases   | 154                                    | -                 | 35                | 81                                     | -                 | 96                |
| Other decreases   | -157                                   | -1                | -                 | -77                                    | -                 | -                 |
| <b>Final amount</b>   | <b>1,403</b>                           | <b>201</b>        | <b>3,499</b>      | <b>1,354</b>                           | <b>241</b>        | <b>3,407</b>      |

| Liabilities of the defined benefit obligations<br>pension plan | 31.12.2016                             |                   |                   | 31.12.2015                             |                   |                   |
|--|--|-------------------|-------------------|--|-------------------|-------------------|
|  | Employee<br>termination<br>indemnities | Internal<br>plans | External<br>plans | Employee<br>termination<br>indemnities | Internal<br>plans | External<br>plans |
| Unfunded plans   | 1,403                                  | 1                 | -                 | 1,354                                  | 4                 | -                 |
| Partly funded plans  | -                                      | -                 | -                 | -                                      | -                 | -                 |
| Wholly funded plans  | -                                      | 200               | 3,499             | -                                      | 237               | 3,407             |

The actuarial losses recorded for variations in financial assumptions are due to the rate performance. The trend of the Eur Composite AA curve used for calculating the current value of defined benefit obligations, showed, compared to the previous year, an average decline ranging between 0.4% and 0.6% for the various deadlines, resulting in an increase in liabilities.

**3. Information on the fair value of plan assets**

The following tables show the changes in plan assets for certain defined benefit plans and their composition.

(millions of euro)

| Plan assets                       | 31.12.2016     |                | 31.12.2015     |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | Internal plans | External plans | Internal plans | External plans |
| <b>Initial amount</b>             | <b>112</b>     | <b>2,718</b>   | <b>131</b>     | <b>2,759</b>   |
| Return on assets net of interest  | 10             | 42             | -1             | 55             |
| Interest income                   | 4              | 56             | 4              | 39             |
| Positive exchange differences     | -              | 1              | 6              | 2              |
| Increases - business combinations | -              | -              | -              | -              |
| Employer contributions            | 2              | -              | 3              | -              |
| Participants' contributions       | -              | -              | -              | -              |
| Negative exchange differences     | -16            | -              | -              | -              |
| Decreases - business combinations | -              | -              | -              | -              |
| Benefits paid                     | -2             | -194           | -3             | -216           |
| Curtailments of the fund          | -              | -              | -              | -              |
| Settlements of the fund           | -              | -33            | -28            | -              |
| Other changes                     | -              | 40             | -              | 79             |
| <b>Final amount</b>               | <b>110</b>     | <b>2,630</b>   | <b>112</b>     | <b>2,718</b>   |

(millions of euro)

|  | 31.12.2016     |              |                |              | 31.12.2015     |              |                |              |
|--|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
|  | Internal plans | %            | External plans | %            | Internal plans | %            | External plans | %            |
| <b>Equities</b>  | <b>55</b>      | <b>50.0</b>  | <b>388</b>     | <b>14.8</b>  | <b>57</b>      | <b>50.9</b>  | <b>402</b>     | <b>14.8</b>  |
| - of which level-1 fair value                            | 55             |              | 388            |              | 57             |              | 402            |              |
| <b>Mutual funds</b>                                      | <b>-</b>       | <b>-</b>     | <b>225</b>     | <b>8.6</b>   | <b>-</b>       | <b>-</b>     | <b>197</b>     | <b>7.2</b>   |
| - of which level-1 fair value                            | -              |              | 225            |              | -              |              | 196            |              |
| <b>Debt securities</b>                                   | <b>46</b>      | <b>41.8</b>  | <b>1,264</b>   | <b>48.1</b>  | <b>44</b>      | <b>39.3</b>  | <b>1,337</b>   | <b>49.2</b>  |
| - of which level-1 fair value                            | 46             |              | 969            |              | 44             |              | 1,323          |              |
| <b>Real estate assets and investments in real estate</b> | <b>7</b>       | <b>6.4</b>   | <b>548</b>     | <b>20.8</b>  | <b>8</b>       | <b>7.1</b>   | <b>609</b>     | <b>22.4</b>  |
| - of which level-1 fair value                            | -              |              | -              |              | -              |              | -              |              |
| <b>Insurance business</b>                                | <b>2</b>       | <b>1.8</b>   | <b>15</b>      | <b>0.6</b>   | <b>2</b>       | <b>1.8</b>   | <b>16</b>      | <b>0.6</b>   |
| - of which level-1 fair value                            | 2              |              | 15             |              | 2              |              | 16             |              |
| <b>Other assets</b>                                      | <b>-</b>       | <b>-</b>     | <b>190</b>     | <b>7.1</b>   | <b>1</b>       | <b>0.9</b>   | <b>157</b>     | <b>5.8</b>   |
| - of which level-1 fair value                            | -              |              | -              |              | -              |              | -              |              |
| <b>TOTAL ASSETS</b>                                      | <b>110</b>     | <b>100.0</b> | <b>2,630</b>   | <b>100.0</b> | <b>112</b>     | <b>100.0</b> | <b>2,718</b>   | <b>100.0</b> |



(millions of euro)

|  | 31.12.2016     |              |                |              | 31.12.2015     |              |                |              |
|--|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
|  | Internal plans | %            | External plans | %            | Internal plans | %            | External plans | %            |
| <b>Equities</b>  | <b>55</b>      | <b>50.0</b>  | <b>388</b>     | <b>14.8</b>  | <b>57</b>      | <b>50.9</b>  | <b>402</b>     | <b>14.8</b>  |
| - of which financial companies                                     | 55             |              | 55             |              | 57             |              | 75             |              |
| - of which non financial companies                                 | -              |              | 333            |              | -              |              | 327            |              |
| <b>Mutual funds</b>  | <b>-</b>       | <b>-</b>     | <b>225</b>     | <b>8.6</b>   | <b>-</b>       | <b>-</b>     | <b>197</b>     | <b>7.2</b>   |
| <b>Debt securities</b>   | <b>46</b>      | <b>41.8</b>  | <b>1,264</b>   | <b>48.1</b>  | <b>44</b>      | <b>39.3</b>  | <b>1,337</b>   | <b>49.2</b>  |
| <b>Government bonds</b>  | <b>46</b>      |              | <b>920</b>     |              | <b>44</b>      |              | <b>1,049</b>   |              |
| - of which investment grade  | 46             |              | 912            |              | 44             |              | 1,041          |              |
| - of which speculative grade                                       | -              |              | 8              |              | -              |              | 8              |              |
| Financial companies  | -              |              | 147            |              | -              |              | 157            |              |
| - of which investment grade  | -              |              | 132            |              | -              |              | 141            |              |
| - of which speculative grade                                       | -              |              | 15             |              | -              |              | 16             |              |
| Non Financial companies  | -              |              | 197            |              | -              |              | 131            |              |
| - of which investment grade  | -              |              | 148            |              | -              |              | 111            |              |
| - of which speculative grade                                       | -              |              | 49             |              | -              |              | 20             |              |
| <b>Real estate assets and investments in real estate companies</b> | <b>7</b>       | <b>6.4</b>   | <b>548</b>     | <b>20.8</b>  | <b>8</b>       | <b>7.1</b>   | <b>609</b>     | <b>22.4</b>  |
| <b>Insurance business</b>  | <b>2</b>       | <b>1.8</b>   | <b>15</b>      | <b>0.6</b>   | <b>2</b>       | <b>1.8</b>   | <b>16</b>      | <b>0.6</b>   |
| <b>Other assets</b>  | <b>-</b>       | <b>-</b>     | <b>190</b>     | <b>7.1</b>   | <b>1</b>       | <b>0.9</b>   | <b>157</b>     | <b>5.8</b>   |
| <b>TOTAL ASSETS</b>  | <b>110</b>     | <b>100.0</b> | <b>2,630</b>   | <b>100.0</b> | <b>112</b>     | <b>100.0</b> | <b>2,718</b>   | <b>100.0</b> |

The difference between net defined benefit liabilities (Table 12.3.2) and the plan assets (Table 12.3.3) is recognised in the post-employment plans and, in some cases, in other allowances for risks and charges.

#### 4. Description of the main actuarial assumptions

The table below indicates the actuarial assumptions and interest rates used by the various funds.

| Actuarial assumptions                   | 31.12.2016     |                         |                              |                       | 31.12.2015     |                         |                              |                       |
|---|----------------|-------------------------|------------------------------|-----------------------|----------------|-------------------------|------------------------------|-----------------------|
|   | Discount rates | Expected rate of return | Expected rates of wage rises | Annual inflation rate | Discount rates | Expected rate of return | Expected rates of wage rises | Annual inflation rate |
| <b>EMPLOYEE TERMINATION INDEMNITIES</b> | 0.9-2.6%       | X                       | 2.6-2.8%                     | 1.5%                  | 1.6-3.2%       | X                       | 2.6-2.8%                     | 1.5%                  |
| <b>INTERNAL PLANS</b>                   |                |                         |                              |                       |                |                         |                              |                       |
| - of which Italy                        | -              | -                       | -                            | -                     | 1.9%           | 1.2%                    | 0.0%                         | 1.5%                  |
| - of which Egypt                        | 15.0%          | -                       | 10.0%                        | 10.0%                 | 11.0%          | -                       | 8.0%                         | 8.0%                  |
| - of which England                      | 3.0%           | -                       | 2.4%                         | 2.4%                  | 3.9%           | 3.7%                    | 2.2%                         | 2.2%                  |
| - of which Serbia                       | 5.6%           | -                       | 5.4%                         | -                     | 6.0%           | -                       | 7.0%                         | -                     |
| <b>EXTERNAL PLANS</b>                   |                |                         |                              |                       |                |                         |                              |                       |
| - of which Italy                        | 1.0-2.2%       | 3.0%                    | 2.7-2.8%                     | 1.0-1.5%              | 1.5-2.7%       | 1.0-4.5%                | 2.5-2.6%                     | 1.5%                  |
| - of which USA                          | 4.0%           | -                       | -                            | -                     | 4.3%           | 4.3%                    | -                            | -                     |

Starting from 2013, the Intesa Sanpaolo Group primarily uses the Eur Composite AA rate as its discounting rate, weighted by the ratio of payments and advances referring to each maturity, and the total amount of payments and advances to be made for the final fulfilment of the entire obligation. In the case of defined-benefit plans in particular, the rate used is the average rate that reflects the market parameters covered by the plan. The Eur Composite AA curve is obtained daily from the Bloomberg's information provider and refers to a basket of securities issued by investment-grade corporate issuers included in the AA rating class, residing in the Eurozone and belonging to various sectors.

**5. Information on amount, timing and uncertainty of cash flows**

| Sensitivity analysis | 31.12.2016                       |         |                |         |                |         |
|----------------------|----------------------------------|---------|----------------|---------|----------------|---------|
|                      | EMPLOYEE TERMINATION INDEMNITIES |         | INTERNAL PLANS |         | EXTERNAL PLANS |         |
|                      | +50 bps                          | -50 bps | +50 bps        | -50 bps | +50 bps        | -50 bps |
| Discount rate        | 1,327                            | 1,464   | 195            | 206     | 3,272          | 3,753   |
| Rate of wage rises   | 1,393                            | 1,393   | 156            | 151     | 3,545          | 3,365   |
| Inflation rate       | 1,436                            | 1,352   | 199            | 201     | 3,706          | 3,308   |

The sensitivity analysis is not conducted on the expected rate of return as it has no effect on the calculation of the liabilities.

The sensitivity analysis was carried out on the net defined benefit liabilities pursuant to Table 12.3.2. The absolute values of the data presented indicate the possible amount of net defined benefit liabilities in the event of a change in rate of +/- 50 bps..

The average duration of the defined benefit obligation is 15.24 years for pension funds and 9.89 years for employee termination indemnities.

Any outflows to be carried out over the next year (settlement of the technical imbalance envisaged by the Articles of Association of the former Banco di Napoli Fund) shall be determined upon preparation of the financial statements of said Fund, which will take place in the upcoming months of May/June.

**6. Plans regarding more than one employer**

The group has a defined benefit plan regarding more than one employer. This is the Pension Fund for the employees of the former Crediop hired before 30 September 1989, which was transferred to Section A of the Complementary Pension Fund for the employees of Banco di Napoli.

The commitments of Crediop S.p.A. (now Dexia – Crediop) and the former Sanpaolo IMI (now Intesa Sanpaolo) with regard to the Fund are governed by the agreement entered into between the parties on 28/05/1999. Its transfer to Section A of the Complementary Pension Fund for the employees of Banco di Napoli did not modify the guarantees and commitments undertaken by the parties in the past.

**7. Defined benefit plans that share risks among entities under joint control**

The Supplementary Pension Fund for Employees of Istituto Bancario San Paolo di Torino, the Complementary Pension Fund for Employees of the former Banco di Napoli – Section A and the Pension fund of Cassa di Risparmio di Firenze are defined benefit plans that share the risks among the various Group Companies. These Companies issue a joint guarantee for their registered employees and pensioners with respect to the subject pension entities.

The liabilities of each jointly responsible Company are determined by an Independent Actuary through the “projected unit credit method” and are recorded in the financial statements net of the plan assets. Similarly, the current service cost, which represents the average present value at the measurement date of the benefits accrued by workers in service during the year, is calculated for each Company by said Actuary.

**12.4 Allowances for risks and charges – Other allowances**

Allowances for legal disputes mainly refer to provisions for litigation and other revocatory actions.

The allowance for personnel charges includes charges for voluntary incentive-driven exit plans and charges for seniority bonuses to employees and other charges.

Other allowances mainly include provisions for tax litigation, fraud and other litigation.

(millions of euro)

|  | 31.12.2016   | 31.12.2015   |
|--|--------------|--------------|
| <b>2. Other allowances</b>   |              |              |
| 2.1 legal disputes   | 744          | 823          |
| 2.2 personnel charges  | 612          | 630          |
| <i>incentive-driven exit plans</i>                                 | 171          | 142          |
| <i>employee seniority bonuses</i>                                  | 151          | 160          |
| <i>other personnel expenses</i>                                    | 290          | 328          |
| 2.3 other risks and charges  | 1,046        | 1,168        |
| <i>other indemnities due to agents of the distribution network</i> | 284          | 267          |
| <i>other</i>   | 762          | 901          |
| <b>TOTAL</b>   | <b>2,402</b> | <b>2,621</b> |

**SECTION 13 – TECHNICAL RESERVES – CAPTION 130****13.1 Technical reserves: breakdown**

(millions of euro)

|  | Direct work   | Indirect work | 31.12.2016    | 31.12.2015    |
|--|---------------|---------------|---------------|---------------|
| <b>A. Non-life business</b>  | <b>592</b>    | -             | <b>592</b>    | <b>504</b>    |
| A.1 premiums reserves  | 419           | -             | 419           | 335           |
| A.2 claims reserves  | 172           | -             | 172           | 168           |
| A.3 other reserves   | 1             | -             | 1             | 1             |
| <b>B. Life business</b>  | <b>79,571</b> | -             | <b>79,571</b> | <b>78,812</b> |
| B.1 mathematical reserves  | 73,155        | -             | 73,155        | 71,936        |
| B.2 reserves for amounts to be disbursed   | 353           | -             | 353           | 479           |
| B.3 other reserves   | 6,063         | -             | 6,063         | 6,397         |
| <b>C. Technical reserves for investment risks to be borne by the insured</b>                     | <b>5,456</b>  | -             | <b>5,456</b>  | <b>5,300</b>  |
| C.1 reserves for contracts with disbursements connected with investment funds and market indices | 1,082         | -             | 1,082         | 1,350         |
| C.2 reserves from pension fund management  | 4,374         | -             | 4,374         | 3,950         |
| <b>D. Total insurance reserves carried by reinsurers</b>   | <b>85,619</b> | -             | <b>85,619</b> | <b>84,616</b> |

**13.2 Technical reserves: annual changes**

(millions of euro)

|   | <b>31.12.2016</b> | <b>31.12.2015</b> |
|---|-------------------|-------------------|
| <b>A. Non-life business</b>   | <b>592</b>        | <b>504</b>        |
| Initial amount  | 504               | 484               |
| Business combinations   | -                 | -                 |
| Changes in the reserve (+/-)  | 88                | 20                |
| <b>B. Life business and other technical reserves</b>                        | <b>85,027</b>     | <b>84,112</b>     |
| Initial amount  | 84,112            | 79,217            |
| Business combinations   | -                 | -                 |
| Change in premiums  | 7,554             | 11,666            |
| Change in payments  | -7,759            | -8,423            |
| Changes due to income and other bonuses recognised to insured parties (+/-) | 1,428             | 1,663             |
| Changes due to exchange differences (+/-)                                   | -                 | 2                 |
| Changes in other technical reserves (+/-)                                   | -308              | -13               |
| <b>C. Total technical reserves</b>  | <b>85,619</b>     | <b>84,616</b>     |

**SECTION 14 – REDEEMABLE SHARES – CAPTION 150**

Not applicable to the Group.

**SECTION 15 – GROUP SHAREHOLDERS' EQUITY – CAPTIONS 140, 160, 170, 180, 190, 200 AND 220****15.1 Share capital and Treasury shares: breakdown**

For information on this section, see point 15.3 below.

**15.2 Share capital – Parent Company's number of shares: annual changes**

|   | Ordinary              | Other              |
|---|-----------------------|--------------------|
| <b>A. Initial number of shares</b>            | <b>15,859,575,782</b> | <b>932,490,561</b> |
| - fully paid-in                               | 15,859,575,782        | 932,490,561        |
| - not fully paid-in                           | -                     | -                  |
| <b>A.1 Treasury shares (-)</b>                | <b>-7,097,593</b>     | -                  |
| <b>A.2 Shares outstanding: initial number</b> | <b>15,852,478,189</b> | <b>932,490,561</b> |
| <b>B. Increases</b>                           | <b>2,309,116</b>      | -                  |
| B.1 New issues                                | 210,803               | -                  |
| - for consideration                           | 210,803               | -                  |
| <i>business combinations</i>                  | <i>210,803</i>        | -                  |
| <i>conversion of bonds</i>                    | -                     | -                  |
| <i>exercise of warrants</i>                   | -                     | -                  |
| <i>other</i>                                  | -                     | -                  |
| - for free                                    | -                     | -                  |
| <i>in favour of employees</i>                 | -                     | -                  |
| <i>in favour of directors</i>                 | -                     | -                  |
| <i>other</i>                                  | -                     | -                  |
| B.2 Sale of treasury shares                   | -                     | -                  |
| B.3 Other                                     | 2,098,313             | -                  |
| <b>C. Decreases</b>                           | <b>-3,587,997</b>     | -                  |
| C.1 Annulment                                 | -                     | -                  |
| C.2 Purchase of treasury shares               | -3,582,633            | -                  |
| C.3 Disposal of companies                     | -                     | -                  |
| C.4 Other                                     | -5,364                | -                  |
| <b>D. Shares outstanding: final number</b>    | <b>15,851,199,308</b> | <b>932,490,561</b> |
| D.1 Treasury shares (+)                       | 8,587,277             | -                  |
| <b>D.2 Final number of shares</b>             | <b>15,859,786,585</b> | <b>932,490,561</b> |
| - fully paid-in                               | 15,859,786,585        | 932,490,561        |
| - not paid-in                                 | -                     | -                  |

**15.3 Share capital: other information**

The share capital of the Bank as at 31 December 2016 amounted to 8,732 million euro, divided into 15,859,786,585 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro per share. Each ordinary share gives the right to one vote in the Shareholders' Meeting.

Savings shares, which may be in bearer form, entitle the holder to attend and vote at the Special Meeting of savings shareholders.

Savings shares must be attributed a preferred dividend up to 5% of the nominal value of the share. If in one year the dividend is less than 5% of the nominal value of the non-convertible savings shares, the difference will be added to the preferred dividend paid in the following two accounting periods. Furthermore, retained earnings made available for distribution by the Shareholders' Meeting, net of the above dividend, will be allocated to all shares so that the dividend per non-convertible savings share will be 2% of nominal value higher than for ordinary shares.

In case of distribution of reserves the savings shares have the same rights as other shares. In the case of liquidation of the Company, savings shares shall have pre-emptive rights with regard to the reimbursement of the entire nominal value of the shares.

At the date of this document, the share capital was fully paid-in and liberated.

**15.4 Reserves: other information**

Reserves amounted to 9,528 million euro and included legal reserve, extraordinary reserve, concentration reserves (Law 218 of 30 July 1990, art. 7, par. 3 and Law 218 of 30 July 1990, art. 7) and other reserves for a total of 5,815 million euro, as well as the consolidation reserve equal to 3,713 million euro.

The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated by allocating at least one twentieth of net income for the year.

Concentration reserves ex Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law.

Other reserves included reserves pertaining to branches abroad and other reserves set up in the past following specific legal provisions.

Consolidation reserves were generated following the elimination of the book value of equity investments against the corresponding portion of the shareholders' equity of each investment.

The valuation reserves amounted to negative 1,930 million euro and included valuation reserves of financial assets available for sale for 461 million euro, reserves of cash flow hedge derivatives for -1,143 million euro, exchange rate valuation reserves (relating to fully consolidated investments) for -1,050 million euro and legally-required revaluation reserves for 348 million euro, as well as the negative reserve on actuarial profits (losses) from defined benefit pension plans for 653 million euro, in addition to approximately 107 million euro in valuation reserves connected to minority equity investments.

## SECTION 16 - MINORITY INTERESTS – CAPTION 210

For details regarding the breakdown of minority interests, see section F, "Part B.1. Consolidated shareholders' equity: breakdown by type of company".

### 16.1 Breakdown of caption 210 Minority interests

|  |  | (millions of euro) |
|--|--|--------------------|
|  |  | <b>31.12.2016</b>  |
| <b>Investments in consolidated companies with significant minority interests</b> |  | <b>274</b>         |
| 1  | Risanamento S.p.A.                         | 114                |
| 2  | Bank Of Alexandria S.A.E                   | 66                 |
| 3  | Compagnia Italiana Finanziaria -CIF S.r.l. | 50                 |
| 4  | Vseobecna Uverova Banka A.S.               | 44                 |
| <b>Other investments</b>   |  | <b>134</b>         |
| <b>TOTAL 2016</b>  |  | <b>408</b>         |
| <b>TOTAL 2015</b>  |  | <b>817</b>         |

### 16.2 Equity instruments: breakdown and annual changes

No equity instruments are recorded.

## Other information

### 1. Guarantees and commitments

|  | 31.12.2016     | Of which:      |                     |                 | (millions of euro) |
|--|----------------|----------------|---------------------|-----------------|--------------------|
|  |                | Banking group  | Insurance companies | Other companies | 31.12.2015         |
| <b>1) Financial guarantees given</b>                                     | <b>4,425</b>   | <b>4,374</b>   | -                   | <b>51</b>       | <b>10,730</b>      |
| a) Banks   | 33             | 33             | -                   | -               | 2,267              |
| b) Customers   | 4,392          | 4,341          | -                   | 51              | 8,463              |
| <b>2) Commercial guarantees given</b>                                    | <b>33,080</b>  | <b>32,707</b>  | -                   | <b>373</b>      | <b>31,199</b>      |
| a) Banks   | 6,102          | 5,927          | -                   | 175             | 5,554              |
| b) Customers   | 26,978         | 26,780         | -                   | 198             | 25,645             |
| <b>3) Irrevocable commitments to lend funds</b>                          | <b>64,869</b>  | <b>64,869</b>  | -                   | -               | <b>54,482</b>      |
| a) Banks   | 7,345          | 7,345          | -                   | -               | 3,664              |
| - of certain use   | 6,424          | 6,424          | -                   | -               | 2,530              |
| - of uncertain use   | 921            | 921            | -                   | -               | 1,134              |
| b) Customers   | 57,524         | 57,524         | -                   | -               | 50,818             |
| - of certain use   | 14,960         | 14,960         | -                   | -               | 8,216              |
| - of uncertain use   | 42,564         | 42,564         | -                   | -               | 42,602             |
| <b>4) Underlying commitments on credit derivatives: protection sales</b> | <b>55,006</b>  | <b>55,006</b>  | -                   | -               | <b>49,052</b>      |
| <b>5) Assets pledged as collateral of third party commitments</b>        | <b>82</b>      | <b>82</b>      | -                   | -               | <b>80</b>          |
| <b>6) Other commitments</b>  | <b>2,473</b>   | <b>2,466</b>   | <b>7</b>            | -               | <b>2,149</b>       |
| <b>TOTAL</b>   | <b>159,935</b> | <b>159,504</b> | <b>7</b>            | <b>424</b>      | <b>147,692</b>     |

### 2. Assets pledged as collateral of liabilities and commitments

|  | 31.12.2016     | Of which:      |                     |                 | (millions of euro) |
|--|----------------|----------------|---------------------|-----------------|--------------------|
|  |                | Banking group  | Insurance companies | Other companies | 31.12.2015         |
| 1. Financial assets held for trading                                 | 4,870          | 4,870          | -                   | -               | 6,977              |
| 2. Financial assets designated at fair value through profit and loss | -              | -              | -                   | -               | -                  |
| 3. Financial assets available for sale                               | 35,677         | 35,677         | -                   | -               | 20,090             |
| 4. Investments held to maturity                                      | 299            | 299            | -                   | -               | 259                |
| 5. Due from banks  | 14,360         | 14,360         | -                   | -               | 11,038             |
| 6. Loans to customers  | 95,111         | 95,111         | -                   | -               | 86,240             |
| 7. Property and equipment  | -              | -              | -                   | -               | -                  |
| <b>TOTAL</b>   | <b>150,317</b> | <b>150,317</b> | -                   | -               | <b>124,604</b>     |

Intragroup deposits of 1,964 million euro, established to serve securities lending with subjects outside the Group, were netted.

### 3. Information on operating leases

The costs recorded in the year referred to motor vehicles, office equipment and central and peripheral software, and are allocated to the various captions according to the nature of the asset. The amounts included as potential lease payments are immaterial.

**4. Breakdown of investments related to unit-linked and index-linked policies**

|  | (millions of euro)   |   |                   |
|--|--|---|-------------------|
|  | Disbursements<br>connected with<br>pension funds<br>and market indices | Disbursements in<br>connection with<br>pension fund<br>management | <b>31.12.2016</b> |
| Assets in the balance sheet                | 57,819   | 4,374   | 62,193            |
| Intra-group assets                         | 732  | 3   | 735               |
| <b>Total Assets</b>                        | <b>58,551</b>  | <b>4,377</b>  | <b>62,928</b>     |
| Financial liabilities in the balance sheet | 57,184   | -   | 57,184            |
| Technical reserves in the balance sheet    | 1,081  | 4,374   | 5,455             |
| Intra-group liabilities                    | 186  | 3   | 189               |
| <b>Total Liabilities</b>                   | <b>58,451</b>  | <b>4,377</b>  | <b>62,828</b>     |

**5. Management and dealing on behalf of third parties**

|   | (millions of euro) |                   |
|---|--------------------|-------------------|
|   | <b>31.12.2016</b>  | <b>31.12.2015</b> |
| <b>1. Trading on behalf of customers</b>  |                    |                   |
| a) Purchases  | 678,700            | 769,552           |
| 1. settled  | 663,430            | 756,160           |
| 2. to be settled  | 15,270             | 13,392            |
| b) Sales  | 782,820            | 768,206           |
| 1. settled  | 782,659            | 768,113           |
| 2. to be settled  | 161                | 93                |
| <b>2. Portfolio management</b>  |                    |                   |
| a) individual   | 56,064             | 59,582            |
| b) collective   | 113,276            | 110,134           |
| <b>3. Custody and administration of securities</b>  |                    |                   |
| a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management) | 57,579             | 53,582            |
| 1. securities issued by companies included in the consolidation area  | 28                 | 96                |
| 2. other securities   | 57,551             | 53,486            |
| b) third party securities held in deposit (excluding portfolio management): other                                 | 312,642            | 325,426           |
| 1. securities issued by companies included in the consolidation area  | 25,268             | 37,024            |
| 2. other securities   | 287,374            | 288,402           |
| c) third party securities deposited with third parties  | 287,215            | 290,213           |
| d) portfolio securities deposited with third parties  | 156,246            | 150,269           |
| <b>4. Other</b>   | <b>373,183</b>     | <b>394,854</b>    |

**Note regarding financial payables**

In relation to point 3: "IFRS 7 – Contractual clauses of financial payables", of Bank of Italy/Consob/Isvap document no. 4 of March 2010, the following is specified:

- there were no cases of non-compliance by companies of the Intesa Sanpaolo Group with the relative contractual clauses set forth in bond issues, medium-/long-term loans received from financial entities and other debt contracts, which involved or which could involve the application of acceleration clauses;
- bond issues, medium-/long-term loans received from Supranational Organisations and other debt contracts of Intesa Sanpaolo Group companies may contain standard negative pledges and covenants based on current practice.

Due to the nature of commitments undertaken, in line with market practices, and the remote probability of default, these clauses may be considered as immaterial.



## 6. Financial assets subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

| Types                    | Gross amount of financial assets (a) in statement of financial position (b) | Amount of financial liabilities offset in statement of financial position (b) | Net amount of financial assets presented in statement of financial position (c = a-b) | Amounts available to be offset but not offset in the statement of financial position |                     | Net amount 31.12.2016 (f = c-d-e) | Net amount 31.12.2015 |
|--------------------------|---|---|---|--|---------------------|-----------------------------------|-----------------------|
|                          |   |   |   | Financial instruments (d)  | Cash collateral (e) |                                   |                       |
| 1. Derivatives           | 72,340  | 40,751  | 31,589  | 23,858   | 2,726               | 5,005                             | 4,695                 |
| 2. Repurchase agreements | 32,369  | -   | 32,369  | 31,854   | 24                  | 491                               | 184                   |
| 3. Securities lending    | -   | -   | -   | -  | -                   | -                                 | -                     |
| 4. Other                 | -   | -   | -   | -  | -                   | -                                 | -                     |
| <b>TOTAL 31.12.2016</b>  | <b>104,709</b>  | <b>40,751</b>   | <b>63,958</b>   | <b>55,712</b>  | <b>2,750</b>        | <b>5,496</b>                      | <b>X</b>              |
| <b>TOTAL 31.12.2015</b>  | <b>95,152</b>   | <b>37,195</b>   | <b>57,957</b>   | <b>50,358</b>  | <b>2,720</b>        | <b>X</b>                          | <b>4,879</b>          |

## 7. Financial liabilities subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

| Types                    | Gross amount of financial liabilities (a) | Amount of financial assets offset in statement of financial position (b) | Net amount of financial liabilities presented in statement of financial position (c = a-b) | Amounts available to be offset but not offset in the statement of financial position |   | Net amount 31.12.2016 (f = c-d-e) | Net amount 31.12.2015 |
|--------------------------|---|--|--|--|---|-----------------------------------|-----------------------|
|                          |   |  |  | Financial instruments (d)  | Cash deposits pledged as collateral (e) |                                   |                       |
| 1. Derivatives           | 78,546                                    | 40,751   | 37,795   | 23,546   | 12,243                                  | 2,006                             | 1,815                 |
| 2. Repurchase agreements | 30,238                                    | -  | 30,238   | 29,853   | 67                                      | 318                               | 130                   |
| 3. Securities lending    | -   | -  | -  | -  | -                                       | -                                 | -                     |
| 4. Other                 | -   | -  | -  | -  | -                                       | -                                 | -                     |
| <b>TOTAL 31.12.2016</b>  | <b>108,784</b>                            | <b>40,751</b>  | <b>68,033</b>  | <b>53,399</b>  | <b>12,310</b>                           | <b>2,324</b>                      | <b>X</b>              |
| <b>TOTAL 31.12.2015</b>  | <b>99,719</b>                             | <b>37,195</b>  | <b>62,524</b>  | <b>50,807</b>  | <b>9,772</b>                            | <b>X</b>                          | <b>1,945</b>          |

IFRS 7 requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by "netting framework arrangements or similar" that do not respect all of the criteria set forth by IAS 32, paragraph 42.

In this respect, the Intesa Sanpaolo Group has netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements. In particular, these are arrangements that regulate the clearing of Over the Counter derivatives through subscription to the SwapClear service (LCH Group). This circuit, replacing the original counterparties of the OTC derivatives, mitigates credit risk by calling daily margins on all positions transferred, so that the mutual credit and debt positions are automatically offset. In Table 6, therefore, the column regarding the amount of financial assets/liabilities offset in the balance sheet represents the negative fair values on interest rate derivatives offset with the positive fair values for representation in the financial statements. The information is presented in Table 7.

In terms of instruments that may be potentially offset upon occurrence of such events and to be presented in Tables 6 and 7, it is noted that the Group uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMARs (for repurchase agreements).

For the purposes of preparing the tables and in compliance with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:

- the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) "Financial instruments", together with the fair value of financial collateral consisting of securities;
- the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) "Cash deposits received/provided as collateral";
- repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value. Derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount".

#### **8. Securities lending transactions**

The banking service accessory securities lending, offered mainly by Intesa Sanpaolo private Banking (ISPB) to customers (natural persons, legal entities and commercial entities), is worth mentioning. The contract involves transfer of the ownership of a certain quantity of securities of a specific type, with the obligation for ISPB to return them, paying a consideration amount as remuneration for their availability. The transaction involves government securities that ISPB in turn transfers to the Parent Company Intesa Sanpaolo for non-speculative purposes.

As at 31 December 2016, the collateral of transactions mainly referring to ISPB amounted to 1.96 billion euro.

#### **9. Disclosure on joint-control assets**

These are not present in the Intesa Sanpaolo Group.

# Part C – Information on the consolidated income statement

## SECTION 1 – INTEREST – CAPTIONS 10 AND 20

### 1.1. Interest and similar income: breakdown

|  | (millions of euro) |              |                    |               |               |
|--|--------------------|--------------|--------------------|---------------|---------------|
|  | Debt securities    | Loans        | Other transactions | 2016          | 2015          |
| 1. Financial assets held for trading                                 | 160                | -            | -                  | 160           | 230           |
| 2. Financial assets designated at fair value through profit and loss | 46                 | -            | -                  | 46            | 56            |
| 3. Financial assets available for sale                               | 2,575              | 2            | -                  | 2,577         | 2,718         |
| 4. Investments held to maturity                                      | 52                 | -            | -                  | 52            | 53            |
| 5. Due from banks  | 24                 | 382          | 4                  | 410           | 370           |
| 6. Loans to customers  | 274                | 8,682        | 6                  | 8,962         | 9,922         |
| 7. Hedging derivatives   | X                  | X            | 477                | 477           | 754           |
| 8. Other assets  | X                  | X            | 181                | 181           | 45            |
| <b>TOTAL</b>   | <b>3,131</b>       | <b>9,066</b> | <b>668</b>         | <b>12,865</b> | <b>14,148</b> |

Interest and similar income also includes interest income on securities relating to repurchase agreements. Loans to customers include interest of 255 million euro on bad loans, 577 million euro on exposures included in the unlikely to pay category and 23 million euro on past due non-performing loans. Added to these are 700 million euro for the reversal in time value on loans, recorded under net losses/recoveries on loan impairment.

#### 1.1 Of which: Banking group

|  | (millions of euro) |              |                    |               |               |
|--|--------------------|--------------|--------------------|---------------|---------------|
|  | Debt securities    | Loans        | Other transactions | 2016          | 2015          |
| 1. Financial assets held for trading                                 | 146                | -            | -                  | 146           | 219           |
| 2. Financial assets designated at fair value through profit and loss | 15                 | -            | -                  | 15            | 20            |
| 3. Financial assets available for sale                               | 714                | 2            | -                  | 716           | 833           |
| 4. Investments held to maturity                                      | 52                 | -            | -                  | 52            | 53            |
| 5. Due from banks  | 24                 | 382          | 4                  | 410           | 370           |
| 6. Loans to customers  | 249                | 8,680        | 6                  | 8,935         | 9,904         |
| 7. Hedging derivatives   | X                  | X            | 477                | 477           | 754           |
| 8. Other assets  | X                  | X            | 173                | 173           | 42            |
| <b>TOTAL</b>   | <b>1,200</b>       | <b>9,064</b> | <b>660</b>         | <b>10,924</b> | <b>12,195</b> |

#### 1.1 Of which: Insurance companies

|  | (millions of euro) |          |                    |              |              |
|--|--------------------|----------|--------------------|--------------|--------------|
|  | Debt securities    | Loans    | Other transactions | 2016         | 2015         |
| 1. Financial assets held for trading                                 | 14                 | -        | -                  | 14           | 11           |
| 2. Financial assets designated at fair value through profit and loss | 31                 | -        | -                  | 31           | 36           |
| 3. Financial assets available for sale                               | 1,861              | -        | -                  | 1,861        | 1,885        |
| 4. Investments held to maturity                                      | -                  | -        | -                  | -            | -            |
| 5. Due from banks  | -                  | -        | -                  | -            | -            |
| 6. Loans to customers  | 1                  | -        | -                  | 1            | 3            |
| 7. Hedging derivatives   | X                  | X        | -                  | -            | -            |
| 8. Other assets  | X                  | X        | -                  | -            | -            |
| <b>TOTAL</b>   | <b>1,907</b>       | <b>-</b> | <b>-</b>           | <b>1,907</b> | <b>1,935</b> |

**1.1 Of which: Other companies**

As at 31 December 2016 34 million euro was attributable to other companies, of which 24 million euro to debt securities under loans to customers, 8 million euro to other transactions involving other assets and 2 million euro included in loans to customers. At the end of 2015, they amounted to 18 million euro, 15 million euro of which was attributed to debt securities under loans to customers and 3 million euro to other transactions involving other assets.

**1.2 Interest and similar income: differentials on hedging transactions**

|   | 2016       | Of which:     |                     |                 | 2015       |
|---|------------|---------------|---------------------|-----------------|------------|
|   |            | Banking group | Insurance companies | Other companies |            |
| A. Positive differentials on hedging transactions | 3,557      | 3,557         | -                   | -               | 4,356      |
| B. Negative differentials on hedging transactions | -3,080     | -3,080        | -                   | -               | -3,602     |
| <b>BALANCE (A - B)</b>                            | <b>477</b> | <b>477</b>    | <b>-</b>            | <b>-</b>        | <b>754</b> |

(millions of euro)

**1.3 Interest and similar income: other information****1.3.1 Interest income on foreign currency financial assets**

The balance as at 31 December 2016 includes 2,774 million euro relating to financial assets in foreign currency.

**1.3.2 Interest income on financial lease receivables**

As at 31 December 2016, interest income on financial leases amounted to 523 million euro.

**1.4 Interest and similar expense: breakdown**

|   | Debts      | Securities   | Other transactions | 2016         | 2015         |
|---|------------|--------------|--------------------|--------------|--------------|
| 1. Due to Central Banks   | 32         | X            | -                  | 32           | 49           |
| 2. Due to banks   | 270        | X            | 2                  | 272          | 297          |
| 3. Due to customers   | 650        | X            | -                  | 650          | 820          |
| 4. Securities issued  | X          | 3,176        | -                  | 3,176        | 3,724        |
| 5. Financial liabilities held for trading                                 | -          | -            | 9                  | 9            | 6            |
| 6. Financial liabilities designated at fair value through profit and loss | -          | -            | -                  | -            | -            |
| 7. Other liabilities and allowances                                       | X          | X            | 111                | 111          | 14           |
| 8. Hedging derivatives  | X          | X            | -                  | -            | -            |
| <b>TOTAL</b>  | <b>952</b> | <b>3,176</b> | <b>122</b>         | <b>4,250</b> | <b>4,910</b> |

(millions of euro)

Due to banks and Due to customers also include interest expense on repurchase agreements, even if the transaction referred to securities recorded under assets.

**1.4 Of which: Banking group**

|   | Debts      | Securities   | Other transactions | 2016         | 2015         |
|---|------------|--------------|--------------------|--------------|--------------|
| 1. Due to Central Banks   | 32         | X            | -                  | 32           | 49           |
| 2. Due to banks   | 253        | X            | 2                  | 255          | 289          |
| 3. Due to customers   | 650        | X            | -                  | 650          | 820          |
| 4. Securities issued  | X          | 3,111        | -                  | 3,111        | 3,658        |
| 5. Financial liabilities held for trading                                 | -          | -            | 9                  | 9            | 6            |
| 6. Financial liabilities designated at fair value through profit and loss | -          | -            | -                  | -            | -            |
| 7. Other liabilities and allowances                                       | X          | X            | 111                | 111          | 14           |
| 8. Hedging derivatives  | X          | X            | -                  | -            | -            |
| <b>TOTAL</b>  | <b>935</b> | <b>3,111</b> | <b>122</b>         | <b>4,168</b> | <b>4,836</b> |

(millions of euro)

**1.4 Of which: Insurance companies**

In 2016 the amount attributable to insurance companies was 67 million, consisting of securities issued for 64 million euro and amounts due to banks for 3 million euro. In 2015 interest expense amounted to a total of 64 million euro, entirely related to securities issued.

**1.4 Of which: Other companies**

In 2016 the amount attributable to other companies was 15 million euro, consisting of securities issued for 1 million euro and amounts due to banks for 14 million euro. In 2015 interest expense amounted to a total of 10 million euro, consisting of securities issued for 2 million euro and amounts due to banks for 8 million euro.

**1.5 Interest and similar expense: differentials on hedging transactions**

Information on differentials on hedging transactions is illustrated in table 1.2, since the balance for 2016 is included under interest income.

**1.6 Interest and similar expense: other information****1.6.1 Interest expense on foreign currency financial liabilities**

Interest and similar expense in 2016 included 1,404 million euro relative to financial liabilities in foreign currency.

**1.6.2 Interest expense on financial lease payables**

In 2016, interest expense on financial leases was immaterial.

**SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50****2.1 Fee and commission income: breakdown**

|   | 2016         | Of which:     |                     |                 | 2015         |
|---|--------------|---------------|---------------------|-----------------|--------------|
|   |              | Banking group | Insurance companies | Other companies |              |
| <b>A) Guarantees given</b>                              | <b>379</b>   | <b>379</b>    | -                   | -               | <b>379</b>   |
| <b>B) Credit derivatives</b>                            | -            | -             | -                   | -               | -            |
| <b>C) Management, dealing and consultancy services</b>  | <b>3,620</b> | <b>3,618</b>  | -                   | <b>2</b>        | <b>4,099</b> |
| 1. trading in financial instruments                     | 92           | 92            | -                   | -               | 94           |
| 2. currency dealing                                     | 43           | 43            | -                   | -               | 45           |
| 3. portfolio management                                 | 2,271        | 2,271         | -                   | -               | 2,490        |
| 3.1. individual   | 670          | 670           | -                   | -               | 736          |
| 3.2. collective   | 1,601        | 1,601         | -                   | -               | 1,754        |
| 4. custody and administration of securities             | 61           | 61            | -                   | -               | 62           |
| 5. depositary bank                                      | 17           | 17            | -                   | -               | 18           |
| 6. placement of securities                              | 465          | 465           | -                   | -               | 552          |
| 7. reception and transmission of orders                 | 120          | 120           | -                   | -               | 170          |
| 8. consultancy services                                 | 187          | 187           | -                   | -               | 157          |
| 8.1. on investments                                     | 124          | 124           | -                   | -               | 114          |
| 8.2. on financial structure                             | 63           | 63            | -                   | -               | 43           |
| 9. distribution of third party services                 | 364          | 362           | -                   | 2               | 511          |
| 9.1. portfolio management                               | 312          | 312           | -                   | -               | 357          |
| 9.1.1. individual                                       | 9            | 9             | -                   | -               | 6            |
| 9.1.2. collective                                       | 303          | 303           | -                   | -               | 351          |
| 9.2. insurance products                                 | 45           | 43            | -                   | 2               | 153          |
| 9.3. other products                                     | 7            | 7             | -                   | -               | 1            |
| <b>D) Collection and payment services</b>               | <b>451</b>   | <b>451</b>    | -                   | -               | <b>448</b>   |
| <b>E) Servicing related to securitisations</b>          | -            | -             | -                   | -               | -            |
| <b>F) Services related to factoring</b>                 | <b>113</b>   | <b>113</b>    | -                   | -               | <b>128</b>   |
| <b>G) Tax collection services</b>                       | -            | -             | -                   | -               | -            |
| <b>H) Management of multilateral trading facilities</b> | -            | -             | -                   | -               | -            |
| <b>I) Management of current accounts</b>                | <b>1,003</b> | <b>1,003</b>  | -                   | -               | <b>1,032</b> |
| <b>J) Other services</b>                                | <b>2,899</b> | <b>1,883</b>  | <b>1,016</b>        | -               | <b>2,637</b> |
| <b>TOTAL</b>  | <b>8,465</b> | <b>7,447</b>  | <b>1,016</b>        | <b>2</b>        | <b>8,723</b> |

Other services mostly recorded fees on credit and debit cards of 826 million euro as well as commissions on loans of 812 million euro.

## 2.2 Fee and commission income: distribution channels of products and services – Banking group

(millions of euro)

|                                       | 2016         | 2015         |
|---------------------------------------|--------------|--------------|
| <b>A) Group branches</b>              | <b>2,044</b> | <b>2,466</b> |
| 1. portfolio management               | 1,470        | 1,658        |
| 2. placement of securities            | 456          | 551          |
| 3. third party services and products  | 118          | 257          |
| <b>B) "Door-to-door" sales</b>        | <b>466</b>   | <b>476</b>   |
| 1. portfolio management               | 239          | 231          |
| 2. placement of securities            | -            | -            |
| 3. third party services and products  | 227          | 245          |
| <b>C) Other distribution channels</b> | <b>588</b>   | <b>609</b>   |
| 1. portfolio management               | 562          | 601          |
| 2. placement of securities            | 9            | 1            |
| 3. third party services and products  | 17           | 7            |

## 2.3 Fee and commission expense: breakdown

(millions of euro)

|  | 2016         | Of which:     |                     |                 | 2015         |
|--|--------------|---------------|---------------------|-----------------|--------------|
|  |              | Banking group | Insurance companies | Other companies |              |
| <b>A) Guarantees received</b>  | <b>37</b>    | <b>35</b>     | <b>-</b>            | <b>2</b>        | <b>33</b>    |
| <b>B) Credit derivatives</b>   | <b>-</b>     | <b>-</b>      | <b>-</b>            | <b>-</b>        | <b>-</b>     |
| <b>C) Management, dealing and consultancy services</b>                 | <b>849</b>   | <b>839</b>    | <b>10</b>           | <b>-</b>        | <b>911</b>   |
| 1. trading in financial instruments                                    | 46           | 46            | -                   | -               | 55           |
| 2. currency dealing  | 2            | 2             | -                   | -               | 2            |
| 3. portfolio management:   | 19           | 19            | -                   | -               | 55           |
| 3.1 own portfolio  | 19           | 19            | -                   | -               | 55           |
| 3.2 third party portfolio  | -            | -             | -                   | -               | -            |
| 4. custody and administration of securities                            | 51           | 41            | 10                  | -               | 50           |
| 5. placement of financial instruments                                  | 150          | 150           | -                   | -               | 112          |
| 6. "door-to-door" sale of financial instruments, products and services | 581          | 581           | -                   | -               | 637          |
| <b>D) Collection and payment services</b>                              | <b>89</b>    | <b>89</b>     | <b>-</b>            | <b>-</b>        | <b>74</b>    |
| <b>E) Other services</b>   | <b>755</b>   | <b>607</b>    | <b>147</b>          | <b>1</b>        | <b>810</b>   |
| <b>TOTAL</b>   | <b>1,730</b> | <b>1,570</b>  | <b>157</b>          | <b>3</b>        | <b>1,828</b> |

E - Other services includes 440 million euro fees on credit and debit cards, 126 million euro on the placement of investment insurance products, 70 million euro on banking services to Italian branches, 88 million euro on banking services to foreign branches and 31 million euro on other minor services.

## SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70

## 3.1 Dividend and similar income: breakdown

(millions of euro)

|  | 2016       |                           | Of which:     |                           |                     |                           |                 |                           | 2015       |                           |
|--|------------|---------------------------|---------------|---------------------------|---------------------|---------------------------|-----------------|---------------------------|------------|---------------------------|
|  | Dividends  | Income from quotas of UCI | Banking group |                           | Insurance companies |                           | Other companies |                           | Dividends  | Income from quotas of UCI |
|  |            |                           | Dividends     | Income from quotas of UCI | Dividends           | Income from quotas of UCI | Dividends       | Income from quotas of UCI |            |                           |
| A. Financial assets held for trading                                 | 34         | -                         | 34            | -                         | -                   | -                         | -               | -                         | 35         | 1                         |
| B. Financial assets available for sale                               | 245        | 149                       | 184           | 5                         | 61                  | 144                       | -               | -                         | 212        | 105                       |
| C. Financial assets designated at fair value through profit and loss | 30         | 3                         | -             | -                         | 30                  | 3                         | -               | -                         | 23         | 2                         |
| D. Investments in associates and companies subject to joint control  | -          | X                         | -             | X                         | -                   | X                         | -               | X                         | -          | X                         |
| <b>TOTAL</b>   | <b>309</b> | <b>152</b>                | <b>218</b>    | <b>5</b>                  | <b>91</b>           | <b>147</b>                | <b>-</b>        | <b>-</b>                  | <b>270</b> | <b>108</b>                |

## SECTION 4 – PROFITS (LOSSES) ON TRADING - CAPTION 80

## 4.1 Profits (Losses) on trading: breakdown

|  | (millions of euro) |                    |               |                   |             |
|--|--------------------|--------------------|---------------|-------------------|-------------|
|  | Revaluations       | Profits on trading | Write-downs   | Losses on trading | Net result  |
| <b>1. Financial assets held for trading</b>                              | <b>118</b>         | <b>1,176</b>       | <b>-149</b>   | <b>-1,332</b>     | <b>-187</b> |
| 1.1 Debt securities  | 36                 | 495                | -123          | -616              | -208        |
| 1.2 Equities   | 58                 | 126                | -11           | -156              | 17          |
| 1.3 Quotas of UCI  | 17                 | 8                  | -15           | -36               | -26         |
| 1.4 Loans  | -                  | -                  | -             | -                 | -           |
| 1.5 Other  | 7                  | 547                | -             | -524              | 30          |
| <b>2. Financial liabilities held for trading</b>                         | <b>20</b>          | <b>772</b>         | <b>-60</b>    | <b>-783</b>       | <b>-51</b>  |
| 2.1 Debt securities  | -                  | -                  | -             | -                 | -           |
| 2.2 Payables   | -                  | -                  | -             | -                 | -           |
| 2.3 Other  | 20                 | 772                | -60           | -783              | -51         |
| <b>3. Financial assets and liabilities: foreign exchange differences</b> | <b>X</b>           | <b>X</b>           | <b>X</b>      | <b>X</b>          | <b>750</b>  |
| <b>4. Derivatives</b>  | <b>8,091</b>       | <b>26,693</b>      | <b>-8,384</b> | <b>-25,979</b>    | <b>15</b>   |
| 4.1 Financial derivatives  | 7,218              | 25,048             | -7,464        | -24,427           | -31         |
| - on debt securities and interest rates                                  | 5,621              | 19,723             | -5,824        | -19,157           | 363         |
| - on equities and stock indexes  | 548                | 3,630              | -939          | -3,204            | 35          |
| - on currencies and gold   | X                  | X                  | X             | X                 | -406        |
| - other  | 1,049              | 1,695              | -701          | -2,066            | -23         |
| 4.2 Credit derivatives   | 873                | 1,645              | -920          | -1,552            | 46          |
| <b>TOTAL</b>   | <b>8,229</b>       | <b>28,641</b>      | <b>-8,593</b> | <b>-28,094</b>    | <b>527</b>  |

“Net result” includes profits, losses, revaluations and write-downs on currency transactions and currency and gold derivatives. For detailed information on structured financial products and their impact on the income statement, please refer to Part E of these Notes to the consolidated financial statements - Information on risks and relative hedging policies.

## 4.1 Of which: Banking group

|  | (millions of euro) |                    |               |                   |             |
|--|--------------------|--------------------|---------------|-------------------|-------------|
|  | Revaluations       | Profits on trading | Write-downs   | Losses on trading | Net result  |
| <b>1. Financial assets held for trading</b>                              | <b>111</b>         | <b>1,171</b>       | <b>-139</b>   | <b>-1,328</b>     | <b>-185</b> |
| 1.1 Debt securities  | 36                 | 495                | -115          | -612              | -196        |
| 1.2 Equities   | 58                 | 126                | -11           | -156              | 17          |
| 1.3 Quotas of UCI  | 10                 | 3                  | -13           | -36               | -36         |
| 1.4 Loans  | -                  | -                  | -             | -                 | -           |
| 1.5 Other  | 7                  | 547                | -             | -524              | 30          |
| <b>2. Financial liabilities held for trading</b>                         | <b>20</b>          | <b>772</b>         | <b>-60</b>    | <b>-783</b>       | <b>-51</b>  |
| 2.1 Debt securities  | -                  | -                  | -             | -                 | -           |
| 2.2 Payables   | -                  | -                  | -             | -                 | -           |
| 2.3 Other  | 20                 | 772                | -60           | -783              | -51         |
| <b>3. Financial assets and liabilities: foreign exchange differences</b> | <b>X</b>           | <b>X</b>           | <b>X</b>      | <b>X</b>          | <b>678</b>  |
| <b>4. Derivatives</b>  | <b>8,086</b>       | <b>26,606</b>      | <b>-8,355</b> | <b>-25,892</b>    | <b>80</b>   |
| 4.1 Financial derivatives  | 7,216              | 24,967             | -7,437        | -24,348           | 33          |
| - on debt securities and interest rates                                  | 5,620              | 19,676             | -5,800        | -19,110           | 386         |
| - on equities and stock indexes  | 547                | 3,596              | -936          | -3,172            | 35          |
| - on currencies and gold   | X                  | X                  | X             | X                 | -365        |
| - other  | 1,049              | 1,695              | -701          | -2,066            | -23         |
| 4.2 Credit derivatives   | 870                | 1,639              | -918          | -1,544            | 47          |
| <b>TOTAL</b>   | <b>8,217</b>       | <b>28,549</b>      | <b>-8,554</b> | <b>-28,003</b>    | <b>522</b>  |

**4.1 Of which: Insurance companies**

|  | (millions of euro) |                    |             |                   |            |
|--|--------------------|--------------------|-------------|-------------------|------------|
|  | Revaluations       | Profits on trading | Write-downs | Losses on trading | Net result |
| <b>1. Financial assets held for trading</b>                              | <b>7</b>           | <b>5</b>           | <b>-10</b>  | <b>-4</b>         | <b>-2</b>  |
| 1.1 Debt securities  | -                  | -                  | -8          | -4                | -12        |
| 1.2 Equities   | -                  | -                  | -           | -                 | -          |
| 1.3 Quotas of UCI  | 7                  | 5                  | -2          | -                 | 10         |
| 1.4 Loans  | -                  | -                  | -           | -                 | -          |
| 1.5 Other  | -                  | -                  | -           | -                 | -          |
| <b>2. Financial liabilities held for trading</b>                         | <b>-</b>           | <b>-</b>           | <b>-</b>    | <b>-</b>          | <b>-</b>   |
| 2.1 Debt securities  | -                  | -                  | -           | -                 | -          |
| 2.2 Payables   | -                  | -                  | -           | -                 | -          |
| 2.3 Other  | -                  | -                  | -           | -                 | -          |
| <b>3. Financial assets and liabilities: foreign exchange differences</b> | <b>X</b>           | <b>X</b>           | <b>X</b>    | <b>X</b>          | <b>72</b>  |
| <b>4. Derivatives</b>  | <b>4</b>           | <b>87</b>          | <b>-29</b>  | <b>-87</b>        | <b>-66</b> |
| 4.1 Financial derivatives  | 1                  | 81                 | -27         | -79               | -65        |
| - on debt securities and interest rates                                  | -                  | 47                 | -24         | -47               | -24        |
| - on equities and stock indexes  | 1                  | 34                 | -3          | -32               | -          |
| - on currencies and gold   | X                  | X                  | X           | X                 | -41        |
| - other  | -                  | -                  | -           | -                 | -          |
| 4.2 Credit derivatives   | 3                  | 6                  | -2          | -8                | -1         |
| <b>TOTAL</b>   | <b>11</b>          | <b>92</b>          | <b>-39</b>  | <b>-91</b>        | <b>4</b>   |

**4.1 Of which: Other companies**

In 2016 there was an amount of 1 million euro relating to capital gains on financial derivatives connected to debt securities and interest rates. In 2015 this was not present.

**SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING - CAPTION 90****5.1 Fair value adjustments in hedge accounting: breakdown**

|  | (millions of euro) |               |                     |                 |               |
|--|--------------------|---------------|---------------------|-----------------|---------------|
|  | 2016               | Of which:     |                     |                 | 2015          |
|  |                    | Banking group | Insurance companies | Other companies |               |
| <b>A. Income from</b>  |                    |               |                     |                 |               |
| A.1 fair value hedge derivatives                             | 611                | 611           | -                   | -               | 1,999         |
| A.2 financial assets hedged (fair value)                     | 2,371              | 2,371         | -                   | -               | 947           |
| A.3 financial liabilities hedged (fair value)                | 758                | 758           | -                   | -               | 1,770         |
| A.4 cash flow hedge: derivatives                             | -                  | -             | -                   | -               | -             |
| A.5 currency assets and liabilities                          | -                  | -             | -                   | -               | 39            |
| <b>Total income from hedging (A)</b>                         | <b>3,740</b>       | <b>3,740</b>  | <b>-</b>            | <b>-</b>        | <b>4,755</b>  |
| <b>B. Expenses for</b>                                       |                    |               |                     |                 |               |
| B.1 fair value hedge derivatives                             | -2,633             | -2,633        | -                   | -               | -2,072        |
| B.2 financial assets hedged (fair value)                     | -1,066             | -1,066        | -                   | -               | -2,321        |
| B.3 financial liabilities hedged (fair value)                | -75                | -75           | -                   | -               | -393          |
| B.4 cash flow hedge: derivatives                             | -                  | -             | -                   | -               | -37           |
| B.5 currency assets and liabilities                          | -                  | -             | -                   | -               | -             |
| <b>Total expense from hedging (B)</b>                        | <b>-3,774</b>      | <b>-3,774</b> | <b>-</b>            | <b>-</b>        | <b>-4,823</b> |
| <b>C. Fair value adjustments in hedge accounting (A - B)</b> | <b>-34</b>         | <b>-34</b>    | <b>-</b>            | <b>-</b>        | <b>-68</b>    |



## SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

## 6.1 Profits (Losses) on disposal or repurchase: breakdown

(millions of euro)

|  | 2016         |             |            | 2015         |             |              |
|--|--------------|-------------|------------|--------------|-------------|--------------|
|  | Profits      | Losses      | Net result | Profits      | Losses      | Net result   |
| <b>Financial assets</b>                |              |             |            |              |             |              |
| 1. Due from banks                      | 21           | -17         | 4          | -            | -6          | -6           |
| 2. Loans to customers                  | 158          | -196        | -38        | 76           | -114        | -38          |
| 3. Financial assets available for sale | 1,151        | -161        | 990        | 2,154        | -702        | 1,452        |
| 3.1 Debt securities                    | 913          | -105        | 808        | 1,828        | -619        | 1,209        |
| 3.2 Equities                           | 190          | -23         | 167        | 226          | -22         | 204          |
| 3.3 Quotas of UCI                      | 48           | -33         | 15         | 100          | -61         | 39           |
| 3.4 Loans                              | -            | -           | -          | -            | -           | -            |
| 4. Investments held to maturity        | -            | -           | -          | -            | -           | -            |
| <b>Total assets</b>                    | <b>1,330</b> | <b>-374</b> | <b>956</b> | <b>2,230</b> | <b>-822</b> | <b>1,408</b> |
| <b>Financial liabilities</b>           |              |             |            |              |             |              |
| 1. Due to banks                        | 18           | -18         | -          | 54           | -50         | 4            |
| 2. Due to customers                    | -            | -           | -          | 2            | -           | 2            |
| 3. Securities issued                   | 90           | -56         | 34         | 16           | -225        | -209         |
| <b>Total liabilities</b>               | <b>108</b>   | <b>-74</b>  | <b>34</b>  | <b>72</b>    | <b>-275</b> | <b>-203</b>  |

## 6.1 Of which: Banking group

(millions of euro)

|  | 2016       |             |            | 2015         |             |             |
|--|------------|-------------|------------|--------------|-------------|-------------|
|  | Profits    | Losses      | Net result | Profits      | Losses      | Net result  |
| <b>Financial assets</b>                |            |             |            |              |             |             |
| 1. Due from banks                      | 21         | -17         | 4          | -            | -6          | -6          |
| 2. Loans to customers                  | 158        | -196        | -38        | 76           | -114        | -38         |
| 3. Financial assets available for sale | 598        | -53         | 545        | 1,225        | -509        | 716         |
| 3.1 Debt securities                    | 426        | -52         | 374        | 1,169        | -501        | 668         |
| 3.2 Equities                           | 159        | -1          | 158        | 54           | -8          | 46          |
| 3.3 Quotas of UCI                      | 13         | -           | 13         | 2            | -           | 2           |
| 3.4 Loans                              | -          | -           | -          | -            | -           | -           |
| 4. Investments held to maturity        | -          | -           | -          | -            | -           | -           |
| <b>Total assets</b>                    | <b>777</b> | <b>-266</b> | <b>511</b> | <b>1,301</b> | <b>-629</b> | <b>672</b>  |
| <b>Financial liabilities</b>           |            |             |            |              |             |             |
| 1. Due to banks                        | 18         | -18         | -          | 54           | -50         | 4           |
| 2. Due to customers                    | -          | -           | -          | 2            | -           | 2           |
| 3. Securities issued                   | 90         | -56         | 34         | 16           | -225        | -209        |
| <b>Total liabilities</b>               | <b>108</b> | <b>-74</b>  | <b>34</b>  | <b>72</b>    | <b>-275</b> | <b>-203</b> |

**6.1 Of which: Insurance companies**

(millions of euro)

|  | 2016       |             |            | 2015       |             |            |
|--|------------|-------------|------------|------------|-------------|------------|
|  | Profits    | Losses      | Net result | Profits    | Losses      | Net result |
| <b>Financial assets</b>                |            |             |            |            |             |            |
| 1. Due from banks                      | -          | -           | -          | -          | -           | -          |
| 2. Loans to customers                  | -          | -           | -          | -          | -           | -          |
| 3. Financial assets available for sale | 553        | -108        | 445        | 905        | -193        | 712        |
| 3.1 Debt securities                    | 487        | -53         | 434        | 659        | -118        | 541        |
| 3.2 Equities                           | 31         | -22         | 9          | 148        | -14         | 134        |
| 3.3 Quotas of UCI                      | 35         | -33         | 2          | 98         | -61         | 37         |
| 3.4 Loans                              | -          | -           | -          | -          | -           | -          |
| 4. Investments held to maturity        | -          | -           | -          | -          | -           | -          |
| <b>Total assets</b>                    | <b>553</b> | <b>-108</b> | <b>445</b> | <b>905</b> | <b>-193</b> | <b>712</b> |
| <b>Financial liabilities</b>           |            |             |            |            |             |            |
| 1. Due to banks                        | -          | -           | -          | -          | -           | -          |
| 2. Due to customers                    | -          | -           | -          | -          | -           | -          |
| 3. Securities issued                   | -          | -           | -          | -          | -           | -          |
| <b>Total liabilities</b>               | <b>-</b>   | <b>-</b>    | <b>-</b>   | <b>-</b>   | <b>-</b>    | <b>-</b>   |

**6.1 Of which: Other companies**

In 2016 there were no profits or losses on disposal or repurchase attributable to other companies. In 2015 there were profits on disposal or repurchase of 24 million euro relating entirely to gains on equities recognised under financial assets available for sale.

**SECTION 7 – PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE**  
**- CAPTION 110**
**7.1 Profits (losses) on financial assets/liabilities designated at fair value: breakdown**

(millions of euro)

|  | Revaluations | Profits on trading | Write-downs   | Losses on trading | Net result   |
|--|--------------|--------------------|---------------|-------------------|--------------|
| <b>1. Financial assets</b>                                   | <b>1,829</b> | <b>834</b>         | <b>-472</b>   | <b>-590</b>       | <b>1,601</b> |
| 1.1 Debt securities  | 32           | 93                 | -55           | -33               | 37           |
| 1.2 Equities   | 135          | 45                 | -46           | -64               | 70           |
| 1.3 Quotas of UCI  | 1,655        | 693                | -355          | -491              | 1,502        |
| 1.4 Loans  | 7            | 3                  | -16           | -2                | -8           |
| <b>2. Financial liabilities</b>                              | <b>2</b>     | <b>-</b>           | <b>-536</b>   | <b>-</b>          | <b>-534</b>  |
| 2.1 Debt securities  | -            | -                  | -             | -                 | -            |
| 2.2 Due to banks   | 1            | -                  | -4            | -                 | -3           |
| 2.3 Due to customers   | 1            | -                  | -532          | -                 | -531         |
| <b>3. Foreign currency financial assets and liabilities:</b> |              |                    |               |                   |              |
| foreign exchange differences                                 | X            | X                  | X             | X                 | -            |
| <b>4. Credit and financial derivatives</b>                   | <b>1</b>     | <b>19</b>          | <b>-4</b>     | <b>-32</b>        | <b>-16</b>   |
| <b>TOTAL</b>   | <b>1,832</b> | <b>853</b>         | <b>-1,012</b> | <b>-622</b>       | <b>1,051</b> |

For information on the methods used to determine credit spread, reference should be made to Part A.4 of the Notes to the consolidated financial statements - Information on fair value.

**7.1 Of which: Banking group**

|   | (millions of euro) |                    |             |                   |            |
|---|--------------------|--------------------|-------------|-------------------|------------|
|   | Revaluations       | Profits on trading | Write-downs | Losses on trading | Net result |
| <b>1. Financial assets</b>  | <b>19</b>          | <b>2</b>           | <b>-3</b>   | <b>-4</b>         | <b>14</b>  |
| 1.1 Debt securities   | 11                 | -                  | -           | -3                | 8          |
| 1.2 Equities  | 1                  | 2                  | -           | -1                | 2          |
| 1.3 Quotas of UCI   | 7                  | -                  | -           | -                 | 7          |
| 1.4 Loans   | -                  | -                  | -3          | -                 | -3         |
| <b>2. Financial liabilities</b>   | <b>1</b>           | <b>-</b>           | <b>-</b>    | <b>-</b>          | <b>1</b>   |
| 2.1 Debt securities   | -                  | -                  | -           | -                 | -          |
| 2.2 Due to banks  | 1                  | -                  | -           | -                 | 1          |
| 2.3 Due to customers  | -                  | -                  | -           | -                 | -          |
| <b>3. Foreign currency financial assets and liabilities:<br/>foreign exchange differences</b> | <b>X</b>           | <b>X</b>           | <b>X</b>    | <b>X</b>          | <b>-</b>   |
| <b>4. Credit and financial derivatives</b>  | <b>-</b>           | <b>-</b>           | <b>-</b>    | <b>-</b>          | <b>-</b>   |
| <b>TOTAL</b>  | <b>20</b>          | <b>2</b>           | <b>-3</b>   | <b>-4</b>         | <b>15</b>  |

**7.1 Of which: Insurance companies**

|   | (millions of euro) |                    |               |                   |              |
|---|--------------------|--------------------|---------------|-------------------|--------------|
|   | Revaluations       | Profits on trading | Write-downs   | Losses on trading | Net result   |
| <b>1. Financial assets</b>  | <b>1,810</b>       | <b>832</b>         | <b>-469</b>   | <b>-586</b>       | <b>1,587</b> |
| 1.1 Debt securities   | 21                 | 93                 | -55           | -30               | 29           |
| 1.2 Equities  | 134                | 43                 | -46           | -63               | 68           |
| 1.3 Quotas of UCI   | 1,648              | 693                | -355          | -491              | 1,495        |
| 1.4 Loans   | 7                  | 3                  | -13           | -2                | -5           |
| <b>2. Financial liabilities</b>   | <b>1</b>           | <b>-</b>           | <b>-536</b>   | <b>-</b>          | <b>-535</b>  |
| 2.1 Debt securities   | -                  | -                  | -             | -                 | -            |
| 2.2 Due to banks  | -                  | -                  | -4            | -                 | -4           |
| 2.3 Due to customers  | 1                  | -                  | -532          | -                 | -531         |
| <b>3. Foreign currency financial assets and liabilities:<br/>foreign exchange differences</b> | <b>X</b>           | <b>X</b>           | <b>X</b>      | <b>X</b>          | <b>-</b>     |
| <b>4. Credit and financial derivatives</b>  | <b>1</b>           | <b>19</b>          | <b>-4</b>     | <b>-32</b>        | <b>-16</b>   |
| <b>TOTAL</b>  | <b>1,812</b>       | <b>851</b>         | <b>-1,009</b> | <b>-618</b>       | <b>1,036</b> |

## SECTION 8 – NET LOSSES/RECOVERIES ON IMPAIRMENT – CAPTION 130

## 8.1 Net impairment losses on loans: breakdown

|                                | IMPAIRMENT LOSSES |               | RECOVERIES  |            |              |          | 2016       | 2015          |               |
|--------------------------------|-------------------|---------------|-------------|------------|--------------|----------|------------|---------------|---------------|
|                                | Individual        | Collective    | Individual  |            | Collective   |          |            |               |               |
|                                | write-offs        | other         | of interest | other      | of interest  | other    |            |               |               |
| <b>A. Due from banks</b>       | -                 | -             | <b>-26</b>  | -          | <b>2</b>     | -        | <b>13</b>  | <b>-11</b>    | <b>-12</b>    |
| - Loans                        | -                 | -             | -17         | -          | 2            | -        | 13         | -2            | -9            |
| - Debt securities              | -                 | -             | -9          | -          | -            | -        | -          | -9            | -3            |
| <b>B. Loans to customers</b>   | <b>-422</b>       | <b>-5,261</b> | <b>-277</b> | <b>700</b> | <b>1,607</b> | <b>1</b> | <b>637</b> | <b>-3,015</b> | <b>-2,739</b> |
| Non-performing loans purchased | -                 | -             | -           | -          | -            | -        | -          | -             | -26           |
| - Loans                        | -                 | -             | X           | -          | -            | X        | X          | -             | -26           |
| - Debt securities              | -                 | -             | X           | -          | -            | X        | X          | -             | -             |
| Other                          | -422              | -5,261        | -277        | 700        | 1,607        | 1        | 637        | -3,015        | -2,713        |
| - Loans                        | -422              | -5,249        | -268        | 700        | 1,607        | 1        | 622        | -3,009        | -2,721        |
| - Debt securities              | -                 | -12           | -9          | -          | -            | -        | 15         | -6            | 8             |
| <b>C. Total</b>                | <b>-422</b>       | <b>-5,261</b> | <b>-303</b> | <b>700</b> | <b>1,609</b> | <b>1</b> | <b>650</b> | <b>-3,026</b> | <b>-2,751</b> |

The financial effects due to release of time value on discounted non-performing loans, recognised under "Recoveries - Individual - of interest", amount to a total of 700 million euro. Of this amount, 183 million euro relates to loans included in the unlikely to pay category and 517 million euro to bad loans.

## 8.1 Of which: Banking group

|                                | IMPAIRMENT LOSSES |               | RECOVERIES  |            |              |          | 2016       | 2015          |               |
|--------------------------------|-------------------|---------------|-------------|------------|--------------|----------|------------|---------------|---------------|
|                                | Individual        | Collective    | Individual  |            | Collective   |          |            |               |               |
|                                | write-offs        | other         | of interest | other      | of interest  | other    |            |               |               |
| <b>A. Due from banks</b>       | -                 | -             | <b>-26</b>  | -          | <b>2</b>     | -        | <b>13</b>  | <b>-11</b>    | <b>-12</b>    |
| - Loans                        | -                 | -             | -17         | -          | 2            | -        | 13         | -2            | -9            |
| - Debt securities              | -                 | -             | -9          | -          | -            | -        | -          | -9            | -3            |
| <b>B. Loans to customers</b>   | <b>-422</b>       | <b>-5,261</b> | <b>-277</b> | <b>700</b> | <b>1,607</b> | <b>1</b> | <b>637</b> | <b>-3,015</b> | <b>-2,739</b> |
| Non-performing loans purchased | -                 | -             | -           | -          | -            | -        | -          | -             | -26           |
| - Loans                        | -                 | -             | X           | -          | -            | X        | X          | -             | -26           |
| - Debt securities              | -                 | -             | X           | -          | -            | X        | X          | -             | -             |
| Other                          | -422              | -5,261        | -277        | 700        | 1,607        | 1        | 637        | -3,015        | -2,713        |
| - Loans                        | -422              | -5,249        | -268        | 700        | 1,607        | 1        | 622        | -3,009        | -2,721        |
| - Debt securities              | -                 | -12           | -9          | -          | -            | -        | 15         | -6            | 8             |
| <b>C. Total</b>                | <b>-422</b>       | <b>-5,261</b> | <b>-303</b> | <b>700</b> | <b>1,609</b> | <b>1</b> | <b>650</b> | <b>-3,026</b> | <b>-2,751</b> |

## 8.2 Net impairment losses on financial assets available for sale: breakdown

|                       | IMPAIRMENT LOSSES |             | RECOVERIES  |          | 2016        | 2015        |
|-----------------------|-------------------|-------------|-------------|----------|-------------|-------------|
|                       | Individual        |             | Individual  |          |             |             |
|                       | write-offs        | other       | of interest | other    |             |             |
| A. Debt securities    | -                 | -3          | -           | 5        | 2           | -31         |
| B. Equities           | -                 | -126        | X           | X        | -126        | -142        |
| C. Quotas of UCI      | -                 | -189        | X           | -        | -189        | -29         |
| D. Due from banks     | -1                | -           | -           | -        | -1          | -1          |
| E. Loans to customers | -                 | -           | -           | -        | -           | -           |
| <b>F. Total</b>       | <b>-1</b>         | <b>-318</b> | <b>-</b>    | <b>5</b> | <b>-314</b> | <b>-203</b> |

**8.2 Of which: Banking group**

(millions of euro)

|                       | IMPAIRMENT LOSSES |             | RECOVERIES  |          | 2016        | 2015        |
|-----------------------|-------------------|-------------|-------------|----------|-------------|-------------|
|                       | Individual        |             | Individual  |          |             |             |
|                       | write-offs        | other       | of interest | other    |             |             |
| A. Debt securities    | -                 | -           | -           | 3        | 3           | 3           |
| B. Equities           | -                 | -68         | X           | X        | -68         | -77         |
| C. Quotas of UCI      | -                 | -189        | X           | -        | -189        | -29         |
| D. Due from banks     | -1                | -           | -           | -        | -1          | -1          |
| E. Loans to customers | -                 | -           | -           | -        | -           | -           |
| <b>F. Total</b>       | <b>-1</b>         | <b>-257</b> | <b>-</b>    | <b>3</b> | <b>-255</b> | <b>-104</b> |

**8.2 Of which: Insurance companies**

(millions of euro)

|                       | IMPAIRMENT LOSSES |            | RECOVERIES  |          | 2016       | 2015       |
|-----------------------|-------------------|------------|-------------|----------|------------|------------|
|                       | Individual        |            | Individual  |          |            |            |
|                       | write-offs        | other      | of interest | other    |            |            |
| A. Debt securities    | -                 | -3         | -           | 2        | -1         | -34        |
| B. Equities           | -                 | -58        | X           | X        | -58        | -65        |
| C. Quotas of UCI      | -                 | -          | X           | -        | -          | -          |
| D. Due from banks     | -                 | -          | -           | -        | -          | -          |
| E. Loans to customers | -                 | -          | -           | -        | -          | -          |
| <b>F. Total</b>       | <b>-</b>          | <b>-61</b> | <b>-</b>    | <b>2</b> | <b>-59</b> | <b>-99</b> |

**8.3 Net impairment losses on investments held to maturity: breakdown**

No net impairment losses or net recoveries on impairment of investments held to maturity were recorded in 2016. Likewise, in 2015 there were no net impairment losses on investments held to maturity.

**8.4 Net impairment losses on other financial activities: breakdown**

(millions of euro)

|                              | IMPAIRMENT LOSSES |            |            | RECOVERIES  |            |             |           | 2016      | 2015       |
|------------------------------|-------------------|------------|------------|-------------|------------|-------------|-----------|-----------|------------|
|                              | Individual        |            | Collective | Individual  |            | Collective  |           |           |            |
|                              | write-offs        | other      |            | of interest | other      | of interest | other     |           |            |
| A. Guarantees given          | -                 | -43        | -35        | -           | 95         | -           | 30        | 47        | 126        |
| B. Credit derivatives        | -                 | -          | -          | -           | -          | -           | 2         | 2         | 2          |
| C. Commitments to lend funds | -                 | -17        | -16        | -           | 18         | -           | 21        | 6         | 2          |
| D. Other operations          | -                 | -1         | -26        | -           | -          | -           | 24        | -3        | -          |
| <b>E. Total</b>              | <b>-</b>          | <b>-61</b> | <b>-77</b> | <b>-</b>    | <b>113</b> | <b>-</b>    | <b>77</b> | <b>52</b> | <b>130</b> |

**8.4 Of which Banking group**

(millions of euro)

|                              | IMPAIRMENT LOSSES |            |            | RECOVERIES  |            |             |           | 2016      | 2015       |
|------------------------------|-------------------|------------|------------|-------------|------------|-------------|-----------|-----------|------------|
|                              | Individual        |            | Collective | Individual  |            | Collective  |           |           |            |
|                              | write-offs        | other      |            | of interest | other      | of interest | other     |           |            |
| A. Guarantees given          | -                 | -43        | -35        | -           | 95         | -           | 30        | 47        | 126        |
| B. Credit derivatives        | -                 | -          | -          | -           | -          | -           | 2         | 2         | 2          |
| C. Commitments to lend funds | -                 | -17        | -16        | -           | 18         | -           | 21        | 6         | 2          |
| D. Other operations          | -                 | -          | -26        | -           | -          | -           | 24        | -2        | -          |
| <b>E. Total</b>              | <b>-</b>          | <b>-60</b> | <b>-77</b> | <b>-</b>    | <b>113</b> | <b>-</b>    | <b>77</b> | <b>53</b> | <b>130</b> |

**8.4 Of which: Other companies**

In 2016, net impairment losses on other financial activities attributable to other companies totalled -1 million euro, as a result of individual adjustments to other transactions. In 2015 these had a balance of zero, resulting from specific adjustments to/recoveries on other financial activities of +/- 1 million euro.

**SECTION 9 - NET INSURANCE PREMIUMS - CAPTION 150****9.1 Net insurance premiums: breakdown**

(millions of euro)

| Premiums deriving from insurance business                          | Direct work  | Indirect work | 2016         | 2015          |
|--|--------------|---------------|--------------|---------------|
| <b>A. Life business</b>  |              |               |              |               |
| A.1 Gross accounted premiums (+)                                   | 8,136        | -             | 8,136        | 12,178        |
| A.2 Premiums ceded for reinsurance (-)                             | -1           | X             | -1           | -1            |
| <b>A.3 Total</b>   | <b>8,135</b> | <b>-</b>      | <b>8,135</b> | <b>12,177</b> |
| <b>B. Non-life business</b>  |              |               |              |               |
| B.1 Gross accounted premiums (+)                                   | 391          | -             | 391          | 276           |
| B.2 Premiums ceded for reinsurance (-)                             | -6           | X             | -6           | -7            |
| B.3 Changes in the gross amount of premium reserve (+/-)           | -84          | -             | -84          | -27           |
| B.4 Changes in premium reserves reassured with third parties (-/+) | -3           | -             | -3           | -1            |
| <b>B.5 Total</b>   | <b>298</b>   | <b>-</b>      | <b>298</b>   | <b>241</b>    |
| <b>C. Total net premiums</b>                                       | <b>8,433</b> | <b>-</b>      | <b>8,433</b> | <b>12,418</b> |

**SECTION 10 - OTHER NET INSURANCE INCOME (EXPENSE) - CAPTION 160****10.1 Other net insurance income (expense): breakdown**

(millions of euro)

|  | 2016           | 2015           |
|--|----------------|----------------|
| 1. Net change in technical reserves                      | -1,500         | -4,417         |
| 2. Claims accrued and paid during the year               | -7,999         | -9,408         |
| 3. Other income/expenses arising from insurance business | -1,009         | -855           |
| <b>TOTAL</b>   | <b>-10,508</b> | <b>-14,680</b> |

**10.2 Breakdown of Net change in technical reserves**

(millions of euro)

| Net change in technical reserves  | 2016          | 2015          |
|---|---------------|---------------|
| <b>1. Life business</b>   |               |               |
| A. Mathematical reserves  | -1,271        | -4,404        |
| A.1 Gross annual amount   | -1,271        | -4,404        |
| A.2 Amount reinsured with third parties (-)   | -             | -             |
| B. Other technical reserves   | -104          | -65           |
| B.1 Gross annual amount   | -104          | -65           |
| B.2 Amount reinsured with third parties (-)   | -             | -             |
| C. Technical reserves for investment risks to be borne by the insured                                     | -124          | 52            |
| C.1 Gross annual amount   | -124          | 52            |
| C.2 Amount reinsured with third parties (-)   | -             | -             |
| <b>Total "life business reserves"</b>   | <b>-1,499</b> | <b>-4,417</b> |
| <b>2. Non-life business</b>   | <b>-1</b>     | <b>-</b>      |
| Changes in other technical reserves of non-life business other than claims fund, net of ceded reinsurance | -1            | -             |

**10.3 Breakdown of Claims accrued and paid during the year**

(millions of euro)

|   | <b>2016</b>   | <b>2015</b>   |
|---|---------------|---------------|
| <b>Charges associated to claims</b>   |               |               |
| <b>Life business: charges associated to claims, net of reinsurance ceded</b>                    | <b>-7,910</b> | <b>-9,321</b> |
| A. Amounts paid   | -8,035        | -9,211        |
| A.1 Gross annual amount   | -8,035        | -9,211        |
| A.2 Amount reinsured with third parties (-)   | -             | -             |
| B. Change in funds for amounts to be disbursed  | 125           | -110          |
| B.1 Gross annual amount   | 126           | -110          |
| B.2 Amount reinsured with third parties (-)   | -1            | -             |
| <b>Non-life business: charges associated to claims, net of recoveries and reinsurance ceded</b> | <b>-89</b>    | <b>-87</b>    |
| C. Amounts paid   | -85           | -92           |
| C.1 Gross annual amount   | -89           | -100          |
| C.2 Amount reinsured with third parties (-)   | 4             | 8             |
| D. Change in recoveries net of quotas borne by reinsurers                                       | 1             | 1             |
| E. Change in damage fund  | -5            | 4             |
| E.1 Gross annual amount   | -4            | 7             |
| E.2 Amount reinsured with third parties (-)   | -1            | -3            |

**10.4 Breakdown of Other income/expenses arising from insurance business**

(millions of euro)

|                       | <b>2016</b>   | <b>2015</b> |
|-----------------------|---------------|-------------|
| <b>Other income</b>   | <b>337</b>    | <b>121</b>  |
| Life business         | 322           | 107         |
| Non-life business     | 15            | 14          |
| <b>Other expenses</b> | <b>-1,346</b> | <b>-976</b> |
| Life business         | -1,283        | -914        |
| Non-life business     | -63           | -62         |

## SECTION 11 - ADMINISTRATIVE EXPENSES - CAPTION 180

## 11.1 Personnel expenses: breakdown

(millions of euro)

|  | 2016         | Of which:     |                     |                 | 2015         |
|--|--------------|---------------|---------------------|-----------------|--------------|
|  |              | Banking group | Insurance companies | Other companies |              |
| <b>1) Personnel employed</b>               | <b>5,456</b> | <b>5,390</b>  | <b>62</b>           | <b>4</b>        | <b>5,327</b> |
| a) wages and salaries                      | 3,647        | 3,602         | 42                  | 3               | 3,641        |
| b) social security charges                 | 930          | 920           | 9                   | 1               | 930          |
| c) termination indemnities                 | 52           | 52            | -                   | -               | 51           |
| d) supplementary benefits                  | 4            | 3             | 1                   | -               | 4            |
| e) provisions for termination indemnities  | 28           | 28            | -                   | -               | 21           |
| f) provisions for post employment benefits | 52           | 52            | -                   | -               | 45           |
| - defined contribution plans               | -            | -             | -                   | -               | -            |
| - defined benefit plans                    | 52           | 52            | -                   | -               | 45           |
| g) payments to external pension funds      | 276          | 272           | 4                   | -               | 272          |
| - defined contribution plans               | 275          | 271           | 4                   | -               | 270          |
| - defined benefit plans                    | 1            | 1             | -                   | -               | 2            |
| h) costs from share based payments         | 155          | 153           | 2                   | -               | 149          |
| i) other benefits in favour of employees   | 312          | 308           | 4                   | -               | 214          |
| <b>2) Other non-retired personnel</b>      | <b>13</b>    | <b>13</b>     | <b>-</b>            | <b>-</b>        | <b>10</b>    |
| <b>3) Directors and statutory auditors</b> | <b>25</b>    | <b>22</b>     | <b>1</b>            | <b>2</b>        | <b>27</b>    |
| <b>4) Early retirement costs</b>           | <b>-</b>     | <b>-</b>      | <b>-</b>            | <b>-</b>        | <b>-</b>     |
| <b>TOTAL</b>                               | <b>5,494</b> | <b>5,425</b>  | <b>63</b>           | <b>6</b>        | <b>5,364</b> |

It should be specified that 3) Directors and Statutory Auditors includes remuneration to members of the Board of Directors of the Parent Company and members of the Board of Directors and the Board of Statutory Auditors of the various Group companies.

## 11.2 Average number of employees by categories

|                           | 2016          | Of which:     |                     |                 | 2015          |
|---------------------------|---------------|---------------|---------------------|-----------------|---------------|
|                           |               | Banking group | Insurance companies | Other companies |               |
| <b>Personnel employed</b> | <b>84,478</b> | <b>83,779</b> | <b>667</b>          | <b>32</b>       | <b>86,014</b> |
| a) managers               | 1,429         | 1,389         | 32                  | 8               | 1,449         |
| b) total officers         | 32,177        | 31,874        | 294                 | 9               | 32,226        |
| c) other employees        | 50,872        | 50,516        | 341                 | 15              | 52,339        |
| <b>Other personnel</b>    | <b>192</b>    | <b>191</b>    | <b>1</b>            | <b>-</b>        | <b>287</b>    |
| <b>TOTAL</b>              | <b>84,670</b> | <b>83,970</b> | <b>668</b>          | <b>32</b>       | <b>86,301</b> |

## 11.3 Post employment defined benefit plans: costs and revenues

(millions of euro)

|                                  | 2016                             |                |                | 2015                             |                |                |
|----------------------------------|----------------------------------|----------------|----------------|----------------------------------|----------------|----------------|
|                                  | Employee Termination Indemnities | Internal plans | External plans | Employee Termination Indemnities | Internal plans | External plans |
| Current service cost             | -8                               | -3             | -32            | -6                               | -3             | -28            |
| Interest expense                 | -20                              | -10            | -74            | -15                              | -15            | -55            |
| Interest income                  | -                                | 4              | 56             | -                                | 4              | 39             |
| Reimbursement from third parties | -                                | -              | -              | -                                | -              | -              |
| Past service cost                | -                                | -              | -              | -                                | -              | -              |
| Curtailment of the fund          | X                                | -              | -              | X                                | -              | -              |
| Settlement of the fund           | X                                | -              | -              | X                                | -              | -              |

This table illustrates the economic components referred to "Allowances for risks and charges - post employment benefits" recorded under liabilities line 120-a in the Consolidated balance sheet.



**11.4 Other benefits in favour of employees**

The balance as at 31 December 2016 amounted to 312 million euro, referred to contributions for health assistance, lunch vouchers, premiums of insurance policies stipulated in favour of employees and provisions for seniority bonuses, charges for incentive-driven exit plans and other charges for integration.

**11.5 Other administrative expenses: breakdown**

(millions of euro)

|   | 2016         | 2015         |
|---|--------------|--------------|
| Expenses for maintenance of information technology and electronic equipment | 570          | 565          |
| Telephonic, teletransmission and transmission expenses                      | 78           | 84           |
| <b>Information technology expenses</b>                                      | <b>648</b>   | <b>649</b>   |
| Rentals and service charges - real estate                                   | 251          | 282          |
| Security services   | 44           | 47           |
| Cleaning of premises  | 42           | 49           |
| Expenses for maintenance of real estate assets                              | 73           | 68           |
| Energy costs  | 112          | 119          |
| Property costs  | 12           | 23           |
| <b>Management of real estate assets</b>                                     | <b>534</b>   | <b>588</b>   |
| Printing, stationery and consumables expenses                               | 48           | 50           |
| Transport and related services expenses (including counting of valuables)   | 100          | 112          |
| Information expenses  | 172          | 159          |
| Postal and telegraphic expenses   | 79           | 85           |
| <b>General structure costs</b>  | <b>399</b>   | <b>406</b>   |
| Expenses for consultancy fees   | 231          | 230          |
| Legal and judiciary expenses  | 183          | 191          |
| Insurance premiums - banks and customers                                    | 59           | 67           |
| <b>Professional and legal expenses</b>                                      | <b>473</b>   | <b>488</b>   |
| <b>Advertising and promotional expenses</b>                                 | <b>134</b>   | <b>145</b>   |
| <b>Services rendered by third parties</b>                                   | <b>243</b>   | <b>243</b>   |
| <b>Indirect personnel costs</b>   | <b>92</b>    | <b>98</b>    |
| <b>Other costs</b>  | <b>710</b>   | <b>659</b>   |
| <b>Indirect taxes and duties</b>  | <b>877</b>   | <b>907</b>   |
| <b>Recovery of taxes and duties</b>   | <b>-6</b>    | <b>-23</b>   |
| <b>Recovery of other expenses</b>   | <b>-93</b>   | <b>-94</b>   |
| <b>TOTAL</b>  | <b>4,011</b> | <b>4,066</b> |

Other expenses include 578 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the Deposit Guarantee Fund. In 2015 the same expenses amounted to 516 million euro.

\* \* \* \* \*

Administrative expenses for 2016, included in tables 11.1 "Personnel expenses: breakdown" and 11.5 "Other administrative expenses: breakdown", include charges for integration and exit incentives, gross of the tax effect detailed below, for 196 million euro.

*Charges for integration and exit incentives: breakdown*

(millions of euro)

|   | 2016       | 2015       |
|---|------------|------------|
| <b>Personnel expenses</b>                     | <b>131</b> | <b>36</b>  |
| - charges for integration and exit incentives | 131        | 36         |
| <b>Other administrative expenses</b>          | <b>65</b>  | <b>84</b>  |
| - information technology expenses             | 22         | 38         |
| - management of real estate assets            | -          | -          |
| - professional and legal expenses             | 35         | 31         |
| - advertising and promotional expenses        | 2          | 3          |
| - services rendered by third parties          | 3          | 9          |
| - indirect personnel costs                    | 1          | -          |
| - other costs                                 | 2          | 3          |
| <b>TOTAL</b>                                  | <b>196</b> | <b>120</b> |

**SECTION 12 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 190****12.1 Net provisions for risks and charges: breakdown**

(millions of euro)

|  | Provisions  | Reallocations | 2016        |
|--|-------------|---------------|-------------|
| Net provisions for legal disputes          | -162        | 81            | -81         |
| Net provisions for other personnel charges | -           | -             | -           |
| Net provisions for risks and charges       | -247        | 87            | -160        |
| <b>TOTAL</b>                               | <b>-409</b> | <b>168</b>    | <b>-241</b> |

"Net provisions for risks and charges", which amounted to -241 million euro, recorded the provisions attributable to the year relating to:

- o litigation, including revocatory actions and other disputes;
- o guarantees issued for the sale of equity investments and other loan transactions.

The amounts listed above include a 1 million euro funds increase due to time value.

**SECTION 13 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT – CAPTION 200****13.1 Net adjustments to property and equipment: breakdown**

(millions of euro)

|                                  | Depreciation | Impairment losses | Recoveries | Net result  |
|----------------------------------|--------------|-------------------|------------|-------------|
| <b>A. Property and equipment</b> |              |                   |            |             |
| A.1 Owned                        | -331         | -22               | -          | -353        |
| - used in operations             | -329         | -20               | -          | -349        |
| - investment                     | -2           | -2                | -          | -4          |
| A.2 Acquired under finance lease | -1           | -                 | -          | -1          |
| - used in operations             | -1           | -                 | -          | -1          |
| - investment                     | -            | -                 | -          | -           |
| <b>TOTAL</b>                     | <b>-332</b>  | <b>-22</b>        | <b>-</b>   | <b>-354</b> |

For the determination of impairment losses, see the illustration provided in Part A – Accounting policies.

**SECTION 14 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS – CAPTION 210****14.1 Net adjustments to intangible assets: breakdown**

|                                  | (millions of euro) |                   |            |             |
|----------------------------------|--------------------|-------------------|------------|-------------|
|                                  | Amortisation       | Impairment losses | Recoveries | Net result  |
| <b>A. Intangible assets</b>      |                    |                   |            |             |
| A.1 Owned                        | -577               | -                 | -          | -577        |
| - internally generated           | -330               | -                 | -          | -330        |
| - other                          | -247               | -                 | -          | -247        |
| A.2 Acquired under finance lease | -                  | -                 | -          | -           |
| <b>TOTAL</b>                     | <b>-577</b>        | <b>-</b>          | <b>-</b>   | <b>-577</b> |

With regard to the method of the impairment testing for intangible assets and related impairment recognised to the income statement, see Part B – Section 13 – Intangible Assets in these Notes to the consolidated financial statements.

**14.1 Of which: Banking group**

|                                  | (millions of euro) |                   |            |             |
|----------------------------------|--------------------|-------------------|------------|-------------|
|                                  | Amortisation       | Impairment losses | Recoveries | Net result  |
| <b>A. Intangible assets</b>      |                    |                   |            |             |
| A.1 Owned                        | -545               | -                 | -          | -545        |
| - internally generated           | -330               | -                 | -          | -330        |
| - other                          | -215               | -                 | -          | -215        |
| A.2 Acquired under finance lease | -                  | -                 | -          | -           |
| <b>TOTAL</b>                     | <b>-545</b>        | <b>-</b>          | <b>-</b>   | <b>-545</b> |

**14.1 Of which: Insurance companies**

In 2016 impairment losses pertaining to insurance companies reached 32 million euro, entirely attributable to amortisation of other owned intangible assets.

**SECTION 15 – OTHER OPERATING EXPENSE (INCOME) - CAPTION 220****15.1 Other operating expenses: breakdown**

|   | (millions of euro) |               |                                  |                 |
|---|--------------------|---------------|----------------------------------|-----------------|
|   | 2016               | Banking group | Of which:<br>Insurance companies | Other companies |
| Other expenses for consumer credit and leasing transactions | 30                 | 30            | -                                | -               |
| Settlements for legal disputes                              | 7                  | 7             | -                                | -               |
| Amortisation of leasehold improvements                      | 48                 | 48            | -                                | -               |
| Other non-recurring expenses                                | 318                | 291           | 3                                | 24              |
| Other   | 128                | 108           | 6                                | 14              |
| <b>TOTAL 2016</b>   | <b>531</b>         | <b>484</b>    | <b>9</b>                         | <b>38</b>       |
| <b>TOTAL 2015</b>   | <b>317</b>         | <b>282</b>    | <b>9</b>                         | <b>26</b>       |

Other non-recurring expenses included 225 million euro relating to the settlement of the US lawsuit with the supervisory body for the State of New York.

**15.2 Other operating income: breakdown**

(millions of euro)

|   | 2016         | Banking group | Of which:<br>Insurance companies | Other companies |
|---|--------------|---------------|----------------------------------|-----------------|
| Recovery of expenses                                  | 736          | 735           | -                                | 1               |
| Income IT companies                                   | 20           | 20            | -                                | -               |
| Insurance reimbursements                              | 1            | 1             | -                                | -               |
| Reimbursements for services rendered to third parties | 12           | 12            | -                                | -               |
| Income related to consumer credit and leasing         | 29           | 29            | -                                | -               |
| Rentals and recovery of expenses on real estate       | 27           | 6             | -                                | 21              |
| Other non-recurring income                            | 89           | 74            | 2                                | 13              |
| Other   | 47           | 45            | 1                                | 1               |
| <b>TOTAL 2016</b>                                     | <b>961</b>   | <b>922</b>    | <b>3</b>                         | <b>36</b>       |
| <b>TOTAL 2015</b>                                     | <b>1,232</b> | <b>1,193</b>  | <b>3</b>                         | <b>36</b>       |

**SECTION 16 – PROFITS (LOSSES) ON EQUITY INVESTMENTS – CAPTION 240****16.1 Profits (Losses) on equity investments: breakdown**

(millions of euro)

|  | 2016       | Banking group | Of which:<br>Insurance companies | Other companies | 2015       |
|--|------------|---------------|----------------------------------|-----------------|------------|
| <b>1) Companies subject to joint control</b> |            |               |                                  |                 |            |
| A. Revenues                                  | 43         | 43            | -                                | -               | 51         |
| 1. Revaluations                              | 43         | 43            | -                                | -               | 51         |
| 2. Profits on disposal                       | -          | -             | -                                | -               | -          |
| 3. Write-backs                               | -          | -             | -                                | -               | -          |
| 4. Other                                     | -          | -             | -                                | -               | -          |
| B. Charges                                   | -75        | -20           | -                                | -55             | -3         |
| 1. Write-downs                               | -3         | -3            | -                                | -               | -2         |
| 2. Impairment losses                         | -72        | -17           | -                                | -55             | -1         |
| 3. Losses on disposal                        | -          | -             | -                                | -               | -          |
| 4. Other                                     | -          | -             | -                                | -               | -          |
| <b>Net result</b>                            | <b>-32</b> | <b>23</b>     | <b>-</b>                         | <b>-55</b>      | <b>48</b>  |
| <b>2) Investments in associates</b>          |            |               |                                  |                 |            |
| A. Revenues                                  | 226        | 160           | -                                | 66              | 193        |
| 1. Revaluations                              | 180        | 134           | -                                | 46              | 154        |
| 2. Profits on disposal                       | 41         | 21            | -                                | 20              | -          |
| 3. Write-backs                               | -          | -             | -                                | -               | 39         |
| 4. Other                                     | 5          | 5             | -                                | -               | -          |
| B. Charges                                   | -69        | -61           | -1                               | -7              | -130       |
| 1. Write-downs                               | -35        | -34           | -1                               | -               | -88        |
| 2. Impairment losses                         | -25        | -25           | -                                | -               | -41        |
| 3. Losses on disposal                        | -9         | -2            | -                                | -7              | -1         |
| 4. Other                                     | -          | -             | -                                | -               | -          |
| <b>Net result</b>                            | <b>157</b> | <b>99</b>     | <b>-1</b>                        | <b>59</b>       | <b>63</b>  |
| <b>TOTAL</b>                                 | <b>125</b> | <b>122</b>    | <b>-1</b>                        | <b>4</b>        | <b>111</b> |

For companies subject to joint control and significant influence, income from registration at fair value of the equity stakes is recorded under Revaluations while the losses from the registration at fair value of the equity stakes is recorded under "Impairment losses".

**SECTION 17 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 250****17.1 Valuation differences on property, equipment and intangible assets measured at fair value: breakdown**

Not applicable to the Group.

**SECTION 18 – GOODWILL IMPAIRMENT - CAPTION 260****18.1 Goodwill impairment: breakdown**

The results of impairment testing on goodwill recorded in the financial statements did not lead to impairment losses in 2016.

See Part A – Accounting policies for details on the means of determination of goodwill impairment.

For a description of the impairment testing methods for goodwill, reference should be made to Part B – Section 13 – Intangible Assets in these Notes to the consolidated financial statements.

**SECTION 19 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 270****19.1 Profits (Losses) on disposal of investments: breakdown**

|                                | 2016       | Of which:     |                     |                 | (millions of euro) |
|--------------------------------|------------|---------------|---------------------|-----------------|--------------------|
|                                |            | Banking group | Insurance companies | Other companies | 2015               |
| A. Real estate assets          | 357        | 333           | 20                  | 4               | 88                 |
| - profits on disposal          | 358        | 334           | 20                  | 4               | 88                 |
| - losses on disposal           | -1         | -1            | -                   | -               | -                  |
| B. Other assets <sup>(a)</sup> | -1         | -             | -                   | -1              | 15                 |
| - profits on disposal          | -          | -             | -                   | -               | 16                 |
| - losses on disposal           | -1         | -             | -                   | -1              | -1                 |
| <b>Net result</b>              | <b>356</b> | <b>333</b>    | <b>20</b>           | <b>3</b>        | <b>103</b>         |

<sup>(a)</sup> Included profits and losses on disposal of subsidiaries.

**SECTION 20 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 290****20.1 Taxes on income from continuing operations: breakdown**

|   | 2016          | Of which:     |                     |                 | (millions of euro) |
|---|---------------|---------------|---------------------|-----------------|--------------------|
|   |               | Banking group | Insurance companies | Other companies | 2015               |
| 1. Current taxes (-)  | -867          | -489          | -377                | -1              | -1,588             |
| 2. Changes in current taxes of previous years (+/-)   | -9            | 20            | -                   | -29             | 76                 |
| 3. Reduction in current taxes of the year (+)   | 22            | 22            | -                   | -               | 24                 |
| 3bis. Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+) | 36            | 36            | -                   | -               | 31                 |
| 4. Changes in deferred tax assets (+/-)   | -256          | -285          | 30                  | -1              | 99                 |
| 5. Changes in deferred tax liabilities (+/-)  | 71            | -6            | 77                  | -               | 27                 |
| <b>6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)</b>                            | <b>-1,003</b> | <b>-702</b>   | <b>-270</b>         | <b>-31</b>      | <b>-1,331</b>      |

**20.2 Reconciliation of theoretical tax charge to total income tax expense for the period**

(millions of euro)

|  | <b>2016</b>  |
|--|--------------|
| Income before tax from continuing operations   | 3,216        |
| Income before tax from discontinued operations | 1,035        |
| <b>Theoretical taxable income</b>              | <b>4,251</b> |

|  | <b>Taxes</b> | <b>%</b>     |
|--|--------------|--------------|
| <b>Income taxes - theoretical tax charge</b>                           | <b>1,063</b> | <b>33.1</b>  |
| <b>Increase of taxes</b>   | <b>492</b>   | <b>15.3</b>  |
| Non-deductible interest expense  | 225          | 7.0          |
| Non-deductible costs due to goodwill impairment                        | 19           | 0.6          |
| Other non-deductible costs (personnel expenses, etc.)                  | 62           | 1.9          |
| Other  | 186          | 5.8          |
| <b>Decrease of taxes</b>   | <b>-504</b>  | <b>-15.7</b> |
| Effects of the participation exemption                                 | -179         | -5.6         |
| Effects of international companies lower rates                         | -285         | -8.9         |
| Effect of tax alignment of goodwill                                    | -40          | -1.2         |
| Other  | -            | 0.0          |
| <b>Total changes in taxes</b>  | <b>-12</b>   | <b>-0.4</b>  |
| <b>Total income tax expense for the period</b>                         | <b>1,051</b> | <b>32.7</b>  |
| <b>of which: - total income tax expense from continuing operations</b> | <b>1,003</b> | <b>31.2</b>  |
| <b>- total income tax expense from discontinued operations</b>         | <b>48</b>    | <b>1.5</b>   |

**SECTION 21 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - CAPTION 310****21.1 Income (Loss) after tax from discontinued operations: breakdown**

(millions of euro)

|   | 2016       | Of which:     |                     |                 | 2015      |
|---|------------|---------------|---------------------|-----------------|-----------|
|   |            | Banking group | Insurance companies | Other companies |           |
| 1. Income   | 232        | 232           | -                   | -               | 210       |
| 2. Charges  | -79        | -76           | -                   | -3              | -122      |
| 3. Valuation differences on discontinued operations and related liabilities | -          | -             | -                   | -               | -         |
| 4. Profits (Losses) on disposal   | 882        | 882           | -                   | -               | -         |
| 5. Taxes and duties   | -48        | -48           | -                   | -               | -28       |
| <b>Income (Loss)</b>  | <b>987</b> | <b>990</b>    | <b>-</b>            | <b>-3</b>       | <b>60</b> |

The increase in realised gains mainly related to the sale of the investees Setefi, Intesa Sanpaolo Card Zagreb, Intesa Sanpaolo Card BH and Intesa Sanpaolo Card Ljubljana.

**21.2 Breakdown of taxes on discontinued operations**

(millions of euro)

|  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| 1. Current taxes (-)                         | -48         | -28         |
| 2. Changes in deferred tax assets (+/-)      | -           | -           |
| 3. Changes in deferred tax liabilities (-/+) | -           | -           |
| <b>4. Income taxes (-1 +/-2 +/-3)</b>        | <b>-48</b>  | <b>-28</b>  |

**SECTION 22 – MINORITY INTERESTS - CAPTION 330****22.1 Breakdown of caption 330 Minority interests**

(millions of euro)

|  | <b>31.12.2016</b> |
|--|-------------------|
| <b>Investments in consolidated companies with significant minority interests</b> |                   |
| 1 Banca Prossima S.p.A   | -2                |
| 2 Bank of Alexandria S.A.E   | -24               |
| 3 Cassa dei Risparmi di Forlì e della Romagna S.p.A.                             | 2                 |
| 4 Cassa di Risparmio di Pistoia e della Lucchesia S.p.A.                         | 1                 |
| 5 Manzoni S.r.l.   | -34               |
| 6 Privredna Banka Zagreb d.d.  | -6                |
| 7 Risanamento S.p.A.   | 32                |
| 8 Vseobecna Uverova Banka a.s.   | -4                |
| 9 Compagnia Italiana Finanziaria - CIF S.r.l.                                    | 13                |
| 10 Iniziative Logistiche S.r.l.  | 7                 |
| 11 Other minor interest  | -3                |
| <b>Other investments</b>   |                   |
| 1 LKS 2 S.A.   | -38               |
| 2 Coinv S.p.A.   | -33               |
| <b>TOTAL 2016</b>  | <b>-89</b>        |
| <b>TOTAL 2015</b>  | <b>-67</b>        |

**SECTION 23 – OTHER INFORMATION**

There is no information further to that already provided in the previous sections.

**SECTION 24 – EARNINGS PER SHARE****Earnings per share**

|   | <b>31.12.2016</b>      |                       | <b>31.12.2015</b>      |                       |
|---|------------------------|-----------------------|------------------------|-----------------------|
|   | <b>Ordinary shares</b> | <b>Savings shares</b> | <b>Ordinary shares</b> | <b>Savings shares</b> |
| Weighted average number of shares   | 15,841,479,283         | 932,490,561           | 15,832,484,936         | 932,490,561           |
| Income attributable to the various categories of shares<br>(millions of euro) | 2,929                  | 182                   | 2,577                  | 162                   |
| Basic EPS (euro)  | 0.18                   | 0.20                  | 0.16                   | 0.17                  |
| Diluted EPS (euro)  | 0.18                   | 0.20                  | 0.16                   | 0.17                  |

**24.1 Weighted average number of ordinary shares (fully diluted)**

For further information on this section, see the chapter "Shareholder base, stock price performance and other information" in the Report on operations.

## Part D – Consolidated comprehensive income

### DETAILED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

|   | (millions of euro) |               |               |
|---|--------------------|---------------|---------------|
|   | Gross<br>amount    | Income<br>tax | Net<br>amount |
| <b>10. NET INCOME (LOSS)</b>  | <b>X</b>           | <b>X</b>      | <b>3,200</b>  |
| <b>Other comprehensive income that may not be reclassified to the income statement:</b> | <b>-206</b>        | <b>32</b>     | <b>-174</b>   |
| 20. Property and equipment  | -                  | -             | -             |
| 30. Intangible assets   | -                  | -             | -             |
| 40. Defined benefit plans   | -206               | 32            | -174          |
| 50. Non current assets held for sale  | -                  | -             | -             |
| 60. Share of valuation reserves connected with investments carried at equity            | -                  | -             | -             |
| <b>Other comprehensive income that may be reclassified to the income statement:</b>     | <b>-990</b>        | <b>184</b>    | <b>-806</b>   |
| 70. Hedges of foreign investments:  | -                  | -             | -             |
| a) fair value changes   | -                  | -             | -             |
| b) reclassification to the income statement   | -                  | -             | -             |
| c) other changes  | -                  | -             | -             |
| 80. Foreign exchange differences:   | -284               | -             | -284          |
| a) fair value changes   | -                  | -             | -             |
| b) reclassification to the income statement   | -                  | -             | -             |
| c) other changes  | -284               | -             | -284          |
| 90. Cash flow hedges:   | -6                 | 2             | -4            |
| a) fair value changes   | -                  | -             | -             |
| b) reclassification to the income statement   | -                  | -             | -             |
| c) other changes  | -6                 | 2             | -4            |
| 100. Property and equipment   | -686               | 179           | -507          |
| a) fair value changes   | -431               | 110           | -321          |
| b) reclassification to the income statement   | -151               | 41            | -110          |
| - impairment losses   | 39                 | -10           | 29            |
| - gains/losses from disposals   | -190               | 51            | -139          |
| c) other changes  | -104               | 28            | -76           |
| 110. Non current assets held for sale   | -                  | -             | -             |
| a) fair value changes   | -                  | -             | -             |
| b) reclassification to the income statement   | -                  | -             | -             |
| c) other changes  | -                  | -             | -             |
| 120. Share of valuation reserves connected with investments carried at equity:          | -14                | 3             | -11           |
| a) fair value changes   | -                  | -             | -             |
| b) reclassification to the income statement   | -                  | -             | -             |
| - impairment losses   | -                  | -             | -             |
| - gains/losses from disposals   | -                  | -             | -             |
| c) other changes  | -14                | 3             | -11           |
| <b>130. Total other comprehensive income</b>  | <b>-1,196</b>      | <b>216</b>    | <b>-980</b>   |
| <b>140. TOTAL COMPREHENSIVE INCOME (Caption 10+130)</b>                                 | <b>X</b>           | <b>X</b>      | <b>2,220</b>  |
| <b>150. Total consolidated comprehensive income pertaining to minority interests</b>    | <b>X</b>           | <b>X</b>      | <b>-55</b>    |
| <b>160. Total consolidated comprehensive income pertaining to the Parent Company</b>    | <b>X</b>           | <b>X</b>      | <b>2,275</b>  |



# Part E – Information on risks and relative hedging policies

## INTRODUCTION

The table below shows the mapping of risk disclosure regarding the financial statements and Pillar 3.

|                                     | FINANCIAL STATEMENTS      |                 | PILLAR 3         |
|-------------------------------------|---------------------------|-----------------|------------------|
|                                     | Section/Chapter           | Paragraph       | Section          |
| <b>RISKS OF THE BANKING GROUP</b>   | PART E - SECTION 1        |                 |                  |
| - Credit risk                       | Chapter 1.1               |                 | Sections 5-6-7-8 |
| - Securitisations                   |                           | Paragraph C     | Section 10       |
| - Counterparty risk                 | Chapter 1.1 - Chapter 1.2 |                 | Section 9        |
| - Market risk                       | Chapter 1.2               |                 |                  |
| - Regulatory trading book           |                           | Paragraph 1.2.1 | Section 11       |
| - Banking book                      |                           | Paragraph 1.2.2 | Sections 13-14   |
| - Sovereign risk                    | Chapter 1.3               |                 |                  |
| - Liquidity risk                    | Chapter 1.3               |                 |                  |
| - Operational risk                  | Chapter 1.4               |                 | Section 12       |
| - Legal risk                        | Chapter 1.4               |                 |                  |
| <b>RISKS OF INSURANCE COMPANIES</b> | PART E - SECTION 2        |                 |                  |
| - Insurance risks                   | Chapter 2.1               |                 |                  |
| - Financial risks                   | Chapter 2.2               |                 |                  |
| <b>RISKS OF OTHER COMPANIES</b>     | PART E - SECTION 3        |                 |                  |

## Basic principles

The Intesa Sanpaolo Group attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk.

The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of the Group's portfolios.

Risk-acceptance strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF, introduced in 2011 to ensure that risk-acceptance activities remain in line with shareholders' expectations, is established by taking account of the Intesa Sanpaolo Group's risk position and the economic situation. The framework establishes the general risk appetite principles, together with the controls for the overall risk profile and the main specific risks.

The general principles that govern the Group's risk-acceptance strategy may be summarised as follows:

- The Intesa Sanpaolo Banking Group is focused on a commercial business model in which domestic retail activity remains the Group's structural strength;
- the Group does not aim to eliminate risks, but rather attempts to understand and manage them so as to ensure an adequate return for the risks taken, while guaranteeing the Company's solidity and business continuity in the long term;
- Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, a sound liquidity position and a strong reputation are the key factors to protecting its current and prospective profitability;
- Intesa Sanpaolo aims at a capitalisation level in line with its main European peers;
- Intesa Sanpaolo intends to maintain strong management of the main specific risks (not necessarily associated with macroeconomic shocks) to which the Group may be exposed;
- the Group attaches great importance to the monitoring of non-financial risks, and in particular:
  - o it adopts an operational risk assumption and management strategy geared towards prudent management and, also by establishing specific limits and early warnings, it focuses on achieving an optimal balance between growth and earnings objectives and the consequent risks;
  - o for compliance risk, it aims for formal and substantive compliance with rules in order to avoid penalties and maintain a solid relationship of trust with all of its stakeholders;
  - o it works to ensure formal and substantive compliance with the provisions in terms of legal liability with the aim of minimising claims and proceedings that it is exposed to and that result in outlays.
  - o with regard to reputational risk, it actively manages its image in the eyes of all stakeholders and seeks to prevent and contain any negative effects on its image, including through robust, sustainable growth capable of creating value for all stakeholders.

The general principles apply both at Group level and business unit or company level. In the event of external growth, these general principles must be applied, by adapting them to the specific characteristics of the market and the competitive scenario.

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are managed, with the establishment of general principles of risk appetite and the resulting structuring of the management of:

- the overall risk profile; and
- the Group’s main specific risks.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even in case of severe stress. In addition, it aims to ensure the desired reputational and compliance risk profiles.

In detail, management of overall risk is aimed at maintaining adequate levels of:

- capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio and the Risk Bearing Capacity;
- liquidity, sufficient to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situations, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Funding/Lending Gap and Asset Encumbrance;
- earnings stability, by monitoring the adjusted net income and the adjusted operating costs on revenues, which represent the main potential causes for their instability;
- management of operational and reputational risk so as to minimise the risk of negative events that jeopardise the Group’s economic stability and image.

In compliance with the EBA guidelines (EBA/GL/2015/02) on the “Minimum list of quantitative and qualitative recovery plan indicators”, during the 2016 update of the RAF the Group added new indicators (mainly asset quality, market and macroeconomic indicators) as early warning thresholds, in accordance with its Recovery Plan.

Management of the main specific risks is aimed at determining the risk appetite that the Group intends to assume with regard to exposures that may represent especially significant concentrations. Such management is implemented by establishing specific limits, management processes and mitigation measures to be taken in order to limit the impact of especially severe scenarios on the Group. These Risks are assessed also considering stress scenarios and are periodically monitored within the Risk Management systems.

In detail, the main specific risks monitored are:

- especially significant risk concentrations (e.g., concentration on individual counterparties, sovereign risk or commercial real estate);
- the individual risks that make up the Group’s overall risk profile and whose operating limits, as envisaged in specific policies, complete the Risk Appetite Framework.

As already disclosed, a specific Credit Risk Appetite Framework (CRA) had already been established in 2015. The CRA identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other useful predictive statistical indicators, to guide lending growth by optimising the management of risk and expected loss. In 2016, the CRA was implemented with binding instructions for the credit process by setting specific limits identifying the maximum tolerated risk for the riskiest transactions. The limits set are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office Department.

During the 2016 update of the RAF, the framework was further extended to Divisions and Group companies, allocating specific limits according to the:

- extent of the risks assumed (in terms of capital requirements, total assets, and contribution to Group earnings);
- specific nature of the business model (e.g. Banca IMI);
- presence of local regulations (International Subsidiary Banks) or industry sector regulations (e.g. companies in the insurance segment).

Particular attention was also given to the governance of the limits specifically assigned to the Divisions and companies during the review of the Guidelines for the Group’s Risk Appetite Framework approved by the Board of Directors in July 2016.

Defining the Risk Appetite Framework is a complex process headed by the Chief Risk Officer, which involves close interaction with the Chief Financial Officer and the Heads of the various Business Units, is developed in line with the ICAAP, ILAAP and Recovery Plan processes, and represents the risk framework in which the Budget and Business Plan are developed. Consistency between the risk-acceptance strategy and policy and the Plan and Budget process is thus guaranteed.

The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in loan management processes and controlling operational risk, the use of capital-at-risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Board of Directors along the Group’s entire decision-making chain, down to the single operational units and to the single desks.

The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas, in a comprehensive framework of governance and control limits and procedures.

The assessment of the total Group risk profile is conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group’s internal rules.

The Group prepares a Recovery Plan according to indications from the Supervisory Authorities. The process that governs the preparation of that plan is an integral part of the regulatory response to cross-border resolution for “too-big-to-fail” banks and financial institutions. The Recovery Plan (governed by the Bank Recovery and Resolution Directive, transposed into Italian law by Legislative Decree 180 of 16 November 2015) establishes the methods and measures to be used to take action to restore the long-term economic stability of an institution in the event of serious deterioration of its financial situation.

Within the annual preparation process for the Recovery Plan, the Chief Risk Officer Governance Area identifies the stress scenarios capable of highlighting the main vulnerabilities of the Group and its business model (e.g. significant exposure to the domestic market) in addition to measuring its potential impact on the Group’s risk profile. The final results showed that the Group has a high level of resilience. In addition, as per the Road Map agreed with the Joint Supervisory Team, the subsidiaries within the SSM scope (VUB Group, Banka Koper, ISPB Ireland and ISPB Luxembourg) were included within the Group Recovery Plan. Additional scope extensions are planned for 2017 (CIB, PBZ and ISP Romania), while the other international subsidiaries will continue to be managed according to the regulations in their countries.

## Risk culture

The utmost attention is devoted to the sharing and internalisation of risk awareness, by confirming the principles through periodic updates of the reference documents drawn up (Tableau de Bord, ICAAP, and Risk Appetite Framework), and by taking specific actions for the implementation of development plans based on the guidance issued by the corporate bodies.

The risk management approach aims to achieve an integrated and consistent system of measures, considering both the macroeconomic scenario and the Group's risk profile, by fostering a risk-awareness through a transparent, thorough representation of the risk level of portfolios. The efforts made in recent years with the Basel 2 and 3 Project in order to obtain authorisation from the Supervisory Authorities for the use of internal ratings to calculate credit risk requirements and in order to secure validation of internal models for operational and market risks should be seen in this context.

The Group promotes the spread of risk-awareness through extensive training efforts aimed at ensuring the proper application of the internal risk management models.

The measures taken in pursuit of this goal are established through a systematic and coordinated approach to risk management, in accordance with the provisions of the supervisory regulations, with ongoing support from the Parent Company for the strengthening of the local risk assessment and monitoring systems within the international subsidiaries.

To that end, the CRO Forum was set up in 2015, consisting of quarterly meetings of the Chief Risk Officers of the Group's international subsidiary banks with the corresponding structures of the Parent Company. These meetings aim to favour the discussion of common issues and problems, by leveraging the experiences within the Group and by improving the knowledge of the specific characteristics of the local markets, in relation to the operational and regulatory aspects. The development guidelines for risk governance are also illustrated during these occasions, with reporting on the strategic projects conducted at Group level, in order to facilitate subsequent opportunities for dialogue and the leveraging of synergies.

Also with a view towards the internalisation of a Group risk-awareness, the Risk Academy was promoted, mainly aimed at the international subsidiaries, in order to strengthen the quality of Risk Governance at Banking Group level.

Particular attention was devoted to perform an extensive and in-depth assessment of the Group's risk culture, a topic of increasing prominence for the market and the Regulators. From a core perspective, the Group's good positioning was confirmed: a conservative risk profile with sound capital and liquidity levels, ongoing attention given to the internal control system and compliance rules that seek to ensure adherence to the substance of the regulations. It was also decided to add to these evidences through a survey on the perceptions and the behaviour of the managers involved in decision making and the transmission – from top management through to the responsible of small group of people – with a view to comparing the consistency between the desired guidelines and the day-to-day company operations. The Group profile in term of risk culture emerging from the assessment was compared both internally against the Group's Divisions, and with respect to international peers, to supplement the results with remarks collected through a programme of interviews with top management and the first-line managers. Periodic reporting was provided to the Management Control Committee and the Board on the initiative's developments, for the subsequent submission of a plan of targeted measures to further enhance the comprehensive programme of actions designed for the internalisation of the desired behavioural profiles in terms of risk culture.

## Risk governance organisation

The risk acceptance policies are defined by the Board of Directors, with strategic supervision and management functions, and by the Management Control Committee with control functions. The Board of Directors carries out its activity through specific internal committees, among which the Risk Committee. The Corporate Bodies are assisted by the action of management committees, among which mention should be made of the Group Risk Governance Committee, as well as by the Chief Risk Officer, reporting directly to the Chief Executive Officer.

The Chief Risk Officer, to whom the Governance Area in charge of the risk management functions as well as the controls on the risk management and internal validation process reports, represents a "second line of defence" in the management of corporate risks that is separate and independent from the business functions.

The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management guidelines and policies in accordance with the company's strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures 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 CRO implements level II monitoring and controls of credit and other risks, and ensures the validation of internal risk measurement systems.

In 2015, the Chief Compliance Officer was established, directly reporting to the Managing Director and CEO, in a position that is independent from operating departments and separate from internal auditing, which ensures the management of Group compliance risk, both in the operational and reputational risk components, including the risk of sanctions, losses or damage arising from improper conduct towards customers or such as to jeopardise the integrity and orderly functioning of the markets (so-called conduct risk). Furthermore, in line with corporate strategies and objectives, the CCO defines guidelines and policies, including statements and limits for the Risk Appetite Framework, and works with the corporate control functions to effectively integrate the risk management process.

The Group Risk Governance Committee, chaired by the Managing Director and CEO, is a body with decision-making, consultative and reporting powers. It was established with the aim of ensuring the monitoring and management of risks and the safeguarding of corporate value at Group level, including internal control systems, in implementation of the strategic guidelines and management policies defined by the corporate bodies. The Committee is also responsible for Basel 2 and 3 project governance and supervising the projects and measures necessary to guarantee compliance.

The Group Financial Risks Committee is a technical body with decision-making and reporting powers, focused both on the banking business (proprietary financial risks for banking and trading books, as well as Active Value Management) and the life insurance business (result exposure to the trend in market variables). The functions of said Committee are set out in two sessions:

- the Risk Analysis and Assessment Session, chaired by the Chief Risk Officer, is responsible for evaluating, in advance of approval by the Corporate Bodies, the methodological and measurement guidelines for financial risks and proposals for operational limits, in addition to defining the distribution thereof amongst the Group's major units; in addition, the session verifies the financial risk profile of the Group and its main operational units;

- the Management Guidelines and Operating Choices Session, chaired by the Chief Financial Officer, provides operational guidelines in implementation of the strategic guidelines and risk management policies laid down by the Corporate Bodies in respect of management of the banking book, liquidity, interest rate and exchange risk and periodically verifies the Group's overall financial risk profile, as well as appropriate measures aimed at mitigating it.

The Group Control Coordination and Operational Risk Committee is a technical body that operates with the aim of stepping up coordination and interdepartmental cooperation mechanisms:

- as part of the Group internal control system, facilitating the integration of the risk management process;
- in relation to operational risks, including ICT risk, facilitating its effective management.

The Committee operates within the scope of the guidelines set by the Corporate Bodies, based on the operational and functional powers delegated by the Board of Directors of the Parent Company. The Functions of the Group Control Coordination and Operational Risk Committee are organised into specific, separate sessions:

- Integrated Internal Control System Session, for reporting and consulting purposes;
- Operational Risk session, with decision-making, reporting and consulting purposes (in this context, the Committee's duties include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies).

The Parent Company performs a steering and coordination role with respect to the Group Companies, aimed at ensuring effective and efficient risk management at Group level. 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 Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines along the Bank's entire decision-making chain, down to individual operational units. Specifically, it performs the following functions:

- it governs the macro-process of definition, approval, control and implementation of the Group's Risk Appetite Framework (RAF) with the support of the other corporate functions involved;
- consistent with corporate strategies and objectives, it assists the Corporate Bodies in defining guidelines and policies on risk management;
- it coordinates the implementation of guidelines and policies on risk management by the relevant Group business units, also in the various corporate contexts;
- it ensures the measurement and control of Group exposure to the various types of risk, also verifying the implementation of guidelines and policies as above;
- it ensures credit quality monitoring and the observance of credit guidelines and strategies through the constant monitoring of risk, and submitting proposals on the structure of delegated powers of the Corporate Bodies.
- it monitors capital absorption (capital requirements), supporting the Planning and Active Value Management Head Office Department in actively managing capital;
- it proposes to the top management, along with the other competent corporate bodies, the definition of the structure of operating limits, including the rights to grant and manage credit, in line with the RAF and the allocated capital;
- it oversees regulatory developments and ensures that statutory reports are sent to the Supervisory Bodies with regard to internal models;
- it develops and maintains risk measurement, management and control systems in line with current regulations and international best practices, interacting, for such purposes, with the functions in charge of said corporate processes;
- it adopts capital-at-risk measurements for management reporting and assessment of the Group's Economic Capital adequacy;
- as part of the Tableau de Bord and on a quarterly basis, it reports to the corporate bodies on the situation of the Group's overall risk profile; it compares that situation with the Risk Appetite Framework, highlighting any situations that require action by the Board of Directors;
- it draws up the annual update of the criteria for identifying significant transactions and provides a prior opinion on such transactions.
- it ensures coverage of II level risk monitoring and controls, also contributing to design I level controls and checking that they are effectively performed;
- it carries out II level monitoring and controls on credit quality, composition and evolution of the various loan portfolios also through risk-based controls on proper classification and provisioning of single positions ("single name" controls);
- for the purpose of correctly classifying and assessing single names;
- it also monitors and analyses the structure of level II controls for monitoring risks other than credit risk, in order to verify the completeness and continuity of level I controls;
- it identifies any critical issues based on its control/monitoring activities and the results of I level controls, requesting and monitoring the implementation of specific mitigation actions, ensuring prompt reporting to the corporate bodies in the event of breaches or significant shortcomings;
- It validates internal risk measurement systems.

To that end, the Chief Risk Officer Governance Area is broken down into the following Organisational Units:

- o Credit Risk Management Department;
- o Financial and Market Risks Department;
- o Enterprise Risk Management Department;
- o Internal Validation and Controls Department;
- o Coordination of Risk Management Initiatives.

## The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.

Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for Listed Companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.

Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the following objectives:

- the verification of the implementation of Company strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- the effectiveness and efficiency of the Bank processes;
- the reliability and security of Company information and IT procedures;
- the prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with special regard to those relating to money-laundering, usury and financing of terrorism);
- the compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The internal control system plays a crucial role and involves the entire corporate organisation (bodies, units, hierarchical levels, all personnel). In compliance with the provisions of Bank of Italy Circular 285/2013 (First Part, Title IV, Chapter 3) the "Integrated Internal Control System Regulation" was finalised. This aims to define the guidelines of Intesa Sanpaolo's internal control system, in its capacity as Bank and Parent Company of the Banking Group, through the adaptation of the reference principles and the definition of the responsibilities of the Bodies and of the functions with control duties, which contribute, in various ways, to the proper operation of the internal control system, as well as the identification of coordination arrangements and information flows supporting system integration. The structure of internal controls is also outlined by the entire set of company documentation (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls in force, incorporating all the Company policies, the instructions of the Supervisory Authorities, and provisions of law, including the principles laid down in Legislative Decree 231/2001 and Law 262/2005.

The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Regulations, Authorities and powers, Policies, Guidelines, Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls.

More specifically, the Company rules set out organisational solutions that:

- ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
- allow the prompt notification to the appropriate levels within the Company and the swift handling of any anomalies found by the business units and the control functions;
- ensure adequate levels of business continuity.

The Company's organisational solutions also enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.

In terms of Corporate Governance, on 27 April 2016 Intesa Sanpaolo adopted the one-tier corporate governance system, pursuant to Articles 2409-sexiesdecies and following of the Italian Civil Code. It therefore conducts its operations through a Board of Directors, certain members of which are also members of the Management Control Committee

The Board of Directors is responsible for corporate management. The Board may undertake all transactions considered necessary, useful or appropriate in achieving the corporate purpose, relating to both ordinary and extraordinary administration.

The Board of Directors elects a Managing Director from its members, other than the Chairman of the Board, the members of the Management Control Committee or the minimum number of Independent Directors. Subject to the powers that cannot be delegated, the Board of Directors delegates to the Managing Director the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board. The Board clearly and precisely establishes the content, the quantitative and/or value limits and the implementation procedures for the delegation to the Managing Director. The Board of Directors performs all the strategic supervision duties required by the law currently in force. The Management Control Committee carries out all the tasks assigned to the control body pursuant to the law.

The Intesa Sanpaolo Group adopts an internal control system based on three levels, in line with the legal and regulatory provisions in force.

Such a model provides for the following types of control:

- Level I: line controls which are aimed at ensuring proper performance of operations (for example, hierarchical, systematic and sample-based controls) and which, to the extent possible, are incorporated in the IT procedures. These are conducted by the same operating and business structures, also through a unit dedicated exclusively to control duties or carried out by the back office;
- Level II: risk and compliance controls for the purpose of ensuring, inter alia:
  - o the correct implementation of the risk management process;
  - o compliance with the operating limits assigned to the various functions;
  - o compliance of company operations with the rules, including self-governance rules.

The functions assigned to such controls are separate from the ones in charge of production and contribute to the definition of the risk governance policies and the risk management process. In the Intesa Sanpaolo Group, Level II includes the following Parent Company structures and the equivalent local units of the Group companies, where established:

- o Chief Risk Officer Governance Area, which is assigned the role of risk management and validation function, as defined by the applicable regulations.
- o Chief Compliance Officer, who is assigned the duties and responsibilities of the “compliance” function, as defined in the reference regulations. The Chief Compliance Officer’s area also includes the Anti-Money Laundering Department, which is tasked with the duties and responsibilities of the “anti-money laundering function”, as defined by the reference regulations;
- Level III: internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks. In the Intesa Sanpaolo Group, internal auditing is carried out by the Internal Auditing Department of the Parent Company and the equivalent local units of Group companies, where established.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context. Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

### The Risk Management and Internal Validation Function

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines for risk along the Bank’s entire decision-making chain, down to individual operational units. The tasks and functions are discussed in detail in the subsequent chapters of Part E.

Through the Internal Validation and Controls Head Office Department, the Chief Risk Officer Governance Area carries out II level monitoring and controls on credit and other risks. The activities conducted on credit consider the quality, composition and evolution of the various loan portfolios, also through risk-based controls on proper classification and provisioning single positions (“single name” controls). It also carries out monitoring and controls on rating assignment and update processes. In general, the control activities development includes the credit processes assessment also to verify that suitable level I controls are in place, including proper execution and traceability.

The monitoring and control of risks other than credit risks is aimed at verifying that level I controls are properly established in terms of completeness, efficiency, detection and traceability, identifying areas to be strengthened and, where necessary, requesting corrective measures.

The internal control system implemented by the Bank includes the validation function, the purpose of which is ongoing evaluation, in accordance with the Supervisory Regulations for banks<sup>7</sup>, of the compliance of internal risk measurement and management systems over time as regards determination of the capital requirements with regulatory provisions, Company needs and changes in the market of reference. The validation function is entrusted to the Internal Validation and Controls Head Office Department, which is responsible for the activity at the Group level in accordance with the requirements of supervisory regulations governing uniform management of the control process on internal risk measurement systems.

Within this Department, which reports directly to the Chief Risk Officer, the Internal Validation Sub-Department ensures that internal models, whether already operational or in development, are validated with regard to all risk profiles covered by Pillars 1 and 2 of the Basel Accord, in accordance with the independence requirements established by the applicable regulations<sup>8</sup>.

The validation process is mainly driven by Intesa Sanpaolo’s roll-out plan and any requests coming from the Regulator. On an annual basis, the Internal Validation Sub-Department prepares a validation plan that is submitted to the Board of Directors for approval.

With respect to Pillar 1 risks, validation is a prerequisite for use of the internal systems for regulatory purposes. The validation function conducts assessments of risk management and measurement systems in terms of models, processes, information technology infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference. The level of involvement of the structure depends on the different types of validation (development/adoption of internal systems, application for adoption/extension of internal systems, application for model change and ongoing validation).

Both during the initial application phase and on an ongoing basis (at least annually), the results of the Internal Validation Sub-Department’s activities are presented to the competent functions, transmitted to the Internal Auditing Department for its related internal auditing work, as well as to the competent Managerial Committees and Governance Bodies for approval of the certification of compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.

With respect to Pillar 2 risks, the Internal Validation Sub-Department conducts analyses of methodologies, verifying in particular that the measurement or assessment metrics adopted in quantifying significant risks are economically and statistically consistent, the methodologies adopted and estimates produced to measure and assess significant risks are robust and comparing alternative methodologies for measuring and aggregating individual risks. The analyses are conducted both in advance, when adopting/modifying the internal systems used for Pillar 2 purposes, and ex post as part of the prudential control process. The latter are summarised in the ICAAP report while, for substantial or significant modifications of internal systems, the Internal Validation Sub-Department produces a report to be submitted to the competent Managerial Committees and the Governance Bodies<sup>9</sup>.

The function also manages the internal validation process at the Group level, interacting with the Supervisory Authorities, the Corporate Bodies of reference and the functions responsible for the level III controls provided for in regulations. The Internal Validation Sub-Department adopts a decentralised approach for companies with local validation functions<sup>10</sup> (certain international companies), coordinating and supervising the activities of such companies, and a centralised approach for the others. The adopted methodologies were developed in implementation of the principles that inspire the Supervisory Provisions for banks, UE directives

<sup>7</sup> EU Regulation 575/2013 (CRR), EBA Guidelines, EU Directive 2013/36 (CRD IV), Bank of Italy Circular 285/2013.

<sup>8</sup> The validation function became the owner of the calculation of the default rate for the Group from the second half of 2016.

<sup>9</sup> In the event of substantial/significant modifications, the approval process requires that the Credit Risk Management Department submit updates to the Internal Management System, accompanied by the impact analysis on the risk metrics and the report of the validation unit, to the competent Managerial Committee for approval. Subsequently, reporting is provided on those modifications to the Board of Directors.

<sup>10</sup> Note that the functional reporting of local validation units to the Internal Validation Sub-Department has been formalised.

and regulations, general guidelines of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.

The function generally also provides advice and suggestions to company and Group functions on an ongoing basis, with the aim of improving the efficacy of the processes of risk management, control and governance of internal risk measurement and management systems for determining capital requirements.

Finally, the Internal Validation Sub-Department is responsible for the validation of the internal systems used for management purposes and contributes to the development of the model risk framework<sup>11</sup> for both Pillar 1 and Pillar 2 risks.

In 2016, the main validation activities in the area of credit risks pertained to analyses for the submission of the following applications:

- adoption of the internal estimates of the CCFs for the calculation of the EAD for the Corporate segment;
- adoption of the internal estimates of the CCFs for the calculation of the EAD for the Retail SME segment;
- adoption/model change of the internal estimates for PD, LGD and the CCFs for the calculation of the EAD for the Retail segment.

In 2016, the validation function also:

- conducted the review required by the Regulator for the adoption of the AIRB Corporate model change;
- calculated the default rates required to update the Central Tendency of the validated models/models being validated/re-estimated;
- started the validation work on the alignment of the PD and LGD models for IFRS 9.

The following ongoing analyses were also conducted, and their results were summarised in the annual validation report:

- half-yearly backtesting analyses of regulatory segments authorised to use internal systems (residential mortgages for individuals, Corporate and Retail SME segments);
- half-yearly analyses on guarantees used to mitigate credit risk (mortgage, personal and financial guarantees).
- yearly quantitative and qualitative analyses (performance analyses and empirical analyses of use tests) for regulatory segments authorised to use internal systems.

In the cases of the international subsidiaries, Internal Validation conducted its own assessments in collaboration with the local validation functions, where present. In detail, analyses of the adequacy of internal credit risk measurement systems were conducted for the following subsidiaries:

- BIB (Serbia): validation report for the application for the adoption of the FIRB Corporate approach (SME&LC model and slotting for structured finance transactions);
- VUB (Slovakia): validation report for the application for the adoption of the IRB Other Retail approach, and validation report for the application for the amendment of the definition of default (with effect on all the portfolios);
- Banka Koper (Slovenia): validation report for the operational adoption of the PD Small Business model;
- CIB (Hungary): validation report for the operational adoption of the new Corporate PD model, validation report for the operational adoption of the EAD Corporate model, and opinion on the governance document and organisational aspects;
- AlexBank (Egypt): validation report for the operational adoption of the PD Corporate and SME model;
- PBZ (Croatia): validation report for the operational adoption of the PD Retail Unsecured model and recalibration of the PD Small Medium and Large Corporate model;
- Intesa Sanpaolo Bank Luxembourg: application for extension of the new Parent Company Corporate model.

Validation activities for operational risk conducted in 2016 took the form of:

- verification of the strength of the model in the event of updating of the loss data during 2015 (internal and external data);
- ongoing validation analyses for the purpose of drawing up the annual report including the activity of replicating and verifying the database used by the calculation engine to quantify capital requirements. To this end, the information from the documentary and empirical analyses (using Isidoro data) was supplemented by specific on-site inspections, aimed at verifying the effective implementation of the monitoring and management process for operational risks, and by methodological analyses<sup>12</sup>, as well as the remote verification process on the Organisational Units/Legal Entities within the AMA scope.

The activity of the Internal Validation Sub-Department relating to the market risk component focused on the following areas:

- periodic quantitative and qualitative analysis as part of the ongoing valuation activity (in particular, backtesting of the Value at Risk (VaR) model and stress testing of the Incremental Risk Charge (IRC) model);
- monitoring of the existing model for calculating stressed VaR, which entails a half-yearly revision of the adequacy of the historical stress period to be used in the calculation.

In addition, the Internal Validation Sub-Department carries out ongoing activities concerning pricing issues (for example, verification of the consistency of non-contributed bonds pricing among the end of quarter measurements carried out by the Financial and Market Risks Department, and operational pricing, monitored by Product Control of Banca IMI). The validation function was involved in the preparations for the inspection visit scheduled for 2017 under the TRIM (Targeted Review of Internal Models) and monitored the execution of the benchmarking requested by the EBA.

In relation to counterparty risk, the Internal Validation Sub-Department periodically monitors the progress of corrective measures implemented for the findings reported in the authorisation letter and conducts periodic quantitative and qualitative analyses, whose results are summarised in the annual validation report. Following the authorisation for the model change for the simulation model for interest rates, which enables the management of negative rates, the function monitored and analysed the additional

<sup>11</sup> Model risk is intended as the risk that the model could become unsuitable or could be used incorrectly to describe - in a simplified but accurate manner - the real phenomenon for which it was developed.

<sup>12</sup> In 2016, the on-site inspections were conducted, with the aid of the local validation functions, on the international subsidiary banks within the AMA scope (VUB and PBZ, already authorised to use the AMA approach, and CIB, where the AMA framework has been implemented, but currently only for operational purposes).

measures on the model proposed by the development function in the plan of corrective measures requested by the ECB. The analyses involved rate simulations (with possible inclusion of euro-OIS bases, and additional amendments to the volatility scaling), the addition of a hybrid model to refine the simulation for the equity asset class, currently limited to the indices, and further refinements proposed for the simulation for the foreign exchange asset class (also with the possible addition of a specific driver for exchange rate volatility). The Bank was also involved in an initial meeting under the TRIM, for which the validation function examined the evolution of the forwarding curves and the convergence analyses (and the Monte Carlo error estimate).

For the Pillar 2 Risks, the main areas of analysis in 2016 were:

- follow-ups of the methods used for the determination of the Economic Capital for credit risk (in particular, the portfolio model and the non-performing loans model);
- analyses of the methods used for the calculation of the Economic Capital for banking book interest rate risk under ordinary and stress conditions;
- general review of the stress testing framework and examination of the methods used for the determination of the scenarios (Oxford model, G-VAR). Further analyses were conducted by the validation function under the internal project, initiated in the second half of 2016, to determine the Bank's level of alignment with the EBA "Draft Guidelines on stress testing and supervisory stress testing" published in December 2015;
- analyses of the methods for determining the Economic Capital and AFR for equity risk and banking book foreign exchange risk;
- start of the analyses for the assessment of the methods for calculating Economic Capital for pension risk, added as a significant risk in the 2015-2018 ICAAP&ILAAP Book;
- validation of the adequacy of the behavioural models for banking book interest rate risk: specifically, the validation function was involved in the re-estimation of the model for the core deposits for the contribution to the fair value shift sensitivity for Intesa Sanpaolo, Fideuram – ISPB and the Group's main International Subsidiary Banks (BIB, PBZ and BIH, BK, ISPRO), estimate of the model for the core deposits for the contribution to the net interest income under ordinary and stress conditions (for Italy) and update of the prepayment model (for Italy);
- review of the framework for the management and measurement of liquidity risk. With regard to stress testing in particular, the contribution to the liquidity outflows from the behavioural model for the committed credit lines was analysed.

The analyses conducted by the Internal Validation Sub-Department are reported in specific detailed memos, summarised in the 2015-2018 ICAAP&ILAAP Book and in the section on the methods used for operational purposes<sup>13</sup> in the annual validation report prepared, as usual, in June 2016.

In addition, in 2016, the validation function continued the work for the development and implementation of the framework for the identification and management of model risk, in collaboration with the Enterprise Risk Management Department. Specifically, the development of the components of the framework for the assessment of model risk for the "pilot" model (PD Mortgage model) was completed. The work will continue in 2017 according to the internal planning, extending the framework to other credit risk methods and periodically implementing the analyses for the models for which the framework has been established and customised.

## Compliance

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust. The responsibilities and duties of the compliance function are assigned to the Chief Compliance Officer, who is independent and autonomous in relation to the operational structures, reports directly to the Governing Bodies and has access to all activities within the Bank, as well as any significant information for the performance of his/her duties.

The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Corporate Bodies, which indicate the responsibilities of the various company structures and macro processes to mitigate compliance risk:

- identifying and assessing compliance risk;
- proposing the functional and organisational measures for mitigation of this risk;
- assessing the consistency of the company's bonus system;
- conducting pre-assessments of the compliance of innovative projects, operations and new products and services;
- providing advice and assistance to the governing bodies and the business units in all areas with significant compliance risk;
- monitoring, including through the use of information provided by the other control functions, of ongoing compliance;
- promoting a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.

The regulatory scope and the procedures for monitoring regulatory areas that present significant risks of non-compliance for the Group are defined in the Group Compliance Guidelines. The Chief Compliance Officer submits periodic reports to corporate bodies on the adequacy of compliance control, with regard to all regulatory aspects applicable to the Bank which show compliance risks. On an annual basis, these reports include an identification and assessment of the primary compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a half-yearly basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.

The Compliance Guidelines call for the adoption of two distinct models in relation to direction and control of the Group. These models are organised in such a way as to account for the Intesa Sanpaolo Group's structure in operational and territorial terms. In particular:

- compliance supervision activities for specifically identified Network Banks and Italian Companies whose operations show a high degree of integration with the Parent Company are centralised with the Chief Compliance Officer structures;
- for the other Companies, specifically identified on the basis of the existence of a legal obligation or due to the importance of their material size and/or risk, as well as for International Branches, an internal compliance function is established and a local

<sup>13</sup> In accordance with the regulatory requirements implemented by the Group in the "Guidelines for the adoption, management and control of internal risk measurement systems used for management purposes".



Compliance Officer is appointed, which are assigned compliance responsibilities. The local Compliance Officers of the subsidiaries functionally report to the Chief Compliance Officer structures, while those of the International Branches, except where not permitted by local regulations, hierarchically report to the Chief Compliance Officer structures.

### Anti-Money Laundering

The duties and responsibilities of the Anti-Money Laundering Function, as envisaged by regulations, are assigned to the Anti-Money Laundering Department, which reports directly to the Chief Compliance Officer.

Specifically, the Anti-Money Laundering Department ensures monitoring of compliance risk in the area of money laundering, combating financing of terrorism and embargo management by:

- laying down the general principles to be adopted within the Group for the management of compliance risk;
- conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable regulations and proposing appropriate organisational and procedural changes;
- providing advice to the functions of the Parent Company and subsidiaries on a centralised basis and establishing adequate training plans;
- preparing appropriate periodic reporting for corporate bodies and top management;
- discharging the required specific obligations on behalf of the Parent Company and subsidiaries on a centralised basis, including, in particular, enhanced customer reviews, controls of proper management of the Single Electronic Archive and the assessment and monthly submission to the Financial Reporting Unit of data relating to aggregated anti-money laundering reports, and the assessment reports of suspicious transactions received from operating departments for the submission to the Financial Reporting Unit of reports deemed accurate.

### Internal Auditing

Internal auditing activities are performed by the Internal Auditing Department, which reports directly to the Board of Directors. It also functionally reports to the Management Control Committee and has no direct operating responsibilities.

The Department has a structure and a control model which is organised consistently with the evolution of the organisational model of Intesa Sanpaolo and of the Group.

The Internal Auditing structures of the Group's Italian and international companies report to the Internal Auditing Department in terms of functions.

The Internal Auditing Department performs overall level 3 assessment of the internal control system, reporting possible improvements to the corporate bodies, with specific regard to the RAF, the risk management process and risk measurement and control instruments.

In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control system, the risk management process and the corporate processes, also with regard to their ability to identify and prevent errors and irregularities. In this context, amongst others, it audits the risk control and regulatory compliance corporate functions, also through participation in plans so as to generate added value and improve the effectiveness of the control and corporate governance processes.

The audit action directly concerns Intesa Sanpaolo and the Group companies.

The Internal Auditing Department is also responsible for assessing the effectiveness of the corporate RAF definition process, the internal consistency of the overall framework and compliance of Bank operations with the RAF.

The Head of the Internal Auditing Department enjoys due autonomy and independence from the operating departments.

The Department has free access to the activities, data and documents of all company functions.

The Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practices and standards for internal auditing established by the Institute of Internal Auditors (IIA).

The Department has earned the maximum rating ("Generally Compliant") in the external Quality Assurance Review envisaged by the international standards.

In performing its duties, the Department uses structured risk assessment methods to identify existing situations of greatest interest and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and corporate bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Management Control Committee, and subsequent approval by the Board of Directors, on the basis of which it conducts its activities during the year, in addition to a Long-Term Plan.

Auditing was performed directly for the Parent Company, Intesa Sanpaolo, the Network Banks and other subsidiaries under an outsourcing contract. For the other Group companies with their own internal audit departments steering and practical coordination of the local departments was performed to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, were also performed for those companies, as mentioned above.

Any weaknesses detected during control activities have been systematically notified to the company functions involved for prompt improvement actions, which are monitored by follow-up activities to verify their effectiveness.

Summary Internal control system assessments from the checks have been periodically submitted to the Management Control Committee and the Board of Directors. The main weaknesses detected and their development over time have been included in the Audit Tableau de Bord (TdB) so that they may be systematically monitored. The reports relating to the actions completed with a negative opinion or which highlight major shortcomings were submitted in full to the Board of Directors of the Parent Company as well as to the Boards of Directors and Statutory Auditors of the subsidiaries concerned.

Lastly, the Internal Auditing Department ensured constant assessment of its own effectiveness and efficiency in line with the internal "quality assurance and improvement" plan drafted in accordance with the recommendations of international standards for professional audit practice. In this regard, during 2016 it continued an evolutionary path with the aim of strengthening the audit model in line with the new European supervisory standards laid down by the EBA (SREP framework).

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

Supervision on the reliability of the Company's financial reports and on the financial reporting process is carried out by Intesa Sanpaolo's Manager responsible for preparing the Company's financial reports, in compliance with the provisions of Article 154-bis of the Consolidated Law on Finance and the related implementing provisions. This control is also ensured over the subsidiaries governed by the laws of non-EU countries, in accordance with the supervisory rules on management and accounting systems set by Article 36 of the Consob Market Regulation.

In order to comply with the aforesaid provisions, the Manager responsible for preparing the Company's financial reports plays a steering and coordination role in Group companies with regard to administrative matters and in the monitoring of the internal control system functional to financial reporting. The Manager responsible for preparing the Company's financial reports supervises the implementation of legal requirements according to a shared approach at Group level, set out in specific internal regulations. In particular, the Manager responsible for preparing the Company's financial reports:

- issues the instructions for the correct and uniform application of the accounting standards and measurement criteria, formalised as part of the Group Accounting Rules, which are subject to regular periodic updates;
- prepares appropriate administrative and accounting procedures regulating the preparation of the separate financial statements, the consolidated financial statements and all other relevant financial communications pursuant to Article 154-bis of the Consolidated Law on Finance, monitoring their adequacy and ensuring their alignment to the corporate disclosure requirements applicable from time to time;
- oversees the correspondence between the corporate reporting to the market with the accounting records; to this end, it has the right to promptly obtain any information deemed necessary for the performance of his/her duties and coordinates the exchange of information with the independent auditors;
- submits public disclosures to the Board of Directors and certifies the compliance of financial documents and reports in accordance with the provisions of Article 154-bis of the Consolidated Law on Finance.

With specific regard to the financial reporting processes, the Manager responsible for preparing the Company's financial reports:

- maintains a system of information reports and flows with the Parent Company functions and the Group companies, in order to ensure the adequacy of balance sheet, income statement and financial positions and the descriptions of the main risks and uncertainties to which the Group may be exposed, monitoring the reliability of the data acquisition process and the process of disclosure of the relevant information;
- oversees the internal control system for the financial reporting process, drawing up audit plans to ensure the adequacy and effective application of management and accounting procedures over the period. Specific audits are also conducted on the subsidiaries governed by the laws of non-EU countries, as part of the requirements established by the Consob Market Regulation (Article 36).  
Upon completion of the audits, he/she reports periodically to the Board of Directors on their scope and results, following a preliminary examination together with the Board Committees of the matters under their responsibility;
- acquires any recommendations formulated by the independent auditors at the end of the process of auditing the Parent Company's financial statements and the consolidated financial statements, as well as the related feedback in terms of measures to improve the procedures that influence accounting data, monitoring their implementation and effectiveness;
- shares with the Surveillance Body pursuant to Law 231/01 the findings of the audit plan carried out in implementation of the monitoring of the financial reporting process, with specific focus on preventing the criminal and administrative offences described in the "Organisation, Management and Control Model pursuant to Legislative Decree No. 231 of 8 June 2001".

The Manager responsible for preparing the company's financial reports contributes to supervising the independence of the independent auditors, in accordance with the procedures governed by specific Company Regulations, in line with the provisions of law (Legislative Decree 39/2010 amended by Legislative Decree 135/2016, which transposed Directive 2014/56/EU into the Italian legal framework, and EU Regulation 537/2014). The above-mentioned Company Regulations assign to the Manager responsible for preparing the Company's financial reports the role of supervising, overseeing and monitoring the accounting audit engagements and other services entrusted by the Parent Company departments and the Group companies to independent auditors, their networks and their affiliates, in addition to the task of regularly informing the Management Control Committee in this regard.

The Manager responsible for preparing the Company's financial reports ensures periodic reporting to the Board of Directors regarding the legal and regulatory obligations assigned to the Board for the monitoring of the adequacy of powers and means granted to the Manager responsible for preparing the Company's financial reports and of the effective observance of administrative and accounting procedures. This reporting is discussed beforehand with the Management Control Committee and the other Board Committees, for the aspects under their responsibility.

### **Certifications as required by art. 154-bis of the Consolidated Law on Finance**

In relation to the supervisory and monitoring functions assigned, the Manager responsible for preparing the Company's financial reports:

- signs, jointly with the Managing Director and CEO, the certifications of the Parent Company's and consolidated financial statements pursuant to Article 154-bis, paragraph 5, of the Consolidated Law on Finance on the adequacy and actual application of administrative and accounting procedures, compliance with the international accounting standards, the compliance of the documents with the records, books and accounts and their capacity to give a true and fair view of the Group's financial position and results, as well as a reliable analysis of the performance, results of operations and the main risks to which the Group is exposed;
- certifies the correspondence of the documents and announcements disclosed to the market with the records, books and accounting entries, pursuant to Article 154-bis, paragraph 2, of the Consolidated Law on Finance.

The monitoring of the accounting and financial reporting process is based on the review of:

- the completeness and consistency of the information disclosed to the market through a structured system of information flows coming from the functions of the Parent Company and the companies on the significant events for the purposes of accounting and financial reporting, especially as regards the main risks and uncertainties to which they are exposed;
- the suitability of the processes and procedures used for the preparation of the company accounting reports and all other relevant financial communications pursuant to Article 154-bis of the Consolidated Law on Finance. Particular attention is given to examining the adequacy of the accounting controls and the proper performance of the work required for the financial reporting process. The focus of the checks consists of the work phases that, within the various company processes, involve the recording, production, assessment and presentation of the data and information. In addition to the adequacy of the structure of procedures and the effective application of related controls, the IT architecture and applications, operating processes and development interventions on the summary systems instrumental to financial reporting are taken into consideration.

The organisational model for the supervision of the adequacy of the administration, accounting and financial reporting procedures and the related internal control system is governed by the Company “Guidelines for Administrative and Financial Governance” and entails:

- the determination of the existence and compliance of the internal control system at corporate level, through the examination, conducted by the internal audit function, of the governance systems, the presence and dissemination of standards of conduct inspired by ethics and integrity, the consistency of the organisational structures and transparent attribution of powers and responsibilities, the effectiveness of risk policies, the soundness of fraud prevention systems and the impact of codes of conduct and personnel disciplinary systems;
- the formalisation of relevant business processes for financial reporting purposes, with special focus on the risks and controls that define the stages of recording, processing, evaluation and presentation of data and information conducive to the preparation of Company financial reports and financial market disclosures; in addition to financial reporting processes (e.g. accounting, budget, reporting, management control, risk control), with regard to the material facts presented in the company documents, the business processes (e.g.: credit, finance, asset management, insurance etc.) and the operational processes are also taken into consideration;
- the performance of an annual audit plan to certify the adequacy of the procedures and the effectiveness of the controls in place, by verifying the methodologies that govern the management of transactions within the scope of business processes and the forms of monitoring of the stages associated with the recording, evaluation and presentation of accounting data and financial information;
- the conduct of an annual audit plan to certify the application of IT architecture governance rules with reference to the processing steps instrumental to the preparation of accounting and financial reports;
- the periodic preparation, for each significant Group company, of a “Report on the internal control system for the financial reporting process” which sets out the scope of the controls implemented during the year and the results of the audits conducted, highlighting the shortcomings found and the measures adopted to resolve them;
- the formulation of an opinion on the adequacy of the internal control system for the financial reporting process, upon the outcome of the monitoring over the correct implementation of the regulations, the audits conducted on the scope of companies and the performance of the evaluation process according to standard opinion-forming criteria, considering the significance of the shortcomings found;
- the management of the communication processes between the Manager responsible for preparing the Company’s financial reports and the control bodies, the corporate control functions and internal auditing function, in accordance with the provisions set out in the Regulations on the integrated internal control system;
- the communication processes between the Manager responsible for preparing the Company’s financial reports and the Corporate Bodies and the Independent Auditors, regarding the applicable legal and regulatory requirements.

To conclude the preparation of the Company’s financial reports according to the rules and criteria set out in Part A of the Notes to the financial statements, and the supervisory activities conducted on the financial reporting processes, according to the guidelines described herein, the Managing Director and CEO and the Manager responsible for preparing the Company’s financial reports sign the certifications required by Art. 154 bis, paragraph 5, of the Consolidated Law on Finance.

These certifications are included in the reporting packages for the Parent Company’s financial statements and the consolidated financial statements, and are provided to the public according to the model established by the Consob Regulation (Annex 3c-ter of the Issuers’ Regulation).

#### **Report pursuant to Art. 36 of the Market Regulation**

Consob (the Italian Securities and Exchange Commission), in accordance with Law 262/2005 governing the protection of savings and the regulation of financial markets, has set certain conditions for the listing of companies that control companies incorporated and subject to the laws of non-EU member states (art. 36 of the Market Regulation). As a result, Intesa Sanpaolo has set up an action plan to ensure the existence of the conditions required for companies that are of material significance, identified in compliance with the criteria established in the rules:

- determining that the companies’ administrative and accounting systems are suited to regularly providing the competent department within the Parent Company and its Independent Auditors with the income statement, balance sheet and cash flow data required for the preparation and audit of the consolidated financial statements;
- regularly obtaining the company information required by the rules (Articles of Association, powers and composition of corporate bodies) and ensuring that the public is provided access to the accounting positions prepared by the companies for the purposes of drafting the consolidated financial statements.

On conclusion of the activities performed and the verifications conducted, compliance with the conditions required by Article 36 of the Market Regulation is confirmed.

The Management Control Committee and Board of Directors have been informed of compliance with those regulatory provisions governing companies incorporated in and subject to the laws of non-EU Member States, in the aforementioned “Report on the

internal control system of the financial reporting process” drafted in order to illustrate the overall governance and control activities performed in accordance with the various provisions of laws and Group regulations governing the supervision of financial reporting, organically coordinated by the Manager responsible for preparing the Company’s financial reports.

### Scope of risks

The risks identified, covered and incorporated within the Economic Capital are as follows:

- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risk, also including legal risk, compliance risk, ICT risk and model risk;
- insurance risk;
- strategic risk;
- risk on real estate assets owned for whichever purpose;
- risk on equity investments not subject to line by line consolidation;
- risks relating to defined-benefit pension funds.

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including in the form of stress tests.

Particular attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

The Group also attaches great importance to the management of reputational risk, which it pursues not only through organisational units with specific duties of promotion and protection of the company image, but also through *ex-ante* risk management processes (e.g. defining prevention and mitigation tools and measures in advance) and implementing specific, dedicated communication and reporting flows.

Assessments of each single type of risk for the Group are integrated in a summary amount – the Economic Capital – defined as the maximum “unexpected” loss the Group might incur over a year. This is a key measure for determining the Group’s financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the Budget assumptions and projected economic scenario under ordinary and stress conditions. The assessment of capital is included in business reporting and is submitted quarterly to the Group Risk Governance Committee, the Risk Committee and the Board of Directors, as part of the Group’s Risks Tableau de Bord.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, detailed in this Part E of the Notes to the consolidated financial statements.

The information provided in this part of the document is based on internal management data and does not necessarily coincide with that contained in Parts B and C.

### Main risks of the Banking Group and insurance risk

The Group’s main risks, including credit, market, banking book financial, operational and insurance risks, are discussed in detail in the paragraphs below, as required by the Bank of Italy instructions.

### Other risks

In addition to credit, market, banking book financial, operational and insurance risks, discussed in detail in the following paragraphs, the Group has also identified and monitors the following other risks.

#### Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.

The Group’s response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Board of Directors, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions ensures that strategic risk is mitigated.

An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

- a component associated with the possible impact of misguided Company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which strategic decisions are reached and by their centralisation with top management, where all significant decisions are always supported by specific activities aimed at identifying and measuring the risks implicit in the initiative;
- the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions and changes in the operating context. This component is handled not only by using systems for regulating Company management, but also via specific internal capital, determined according to the Variable Margin Volatility (VMV) approach, which expresses the risk arising from the business mix of the Group and its Business Units.

Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses, with analysis to assess the impacts on both interest income and margins from the performance of net fees and commissions.

**Reputational risk**

The Intesa Sanpaolo Group attaches great importance to reputational risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and Supervisory Authorities.

The reputational risk governance model of Intesa Sanpaolo envisages that management and mitigation of reputational risks is pursued:

- systematically and independently by the corporate structures with specific tasks aimed at preserving corporate reputation, through a structured system of organisational monitoring measures;
- across the various corporate functions, through the Reputational Risk Management process governed by specific Guidelines.

The 'systematic monitoring of reputational risk envisages:

- specific organisational structures which, each for its purview, monitor the Bank's reputation and manage the relationships with the various stakeholders;
- an integrated monitoring system for primary risks, to limit exposure to them;
- compliance with standards of ethics and conduct;
- establishing and managing customers' risk appetite, through the identification of their various risk tolerance profiles according to subjective and objective traits of each customer.

A fundamental tool for reputational risk monitoring is the Code of Ethics adopted by the Group. This contains the basic values to which the Group intends to commit itself and enunciates the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with broader objectives than those required by mere compliance with the law. The Group has also issued voluntary conduct policies (environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights.

In order to safeguard customers' interests and the Group's reputation, specific attention is also devoted to establishing and managing customers' risk tolerance, through the identification of their various risk appetite profiles according to subjective and objective traits of each customer. The assessments of adequacy during the process of structuring products and rendering advisory services are supported by objective assessments that contemplate the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.

More specifically, the marketing of financial products is also governed by specific advance risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered). The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.

The "cross-function" monitoring of reputational risk is entrusted to the Reputational Risk Management (RRM) process, conducted yearly and aimed at integrating and consolidating the main findings provided by the organisational structures more directly involved in monitoring the company's reputation. The objective of that process is to identify and mitigate the most significant reputational risk scenarios to which the Intesa Sanpaolo Group is exposed through:

- the identification of the main risk scenarios to which the Group is exposed, by the Enterprise Risk Management Department, along with the Governance and Controls Compliance Department as regards the compliance risks and with the cooperation of the other relevant corporate functions;
- the assessment of said scenarios by the Top Management;
- the definition and monitoring of adequate communication strategies and specific mitigation measures.

The Enterprise Risk Management Department has also established a risk framework consisting of:

- a common methodological approach, structured into Dimensions, Expectations and Scenarios;
- the Reputational Clearing activities, i.e. the set of processes, tools and methods aimed at detecting and analysing the reputational risk within business operations;
- the Reputational Monitoring activities aimed at collecting and analysing information to define reputational risk profile of the Intesa Sanpaolo Group.

In establishing the framework and its elements, particular attention was dedicated to the involvement of the corporate functions responsible for managing reputational aspects, to systematising their respective duties and responsibilities and to building a shared corporate framework from the outset.

The Intesa Sanpaolo Group carefully considers all the risks associated with climate change that may result in additional costs for the Bank or its customers. Specifically, with regard to changes in national and international regulations which could have significant financial effects on its customers, through the subsidiary Mediocredito Italiano, Intesa Sanpaolo has set up an Energy Desk specialising in supporting customer companies in energy efficiency projects and advanced advisory services on legal developments and how to suitably prepare for compliance with such regulations.

Furthermore, with regard to the risk of extreme weather events or emergencies due to climate changes, to meet the needs of customers that have incurred damages, following such events Intesa Sanpaolo shall suspend payment of mortgage loans and instalments of loans for retail customers and businesses in areas seriously impacted by weather events.

**Risk on owned real-estate assets**

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in company operations. The degree of risk in the portfolio of owned properties is represented by using a VaR-type model based on indexes of mainly Italian real estate prices, which is the main type of exposure associated with the Group's real-estate portfolio.

**Risk on equity investments not subject to line-by-line consolidation**

The risk in the equity investment portfolio is related to the possibility of incurring economic losses due to the adverse change in values of investments not fully consolidated.

The scope considered consists of the equity instruments held in financial and non-financial companies, and includes financial investment instruments, commitments to purchase, and derivatives with underlying equity instruments and equity funds.

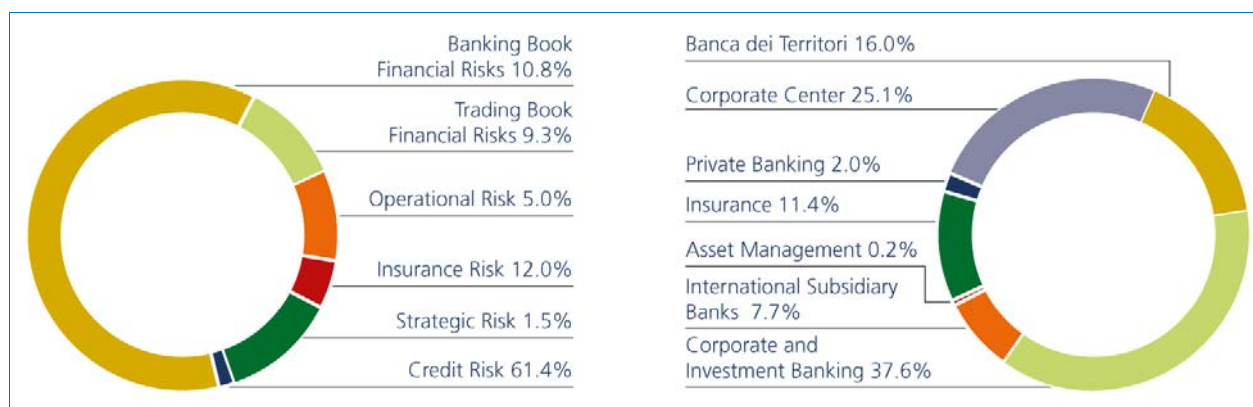
The model used to estimate the Economic Capital is a PD/LGD approach similar to the credit risk portfolio model for the stand-alone equity investment portfolio. The applicable LGD is the regulatory LGD, whereas the model's other parameters are the same as those used in the portfolio model for credit risk.

**Risk related to defined-benefit pension funds.**

The risk related to defined-benefit pension funds is attributable to the possibility of having to increase the reserve that the Parent Company Intesa Sanpaolo maintains to guarantee the benefits of those pension funds, based on an adverse change in the value of the assets and/or liabilities of the pension funds concerned. This risk is fully considered within the assessment of capital adequacy, measured and controlled both with respect to Economic Capital, using a VAR model for the main macroeconomic variables, and to stress scenarios.

**Absorption of Economic Capital by type of risk and Business Unit**

The following is an illustration of the breakdown of the Group's Economic Capital by type of risk and Business Unit.



The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.

The majority of risk is concentrated in the "Corporate & Investment Banking" Business Unit (37.6% of the total Economic Capital): this is attributable to the type of customers served (Corporate and Financial Institutions) and Capital Market activities. This Business Unit is assigned a significant share of credit risk and trading book risk.

The "Banca dei Territori" Business Unit (16% of the total Economic Capital) is a significant source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of credit risk and operational risk.

Most of the insurance risk is assigned to the "Insurance" Business Unit (11.4% of the total Economic Capital).

The "International Subsidiary Banks" Business Unit is assigned 7.7% of the total risk, predominantly credit risk.

In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, the risks pertaining to the Capital Light Bank, the Banking Book interest rate and exchange rate risk, the risks arising from the management of the Parent Company's AFS portfolio, and the residual portion of insurance risk (25.1% of the total Economic Capital).

Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (2% and 0.2%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.

### Basel 3 regulations and the Internal Project

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

With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report as at 31 December 2008 on the Corporate portfolio for a scope extending to the Parent Company, network banks in the Banca dei Territori Division and the main Italian product companies.

Progressively, the scope of application has been gradually extended to include the Retail SME and Retail Mortgage portfolios, as well as other Italian and international Group companies, as shown in the following table.

| Company                                      | Corporate  | Corporate  | SME Retail | Mortgage   |
|--|------------|------------|------------|------------|
|  | FIRB       | AIRB LGD   | IRB LGD    | IRB LGD    |
| Intesa Sanpaolo                              | Dec - 2008 | Dec - 2010 | Dec - 2012 | Jun - 2010 |
| Banco di Napoli                              |            |            |            |            |
| Cassa di Risparmio del Veneto                |            |            |            |            |
| Cassa di Risparmio in Bologna                |            |            |            |            |
| Cassa di Risparmio del Friuli Venezia Giulia |            |            |            |            |
| Cassa dei Risparmi di Forlì e della Romagna  |            |            |            | n.a.       |
| Mediocredito Italiano                        | Dec - 2009 | Dec - 2010 | Dec - 2012 | Jun - 2010 |
| Gruppo Cassa di Risparmio di Firenze         | n.a.       | Dec - 2013 | Dec - 2013 | n.a.       |
| Banca Prossima                               | n.a.       | Jun - 2012 | n.a.       | n.a.       |
| Banca IMI                                    | Mar - 2010 | Dec - 2011 | n.a.       | n.a.       |
| Intesa Sanpaolo Bank Ireland                 | Dec - 2010 | Jun - 2014 | Jun - 2014 | Jun - 2012 |
| Vseobecna Uverova Banka                      |            |            |            |            |

Compared to the situation as at 31 December 2015, the merger by incorporation of Banca dell'Adriatico and Cassa di Risparmio dell'Umbria into the parent company Intesa Sanpaolo S.p.A. was completed

Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio according to the type of counterparty to be assessed. This was the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013, followed by an additional validation visit in March 2015. The Group is awaiting the AIRB authorisation on this portfolio from the Supervisory Authority.

In 2016, the Supervisory Authority made a pre-validation inspection visit for the authorisation for the use of internal models for determining the PD (Probability of default), LGD (Loss Given Default), and EAD (Exposure at default) for the Retail segment. During this inspection, the parameters for the residential mortgage portfolio were also reviewed, for which authorisation had been obtained for the use of internal models starting from June 2010.

During the same year, a pre-validation inspection visit was also made for the determination of the EAD (Exposure at default) for the Corporate and Retail SME portfolios.

The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.

With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3.

For reporting purposes, the Parent Company, Banca IMI and the banks of the Banca dei Territori Division are authorised to use the internal models approach for the reporting of the requirement with respect to counterparty risk both for OTC derivatives and for SFTs (Securities Financing Transactions, i.e. repos and securities lending).

This authorisation was obtained for the derivatives of Banca IMI and the Parent Company from the first quarter of 2014, and for the SFTs from the reporting as at 31 December 2016.

The banks of the Banca dei Territori Division received the same authorisation for derivatives from the report as at 31 December 2016.

For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company and Banca IMI since 2010 and were subsequently extended in 2015 to the Banca dei Territori Division and to Securities Financing Transactions.

With regard to Operational Risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009.

The adequacy of the internal control system for risks is also illustrated in the annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risks and for the calculation of internal capital and total capital available. The document was approved and sent to the Supervisor in April 2016.

The Intesa Sanpaolo Group participated in the 2016 EU-wide stress test, the exercise conducted by the European Banking Authority on the financial statements of European banks as at 31 December 2015.

The test consisted of the simulation of the impact of two scenarios – baseline and adverse – and covers a time horizon of three years (2016-2018). The 2016 EU-wide stress test provides crucial information as part of the prudential review process of 2016. The

results thus allowed the competent authorities to assess banks' ability to comply with the established minimum and additional own funds requirements in stress scenarios based on shared methodology and assumptions.

Intesa Sanpaolo acknowledges the results of the 2016 EU-wide stress test announced by the EBA on 29 July 2016, which were extremely positive for the Group. The Common Equity Tier 1 ratio (CET1 ratio) for Intesa Sanpaolo resulting from the stress test for 2018, the final year considered in the exercise, was 12.8% in the baseline scenario and 10.2% in the adverse scenario, compared to the starting-point figure of 13% recorded as at 31 December 2015, and included a 50 basis-point reduction - in both scenarios - for the transition from the calculation criteria applicable in 2015 to those in force for 2018.

As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 3 - Pillar 3" or simply "Pillar 3".

The document is published on the website ([www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com)) each quarter.



## SECTION 1 – RISKS OF THE BANKING GROUP

As required by the instructions provided by the Bank of Italy, the information in this section - Risks of the Banking Group - is provided solely with respect to the Banking Group, as defined in the Supervisory Instructions, except when it is expressly indicated to the contrary that all companies within the scope of consolidation are considered.

The tables that refer to the Banking Group alone include the share proportional to the interest held of the assets and liabilities of jointly controlled banking, financial and instrumental companies consolidated proportionally for regulatory purposes. Amounts are stated gross of transactions with other companies within the scope of consolidation.

Where the contribution of transactions between the Banking Group and the other companies in the scope of consolidation is material, the details of such transactions are provided.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet.

| (millions of euro)   |  |   |   |
|--|--|---|---|
| <b>Assets</b>  | <b>31.12.2016<br/>Financial<br/>Statements</b> | <b>Effects of the deconsolidation<br/>and consolidation of<br/>counterparties<br/>other than those in<br/>the banking group (*)</b> | <b>31.12.2016<br/>Regulatory-<br/>scope balance<br/>sheet</b> |
| 10. Cash and cash equivalents  | 8,686  | 91  | 8,777   |
| 20. Financial assets held for trading  | 43,613   | -489  | 43,124  |
| 30. Financial assets designated at fair value through profit and loss                        | 63,865   | -62,493   | 1,372   |
| 40. Financial assets available for sale  | 146,692  | -79,280   | 67,412  |
| 50. Investments held to maturity   | 1,241  | -   | 1,241   |
| 60. Due from banks   | 53,146   | -611  | 52,535  |
| 70. Loans to customers   | 364,713  | 3,557   | 368,270   |
| 80. Hedging derivatives  | 6,234  | -   | 6,234   |
| 90. Fair value change of financial assets in hedged portfolios (+/-)                         | 321  | -   | 321   |
| 100. Investments in associates and companies subject to joint control                        | 1,278  | 5,008   | 6,286   |
| 110. Technical insurance reserves reassured with third parties                               | 17   | -17   | -   |
| 120. Property and equipment  | 4,908  | -79   | 4,829   |
| 130. Intangible assets   | 7,393  | -665  | 6,728   |
| <i>of which: goodwill</i>  | 4,059  | -470  | 3,589   |
| 140. Tax assets  | 14,444   | -517  | 13,927  |
| 150. Non-current assets held for sale and discontinued operations                            | 312  | -132  | 180   |
| 160. Other assets  | 8,237  | -3,166  | 5,071   |
| <b>Total Assets</b>  | <b>725,100</b>                                 | <b>-138,793</b>   | <b>586,307</b>  |
| <b>Liabilities and Shareholders' Equity</b>  | <b>31.12.2016<br/>Financial<br/>Statements</b> | <b>Effects of the deconsolidation<br/>and consolidation of<br/>counterparties<br/>other than those in<br/>the banking group (*)</b> | <b>31.12.2016<br/>Regulatory-<br/>scope balance<br/>sheet</b> |
| 10. Due to banks   | 72,641   | -86   | 72,555  |
| 20. Due to customers   | 291,876  | 4,588   | 296,464   |
| 30. Securities issued  | 94,783   | 2,600   | 97,383  |
| 40. Financial liabilities held for trading   | 44,790   | -53   | 44,737  |
| 50. Financial liabilities designated at fair value through profit and loss                   | 57,187   | -57,183   | 4   |
| 60. Hedging derivatives  | 9,028  | -   | 9,028   |
| 70. Fair value change of financial liabilities in hedged portfolios (+/-)                    | 773  | -   | 773   |
| 80. Tax liabilities  | 2,038  | -723  | 1,315   |
| <i>a) current</i>  | 497  | -86   | 411   |
| <i>b) deferred</i>   | 1,541  | -637  | 904   |
| 90. Liabilities associated with non-current assets held for sale and discontinued operations | 272  | -272  | -   |
| 100. Other liabilities   | 11,944   | -1,740  | 10,204  |
| 110. Employee termination indemnities  | 1,403  | -7  | 1,396   |
| 120. Allowances for risks and charges  | 3,427  | -108  | 3,319   |
| <i>a) post employment benefits</i>   | 1,025  | -2  | 1,023   |
| <i>b) other allowances</i>   | 2,402  | -106  | 2,296   |
| 130. Technical reserves  | 85,619   | -85,619   | -   |
| 140. Valuation reserves  | -1,854   | -   | -1,854  |
| 150. Redeemable shares   | -  | -   | -   |
| 160. Equity instruments  | 2,117  | -   | 2,117   |
| 170. Reserves  | 9,528  | -   | 9,528   |
| 180. Share premium reserve   | 27,349   | -   | 27,349  |
| 190. Share capital   | 8,732  | -   | 8,732   |
| 200. Treasury shares (-)   | -72  | -   | -72   |
| 210. Minority interests (+/-)  | 408  | -190  | 218   |
| 220. Net income (loss)   | 3,111  | -   | 3,111   |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>725,100</b>                                 | <b>-138,793</b>   | <b>586,307</b>  |

(\*) The effects are attributable to :

- deconsolidation of companies that are not part of the Banking Group;

- proportional consolidation of the jointly controlled companies that are consolidated at equity in the financial statements.

## 1.1 CREDIT RISK

### QUALITATIVE INFORMATION

The Group's strategies, credit risk appetite, powers and rules for credit granting and management are aimed at:

- achieving sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;
- given the current economic climate, privileging lending business aimed at supporting the real economy and production system;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship in a timely manner.

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.

### Credit risk management policies

#### Organisation

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, to the extent of their respective competences, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:

- Chief Lending Officer
- Chief Risk Officer
- Chief Financial Officer

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation, in addition to the establishment of the supporting processes and applications.

The Chief Lending Officer assesses the creditworthiness of the loan applications received and, where applicable, approves them or issues a compliance opinion; ensures the proactive management of credit, under his/her responsibility, and the management and monitoring of non-performing loans not in bad loan status; establishes the Credit Granting and Management Rules; ensures that positions classified as non-performing, under his/her responsibility, are properly measured for financial reporting purposes; allocates the ratings to the positions that require specialist assessments and assesses the improvement override proposals made by the competent departments; and defines operating credit processes, in collaboration with the subsidiary Intesa Sanpaolo Group Services, also on proposal from the Group's various functions/structures.

The Chief Risk Officer is responsible for adapting the Risk Appetite Framework to the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures, defines the metrics used to measure credit risk, provides risk-adjusted pricing models and guidelines for expected loss, economic capital (ECAP), RWA and acceptance thresholds, formulates proposals for assigning Credit Granting and Managing Powers, and it carries out II level credit monitoring and controls, including rating controls. With specific regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis, he or she supervises credit risk measurement models.

The activities are performed directly by the Chief Risk Officer Governance Area for both the Parent Company and the main subsidiaries, according to a service contract.

In accordance with the strategic guidelines and risk management policies set by the Board of Directors, the Chief Financial Officer coordinates the process of formulating credit strategies (a process in which the other chiefs and the business units participate) and oversees pricing from a risk/return standpoint according to value creation objectives. The Chief Financial Officer is also responsible for identifying and implementing hedging transactions for the risk exposures of the asset classes in the loan portfolio by taking advantage of the opportunities presented by the secondary credit market with a view towards active management of company value.

In addition, within the framework of the loan assessment process, the Administration and Tax Head Office Department, under the Chief Financial Officer, is responsible for incorporating the assessments of loan positions formulated, on a collective or individual basis, by the competent departments, as well as for coordinating the process of assessing loans for financial reporting purposes.

Lastly, as is the case for all the risk areas and above all for credit risk, the Internal Auditing Head Office Department performs internal audits aimed at identifying breaches of the procedures and regulations and periodically assessing the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the internal control system and the ICT system (ICT audit), at preset intervals according to the nature and extent of the risks.

Credit granting autonomy limits, which incorporate the amount of loans granted (EAD), the risk level of the customer (PD), the loss rate in the event of a default by the borrower, possibly mitigated by the presence of guarantees (LGD), and maturity, are defined in terms of risk-weighted assets and reflect the risks assumed/to be assumed by the Intesa Sanpaolo Group towards the Economic Group.

Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentrations, limit potential losses and ensure credit quality.

In the credit-granting phase, coordination mechanisms have been introduced with which Intesa Sanpaolo exercises its direction, governance and support of the Group:

- the system of Credit Granting and Management Powers and Credit Rules Lending governing the ways in which credit risk to customers is assumed;

- the “Credit-ceiling”, intended as the overall limit of lines of credit which may be granted by companies of the Intesa Sanpaolo Group to the larger Economic Groups;
- the “Advisory opinion” on credit-granting to large customers (single name or Economic Group) by Group subsidiaries which exceeds certain thresholds;
- the “Rules on Credit Risk Appetite” that regulate the application of the CRA, whose purpose is to achieve growth in sustainable loans.

The exchange of basic information flows between different Group entities is assured by the Group’s “Centrale Rischi” (exposure monitoring and control system) and by the “Posizione Complessiva di Rischio” (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.

### **Management, measurement and control systems**

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of loans to customers and financial institutions, and of exposures subject to country risk.

Risk measurement is performed by means of different rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public sector entities and Financial institutions). These models make it possible to summarise the counterparty’s credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a uniform scale of reference.

A number of rating models are used for the Corporate segment:

- models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
- specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for LBO/acquisition-finance and asset-finance transactions.

In general terms, the structure of these models requires the integration of multiple modules:

- a quantitative module that processes financial and behavioural data;
- a qualitative module that requires the manager to fill in a questionnaire;
- an independent assessment by the manager, organised as a structured process, which triggers the override procedure if there is a discrepancy with respect to the integrated rating.

Ratings are generally assigned on a decentralised basis by the Manager, who is the main figure in the process of assigning a rating to a counterparty. The validation of any improvement override proposals is performed by the Specialist Rating Sub-Department within the Credit Coordination Head Office Department. This sub-department is responsible for, among other duties, the task of assigning what are known as “centralised ratings” provided for in the rating assignment processes according to the corporate method and of intervening in the calculation of ratings with specialist models.

The models applied to the Retail portfolio are as follows:

- for the Retail SME segment, since the end of 2008 a Group rating model by counterparty has been used, following a scheme similar to that of the Corporate segment, meaning that it is extremely decentralised and its quantitative-objective elements are supplemented by qualitative-subjective elements; in 2011, the service model for the Small Business segment was redefined, by introducing in particular a sub-segmentation of Micro and Core customers according to criteria of size, simplicity, and a partial automation of the granting process. This required an adjustment of the rating model, which was divided into the two above-mentioned sub-segments, taking advantage of the opportunity to update the data sources and historical series used in development;
- for the Retail Mortgage segment (residential mortgages for private individuals), the Group model processes information relating to both the customer and the contract. It differentiates between initial disbursement, where the acceptance model is used, and the subsequent assessment during the lifetime of the mortgage (performance model), which takes into account behavioural data;
- for products aimed at individuals (the Other Retail segment), a new approval model was made available in September 2014 for operational purposes, which is applied to all new disbursements (such as personal loans, credit cards, and credit facilities on current accounts).

The rating model for the Sovereign portfolio supports the assignment of an assessment of creditworthiness for over 260 countries.

The structure of the model involves:

- a quantitative module for assessing country risk, which takes account of the structural rating assigned by the major international agencies, the risk implicit in market quotations of sovereign debt, a macroeconomic assessment of countries identified as strategic and the international scenario;
- a qualitative opinion component, for which the Sovereign Rating Working Group is responsible, supplementing the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of individual sovereign countries.

The framework is completed by the class of regulatory exposures consisting, on the one hand, of banks (and other financial companies attributable to banking groups) and near banking companies (companies that engage in leasing, factoring and consumer credit), and, on the other, public entities:

- in the Banks segment, from the standpoint of determining probability of default, the key decision was to differentiate the models for banks in mature economies and banks in emerging countries, the structure of which, however, is highly similar. In short, these consist of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component relating to systemic risk, a component relating to specific country risk for banks most closely correlated with country risk, and finally, a module (the “manager’s opinion”) that allows the rating to be modified in certain conditions;
- in the Public Entities segment, the models of reference have been differentiated according to the type of counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An extensive approach has been adopted for local healthcare authorities and other sector entities, starting with the legally superior entities, with possible notching based on statistical assessments of financial statements.

Experience-based models are used for counterparties belonging to the Non-Banking Financial Institutions portfolio. The LGD model is based on the concept of “Economic LGD”, namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:

- estimate of a Bad LGD Model: starting from the LGD observed on the portfolio, namely “Workout LGD”, determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of a correction factor, known as “Danger Rate”: the Danger Rate is a multiplying correction factor, used to recalibrate Bad LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution;
- application of an additional correction factor, known as “Final Settlement Component”: this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

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

The Banks LGD model partly diverges from the models developed for the other segments, given the peculiarities of the segment, which has a low number of defaults (“low-default portfolios”). The estimation model is a market LGD approach, based on the market price of debt instruments observed 30 days after the official date of default for a sample of defaulted banks from all over the world. The market data are provided by an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models.

The rating models (PD and LGD) for the Retail Mortgage segment received authorisation for transition to the IRB approach effective from June 2010 report, while rating models for the Retail SME segment received authorisation for transition to the IRB approach effective from December 2012 report. The rating models for the Corporate segment received authorisation for the use of the AIRB approach to calculate capital requirements effective from 31 December 2010 reporting date (the FIRB approach had been used since December 2008), while the LGD Corporate models for Leasing and Factoring products received authorisation for transition to the AIRB approach effective from the June 2012 report.

For information on the plan to extend the IRB approach to other portfolios, refer to the paragraph concerning the Basel 3 Project. PD and LGD models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company and partly adapted to the local situation which was entirely developed by the subsidiaries concerned.

The rating system also includes a risk monitoring process, calculated on a monthly basis. It interacts with processes and procedures for loan management and credit risk control and allows timely assessments when any anomalies arise or persist. The positions to which the synthetic risk index attributes a high risk valuation, which is confirmed over time, are intercepted by the Proactive Management process.

Starting from July 2014 the new Proactive Credit Management process was activated, setting up a specialised dedicated chain in the Regional Governance Centres, the CIB Division and the CLO structures.

The objective is to promptly identify performing positions with early signs of difficulty and immediately implement the most suitable actions to remove the anomalies and restore the relationship of trust. The introduction of Proactive Management has also significantly simplified the processes, with the removal of the old non-performing loan statuses.

During the year, the project named “IT Infrastructure in Support of the Single Supervisory Mechanism (SSM)” was completed with the release of the new Early Warning System model for intercepting and classifying defaults, for the Corporate portfolio, also developed to meet the requirements arising from the 2014 Comprehensive Assessment (AQR impairment trigger). This model replaces the previous IRIS model. The proactive credit management processes were also reviewed at the same time.

The entire loan portfolio is also subject to a specific periodic review carried out by the competent central or peripheral structures based on the credit line limits for each counterparty/economic group.

Through specific monitoring, control, guidance and coordination activities, the Internal Validation and Controls Head Office Department, within the Chief Risk Officer Governance Area, oversees the credit granting and management processes for the performing loans portfolio at the Group level and through controls on individual positions assesses that loans are properly classified. It also carries out monitoring and controls on the rating assignment and update processes.

Country risk is an additional component of an individual borrower’s insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of international payments, and sovereign risk, which is measured through an assessment of the sovereign states’ creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.

The country risk component is assessed in the context of the granting of credit to non-resident entities in order to obtain a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. Such limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, defined on an annual basis as the result of an exercise aimed at optimising the risk implicit in the Group’s cross-border lending operations.

Counterparty risk is a particular kind of credit risk associated with OTC derivative contracts that refers to the possibility that a counterparty may default before the contract matures. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, were the counterparty to default, the solvent party would be forced to replace the position on the market, thereby suffering a loss.

Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).

In 2010 a specific project was launched to ensure that the Banking Group has an internal model for measuring counterparty risk, both for operational and regulatory purposes. The organisational functions involved, as described in the Bank’s internal regulations, are:

- the Chief Risk Officer Governance Area, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
- the Level I and Level II control functions that use the measurements produced to monitor the assumed positions;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of the lines of credit.

The project yielded the following results:

- the Banking Group set up a suitably robust IT, methodological and regulatory infrastructure, in accordance with the use test requirement set out by regulations on internal models;
- the Banking Group integrated the risk measurement system into decision-making processes and the management of company operations;
- cutting-edge methods were adopted for calculating drawdowns on credit lines;
- the Supervisory Authority validated the Parent Company's and Banca IMI's use of the internal model for calculating the counterparty requirement in the first quarter of 2014. The first report using the internal model (with a view to Basel 3) was made on 31 March 2014, relating to the scope of Parent Company and Banca IMI OTC derivatives.
- the banks of the Banca dei Territori Division were authorised to use the internal model for the capital requirement with effect from the report as at 31 December 2016.
- the Group obtained authorisation to use the internal model for the capital requirement for SFT – Securities Financing Transactions instruments with effect from the report as at 31 December 2016.

Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the purposes of operational measurement of uses of lines of credit for derivatives. The Financial and Market Risks Department produces daily risk measurement estimates for counterparty risk, for the measurement of the uses of credit lines for OTC derivatives for the Parent Company, Banca IMI and the banks of the Banca dei Territori Division. It should be noted that the PFE method, in simplified form, is used for the banks of the International Subsidiary Banks Division.

In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:

- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives transactions with collateral agreements (CSA);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk.

Directional control of credit risks is achieved through a portfolio model which summarises the information on asset quality in risk indicators, including expected loss and capital at risk.

The expected loss is the product of exposure at default, probability of default (derived from the rating) and Loss Given Default.

The expected loss represents the average of the loss statistical distribution, whereas the capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. These indicators are calculated with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios.

The expected loss, transformed into "incurred loss", as indicated by IAS 39, is used in the collective provisioning, while capital at risk is the fundamental element in the assessment of the Group's capital adequacy. Both indicators are also used in the value-based management reporting system.

The loan portfolio model allows the level of expected loss to be measured with the chosen confidence interval, or capital at risk. The latter reflects not only the risk level of individual counterparties but also the effects of undesired concentration due to the geographical/sector composition of the Group's loan portfolio.

The Group dedicates special attention to assessing concentration risk deriving from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:

- aimed at defining exposure limits for specific geographical areas and sets of counterparties (top 20);
- aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to "large risks" and to credit lines subject to country risk;
- aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

The Group's lending activity is focused on Italian customers (83% of the total) and is primarily aimed at households and small and medium enterprises. In addition, it shows strong diversification, especially as regards certain business sectors and geographical areas, as well as loans to countries at risk.

**Credit risk mitigation techniques**

Mitigation techniques are adopted in order to reduce the Loss Given Default. In particular, they include guarantees and certain types of contracts that result in a reduction in credit risk.

The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual exposure, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.

During the credit granting and managing process, the presence of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium-/long-term transactions.

The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.

The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.

Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.

The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
- for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
- the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

An overall revision of the rules, processes and instruments concerning guarantees received and, more generally, instruments that mitigate credit risk is underway. The goal of these activities is to increase the efficiency of management, reduce the related operational risks and increase the level of eligibility of the guarantees. Following a detailed analysis, the requirements and architecture of a new application platform to manage all the phases in the lifecycle of a guarantee (acquisition, modification, extinction, enforcement, control, monitoring and custody) were defined.

After the release of the module for the management of the personal guarantees of the Italian banks and international branches, in 2016 the part relating to real estate collateral was completed with the creation of a group register of real estate assets, integrated with the portal that manages the valuations, together with a module for the management of the guarantees.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery.

In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.

The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.

For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.

Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.

The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation Code ("Property Valuation rules for credit purposes") prepared by the Bank. The content of the internal Code is consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association and with the "European Valuation Standards" (EVS2012).

Property valuations are managed through a specific integrated platform covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.

The market value of collateral property is recalculated periodically through various statistical valuation methods, which apply prices/ratios provided by an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.

Asset value is constantly monitored. The experts carry out inspections and verify the work progress for properties under construction. The valuation is updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, every three years for major exposures.

In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for mortgages, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value.

Guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.

The support application verifies whether the guarantees received are eligible with reference to each of the three methods permitted by the regulations for calculating capital requirements. Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

To mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow for credit and debt positions to be netted against one another if a counterparty defaults.

This is achieved by entering into ISDA and ISMA/PSA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.

The Group also establishes collateral agreements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).

With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

A project was started for International Subsidiary Banks with the aim of guaranteeing a consistent approach at Group level to the use of the credit risk mitigation techniques. In further detail, the gap analysis of seven International Subsidiary Banks was completed for the main types of guarantees. For five of these, an action plan was drawn up and is now being implemented.

In 2016 the Parent Company continued its activities relating to the "GARC" (Active Credit Risk Management) project, involving a platform for monitoring credit risk in performing portfolios. The initiative involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending of SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit.

A tranching cover synthetic securitisation was initiated during the year – also under the "GARC" Project – on a newly-issued portfolio promoted by the Piedmont Regional Authority under the 2007/2013 Regional Operational Programme of the European Regional Development Fund, Objective "Regional competitiveness and employment" – Axis 1 – Activity I.4.1 Measure to support access to credit for piedmontese SMEs through the establishment of the Tranching Cover Piemonte Fund.

Both these types of transactions provide synthetic hedging of default risk (past-due, unlikely to pay and bad) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (EU Regulation 575/2013 and Bank of Italy Circular 285/2013).

For details of the transactions carried out in 2016 under the GARC Project, see the description provided in paragraph C. Securitisations of this chapter.

### Performing loans

Collective measurement is compulsory for all loans for which there is no objective evidence of impairment. Such loans must be measured collectively in homogeneous portfolios, i.e. with similar characteristics in terms of credit risk.

The concept of "loss" to which to refer when measuring impairment is that of incurred loss, as opposed to expected or future losses. In the case of collective measurement, this means that reference should be made to the losses already included in the portfolio, although these cannot be identified with reference to specific loans, also defined as "incurred but not reported losses".

In any event, as soon as new information allows the loss to be assessed at the individual level, the financial asset must be excluded from collective measurement and subject to individual measurement.

Although international accounting standards do not explicitly refer to the methods developed in the context of supervisory regulations, the definition of the elements to which to refer when classifying loans into groups to be subject to collective measurement has many points of contact with the Basel 3 regulations and the possible synergies are therefore evident. Through exploitation of such synergies, a measurement model has been structured involving the use of risk parameters (Probability of Default and Loss Given Default) essentially similar to those of Basel 3.

Therefore, in accordance with regulatory provisions, the method calls for expected loss (EL) to be determined according to the risk parameters estimated for the AIRB models under banking supervision regulations.

Expected loss calculated for the purposes of the collective loan measurement procedure differs from that calculated for reporting purposes inasmuch as the LGD used in incurred loss does not (in accordance with international accounting standards) include indirect recovery costs and calibration on the negative phase of the cycle ("LGD downturn").

For loans to customers only, the expected loss (EL) is transformed into incurred loss (IL) by applying factors that capture the loss confirmation period (LCP) and economic cycle of the portfolio:

- the LCP is a factor that represents the time interval between the event that gives rise to the default and the occurrence of the sign of default, which allows the loss to be transformed from expected to incurred;
- the cyclical coefficient is an annually updated coefficient estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient, which is determined by regulatory segment according to the methods described in the Group Accounting rules, is equal to the ratio between the default rates, estimated for the following 12 months (according to the available forecast and the methods set out in the ICAAP), and the current probabilities of default.

The cyclical coefficients were reviewed for the collective valuation of performing loans for the 2016 Financial Statements and were examined and approved by the Chief Risk Officer. The Loss Confirmation Period factors, on the other hand, remained unchanged.

The illustrated measurement method has also been extended to guarantees and commitments. In the case of the latter, the unused margins on revocable lines of credit are not included in the basis of calculation.

The method and assumptions used are subject to periodic revision.

The internal rating and LGD models are subject to internal validation process by the Internal Validation Service and a level three control by the Internal Auditing Department. The control functions produce a report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the existence of the compliance requirements.



**Non-performing financial assets**

Non-performing financial assets include those loans which, due to events that occur after their granting, show objective evidence of possible impairment.

On 9 January 2015, on the proposal of the European Banking Authority (EBA), the European Commission approved the "final" version of the "Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013".

Following this decision, the Bank of Italy issued an update to its corpus of regulations that, in line with the previous representation of the risk statuses of non-performing loans, fully reflects the new Community regulations with effect from 1 January 2015.

Based on the regulatory framework, supplemented by internal implementing rules, non-performing financial assets are classified into three categories, based on their level of severity: "bad loans", "unlikely to pay" and "non-performing past due exposures".

The type "exposures subject to concessions - forbearance" has also been established. These are exposures subject to renegotiation and/or refinancing due to financial difficulties (evident or in the process of becoming evident) of the debtor, which effectively constitute a subgroup of both non-performing exposures (non-performing exposures with forbearance measures) and performing exposures (other forborne exposures).

Non-performing exposures with forbearance measures do not represent a separate category of non-performing assets, rather, they are an attribute of the above categories of non-performing assets.

The process of managing such exposures, in close accordance with regulatory provisions concerning classification times and methods, is assisted by an IT tool that ensures pre-established, autonomous and independent management procedures.

Non-performing assets undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories (identified as a function of the risk status, duration of default and significance of the exposure) 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.

This measurement is performed upon classification of the assets at the occurrence of significant events and, in any event, is periodically revised in accordance with the criteria and methods illustrated in Part A.2 – Accounting Policies, Main financial statement captions, Loans, to which specific reference should be made.

With reference to past due loans and unlikely to pay loans, the structures responsible for their management are identified, on the basis of pre-determined thresholds of increasing significance, directly at the operating points that handle the accounts, or within peripheral organisational units that perform specialist activities and within the Head Office units, which are responsible for the overall management and coordination of these matters.

On the subject of bad loans, in the first half of 2015 the Group adopted a new organisational model according to which almost all (in terms of total exposure) new bad loan flows are to be managed by the Group's Loan Recovery Department. In particular, this model calls for:

- the assignment to the Loan Recovery Department of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo and all banks in the Banca dei Territori Division) of all positions that it manages and customers classified to the bad loan category from May 2015 (with the exception of a portion of loans with individual exposures below a given threshold, collectively representing an insignificant percentage in terms of exposure with respect to total bad loans, which are assigned for management to new external servicers under a specific agreement and with pre-defined limits);
- the suspension (with limited exceptions) from May 2015 of assignment to Italfondario S.p.A. of new bad loan flows, without prejudice to its management of the bad positions assigned to it until 30 April 2015;
- for bad positions of limited amounts, routine factoring without recourse to third-party companies on a monthly basis when they are classified as bad loans, with some specific exceptions.

The Loan Recovery Department relies on its own specialist units throughout the country to manage recovery activity for loans entrusted directly to it. As part of these activities, in order to identify the optimal strategies to be implemented for each position, judicial and non-judicial solutions have been examined in terms of costs and benefits, also considering the financial impact of the estimated recovery times.

The assessment of the loans is reviewed whenever events capable of significantly changing recovery prospects become known to the Bank. In order to identify such events rapidly, the information set relative to borrowers is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.

The activity of Italfondario S.p.A. and the new external servicers in managing the loans entrusted to them under management mandate was monitored by the responsible internal units of the Group. In particular, it should be noted that the individual measurement of loans has been conducted using similar procedures to those established for the internal management of positions, and the other management activities are subject to the guidelines similar to those established for the internally managed positions.

The classification of positions within non-performing financial assets is undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of loan monitoring and recovery. Classification involves the use of automatic mechanisms when given objective default thresholds are exceeded. This occurs in cases of past-due loans, which are identified at the Group level, and performing positions with other forborne exposures, if such exposures become relevant for the purposes of regulatory provisions concerning reallocation to the non-performing category.

Automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group's various intermediaries are subject to the required uniform convergence of management aims. Significance is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.

Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as significant default continues.

The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.

Exposures classified amongst “past-due loans” automatically become performing when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as unlikely to pay when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.

Non-performing loans are constantly monitored and controlled, also through II level sample controls on single positions, by the Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area.

## QUANTITATIVE INFORMATION

### A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term “credit exposures” is understood to exclude equities and units of UCI, whereas “exposures” includes these items. The only exception is table A.2.1 related to credit exposures by external rating classes, which includes units of UCI.

#### A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

The data shown in the following tables (A.1.1, A.1.2 and in the subsequent one referring to performing positions by past-due bracket), refer to all companies within the scope of consolidation for accounting purposes. In the tables A.1.1 and A.1.2, figures for the banking group are stated net of all intragroup dealings, including those with other companies within the scope of consolidation.

##### A.1.1. Breakdown of credit exposures by portfolio classification and credit quality (book values)

| Portfolios/quality   | (millions of euro) |                 |                                   |                               |                            |                |
|--|--------------------|-----------------|-----------------------------------|-------------------------------|----------------------------|----------------|
|  | Bad loans          | Unlikely to pay | Non performing past due exposures | Performing past due exposures | Other performing exposures | TOTAL          |
| 1. Financial assets available for sale                               | 1                  | -               | -                                 | -                             | 131,592                    | 131,593        |
| 2. Investments held to maturity                                      | -                  | -               | -                                 | -                             | 1,241                      | 1,241          |
| 3. Due from banks  | -                  | -               | -                                 | -                             | 53,146                     | 53,146         |
| 4. Loans to customers  | 14,895             | 14,438          | 435                               | 6,922                         | 328,023                    | 364,713        |
| 5. Financial assets designated at fair value through profit and loss | -                  | -               | -                                 | -                             | 5,005                      | 5,005          |
| 6. Financial assets under disposal                                   | -                  | -               | -                                 | -                             | 4                          | 4              |
| <b>Total 31.12.2016</b>  | <b>14,896</b>      | <b>14,438</b>   | <b>435</b>                        | <b>6,922</b>                  | <b>519,011</b>             | <b>555,702</b> |
| <b>Total 31.12.2015</b>  | <b>14,974</b>      | <b>17,094</b>   | <b>1,022</b>                      | <b>8,656</b>                  | <b>466,983</b>             | <b>508,729</b> |

With respect to non-performing assets in the portfolio “Loans to customers”, forborne exposures amounted to 1,089 million euro amongst bad loans, 7,053 million euro amongst unlikely to pay loans and 62 million euro amongst non-performing past due exposures.

The forborne exposures included among performing assets in the portfolio “Loans to customers” amounted to 7,924 million euro.

##### A.1.2. Breakdown of credit exposures by portfolio classification and credit quality (gross and net values)

| Portfolio / quality  | NON-PERFORMING ASSETS |                        |               | PERFORMING ASSETS |                        |                | TOTAL (net exposure) |
|--|-----------------------|------------------------|---------------|-------------------|------------------------|----------------|----------------------|
|  | Gross exposure        | Individual adjustments | Net exposure  | Gross exposure    | Collective adjustments | Net exposure   |                      |
| <b>A. Banking group</b>  |                       |                        |               |                   |                        |                |                      |
| 1. Financial assets available for sale                               | 33                    | -32                    | 1             | 131,592           | -                      | 131,592        | 131,593              |
| 2. Investments held to maturity                                      | -                     | -                      | -             | 1,241             | -                      | 1,241          | 1,241                |
| 3. Due from banks  | 6                     | -6                     | -             | 53,207            | -61                    | 53,146         | 53,146               |
| 4. Loans to customers  | 58,137                | -28,369                | 29,768        | 336,582           | -1,637                 | 334,945        | 364,713              |
| 5. Financial assets designated at fair value through profit and loss | -                     | -                      | -             | X                 | X                      | 5,005          | 5,005                |
| 6. Financial assets under disposal                                   | -                     | -                      | -             | 4                 | -                      | 4              | 4                    |
| <b>Total 31.12.2016</b>  | <b>58,176</b>         | <b>-28,407</b>         | <b>29,769</b> | <b>522,626</b>    | <b>-1,698</b>          | <b>525,933</b> | <b>555,702</b>       |
| <b>Total 31.12.2015</b>  | <b>63,162</b>         | <b>-30,072</b>         | <b>33,090</b> | <b>472,268</b>    | <b>-2,117</b>          | <b>475,639</b> | <b>508,729</b>       |

| Portfolio / Quality                  | ASSETS OF EVIDENTLY LOW CREDIT QUALITY |              | OTHER ASSETS  |
|--------------------------------------|--|--------------|---------------|
|                                      | Cumulated capital losses               | Net exposure | Net exposure  |
| 1. Financial assets held for trading | 87                                     | 350          | 41,544        |
| 2. Hedging derivatives               | -                                      | -            | 6,234         |
| <b>Total 31.12.2016</b>              | <b>87</b>                              | <b>350</b>   | <b>47,778</b> |
| <b>Total 31.12.2015</b>              | <b>73</b>                              | <b>218</b>   | <b>55,483</b> |

The amount of partial derecognition of non-performing loans came to 5,940 million euro as at 31 December 2016.

Performing financial assets may be broken down by portfolio and past due bracket as follows:

| Credit exposures   |                         |                                       |  |                         | (millions of euro) |
|--|-------------------------|---------------------------------------|--|-------------------------|--------------------|
|  | Past due up to 3 months | Past due from 3 months up to 6 months | Past due from over 6 months up to 1 year | Past due by over 1 year | Total              |
| 1. Financial assets available for sale                               | -                       | -                                     | -  | -                       | -                  |
| 2. Investments held to maturity                                      | -                       | -                                     | -  | -                       | -                  |
| 3. Due from banks  | -                       | -                                     | -  | -                       | -                  |
| 4. Loans to customers  | 5,356                   | 484                                   | 589                                      | 493                     | 6,922              |
| 5. Financial assets designated at fair value through profit and loss | -                       | -                                     | -  | -                       | -                  |
| 6. Financial assets under disposal                                   | -                       | -                                     | -  | -                       | -                  |
| <b>Total performing exposures (net exposure)</b>                     | <b>5,356</b>            | <b>484</b>                            | <b>589</b>                               | <b>493</b>              | <b>6,922</b>       |

In accordance with regulations, the exposures presented in the foregoing table also include the portion of debt that has not yet come due, amounting to 3,100 million euro for the bracket "up to three months", to 322 million euro for the bracket "between three and six months", to 454 million euro in the bracket "between six months and one year" and to 364 million euro in the bracket "over one year".

During 2016, the Intesa Sanpaolo Group purchased an insignificant amount of non-performing loans. Accordingly, the outstanding amounts as at 31 December 2016 were immaterial.

#### A.1.3. Banking group - On- and off-balance sheet credit exposures to banks: gross and net values and past-due brackets

| Type of exposure/value                | GROSS EXPOSURE        |                        |                             |             | Performing assets | INDIVIDUAL ADJUSTMENTS | COLLECTIVE ADJUSTMENTS | NET EXPOSURE   |
|---------------------------------------|-----------------------|------------------------|-----------------------------|-------------|-------------------|------------------------|------------------------|----------------|
|                                       | Non-performing assets |                        |                             |             |                   |                        |                        |                |
|                                       | Up to 3 months        | Between 3 and 6 months | Between 6 months and 1 year | Over 1 year |                   |                        |                        |                |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>  |                       |                        |                             |             |                   |                        |                        |                |
| a) Bad loans                          | -                     | -                      | -                           | 2           | X                 | -2                     | X                      | -              |
| Of which: forborne exposures          | -                     | -                      | -                           | -           | X                 | -                      | X                      | -              |
| b) Unlikely to pay                    | -                     | -                      | -                           | 4           | X                 | -4                     | X                      | -              |
| Of which: forborne exposures          | -                     | -                      | -                           | -           | X                 | -                      | X                      | -              |
| c) Non-performing past due exposures  | -                     | -                      | -                           | -           | X                 | -                      | X                      | -              |
| Of which: forborne exposures          | -                     | -                      | -                           | -           | X                 | -                      | X                      | -              |
| d) Performing past due exposures      | X                     | X                      | X                           | X           | -                 | X                      | -                      | -              |
| Of which: forborne exposures          | X                     | X                      | X                           | X           | -                 | X                      | -                      | -              |
| e) Other performing exposures         | X                     | X                      | X                           | X           | 57,034            | X                      | -61                    | 56,973         |
| Of which: forborne exposures          | X                     | X                      | X                           | X           | -                 | X                      | -                      | -              |
| <b>TOTAL A</b>                        | <b>-</b>              | <b>-</b>               | <b>-</b>                    | <b>6</b>    | <b>57,034</b>     | <b>-6</b>              | <b>-61</b>             | <b>56,973</b>  |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b> |                       |                        |                             |             |                   |                        |                        |                |
| a) Non-performing                     | -                     | -                      | -                           | -           | X                 | -                      | X                      | -              |
| b) Performing                         | X                     | X                      | X                           | X           | 50,653            | X                      | -30                    | 50,623         |
| <b>TOTAL B</b>                        | <b>-</b>              | <b>-</b>               | <b>-</b>                    | <b>-</b>    | <b>50,653</b>     | <b>-</b>               | <b>-30</b>             | <b>50,623</b>  |
| <b>TOTAL (A + B)</b>                  | <b>-</b>              | <b>-</b>               | <b>-</b>                    | <b>6</b>    | <b>107,687</b>    | <b>-6</b>              | <b>-91</b>             | <b>107,596</b> |

On-balance sheet exposures include all on-balance sheet financial assets claimed from banks, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.

Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with securities lending operations, repurchase agreements and lending transactions with margins within the notion of SFTs (Securities Financing Transactions) defined in prudential regulations.

#### A.1.4. Banking group – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

| Reason/Categories   | Bad loans | Unlikely to pay | Non performing past due exposures |
|---|-----------|-----------------|-----------------------------------|
| <b>A. Initial gross exposure</b>                            | <b>6</b>  | <b>9</b>        | -                                 |
| - of which exposures sold not derecognised                  | -         | -               | -                                 |
| <b>B. Increases</b>   | -         | -               | -                                 |
| B.1 inflows from performing exposures                       | -         | -               | -                                 |
| B.2 transfers from other non-performing exposure categories | -         | -               | -                                 |
| B.3 other increases   | -         | -               | -                                 |
| B.4 business combinations                                   | -         | -               | -                                 |
| <b>C. Decreases</b>   | <b>-4</b> | <b>-5</b>       | -                                 |
| C.1 outflows to performing exposures                        | -         | -               | -                                 |
| C.2 write-offs  | -4        | -               | -                                 |
| C.3 repayments  | -         | -5              | -                                 |
| C.4 credit disposals  | -         | -               | -                                 |
| C.5 losses from disposals                                   | -         | -               | -                                 |
| C.6 transfers to other non-performing exposure categories   | -         | -               | -                                 |
| C.7 other decreases   | -         | -               | -                                 |
| C.8 business combinations                                   | -         | -               | -                                 |
| <b>D. Final gross exposure</b>                              | <b>2</b>  | <b>4</b>        | -                                 |
| - of which exposures sold not derecognised                  | -         | -               | -                                 |

#### A.1.4bis Banking group - On-balance sheet credit exposures to banks: changes in gross forborne exposures broken down by credit quality

(millions of euro)

| Reason/Categories                                      | Forborne exposures: non-performing | Forborne exposures: performing |
|--|------------------------------------|--------------------------------|
| <b>A. Initial gross exposure</b>                       | <b>7</b>                           | <b>2</b>                       |
| - of which exposures sold not derecognised             | -                                  | -                              |
| <b>B. Increases</b>                                    | <b>2</b>                           | -                              |
| B.1 inflows from non-forborne performing exposures     | -                                  | -                              |
| B.2 inflows from forborne performing exposures         | -                                  | X                              |
| B.3 inflows from non-performing forborne exposures     | X                                  | -                              |
| B.4 other increases                                    | <b>2</b>                           | -                              |
| B.5 business combinations                              | -                                  | -                              |
| <b>C. Decreases</b>                                    | -                                  | <b>-2</b>                      |
| C.1 outflows towards non-forborne performing exposures | X                                  | -                              |
| C.2 outflows towards forborne performing exposures     | -                                  | X                              |
| C.3 outflows towards non-performing forborne exposures | X                                  | -                              |
| C.4 write-offs   | -                                  | -                              |
| C.5 collections  | -                                  | -                              |
| C.6 gains on disposal                                  | -                                  | -                              |
| C.7 losses on disposal                                 | -                                  | -                              |
| C.8 other decreases                                    | -                                  | <b>-2</b>                      |
| C.9 business combinations                              | -                                  | -                              |
| <b>D. Final gross exposure</b>                         | <b>9</b>                           | -                              |
| - of which exposures sold not derecognised             | -                                  | -                              |

### A.1.5. Banking group – On-balance sheet non-performing credit exposures to banks: changes in total adjustments

| Reason/Categories   | (millions of euro)           |   |                              |   |                                   |   |
|---|------------------------------|---|------------------------------|---|-----------------------------------|---|
|   | Bad loans                    |   | Unlikely to pay              |   | Non performing past due exposures |   |
|   | Of which: forborne exposures |   | Of which: forborne exposures |   | Of which: forborne exposures      |   |
| <b>A. Initial total adjustments</b>                         | <b>6</b>                     | - | <b>6</b>                     | - | -                                 | - |
| - of which exposures sold not derecognised                  | -                            | - | -                            | - | -                                 | - |
| <b>B. Increases</b>   | -                            | - | -                            | - | -                                 | - |
| B.1 impairment losses                                       | -                            | - | -                            | - | -                                 | - |
| B.2 losses on disposal                                      | -                            | - | -                            | - | -                                 | - |
| B.3 transfers from other non-performing exposure categories | -                            | - | -                            | - | -                                 | - |
| B.4 other increases   | -                            | - | -                            | - | -                                 | - |
| B.5 business combinations                                   | -                            | - | -                            | - | -                                 | - |
| <b>C. Decreases</b>   | <b>-4</b>                    | - | <b>-2</b>                    | - | -                                 | - |
| C.1 recoveries on impairment losses                         | -                            | - | -2                           | - | -                                 | - |
| C.2 recoveries on repayments                                | -                            | - | -                            | - | -                                 | - |
| C.3 profits on disposal                                     | -                            | - | -                            | - | -                                 | - |
| C.4 write-offs  | -4                           | - | -                            | - | -                                 | - |
| C.5 transfers to other non-performing exposure categories   | -                            | - | -                            | - | -                                 | - |
| C.6 other decreases   | -                            | - | -                            | - | -                                 | - |
| C.7 business combinations                                   | -                            | - | -                            | - | -                                 | - |
| <b>D. Final total adjustments</b>                           | <b>2</b>                     | - | <b>4</b>                     | - | -                                 | - |
| - of which exposures sold not derecognised                  | -                            | - | -                            | - | -                                 | - |

### A.1.6 Banking group - On- and off-balance sheet credit exposures to customers: gross and net values and past-due brackets

| Type of exposure/value                | (millions of euro)    |                        |                             |               |                   |                        |                        |                |
|---------------------------------------|-----------------------|------------------------|-----------------------------|---------------|-------------------|------------------------|------------------------|----------------|
|                                       | GROSS EXPOSURE        |                        |                             |               | Performing assets | INDIVIDUAL ADJUSTMENTS | COLLECTIVE ADJUSTMENTS | NET EXPOSURE   |
|                                       | Non-performing assets |                        |                             |               |                   |                        |                        |                |
|                                       | Up to 3 months        | Between 3 and 6 months | Between 6 months and 1 year | Over 1 year   |                   |                        |                        |                |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>  |                       |                        |                             |               |                   |                        |                        |                |
| a) Bad loans                          | 355                   | 59                     | 160                         | 37,293        | X                 | -22,970                | X                      | 14,897         |
| Of which: forborne exposures          | 135                   | 19                     | 29                          | 2,215         | X                 | -1,309                 | X                      | 1,089          |
| b) Unlikely to pay                    | 8,857                 | 554                    | 1,612                       | 8,963         | X                 | -5,334                 | X                      | 14,652         |
| Of which: forborne exposures          | 5,765                 | 312                    | 700                         | 2,707         | X                 | -2,227                 | X                      | 7,257          |
| c) Non-performing past due exposures  | 106                   | 145                    | 240                         | 63            | X                 | -120                   | X                      | 434            |
| Of which: forborne exposures          | 29                    | 7                      | 34                          | 4             | X                 | -11                    | X                      | 63             |
| d) Performing past due exposures      | X                     | X                      | X                           | X             | 7,077             | X                      | -155                   | 6,922          |
| Of which: forborne exposures          | X                     | X                      | X                           | X             | 396               | X                      | -12                    | 384            |
| e) Other performing exposures         | X                     | X                      | X                           | X             | 404,341           | X                      | -1,458                 | 402,883        |
| Of which: forborne exposures          | X                     | X                      | X                           | X             | 7,739             | X                      | -173                   | 7,566          |
| <b>TOTAL A</b>                        | <b>9,318</b>          | <b>758</b>             | <b>2,012</b>                | <b>46,319</b> | <b>411,418</b>    | <b>-28,424</b>         | <b>-1,613</b>          | <b>439,788</b> |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b> |                       |                        |                             |               |                   |                        |                        |                |
| a) Non-performing                     | 1,216                 | -                      | -                           | -             | X                 | -165                   | X                      | 1,051          |
| b) Other                              | X                     | X                      | X                           | X             | 141,346           | X                      | -153                   | 141,193        |
| <b>TOTAL B</b>                        | <b>1,216</b>          | <b>-</b>               | <b>-</b>                    | <b>-</b>      | <b>141,346</b>    | <b>-165</b>            | <b>-153</b>            | <b>142,244</b> |
| <b>TOTAL (A + B)</b>                  | <b>10,534</b>         | <b>758</b>             | <b>2,012</b>                | <b>46,319</b> | <b>552,764</b>    | <b>-28,589</b>         | <b>-1,766</b>          | <b>582,032</b> |

On-balance sheet exposures include all on-balance sheet financial assets claimed from customers, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.

Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with securities lending operations, repurchase agreements and lending transactions with margins within the notion of SFTs (Securities Financing Transactions) defined in prudential regulations.

Net performing on-balance sheet exposures to customers include 6,413 million euro in dealings between the banking group and other companies within the scope of consolidation.

Net on-balance sheet exposures to customers classified as "unlikely to pay" include 214 million euro, adjusted for 24 million euro, in dealings between the banking group and other companies within the scope of consolidation.

In the net performing off-balance sheet exposures the amount of the transactions between the Banking Group and the other companies in the scope of consolidation is 3,136 million euro.

Non-performing exposures with forbearance measures in the past-due bracket by "up to three months" include 4,585 million euro that do not present past-due amounts during the "cure period".

**A.1.7 Banking group – On-balance sheet credit exposures to customers: changes in gross non-performing exposures**

(millions of euro)

| Reason/Categories   | Bad loans     | Unlikely to pay | Non performing past due exposures |
|---|---------------|-----------------|-----------------------------------|
| <b>A. Initial gross exposure</b>                            | <b>39,183</b> | <b>22,959</b>   | <b>1,238</b>                      |
| - of which exposures sold not derecognised                  | 23            | 144             | 3                                 |
| <b>B. Increases</b>   | <b>6,603</b>  | <b>7,491</b>    | <b>2,600</b>                      |
| B.1 inflows from performing exposures                       | 175           | 3,018           | 2,367                             |
| B.2 transfers from other non-performing exposure categories | 4,799         | 2,442           | 100                               |
| B.3 other increases   | 1,629         | 2,031           | 133                               |
| B.4 business combinations                                   | -             | -               | -                                 |
| <b>C. Decreases</b>   | <b>-7,919</b> | <b>-10,464</b>  | <b>-3,284</b>                     |
| C.1 outflows to performing exposures                        | -122          | -1,802          | -670                              |
| C.2 write-offs  | -4,830        | -492            | -3                                |
| C.3 repayments  | -1,554        | -2,612          | -185                              |
| C.4 credit disposals  | -257          | -51             | -4                                |
| C.5 losses from disposals                                   | -114          | -16             | -1                                |
| C.6 transfers to other non-performing exposure categories   | -228          | -4,759          | -2,354                            |
| C.7 other decreases   | -814          | -732            | -67                               |
| C.8 business combinations                                   | -             | -               | -                                 |
| <b>D. Final gross exposure</b>                              | <b>37,867</b> | <b>19,986</b>   | <b>554</b>                        |
| - of which exposures sold not derecognised                  | -             | -               | -                                 |

The "other increases" mainly include the application of penalty interest, increases in balances for charges, collections of loans derecognised in full (through "Repayments") and the revaluation of positions in foreign currency following the change in the exchange rate.

The "other decreases" mainly refer to the decrease in the balances in foreign currency due to changes in the exchange rate and the collection of penalty interest assessed in previous years.

**A.1.7bis Banking group - On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality**

(millions of euro)

| Reason/Categories                                      | Forborne exposures: non-performing | Forborne exposures: performing |
|--|------------------------------------|--------------------------------|
| <b>A. Initial gross exposure</b>                       | <b>11,090</b>                      | <b>8,083</b>                   |
| - of which exposures sold not derecognised             | -                                  | -                              |
| <b>B. Increases</b>                                    | <b>4,339</b>                       | <b>5,355</b>                   |
| B.1 inflows from non-forborne performing exposures     | 251                                | 3,179                          |
| B.2 inflows from forborne performing exposures         | 913                                | X                              |
| B.3 inflows from non-performing forborne exposures     | X                                  | 894                            |
| B.4 other increases                                    | 3,175                              | 1,282                          |
| B.5 business combinations                              | -                                  | -                              |
| <b>C. Decreases</b>                                    | <b>-3,473</b>                      | <b>-5,303</b>                  |
| C.1 outflows towards non-forborne performing exposures | X                                  | -2,197                         |
| C.2 outflows towards forborne performing exposures     | -905                               | X                              |
| C.3 outflows towards non-performing forborne exposures | X                                  | -981                           |
| C.4 write-offs   | -307                               | -96                            |
| C.5 collections  | -1,264                             | -1,259                         |
| C.6 gains on disposal                                  | -43                                | -2                             |
| C.7 losses on disposal                                 | -34                                | -                              |
| C.8 other decreases                                    | -920                               | -768                           |
| C.9 business combinations                              | -                                  | -                              |
| <b>D. Final gross exposure</b>                         | <b>11,956</b>                      | <b>8,135</b>                   |
| - of which exposures sold not derecognised             | -                                  | -                              |

For the non-performing forborne exposures, the "Other increases" mainly include the transfers from non-forborne exposures to forborne exposures, within each risk status.

**A.1.8. Banking group – On-balance sheet credit exposures to customers: changes in total adjustments**

(millions of euro)

| Reason/Categories   | Bad loans                    |              | Unlikely to pay              |               | Non performing past due exposures |            |
|---|------------------------------|--------------|------------------------------|---------------|-----------------------------------|------------|
|   | Of which: forborne exposures |              | Of which: forborne exposures |               | Of which: forborne exposures      |            |
| <b>A. Initial total adjustments</b>                         | <b>24,209</b>                | <b>944</b>   | <b>5,658</b>                 | <b>2,208</b>  | <b>216</b>                        | <b>21</b>  |
| - of which exposures sold not derecognised                  | 8                            | -            | 22                           | -             | -                                 | -          |
| <b>B. Increases</b>   | <b>5,779</b>                 | <b>762</b>   | <b>2,969</b>                 | <b>1,061</b>  | <b>418</b>                        | <b>54</b>  |
| B.1 impairment losses                                       | 3,197                        | 359          | 2,150                        | 729           | 323                               | 42         |
| B.2. losses on disposal                                     | 114                          | 10           | 16                           | 5             | 1                                 | -          |
| B.3 transfers from other non-performing exposure categories | 1,582                        | 252          | 487                          | 87            | 33                                | 2          |
| B.4 other increases   | 886                          | 141          | 316                          | 240           | 61                                | 10         |
| B.5 business combinations                                   | -                            | -            | -                            | -             | -                                 | -          |
| <b>C. Decreases</b>   | <b>-7,018</b>                | <b>-397</b>  | <b>-3,293</b>                | <b>-1,042</b> | <b>-514</b>                       | <b>-64</b> |
| C.1 recoveries on impairment losses                         | -1,044                       | -77          | -822                         | -431          | -53                               | -2         |
| C.2 recoveries on repayments                                | -226                         | -19          | -148                         | -64           | -2                                | -          |
| C.3 profits on disposal                                     | -83                          | -9           | -14                          | -10           | -                                 | -          |
| C.4 write-offs  | -4,830                       | -88          | -492                         | -167          | -3                                | -          |
| C.5 transfers to other non-performing exposure categories   | -107                         | -30          | -1,573                       | -249          | -423                              | -61        |
| C.6 other decreases   | -728                         | -174         | -244                         | -121          | -33                               | -1         |
| C.7 business combinations                                   | -                            | -            | -                            | -             | -                                 | -          |
| <b>D. Final total adjustments</b>                           | <b>22,970</b>                | <b>1,309</b> | <b>5,334</b>                 | <b>2,227</b>  | <b>120</b>                        | <b>11</b>  |
| - of which exposures sold not derecognised                  | -                            | -            | -                            | -             | -                                 | -          |

The "other increases" mainly include the application of penalty interest, collections of loans derecognised in full (through "recoveries on repayments") and increases in balances of funds in foreign currency following the change in the exchange rate. The sub-caption "Other increases" under "of which forborne exposures" includes the transfers from non-forborne positions to forborne positions, within each risk status.

The "other decreases" consist mainly of collection of overdue interest applied in previous years, losses on disposal not covered by the allowance and the decrease in the balances of funds in foreign currency due to changes in the exchange rate.

**Conversion of loans into equity instruments**

During the year, loans were converted into equity instruments as part of restructuring agreements for non-performing positions. Gross loans converted into equity instruments, shares and units of mutual funds amounted to 100 million euro. The adjustments directly attributable to the conversion process amounted to 91 million euro, partly made during previous years and partly during the current year. Equity instruments were recognised at their fair value of 9 million euro at the execution date among assets available for sale.

**A.2. Classification of exposures based on external and internal ratings****A.2.1. Banking group - Breakdown of on- and off-balance sheet credit exposures by external rating classes**

The Intesa Sanpaolo Group uses the ratings supplied by the following external rating agencies for the portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Ratings.

These agencies are valid for all Group banks. In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used, when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

The Class 6 rating column includes non-performing loans.

(millions of euro)

| Exposures                            | EXTERNAL RATING CLASSES |               |                |               |              |               | UNRATED        | TOTAL          |
|--------------------------------------|-------------------------|---------------|----------------|---------------|--------------|---------------|----------------|----------------|
|                                      | Class 1                 | Class 2       | Class 3        | Class 4       | Class 5      | Class 6       |                |                |
| <b>A. On-balance sheet exposures</b> | <b>31,639</b>           | <b>24,162</b> | <b>120,111</b> | <b>13,984</b> | <b>4,412</b> | <b>30,213</b> | <b>274,321</b> | <b>498,842</b> |
| <b>B. Derivatives</b>                | <b>1,392</b>            | <b>1,582</b>  | <b>5,561</b>   | <b>529</b>    | <b>162</b>   | <b>18</b>     | <b>3,657</b>   | <b>12,901</b>  |
| B.1. Financial derivatives           | 1,392                   | 1,582         | 5,561          | 461           | 162          | 18            | 3,649          | 12,825         |
| B.2. Credit derivatives              | -                       | -             | -              | 68            | -            | -             | 8              | 76             |
| <b>C. Guarantees given</b>           | <b>943</b>              | <b>1,350</b>  | <b>5,026</b>   | <b>4,383</b>  | <b>494</b>   | <b>577</b>    | <b>26,330</b>  | <b>39,103</b>  |
| <b>D. Commitments to lend funds</b>  | <b>11,823</b>           | <b>24,288</b> | <b>51,652</b>  | <b>4,875</b>  | <b>1,372</b> | <b>806</b>    | <b>43,808</b>  | <b>138,624</b> |
| <b>E. Other</b>                      | <b>105</b>              | <b>1,293</b>  | <b>78</b>      | <b>46</b>     | <b>1</b>     | <b>-</b>      | <b>716</b>     | <b>2,239</b>   |
| <b>Total</b>                         | <b>45,902</b>           | <b>52,675</b> | <b>182,428</b> | <b>23,817</b> | <b>6,441</b> | <b>31,614</b> | <b>348,832</b> | <b>691,709</b> |

It should be noted that the exposures presented in the table also include units of UCI for 2,082 million euro. The following tables show the mapping of risk classes and the external ratings.

**Mapping of long-term ratings issued by external rating agencies**

Long-term ratings for exposures to: central governments and central banks, supervised issuers, public-sector entities, local authorities, multilateral development banks, enterprises and other parties

| Credit quality step | ECAI              |  | Fitch                     |
|---------------------|-------------------|--|---------------------------|
|                     | Moody's           |  | Standard & Poor's<br>DBRS |
| 1                   | from Aaa to Aa3   |  | from AAA to AA-           |
| 2                   | from A1 to A3     |  | from A+ to A-             |
| 3                   | from Baa1 to Baa3 |  | from BBB+ to BBB-         |
| 4                   | from Ba1 to Ba3   |  | from BB+ to BB-           |
| 5                   | from B1 to B3     |  | from B+ to B-             |
| 6                   | Caa1 and lower    |  | CCC+ and lower            |

**Short-term ratings for exposures to supervised issuers and enterprises**

| Credit quality step | Moody's | ECAI          |                   | DBRS        |
|---------------------|---------|---------------|-------------------|-------------|
|                     |         | Fitch         | Standard & Poor's |             |
| 1                   | P -1    | F1 +, F1      | A -1 +, A -1      | R -1        |
| 2                   | P -2    | F2            | A -2              | R -2        |
| 3                   | P -3    | F3            | A -3              | R -3        |
| from 4 to 6         | NP      | lower than F3 | lower than A -3   | R-4 R-5 R-6 |

**Ratings for exposures to UCI**

| Credit quality step | Moody's          | ECAI             |                            |
|---------------------|------------------|------------------|----------------------------|
|                     |                  | Fitch            | Standard & Poor's          |
| 1                   | from Aaa to Aa3  | from AAA to AA-  | from AAA m/f to AA - m/f   |
| 2                   | from A1 to A3    | from A+ to A-    | from A + m/f to A - m/f    |
| 3 and 4             | from Baa1 to Ba3 | from BBB+ to BB- | from BBB + m/f to BB - m/f |
| 5 and 6             | B1 and lower     | B+ and lower     | B + m/f and lower          |

**Standardised approach - Long-term ratings for exposures to securitisations**

| Credit quality step | Moody's           | ECAI  |                           |
|---------------------|-------------------|-------|---------------------------|
|                     |                   | Fitch | Standard & Poor's<br>DBRS |
| 1                   | from Aaa to Aa3   |       | from AAA to AA-           |
| 2                   | from A1 to A3     |       | from A+ to A-             |
| 3                   | from Baa1 to Baa3 |       | from BBB+ to BBB-         |
| 4                   | from Baa1 to Ba3  |       | from BB+ to BB-           |
| 5                   | B1 and lower      |       | B+ and lower              |

**Standardised approach - Short-term ratings for exposures to securitisations**

| Credit quality step | Moody's | ECAI          |                   | - |
|---------------------|---------|---------------|-------------------|---|
|                     |         | Fitch         | Standard & Poor's |   |
| 1                   | P -1    | F 1 +, F 1    | A -1 +, A -1      | - |
| 2                   | P -2    | F2            | A -2              | - |
| 3                   | P -3    | F3            | A -3              | - |
| from 4 to 6         | NP      | lower than F3 | lower than A -3   | - |



*IRB approach - Long-term ratings for exposures to securitisations*

| Credit quality step | ECAI          |                   |
|---------------------|---------------|-------------------|
|                     | Moody's       | Standard & Poor's |
| 1                   | Aaa           | AAA               |
| 2                   | Aa            | AA                |
| 3                   | A1            | A+                |
| 4                   | A2            | A                 |
| 5                   | A3            | A-                |
| 6                   | Baa1          | BBB+              |
| 7                   | Baa2          | BBB               |
| 8                   | Baa3          | BBB-              |
| 9                   | Ba1           | BB+               |
| 10                  | Ba2           | BB                |
| 11                  | Ba3           | BB-               |
| 12                  | Ba3 and lower | BB- and lower     |

*IRB approach - Short-term ratings for exposures to securitisations*

| Credit quality step            | ECAI    |               |                   | - |
|--------------------------------|---------|---------------|-------------------|---|
|                                | Moody's | Fitch         | Standard & Poor's |   |
| 1                              | P -1    | F 1 +, F 1    | A -1 +, A -1      | - |
| 2                              | P -2    | F2            | A -2              | - |
| 3                              | P -3    | F3            | A -3              | - |
| All other credit quality steps | NP      | lower than F3 | lower than A -3   | - |

**A.2.2. Banking group - Breakdown of on- and off-balance sheet exposures by internal rating classes**

As indicated above in the paragraph entitled "Basel 3 regulations and the Internal Project" of Qualitative information, the Intesa Sanpaolo Group has a set of ratings that have been validated in respect of the Corporate, Retail Mortgages (residential mortgages for private individuals) and Retail SME portfolios.

The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.

Unrated exposures account for 10.5% of all exposures to performing counterparties and refer to customer segments for which a rating model is not yet available, to counterparties for which the roll-out of new internal models is still underway, to Group companies whose mission is not related to credit and loans, and to international subsidiaries, which have yet to be fully integrated into the credit risk management system.

For the purposes of calculating the risk indicators, unrated counterparties are assigned an estimated rating on the basis of the average probabilities of default, deriving from the past experience of the respective sectors.

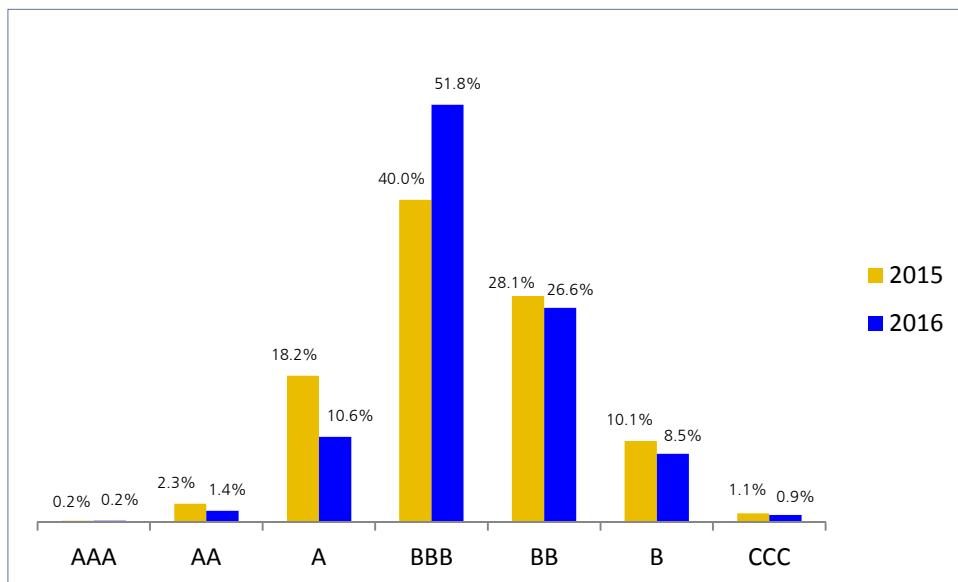
When unrated counterparties and non-performing loans are excluded, there is a high concentration of investment grade classes (classes 1, 2 and 3, representing ratings between AAA and BBB-) at 74.4% of the total, whilst 19.1% fall within the BB+/BB- range (class 4) and 6.5% fall under higher risk classes (of which around 0.8% are below B-).

| Exposures                            | INTERNAL RATING CLASSES |               |                |                |               |              |                          | UNRATED       | TOTAL          |
|--------------------------------------|-------------------------|---------------|----------------|----------------|---------------|--------------|--------------------------|---------------|----------------|
|                                      | Class 1                 | Class 2       | Class 3        | Class 4        | Class 5       | Class 6      | Non-performing exposures |               |                |
| <b>A. On-balance sheet exposures</b> | <b>34,621</b>           | <b>49,894</b> | <b>222,664</b> | <b>81,932</b>  | <b>28,194</b> | <b>2,650</b> | <b>29,983</b>            | <b>46,823</b> | <b>496,761</b> |
| <b>B. Derivatives</b>                | <b>1,671</b>            | <b>1,665</b>  | <b>6,265</b>   | <b>1,583</b>   | <b>480</b>    | <b>67</b>    | -                        | <b>1,170</b>  | <b>12,901</b>  |
| B.1. Financial derivatives           | 1,671                   | 1,665         | 6,265          | 1,515          | 480           | 67           | -                        | 1,162         | 12,825         |
| B.2. Credit derivatives              | -                       | -             | -              | 68             | -             | -            | -                        | 8             | 76             |
| <b>C. Guarantees given</b>           | <b>3,093</b>            | <b>5,630</b>  | <b>15,914</b>  | <b>9,715</b>   | <b>1,832</b>  | <b>135</b>   | <b>555</b>               | <b>2,229</b>  | <b>39,103</b>  |
| <b>D. Commitments to lend funds</b>  | <b>11,760</b>           | <b>26,431</b> | <b>57,946</b>  | <b>18,785</b>  | <b>3,182</b>  | <b>1,646</b> | <b>496</b>               | <b>18,378</b> | <b>138,624</b> |
| <b>E. Other</b>                      | -                       | -             | -              | -              | -             | -            | -                        | <b>2,239</b>  | <b>2,239</b>   |
| <b>Total</b>                         | <b>51,145</b>           | <b>83,620</b> | <b>302,789</b> | <b>112,015</b> | <b>33,688</b> | <b>4,498</b> | <b>31,034</b>            | <b>70,839</b> | <b>689,628</b> |

(millions of euro)

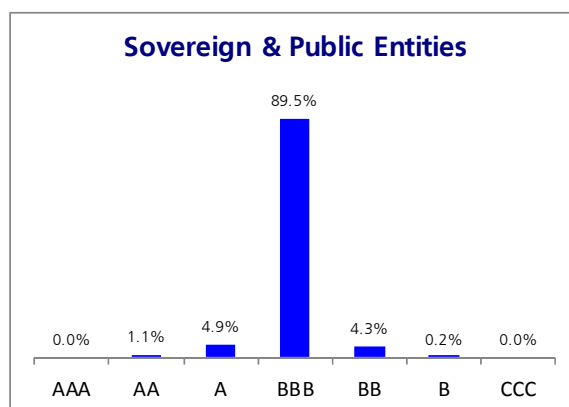
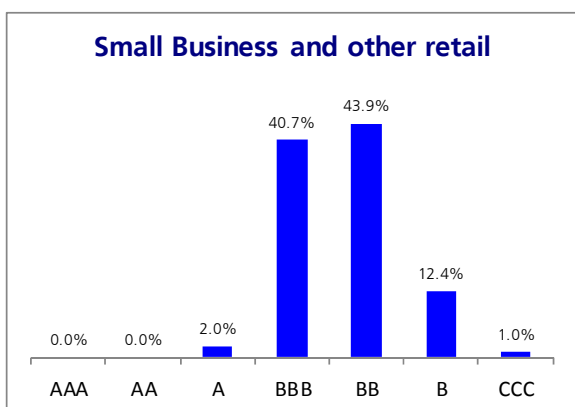
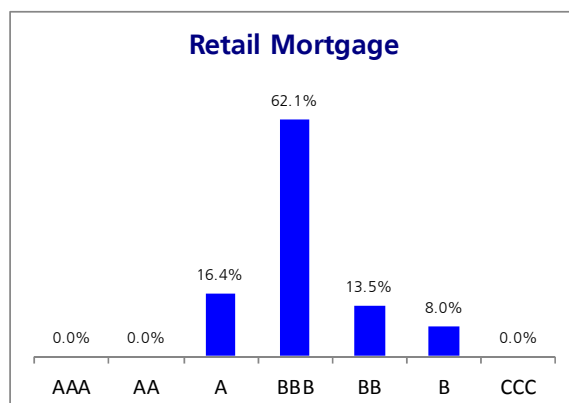
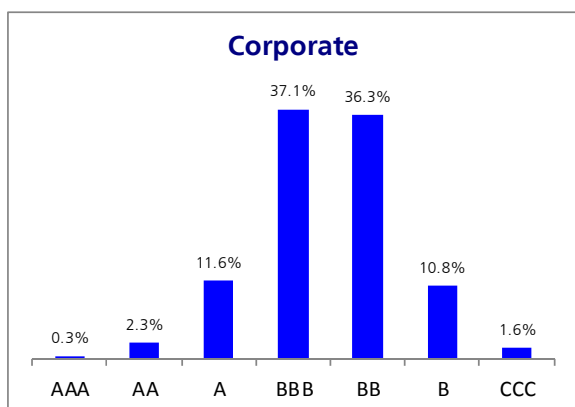
In addition to the tables required by the financial reporting regulations, the rating allocation for performing credit exposures to customers attributable to banks with internal models is shown below.

As at 31 December 2016, performing loans to customers assigned an individual rating internally or by an external agency accounted for 96% of the loans of banks with internal models and for 87% of the entire aggregate at the Group level.



The allocation shows a high level of investment grade exposures of 64.0%, up compared to the previous year (60.7%).

The breakdown of the following portfolios by rating is presented below: Corporate, Retail Mortgage (residential mortgages for individuals), Retail SME and other retail, Sovereign & Public Sector Entities.



Investment grade positions account for 51.4%, 78.6%, 42.7% and 95.4% of the above portfolios, respectively.

## A.3. Breakdown of guaranteed credit exposures by type of guarantee

## A.3.1. Banking group - Guaranteed credit exposures to banks

(millions of euro)

|                                 | GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES |   |                         |   | GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES |   |                         |   | TOTAL         |
|---------------------------------|--|---|-------------------------|---|---|---|-------------------------|---|---------------|
|                                 | Totally guaranteed                           |   | Partly guaranteed       |   | Totally guaranteed                            |   | Partly guaranteed       |   |               |
|                                 | of which non-performing                      |   | of which non-performing |   | of which non-performing                       |   | of which non-performing |   |               |
| <b>NET EXPOSURE</b>             | <b>4,209</b>                                 | - | <b>142</b>              | - | <b>8,902</b>                                  | - | <b>3,220</b>            | - | <b>16,473</b> |
| <b>COLLATERAL<sup>(1)</sup></b> |  |   |                         |   |   |   |                         |   |               |
| Real estate assets              | 3  | - | -                       | - | -   | - | -                       | - | 3             |
| Mortgages                       | -  | - | -                       | - | -   | - | -                       | - | -             |
| Financial leases                | 3  | - | -                       | - | -   | - | -                       | - | 3             |
| Securities                      | 3,975  | - | -                       | - | 4,045   | - | 11                      | - | 8,031         |
| Other                           | -  | - | -                       | - | 4,844   | - | 2,843                   | - | 7,687         |
| <b>GUARANTEES<sup>(1)</sup></b> |  |   |                         |   |   |   |                         |   |               |
| Credit derivatives              |  |   |                         |   |   |   |                         |   |               |
| Credit-linked notes             | -  | - | -                       | - | -   | - | -                       | - | -             |
| Other derivatives               |  |   |                         |   |   |   |                         |   |               |
| - Governments and Central Banks | -  | - | -                       | - | -   | - | -                       | - | -             |
| - Other public entities         | -  | - | -                       | - | -   | - | -                       | - | -             |
| - Banks                         | -  | - | -                       | - | -   | - | -                       | - | -             |
| - Other counterparties          | -  | - | -                       | - | -   | - | -                       | - | -             |
| Guarantees given                |  |   |                         |   |   |   |                         |   |               |
| Governments and Central Banks   | 52   | - | 31                      | - | -   | - | -                       | - | 83            |
| Other public entities           | -  | - | -                       | - | -   | - | -                       | - | -             |
| Banks                           | 120  | - | 61                      | - | 12  | - | -                       | - | 193           |
| Other counterparties            | 56   | - | 9                       | - | -   | - | -                       | - | 65            |
| <b>TOTAL</b>                    | <b>4,206</b>                                 | - | <b>101</b>              | - | <b>8,901</b>                                  | - | <b>2,854</b>            | - | <b>16,062</b> |

<sup>(1)</sup> Fair Value of the collateral/guarantee or, if difficult to calculate, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

## A.3.2. Banking group - Guaranteed credit exposures to customers

(millions of euro)

|                                 | GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES |               |                         |              | GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES |            |                         |           | TOTAL          |
|---------------------------------|--|---------------|-------------------------|--------------|---|------------|-------------------------|-----------|----------------|
|                                 | Totally guaranteed                           |               | Partly guaranteed       |              | Totally guaranteed                            |            | Partly guaranteed       |           |                |
|                                 | of which non-performing                      |               | of which non-performing |              | of which non-performing                       |            | of which non-performing |           |                |
| <b>NET EXPOSURE</b>             | <b>204,764</b>                               | <b>21,918</b> | <b>17,992</b>           | <b>1,922</b> | <b>19,781</b>                                 | <b>503</b> | <b>2,971</b>            | <b>67</b> | <b>245,508</b> |
| <b>COLLATERAL<sup>(1)</sup></b> |  |               |                         |              |   |            |                         |           |                |
| Real estate assets              | 131,115                                      | 17,377        | 1,541                   | 472          | 2,595   | 271        | 192                     | 8         | 135,443        |
| Mortgages                       | 118,779                                      | 14,786        | 1,479                   | 439          | 2,571   | 270        | 145                     | 8         | 122,974        |
| Financial leases                | 12,336                                       | 2,591         | 62                      | 33           | 24  | 1          | 47                      | -         | 12,469         |
| Securities                      | 35,596                                       | 277           | 2,107                   | 201          | 6,904   | 18         | 245                     | 1         | 44,852         |
| Other                           | 9,665  | 889           | 754                     | 44           | 1,286   | 7          | 314                     | 13        | 12,019         |
| <b>GUARANTEES<sup>(1)</sup></b> |  |               |                         |              |   |            |                         |           |                |
| Credit derivatives              |  |               |                         |              |   |            |                         |           |                |
| Credit-linked notes             | -  | -             | -                       | -            | -   | -          | -                       | -         | -              |
| Other derivatives               |  |               |                         |              |   |            |                         |           |                |
| - Governments and Central Banks | -  | -             | -                       | -            | -   | -          | -                       | -         | -              |
| - Other public entities         | -  | -             | -                       | -            | -   | -          | -                       | -         | -              |
| - Banks                         | -  | -             | -                       | -            | -   | -          | -                       | -         | -              |
| - Other counterparties          | -  | -             | -                       | -            | 140   | -          | -                       | -         | 140            |
| Guarantees given                |  |               |                         |              |   |            |                         |           |                |
| Governments and Central Banks   | 3,651  | 122           | 1,838                   | 40           | 662   | -          | 12                      | 1         | 6,163          |
| Other public entities           | 259  | 8             | 105                     | 6            | -   | -          | -                       | -         | 364            |
| Banks                           | 446  | 35            | 794                     | 2            | 109   | 2          | 10                      | 3         | 1,359          |
| Other counterparties            | 22,966                                       | 3,016         | 3,398                   | 574          | 7,404   | 82         | 939                     | 9         | 34,707         |
| <b>TOTAL</b>                    | <b>203,698</b>                               | <b>21,724</b> | <b>10,537</b>           | <b>1,339</b> | <b>19,100</b>                                 | <b>380</b> | <b>1,712</b>            | <b>35</b> | <b>235,047</b> |

<sup>(1)</sup> Fair Value of the guarantee or, if difficult to be determined, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

## B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

## B.1. Banking group - Breakdown by sector of on- and off-balance sheet credit exposures to customers (book value)

(millions of euro)

| Exposures/Counterparties               | GOVERNMENTS   |                        |                       | OTHER PUBLIC ENTITIES |                        |                       | FINANCIAL COMPANIES |                        |                       | INSURANCE COMPANIES |                        |                       | NON-FINANCIAL COMPANIES |                        |                       | OTHER ENTITIES |                        |                       |
|--|---------------|------------------------|-----------------------|-----------------------|------------------------|-----------------------|---------------------|------------------------|-----------------------|---------------------|------------------------|-----------------------|-------------------------|------------------------|-----------------------|----------------|------------------------|-----------------------|
|  | Net exposure  | Individual adjustments | Portfolio adjustments | Net exposure          | Individual adjustments | Portfolio adjustments | Net exposure        | Individual adjustments | Portfolio adjustments | Net exposure        | Individual adjustments | Portfolio adjustments | Net exposure            | Individual adjustments | Portfolio adjustments | Net exposure   | Individual adjustments | Portfolio adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |               |                        |                       |                       |                        |                       |                     |                        |                       |                     |                        |                       |                         |                        |                       |                |                        |                       |
| A.1. Bad loans                         | 7             | -3                     | X                     | 184                   | -94                    | X                     | 167                 | -340                   | X                     | 1                   | -1                     | X                     | 12,305                  | -20,097                | X                     | 2,233          | -2,435                 | X                     |
| - of which<br>forborne exposures       | 1             | -                      | X                     | -                     | -                      | X                     | 16                  | -46                    | X                     | -                   | -                      | X                     | 930                     | -1,081                 | X                     | 142            | -182                   | X                     |
| A.2. Unlikely to pay                   | 1             | -1                     | X                     | 151                   | -21                    | X                     | 550                 | -179                   | X                     | -                   | -                      | X                     | 12,490                  | -4,540                 | X                     | 1,460          | -593                   | X                     |
| - of which<br>forborne exposures       | -             | -                      | X                     | 54                    | -3                     | X                     | 435                 | -110                   | X                     | -                   | -                      | X                     | 6,191                   | -1,978                 | X                     | 577            | -136                   | X                     |
| A.3. Non-performing past due exposures | -             | -                      | X                     | 4                     | -                      | X                     | 5                   | -2                     | X                     | -                   | -                      | X                     | 282                     | -64                    | X                     | 143            | -54                    | X                     |
| - of which<br>forborne exposures       | -             | -                      | X                     | -                     | -                      | X                     | -                   | -                      | X                     | -                   | -                      | X                     | 55                      | -10                    | X                     | 8              | -1                     | X                     |
| A.4. Performing exposures              | 76,512        | X                      | -8                    | 15,673                | X                      | -31                   | 61,889              | X                      | -147                  | 1,516               | X                      | -                     | 167,792                 | X                      | -1,187                | 86,423         | X                      | -240                  |
| - of which<br>forborne exposures       | 24            | X                      | -                     | 152                   | X                      | -                     | 663                 | X                      | -26                   | -                   | X                      | -                     | 6,077                   | X                      | -144                  | 1,034          | X                      | -15                   |
| <b>Total A</b>                         | <b>76,520</b> | <b>-4</b>              | <b>-8</b>             | <b>16,012</b>         | <b>-115</b>            | <b>-31</b>            | <b>62,611</b>       | <b>-521</b>            | <b>-147</b>           | <b>1,517</b>        | <b>-1</b>              | <b>-</b>              | <b>192,869</b>          | <b>-24,701</b>         | <b>-1,187</b>         | <b>90,259</b>  | <b>-3,082</b>          | <b>-240</b>           |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |               |                        |                       |                       |                        |                       |                     |                        |                       |                     |                        |                       |                         |                        |                       |                |                        |                       |
| B.1. Bad loans                         | -             | -                      | X                     | -                     | -                      | X                     | 2                   | -                      | X                     | -                   | -                      | X                     | 162                     | -71                    | X                     | 5              | -8                     | X                     |
| B.2. Unlikely to pay                   | -             | -                      | X                     | -                     | -                      | X                     | 6                   | -1                     | X                     | 8                   | -                      | X                     | 851                     | -82                    | X                     | 6              | -2                     | X                     |
| B.3. Other non-performing assets       | -             | -                      | X                     | -                     | -                      | X                     | -                   | -                      | X                     | -                   | -                      | X                     | 10                      | -                      | X                     | 1              | -1                     | X                     |
| B.4. Other exposures                   | 17,391        | X                      | -                     | 1,234                 | X                      | -                     | 35,898              | X                      | -6                    | 1,093               | X                      | -                     | 80,588                  | X                      | -139                  | 4,463          | X                      | -8                    |
| <b>Total B</b>                         | <b>17,391</b> | <b>-</b>               | <b>-</b>              | <b>1,234</b>          | <b>-</b>               | <b>-</b>              | <b>35,906</b>       | <b>-1</b>              | <b>-6</b>             | <b>1,101</b>        | <b>-</b>               | <b>-</b>              | <b>81,611</b>           | <b>-153</b>            | <b>-139</b>           | <b>4,475</b>   | <b>-11</b>             | <b>-8</b>             |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>93,911</b> | <b>-4</b>              | <b>-8</b>             | <b>17,246</b>         | <b>-115</b>            | <b>-31</b>            | <b>98,517</b>       | <b>-522</b>            | <b>-153</b>           | <b>2,618</b>        | <b>-1</b>              | <b>-</b>              | <b>274,480</b>          | <b>-24,854</b>         | <b>-1,326</b>         | <b>94,734</b>  | <b>-3,093</b>          | <b>-248</b>           |
| <b>TOTAL 31.12.2015</b>                | <b>75,651</b> | <b>-4</b>              | <b>-12</b>            | <b>18,060</b>         | <b>-97</b>             | <b>-32</b>            | <b>78,589</b>       | <b>-706</b>            | <b>-174</b>           | <b>2,570</b>        | <b>-</b>               | <b>-1</b>             | <b>268,344</b>          | <b>-26,042</b>         | <b>-1,668</b>         | <b>89,097</b>  | <b>-3,457</b>          | <b>-312</b>           |

## B.2. Banking group - Breakdown by geographical area of on- and off-balance sheet credit exposures to customers (book value)

(millions of euro)

| Exposures/Geographical areas           | ITALY          |                   | OTHER EUROPEAN COUNTRIES |                   | AMERICA       |                   | ASIA         |                   | REST OF THE WORLD |                   |
|--|----------------|-------------------|--------------------------|-------------------|---------------|-------------------|--------------|-------------------|-------------------|-------------------|
|  | Net exposure   | Total adjustments | Net exposure             | Total adjustments | Net exposure  | Total adjustments | Net exposure | Total adjustments | Net exposure      | Total adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |                |                   |                          |                   |               |                   |              |                   |                   |                   |
| A.1. Bad loans                         | 14,334         | -21,699           | 556                      | -1,150            | 2             | -27               | 1            | -6                | 4                 | -88               |
| A.2. Unlikely to pay                   | 13,218         | -4,619            | 1,049                    | -588              | 183           | -65               | 52           | -11               | 150               | -51               |
| A.3. Non-performing past due exposures | 375            | -92               | 33                       | -22               | 3             | -1                | 19           | -5                | 4                 | -                 |
| A.4. Performing exposures              | 296,884        | -1,123            | 84,372                   | -373              | 19,052        | -45               | 4,599        | -19               | 4,898             | -53               |
| <b>Total A</b>                         | <b>324,811</b> | <b>-27,533</b>    | <b>86,010</b>            | <b>-2,133</b>     | <b>19,240</b> | <b>-138</b>       | <b>4,671</b> | <b>-41</b>        | <b>5,056</b>      | <b>-192</b>       |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |                |                   |                          |                   |               |                   |              |                   |                   |                   |
| B.1. Bad loans                         | 154            | -66               | 13                       | -8                | -             | -                 | -            | -                 | 1                 | -6                |
| B.2. Unlikely to pay                   | 797            | -60               | 52                       | -23               | 20            | -                 | -            | -                 | 3                 | -1                |
| B.3. Other non-performing assets       | 10             | -                 | 1                        | -1                | -             | -                 | -            | -                 | -                 | -                 |
| B.4. Performing exposures              | 63,591         | -71               | 60,365                   | -61               | 13,769        | -17               | 1,239        | -1                | 1,703             | -3                |
| <b>Total B</b>                         | <b>64,552</b>  | <b>-197</b>       | <b>60,431</b>            | <b>-93</b>        | <b>13,789</b> | <b>-17</b>        | <b>1,239</b> | <b>-1</b>         | <b>1,707</b>      | <b>-10</b>        |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>389,363</b> | <b>-27,730</b>    | <b>146,441</b>           | <b>-2,226</b>     | <b>33,029</b> | <b>-155</b>       | <b>5,910</b> | <b>-42</b>        | <b>6,763</b>      | <b>-202</b>       |
| <b>TOTAL 31.12.2015</b>                | <b>368,850</b> | <b>-29,156</b>    | <b>119,957</b>           | <b>-2,884</b>     | <b>31,639</b> | <b>-122</b>       | <b>4,646</b> | <b>-52</b>        | <b>7,219</b>      | <b>-290</b>       |

**B.2 bis Breakdown of relations with customers resident in Italy by geographical area (book value)**

(millions of euro)

| Exposures/Geographical areas           | NORTH-WEST     |                   | NORTH-EAST    |                   | CENTRE         |                   | SOUTH AND ISLANDS |                   |
|--|----------------|-------------------|---------------|-------------------|----------------|-------------------|-------------------|-------------------|
|  | Net exposure   | Total adjustments | Net exposure  | Total adjustments | Net exposure   | Total adjustments | Net exposure      | Total adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |                |                   |               |                   |                |                   |                   |                   |
| A.1. Bad loans                         | 4,693          | -7,190            | 3,141         | -4,741            | 3,299          | -4,776            | 3,201             | -4,992            |
| A.2. Unlikely to pay                   | 5,239          | -1,802            | 2,394         | -744              | 3,163          | -1,076            | 2,422             | -997              |
| A.3. Non-performing past due exposures | 106            | -22               | 50            | -10               | 89             | -20               | 130               | -40               |
| A.4. Performing exposures              | 92,063         | -472              | 44,726        | -189              | 120,649        | -249              | 39,446            | -213              |
| <b>Total A</b>                         | <b>102,101</b> | <b>-9,486</b>     | <b>50,311</b> | <b>-5,684</b>     | <b>127,200</b> | <b>-6,121</b>     | <b>45,199</b>     | <b>-6,242</b>     |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |                |                   |               |                   |                |                   |                   |                   |
| B.1. Bad loans                         | 35             | -13               | 54            | -28               | 58             | -22               | 7                 | -3                |
| B.2. Unlikely to pay                   | 377            | -16               | 109           | -26               | 242            | -15               | 69                | -3                |
| B.3. Other non-performing assets       | 7              | -                 | 1             | -                 | 1              | -                 | 1                 | -                 |
| B.4. Performing exposures              | 19,449         | -4                | 5,958         | -16               | 35,880         | -45               | 2,304             | -6                |
| <b>Total B</b>                         | <b>19,868</b>  | <b>-33</b>        | <b>6,122</b>  | <b>-70</b>        | <b>36,181</b>  | <b>-82</b>        | <b>2,381</b>      | <b>-12</b>        |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>121,969</b> | <b>-9,519</b>     | <b>56,433</b> | <b>-5,754</b>     | <b>163,381</b> | <b>-6,203</b>     | <b>47,580</b>     | <b>-6,254</b>     |
| <b>TOTAL 31.12.2015</b>                | <b>122,531</b> | <b>-10,161</b>    | <b>58,162</b> | <b>-6,189</b>     | <b>140,486</b> | <b>-6,285</b>     | <b>47,671</b>     | <b>-6,521</b>     |

**B.3 Banking group - Breakdown by geographical area of on- and off-balance sheet credit exposures to banks (book value)**

(millions of euro)

| Exposures/Geographical areas           | ITALY         |                   | OTHER EUROPEAN COUNTRIES |                   | AMERICA       |                   | ASIA         |                   | REST OF THE WORLD |                   |
|--|---------------|-------------------|--------------------------|-------------------|---------------|-------------------|--------------|-------------------|-------------------|-------------------|
|  | Net exposure  | Total adjustments | Net exposure             | Total adjustments | Net exposure  | Total adjustments | Net exposure | Total adjustments | Net exposure      | Total adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |               |                   |                          |                   |               |                   |              |                   |                   |                   |
| A.1. Bad loans                         | -             | -                 | -                        | -2                | -             | -                 | -            | -                 | -                 | -                 |
| A.2. Unlikely to pay                   | -             | -                 | -                        | -                 | -             | -                 | -            | -4                | -                 | -                 |
| A.3. Non-performing past due exposures | -             | -                 | -                        | -                 | -             | -                 | -            | -                 | -                 | -                 |
| A.4. Performing exposures              | 28,557        | -11               | 21,039                   | -27               | 3,595         | -15               | 2,276        | -5                | 1,506             | -3                |
| <b>Total A</b>                         | <b>28,557</b> | <b>-11</b>        | <b>21,039</b>            | <b>-29</b>        | <b>3,595</b>  | <b>-15</b>        | <b>2,276</b> | <b>-9</b>         | <b>1,506</b>      | <b>-3</b>         |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |               |                   |                          |                   |               |                   |              |                   |                   |                   |
| B.1. Bad loans                         | -             | -                 | -                        | -                 | -             | -                 | -            | -                 | -                 | -                 |
| B.2. Unlikely to pay                   | -             | -                 | -                        | -                 | -             | -                 | -            | -                 | -                 | -                 |
| B.3. Other non-performing assets       | -             | -                 | -                        | -                 | -             | -                 | -            | -                 | -                 | -                 |
| B.4. Performing exposures              | 6,945         | -1                | 36,727                   | -9                | 2,715         | -2                | 1,896        | -7                | 634               | -11               |
| <b>Total B</b>                         | <b>6,945</b>  | <b>-1</b>         | <b>36,727</b>            | <b>-9</b>         | <b>2,715</b>  | <b>-2</b>         | <b>1,896</b> | <b>-7</b>         | <b>634</b>        | <b>-11</b>        |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>35,502</b> | <b>-12</b>        | <b>57,766</b>            | <b>-38</b>        | <b>6,310</b>  | <b>-17</b>        | <b>4,172</b> | <b>-16</b>        | <b>2,140</b>      | <b>-14</b>        |
| <b>TOTAL 31.12.2015</b>                | <b>13,993</b> | <b>-7</b>         | <b>62,942</b>            | <b>-47</b>        | <b>10,328</b> | <b>-15</b>        | <b>4,526</b> | <b>-24</b>        | <b>2,525</b>      | <b>-11</b>        |

**B.3 Bis Breakdown of relations with banks resident in Italy by geographical area (book value)**

(millions of euro)

| Exposures/Geographical areas           | NORTH-WEST   |                   | NORTH-EAST   |                   | CENTRE        |                   | SOUTH AND ISLANDS |                   |
|--|--------------|-------------------|--------------|-------------------|---------------|-------------------|-------------------|-------------------|
|  | Net exposure | Total adjustments | Net exposure | Total adjustments | Net exposure  | Total adjustments | Net exposure      | Total adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |              |                   |              |                   |               |                   |                   |                   |
| A.1. Bad loans                         | -            | -                 | -            | -                 | -             | -                 | -                 | -                 |
| A.2. Unlikely to pay                   | -            | -                 | -            | -                 | -             | -                 | -                 | -                 |
| A.3. Non-performing past due exposures | -            | -                 | -            | -                 | -             | -                 | -                 | -                 |
| A.4. Performing exposures              | 2,064        | -3                | 1,120        | -3                | 25,370        | -5                | 3                 | -                 |
| <b>Total A</b>                         | <b>2,064</b> | <b>-3</b>         | <b>1,120</b> | <b>-3</b>         | <b>25,370</b> | <b>-5</b>         | <b>3</b>          | <b>-</b>          |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |              |                   |              |                   |               |                   |                   |                   |
| B.1. Bad loans                         | -            | -                 | -            | -                 | -             | -                 | -                 | -                 |
| B.2. Unlikely to pay                   | -            | -                 | -            | -                 | -             | -                 | -                 | -                 |
| B.3. Other non-performing assets       | -            | -                 | -            | -                 | -             | -                 | -                 | -                 |
| B.4. Performing exposures              | 1,199        | -1                | 194          | -                 | 5,541         | -                 | 11                | -                 |
| <b>Total B</b>                         | <b>1,199</b> | <b>-1</b>         | <b>194</b>   | <b>-</b>          | <b>5,541</b>  | <b>-</b>          | <b>11</b>         | <b>-</b>          |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>3,263</b> | <b>-4</b>         | <b>1,314</b> | <b>-3</b>         | <b>30,911</b> | <b>-5</b>         | <b>14</b>         | <b>-</b>          |
| <b>TOTAL 31.12.2015</b>                | <b>4,653</b> | <b>-3</b>         | <b>1,689</b> | <b>-2</b>         | <b>7,464</b>  | <b>-1</b>         | <b>187</b>        | <b>-1</b>         |

**B.4 Large exposures**

| Large exposures                      |         |
|--------------------------------------|---------|
| a) Book value (millions of euro)     | 132,223 |
| b) Weighted value (millions of euro) | 11,652  |
| b) Number                            | 8       |

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by EU Regulation 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors.

Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of eligible capital for the purposes of large risks.

## C. SECURITISATIONS

This section does not include securitisations where the originators are Intesa Sanpaolo Group banks and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by one or more Group companies. For a description of these types of transaction, see the section on liquidity risk in Part E of the Notes to the consolidated financial statements.

### Qualitative information

The securitisations carried out in 2016 are summarised below:

#### *GARC Securitisations*

In 2016 the Parent Company continued its activities relating to the “GARC” (Active Credit Risk Management) project, involving a platform for monitoring credit risk in performing portfolios. The initiative involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending of SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit. As part of these operations, during the year the junior risk relating to a total portfolio of 3.7 billion euro in loans to approximately 8,200 businesses in the Corporate and SME Corporate segments, valued using internal models (Advanced IRB), was sold to specialist investors through several transactions.

#### *Tranched Cover Piemonte Securitisation*

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

#### *Towers Securitisation*

In 2016, Intesa Sanpaolo completed a securitisation via the sale without recourse of two portfolios of performing consumer loans for around 2.6 billion euro, through Accedo, a wholly-owned consumer credit company dedicated to consumer credit distribution channels outside the Group. The two portfolios – one relating to loans against one-fifth salary assignments and the other to car and special-purpose loans – were sold to two specially created vehicle companies, independent of the Intesa Sanpaolo Group and managed by a third-party servicer, which funded the purchase price by issuing asset-backed securities. The senior and mezzanine securities of the portfolio consisting of loans against one-fifth salary assignments have a Moody’s rating of Aa2 and A2 respectively.

The junior tranches were subscribed by the leading investment company Christofferson Robb & Company, whereas the senior and mezzanine tranches were subscribed by a pool of international banks, led by Banca IMI and also made up of Citigroup, Goldman Sachs International and JP Morgan. Accedo subscribed for 5% of each of the tranches issued, in accordance with the CRR Directive.

#### *Automotive, Electronics and Mechanics Securitisation*

This securitisation was expanded during 2016, bringing the nominal value of securitised loans from 490 to 535 million euro. For these transactions, the Group used the vehicles Trade Investment Receivable Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and the vehicle Duomo Funding Plc. The securities issued are unrated

#### *K-Equity Securitisation*

In 2015, Intesa Sanpaolo and another leading Italian bank jointly carried out a securitisation transaction involving the transfer of their credit exposures to specifically established third-party entities, in order to enable the leveraging of their value through financial and industrial restructuring.

The exposure is accounted for (a) on one hand, by loan portfolios essentially deriving from medium and long-term loans to specific debtors and, (b) on the other, by equity exposures, essentially represented by participating financial instruments (PFI) issued by said debtors. That transfer specifically fulfils the purpose of ensuring the management of said exposures by entities established and managed by specialised third parties to optimise the recovery of the overall exposure by using the know-how and experience of the parties involved in the financial and industrial restructuring processes and, possibly, the granting of new financing to benefit the transferred debtors.

The transaction involves, *inter alia*, the use of a) a securitisation company established pursuant to Law 130/99, Pillarstone Italy SPV S.r.l., which shall purchase and securitise the credit exposures, as well as, where necessary, disburse new financing to the benefit of the assigned debtors and, b) a newly-established company, Pillarstone Italy Holding S.p.A, controlled by third parties, which shall purchase and hold (through assigned assets specifically established pursuant to Article 2447-bis, paragraph 1, letter a) of the Italian Civil Code) the PFIs transferred by the banks, as well as any additional equity exposures subscribed as part of future restructuring operations of transferred debtors.

The Group holds no investments in the abovementioned third-party companies which, therefore, are independent from Intesa Sanpaolo.

Pillarstone Italy SPV shall execute as many securitisations as there are individual assigned debtors, by issuing Senior and Junior notes, fully subscribed by each bank. Therefore, each securitisation already regards the loans due to the assigning banks from a single debtor. Pillarstone Italy Holding’s methods of acquiring the equity instruments of the selected debtors may be in cash or through deferred payment, by leveraging the value of the transferred financial instruments.

In 2016, the Group sold around 355 million euro of non-performing exposures to Pillarstone Italy SPV. The exposures sold have not been derecognised either from the financial statements or for prudential purposes. Against said sales, in addition to the notes mentioned above, Super Senior notes subscribed by third parties were also issued. All the securities issued are unrated. The Group

also sold its interest in the capital of a transferred debtor to Pillarstone Italy Holding, and this interest has been derecognised from the financial statements.

## Quantitative information

### C.1. Banking Group - Breakdown of exposures deriving from the main "originated" securitisations by type of securitised asset and by type of exposure

#### On-balance sheet

| Type of securitised asset/ Exposure         | (millions of euro)         |                     |            |                     |            |                     |
|---|----------------------------|---------------------|------------|---------------------|------------|---------------------|
|   | ON-BALANCE SHEET EXPOSURES |                     |            |                     |            |                     |
|   | Senior                     |                     | Mezzanine  |                     | Junior     |                     |
|   | Book value                 | Adjust./ recoveries | Book value | Adjust./ recoveries | Book value | Adjust./ recoveries |
| <b>A. Fully derecognised</b>                | <b>159</b>                 | -                   | <b>11</b>  | -                   | <b>32</b>  | <b>-5</b>           |
| – Other assets                              | 47                         | -                   | 7          | -                   | -          | -                   |
| – Residential mortgage loans (*)            | -                          | -                   | -          | -                   | 17         | -5                  |
| – Consumer credit                           | 112                        | -                   | 4          | -                   | 15         | -                   |
| <b>B. Partly derecognised</b>               | -                          | -                   | -          | -                   | -          | -                   |
| <b>C. Not derecognised</b>                  | <b>4,028</b>               | -                   | <b>334</b> | <b>8</b>            | <b>130</b> | -                   |
| – Trade receivables                         | 2                          | -                   | 24         | -                   | 11         | -                   |
| – Residential mortgage loans                | -                          | -                   | 33         | 1                   | 53         | -                   |
| – Loans to businesses (including SMEs) (**) | 4,026                      | -                   | 277        | 7                   | 66         | -                   |
| <b>TOTAL</b>                                | <b>4,187</b>               | -                   | <b>345</b> | <b>8</b>            | <b>162</b> | <b>-5</b>           |

(\*) The amount also refers to non-performing financial assets for 12 million euro.

(\*\*) The amounts also include non-performing financial assets of 35 million euro for Senior exposures, 277 million euro for Mezzanine exposures and 49 million euro for Junior exposures. The caption "Loans to businesses (including SMEs)" also includes the amounts for the GARC synthetic securitisation transactions relating to the performing exposures.

The securitisations in the above table include those for which the Group availed itself of the exemption from compliance to IAS/IFRS permitted on first-time adoption by IFRS 1. Based on this exemption, assets or liabilities sold and not derecognised, based on previous accounting principles and deriving from securitisations prior to 1 January 2004, have not been recorded in the financial statements, even if derecognition does not meet the requirements of IAS 39.

#### Off-balance sheet

| Type of securitised asset/ Exposure | (millions of euro) |                     |              |                     |              |                     |              |                     |              |                     |              |                     |
|-------------------------------------|--------------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|
|                                     | GUARANTEES GIVEN   |                     |              |                     |              |                     | CREDIT LINES |                     |              |                     |              |                     |
|                                     | Senior             |                     | Mezzanine    |                     | Junior       |                     | Senior       |                     | Mezzanine    |                     | Junior       |                     |
|                                     | Net exposure       | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries |
| <b>A. Fully derecognised</b>        | -                  | -                   | -            | -                   | -            | -                   | <b>441</b>   | -                   | <b>28</b>    | -                   | -            | -                   |
| – Consumer credit                   | -                  | -                   | -            | -                   | -            | -                   | 441          | -                   | 28           | -                   | -            | -                   |
| <b>B. Partly derecognised</b>       | -                  | -                   | -            | -                   | -            | -                   | -            | -                   | -            | -                   | -            | -                   |
| <b>C. Not derecognised</b>          | -                  | -                   | -            | -                   | -            | -                   | <b>2,037</b> | -                   | -            | -                   | -            | -                   |
| – Trade receivables (*)             | -                  | -                   | -            | -                   | -            | -                   | 2,037        | -                   | -            | -                   | -            | -                   |
| <b>TOTAL</b>                        | -                  | -                   | -            | -                   | -            | -                   | <b>2,478</b> | -                   | <b>28</b>    | -                   | -            | -                   |

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



## C.2. Banking Group - Breakdown of exposures deriving from the main "third party" securitisations by type of securitised asset and by type of exposure

### On-balance sheet

(millions of euro)

| Type of securitised asset/ Exposure  | ON-BALANCE SHEET EXPOSURES |                     |            |                     |            |                     |
|--------------------------------------|----------------------------|---------------------|------------|---------------------|------------|---------------------|
|                                      | Senior                     |                     | Mezzanine  |                     | Junior     |                     |
|                                      | Book value                 | Adjust./ recoveries | Book value | Adjust./ recoveries | Book value | Adjust./ recoveries |
| Other assets <sup>(*)</sup>          | 4,925                      | -                   | 6          | -                   | -          | -                   |
| Securitisations                      | 96                         | -4                  | -          | -                   | -          | -                   |
| Consumer credit                      | 66                         | -                   | 32         | -                   | -          | -                   |
| Trade receivables                    | 220                        | -                   | -          | -                   | -          | -                   |
| Leases                               | 35                         | -                   | 21         | -                   | 14         | -                   |
| Commercial mortgage loans            | 154                        | -                   | 71         | -5                  | 19         | -                   |
| Residential mortgage loans           | 1,227                      | 10                  | 231        | -                   | 2          | -                   |
| Loans to businesses (including SMEs) | 398                        | 1                   | 129        | -                   | 16         | -                   |
| <b>TOTAL</b>                         | <b>7,121</b>               | <b>7</b>            | <b>490</b> | <b>-5</b>           | <b>51</b>  | <b>-</b>            |

<sup>(\*)</sup> The amount also includes the 4,764 million euro in Romulus securities held in the portfolio of the Banking Group, generally shown under third party securitisations. For more details regarding the type of underlying assets, refer to section 3 - RISKS of OTHER COMPANIES in this PART E

### Off-balance sheet

(millions of euro)

| Type of securitised asset/ Exposure <sup>(*)</sup> | GUARANTEES GIVEN |                     |              |                     |              |                     | CREDIT LINES |                     |              |                     |              |                     |
|--|------------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|
|  | Senior           |                     | Mezzanine    |                     | Junior       |                     | Senior       |                     | Mezzanine    |                     | Junior       |                     |
|  | Net exposure     | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries |
| Duomo ABCP Conduit transactions                    | -                | -                   | -            | -                   | -            | -                   | 2,507        | -                   | -            | -                   | -            | -                   |
| <b>Total</b>                                       | <b>-</b>         | <b>-</b>            | <b>-</b>     | <b>-</b>            | <b>-</b>     | <b>-</b>            | <b>2,507</b> | <b>-</b>            | <b>-</b>     | <b>-</b>            | <b>-</b>     | <b>-</b>            |

<sup>(\*)</sup> In addition to the information shown in the table, the Group's trading portfolio as at 31 December 2016 also contains off-balance sheet transactions represented by credit default swaps with exposures to securitisations as underlyings for a nominal value of 21 million euro.

## C.3. Banking Group - Stakes in securitisation vehicles

(millions of euro)

| SECURITISATION/<br>SPECIAL PURPOSE VEHICLE                       | REGISTERED OFFICE      | CONSOLIDATION <sup>(a)</sup> | ASSETS <sup>(b)</sup> |                 |       | LIABILITIES <sup>(b)</sup> |           |        |
|--|------------------------|------------------------------|-----------------------|-----------------|-------|----------------------------|-----------|--------|
|  |                        |                              | Loans                 | Debt securities | Other | Senior                     | Mezzanine | Junior |
| Adriano Lease Sec S.r.l.   | Conegliano Veneto (TV) | (c)                          | 2,169                 | -               | 111   | -                          | 2,137     | -      |
| Intesa Sanpaolo SEC SA <sup>(c)</sup>                            | Luxembourg             | Consolidated                 | 61                    | -               | 265   | 310                        | -         | 16     |
| Intesa Sanpaolo Securitisation Vehicle S.r.l. <sup>(c) (d)</sup> | Milan                  | Consolidated                 | 100                   | -               | 15    | 89                         | -         | 159    |
| Intesa Sec 3 S.r.l.  | Milan                  | Consolidated                 | (e)                   | (e)             | (e)   | (e)                        | (e)       | (e)    |
| Intesa Sec NPL S.p.A.  | Milan                  | Consolidated                 | (e)                   | (e)             | (e)   | (e)                        | (e)       | (e)    |
| Augusto S.r.l. <sup>(f)</sup>                                    | Milan                  | (g)                          | 2                     | -               | 2     | 14                         | -         | -      |
| Colombo S.r.l. <sup>(f)</sup>                                    | Milan                  | (g)                          | 23                    | -               | 7     | 7                          | 20        | 10     |
| Diocleziano S.r.l. <sup>(f)</sup>                                | Milan                  | (g)                          | 3                     | -               | 4     | 58                         | -         | -      |
| CR Firenze Mutui   | Milan                  | (g)                          | (h)                   | (h)             | (h)   | (h)                        | (h)       | (h)    |
| Trade Receivables Investment Vehicle S.a.r.l.                    | Conegliano Veneto (TV) | Not consolidated             | (h)                   | (h)             | (h)   | (h)                        | (h)       | (h)    |
| TIBET CMBS S.r.l.  | Luxembourg             | Not consolidated             | (h)                   | (h)             | (h)   | (h)                        | (h)       | (h)    |
| ISP OBG S.r.l. (former ISP Sec 4 S.r.l.) <sup>(i)</sup>          | Milan                  | Consolidated                 | 22,597                | -               | 3,503 | -                          | 25,726    | -      |
| ISP CB Ipotecario S.r.l. <sup>(i)</sup>                          | Milan                  | Consolidated                 | 16,921                | -               | 4,519 | -                          | 19,464    | -      |
| ISP CB Pubblico S.r.l. <sup>(i)</sup>                            | Milan                  | Consolidated                 | 4,453                 | 2,369           | 2,910 | -                          | 9,312     | -      |

<sup>(a)</sup> Consolidation method referring to the "prudential" scope.

<sup>(b)</sup> Figures gross of any intercompany relations.

<sup>(c)</sup> Self-securitisation vehicle described in Section 1.3 Banking Group - Liquidity Risk, Quantitative Information, paragraph 4.

<sup>(d)</sup> This vehicle (former Intesa Lease Sec S.r.l.) has been used to a transaction - completed at the end of 2014 - which entailed the sale without recourse of a portfolio of loans backed by guarantees and mortgages originated by the subsidiary CIB Hungary, also in currencies other than the euro, for a total of 343 million euro.

<sup>(e)</sup> For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.6 of these Notes to the consolidated financial statements.

<sup>(f)</sup> The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2015).

<sup>(g)</sup> Vehicle consolidated at equity.

<sup>(h)</sup> For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of these Notes to the consolidated financial statements.

<sup>(i)</sup> Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section E.4 in Part E of these Notes to the consolidated financial statements.

**C.4 Banking group – Not consolidated securitisation vehicles**

With reference to not consolidated structured entities used for securitisation transactions, the Group reports its residual investments in the vehicles Augusto, Colombo, Diocleziano and CR Firenze Mutui, consolidated at equity. The first three vehicles are entities used to implement securitisations of assets, primarily land and public works financing, of a company subject to joint control and sold in previous years.

The Group holds a residual investment in the vehicles. There are no agreements in place which could result in the obligation of the Group to provide financial support to said vehicles.

The vehicles Trade Receivables Investment Vehicle S.a.r.l. and Tibet CMBS S.r.l. are classified under unconsolidated securitisation vehicles.

**CR Firenze Mutui**

Securitisation of performing residential mortgages

(millions of euro)

|   |           |
|---|-----------|
| <b>A. Securitised assets</b>                                      | <b>24</b> |
| A.1 Loans   | 24        |
| A.2 Securities  | -         |
| A.3 Other assets  | -         |
| <b>B. Investments of the funds collected from loan management</b> | <b>5</b>  |
| B.1 Debt securities   | -         |
| B.2 Equities  | -         |
| B.3 Other   | 5         |
| <b>C. Securities issued</b>                                       | <b>23</b> |
| C.1 Class A   | 7         |
| C.2 Class B   | 8         |
| C.3 Class C   | 8         |
| C.4 Class D   | -         |
| <b>D. Financing received</b>                                      | <b>1</b>  |
| <b>E. Other liabilities</b>                                       | <b>5</b>  |
| <b>F. Interest expense on securities issued</b>                   | <b>-</b>  |
| <b>G. Commissions and fees</b>                                    | <b>5</b>  |
| G.1 Servicing   | 5         |
| G.2 Other services  | -         |
| <b>H. Other expenses</b>  | <b>2</b>  |
| <b>I. Interest income on securitised assets</b>                   | <b>1</b>  |
| <b>L. Other revenues</b>  | <b>6</b>  |

**Trade Receivables Investment Vehicle S.a.r.l.**

Securitisation of trade receivables

(millions of euro)

|                               |           |
|-------------------------------|-----------|
| <b>A. Assets</b>              | <b>78</b> |
| A.1 Receivables               | 73        |
| A.2 Other assets              | 5         |
| <b>B. Liabilities</b>         | <b>78</b> |
| B.1 Class A securities issued | 73        |
| B.2 Class B securities issued | -         |
| B.3 Other liabilities         | 5         |
| <b>C. Interest charge</b>     | <b>8</b>  |
| <b>D. Interest income</b>     | <b>8</b>  |

**Tibet CMBS**

Securitisation of residential mortgage loans

(millions of euro)

|   |            |
|---|------------|
| <b>A. Securitised assets</b>                                      | <b>197</b> |
| A.1 Loans   | 197        |
| A.2 Securities  | -          |
| A.3 Other assets  | -          |
| <b>B. Investments of the funds collected from loan management</b> | <b>11</b>  |
| B.1 Deposits with banks   | 10         |
| B.2 Credits to be recognised                                      | -          |
| B.3 Prepayments and accrued income                                | 1          |
| <b>C. Securities issued</b>                                       | <b>197</b> |
| C.1 Class A securities  | 102        |
| C.2 Class B securities  | 26         |
| C.3 Class C securities  | 10         |
| C.4 Class D securities  | 59         |
| C.5 Class X securities  | -          |
| <b>D. Financing received</b>                                      | <b>9</b>   |
| <b>E. Other liabilities</b>                                       | <b>2</b>   |
| E.1 Sundry payables   | -          |
| E.2 Accrued expenses and deferred income                          | 1          |
| E.3 Charges of losses on segregated assets                        | -          |
| E.4 Gains/losses on segregated assets                             | 1          |
| <b>F. Interest expense on securities issued</b>                   | <b>8</b>   |
| <b>G. Commissions and fees</b>                                    | <b>-</b>   |
| G.1 Servicing   | -          |
| G.2 Securities placement commissions                              | -          |
| <b>H. Other expenses</b>  | <b>-</b>   |
| H.1 Interest expense  | -          |
| H.2 Forecast losses on loans                                      | -          |
| H.3 Additional return   | -          |
| <b>I. Interest income on securitised assets</b>                   | <b>8</b>   |
| <b>L. Other revenues</b>  | <b>-</b>   |
| L.1 Interest income   | -          |

**C.5. Banking Group - Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle**

| SERVICER        | SPECIAL PURPOSE VEHICLES | SECURITISED ASSETS<br>(period-end figure)<br>(millions of euro) |            | COLLECTIONS OF LOANS<br>IN THE YEAR<br>(millions of euro) |            | PERCENTAGE OF REIMBURSED SECURITIES<br>(period-end figure) |                     |                             |                     |                             |                     |
|-----------------|--------------------------|---|------------|---|------------|--|---------------------|-----------------------------|---------------------|-----------------------------|---------------------|
|                 |                          | Non-<br>performing  | Performing | Non-<br>performing  | Performing | Senior   |                     | Mezzanine                   |                     | Junior                      |                     |
|                 |                          |   |            |   |            | Non-<br>performing<br>loans                                | Performing<br>loans | Non-<br>performing<br>loans | Performing<br>loans | Non-<br>performing<br>loans | Performing<br>loans |
| Intesa Sanpaolo | Intesa Sec               | 52  | 48         | 2   | 46         | 0%   | 49%                 | 0%                          | 0%                  | 0%                          | 0%                  |
| Intesa Sanpaolo | Intesa Sec 3             | 32  | 314        | 8   | 128        | 100%   | 0%                  | 0%                          | 88%                 | 0%                          | 0%                  |
| Italfondinario  | Intesa Sec NPL           | 12  | -          | 4   | -          | 100%   | 0%                  | 46%                         | 0%                  | 0%                          | 0%                  |
| CR Firenze      | Cr Firenze Mutui         | 1   | 23         | 1   | 6          | 0%   | 60%                 | 0%                          | 0%                  | 0%                          | 0%                  |
| <b>Total</b>    |                          | <b>97</b>   | <b>385</b> | <b>15</b>   | <b>180</b> |  |                     |                             |                     |                             |                     |

**C.6. Banking Group – Consolidated securitisation vehicles****Intesa SEC 3**

Securitisation of performing residential mortgage loans

(millions of euro)

|   |            |
|---|------------|
| <b>A. Securitised assets</b>                                      | <b>347</b> |
| A.1 Loans   | 346        |
| A.2 Securities  | -          |
| A.3 Other assets  | 1          |
| <b>B. Investments of the funds collected from loan management</b> | <b>137</b> |
| B.1 Debt securities   | -          |
| B.2 Equities  | -          |
| B.3 Liquidity   | 137        |
| <b>C. Securities issued</b>                                       | <b>338</b> |
| C.1 Class A1  | -          |
| C.2 Class A2  | -          |
| C.3 Class A3  | 194        |
| C.4 Class B   | 72         |
| C.5 Class C   | 72         |
| <b>D. Financing received</b>                                      | <b>49</b>  |
| <b>E. Other liabilities</b>                                       | <b>101</b> |
| E.1 Amounts due for services rendered                             | -          |
| E.2 Due to customers  | -          |
| E.3 Due to Parent Company   | 52         |
| E.4 Due to securitisation vehicle                                 | -          |
| E.5 "Additional return" allowance                                 | 48         |
| E.6 Accrued expenses – interest on securities issued              | -          |
| E.7 Other accrued expenses  | 1          |
| <b>F. Interest expense on securities issued</b>                   | <b>-</b>   |
| <b>G. Commissions and fees</b>                                    | <b>1</b>   |
| G.1 Servicing   | 1          |
| G.2 Securities placement commissions                              | -          |
| <b>H. Other expenses</b>  | <b>9</b>   |
| H.1 Interest expense  | 9          |
| H.2 Forecasted losses on loans                                    | -          |
| H.4 Additional return   | -          |
| <b>I. Interest income on securitised assets</b>                   | <b>-</b>   |
| <b>L. Other revenues</b>  | <b>3</b>   |
| L.1 Interest income   | 3          |

**Intesa SEC NPL**

Securitisation of non performing mortgage loans

(millions of euro)

|   |            |
|---|------------|
| <b>A. Securitised assets</b>                                      | <b>14</b>  |
| A.1 Loans   | 12         |
| A.2 Securities  | -          |
| A.3 Other assets  | 2          |
| <b>B. Investments of the funds collected from loan management</b> | <b>2</b>   |
| B.1 Debt securities   | -          |
| B.2 Equities  | 2          |
| B.3 Liquidity   | -          |
| <b>C. Securities issued</b>                                       | <b>155</b> |
| C.1 Class A   | -          |
| C.2 Class B   | -          |
| C.3 Class C   | -          |
| C.4 Class D   | 114        |
| C.5 Class E   | 41         |
| <b>D. Financing received</b>                                      | <b>6</b>   |
| <b>E. Other liabilities</b>                                       | <b>71</b>  |
| E.1 Amounts due for services rendered                             | 1          |
| E.2 Accrued expenses – interest on securities issued              | -          |
| E.3 Other accrued expenses  | 70         |
| E.4 Floor option premium received                                 | -          |
| <b>F. Interest expense on securities issued</b>                   | <b>-</b>   |
| <b>G. Commissions and fees</b>                                    | <b>1</b>   |
| G.1 Servicing   | 1          |
| G.2 Other services  | -          |
| <b>H. Other expenses</b>  | <b>23</b>  |
| H.1 Interest expense  | 1          |
| H.2 Other expenses  | 1          |
| H.3 Losses on penalty interest                                    | -          |
| H.4 Losses on loans   | 21         |
| H.5 Forecasted losses on loans                                    | -          |
| <b>I. Interest income on securitised assets</b>                   | <b>6</b>   |
| <b>L. Other revenues</b>  | <b>17</b>  |
| L.1 Interest income   | -          |
| L.2 Recovery of legal expenses                                    | 16         |
| L.3 Write-backs   | 1          |
| L.4 Other income  | -          |

**D. INFORMATION ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)**

In line with IFRS 12, the Group considers structured entities to be entities set up to achieve a narrow, well-defined objective, defined through contractual arrangements which often impose strict restrictions on decision-making powers of the entity's management bodies. In that sense, structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, as they refer to administrative tasks, while the relevant operating activities are directed by means of contractual arrangements agreed on at the time of structuring the structured entity, which are difficult to modify. The characteristics of a structured entity include:

- limited activities;
- a narrow and well-defined objective;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The structured entities through which the Group operates are mainly Special Purpose Entities (SPEs) and UCIs.

**D.1 Consolidated structured entities**

There are no structured entities consolidated in the accounts other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

**D.2 Structured entities not consolidated in the accounts****D.2.1 Structured entities consolidated for regulatory purposes**

There are no structured entities that are not consolidated in the accounts but are consolidated for regulatory purposes.

**D.2.2 Other structured entities not consolidated for regulatory purposes****Qualitative information**

As indicated above, the Group's operations through structured entities are also carried out through SPEs. To that end, SPEs are understood as legal entities established to pursue a specific, well-defined and limited objective:

- to raise funds on the market by issuing specific financial instruments;
- to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
- to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPEs which permit the complete reimbursement of the debt.

For the purposes of this section, operations carried out through securitisation vehicles, that is vehicles established to acquire, sell and manage specific assets, separating them from the financial statements of the Originator, for the purpose of carrying out securitisations of assets or for acquiring funding through self-securitisations and issues of Covered Bonds (CB), shall not be relevant. For that types of vehicle companies, reference should be made to section "C. Securitisations" and section "E. Sales" of Part E of the Notes to the consolidated financial statements.

In some cases, the Group sponsors the SPE by structuring the transaction to pursue specific objectives, such as raising funds, securitising its own assets also for the purposes of funding or offering financial services to customers.

In detail, the Group's operations are carried out through the following types of structured entities represented by special purpose entities (SPEs).

**Project Financing SPEs**

These are financing instruments for capital intensive projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the "entrepreneurial" idea. The financing of the initiative is based on the project's capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.

The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

**Asset Backed SPEs**

These are transactions aimed at acquisition/construction/management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate development or disposal plan). Generally, the assets are also the collateral for the financing disbursed to the vehicle.

The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without any direct equity investments or any other interests which might lead to presume the role of sponsor. The risk undertaken is always a normal credit risk and the benefits are represented by the return on the financing granted.

**Leveraged & Acquisition Finance SPEs**

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

These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

The Intesa Sanpaolo Group also has investments in/exposures to structured entities represented by UCIs.

The main cases include the Group's investments in several funds managed by IMI Fondi Chiusi SGR, which sponsors and manages closed-end private equity funds, in the form of UCIs reserved to qualified operators, specialised in investment in Small and Medium-Sized Enterprises, operating in two complementary business lines: Private Equity and Venture and Seed Capital.

In the area of Private Equity, there are several operating funds dedicated to investment in SMEs throughout the country and in specific geographical areas.

In the area of Venture and Seed Capital, the sponsored funds operate in the following areas:

- participation in new business initiatives characterised by sound technological profiles;
- participation in projects to introduce process or product innovation using digital technology;
- investments in businesses with high forecast growth rates and cutting-edge technological development, both through direct investments in Seed Capital (financing the assessment and development of a business idea prior to the start-up phase) and indirect investments in UCI units with an investment policy matching the Fund's objectives or in business incubators/accelerators.

Investments in these types of funds derive from the Group's willingness to subscribe unplaced units offered during the placement to qualified investors, to ensure that the initiatives are successful, in any event, while maintaining suitable separation of management in organisational terms.

The closed-end funds in question finance their activities exclusively using the capital that investors committed to paying in at the time of placement, without using any types of debt.

The Group made further investments in UCIs through the subsidiary Eurizon Capital SGR, in line with the financial portfolio management policies issued by the company, in agreement with the Intesa Sanpaolo Group Guidelines. In detail, the asset management company has both temporary and structural available funds deriving from company equity that is not permanently invested in equity investments or other fixed assets, and from the ordinary cash flows. Based on that set out in the guidelines for managing the financial portfolio, as part of Treasury management activities, structural and temporarily available funds linked to the trend in short-term and on demand cash flows make up the liquidity portfolio net of the amount held in current accounts or invested in term deposits. In relation to the activities carried out by the asset management company and the characteristics of the available funds in question, excess liquidity must be invested in assets with moderate risk that can be easily liquidated. That portfolio includes investments in short-term money market and bond funds, both specialising in the Eurozone, established and/or managed by Eurizon Capital SGR or by its subsidiaries. The Group's investments in UCIs managed by a subsidiary do not prejudice the operational autonomy and capacity of the asset management company to act in the exclusive interest of investors, considering the specific provisions set out in sector regulations and by the Supervisory Authorities.

The exposures to UCIs also include the investments in units of real estate funds deriving from transactions to contribute portions of the Group's real estate portfolio.

The investments in UCIs also include the amounts held in the Atlante Fund, an alternative investment fund created with the dual purpose of investing in banks with inadequate capital endowment and that, therefore, realise, on the request of the Supervisory Authorities, capital strengthening actions via capital increases and non-performing loans value enhancement transactions.

The Intesa Sanpaolo Group also invests in hedge funds. For more information, reference is made to the specific section in Part E of the Notes to the consolidated financial statements.

**Quantitative information**

| Captions / Type of structured entity | Accounting portfolios under assets                                | Total assets (A) | Accounting portfolios under liabilities | Total liabilities (B) | NET BOOK VALUE (C = A-B) | (millions of euro)                   |  |
|--------------------------------------|---|------------------|---|-----------------------|--------------------------|--------------------------------------|--|
|                                      |   |                  |   |                       |                          | Maximum exposure to risk of loss (D) | Difference between exposure to risk of loss and book value (E = D - C) |
| <b>1. Special purpose vehicle</b>    |   | <b>4,211</b>     |   | <b>36</b>             | <b>4,175</b>             | <b>6,420</b>                         | <b>2,245</b>   |
|                                      | Financial assets held for trading                                 | 44               | Due to customers                        | 36                    |                          |                                      |  |
|                                      | Financial assets designated at fair value through profit and loss | -                | Financial liabilities held for trading  | -                     |                          |                                      |  |
|                                      | Financial assets available for sale                               | 20               |   | -                     |                          |                                      |  |
|                                      | Loans to customers  | 4,147            |   | -                     |                          |                                      |  |
| <b>2. UCI</b>                        |   | <b>2,753</b>     |   | <b>85</b>             | <b>2,668</b>             | <b>3,315</b>                         | <b>647</b>   |
|                                      | Financial assets held for trading                                 | 586              | Due to customers                        | 74                    |                          |                                      |  |
|                                      | Financial assets designated at fair value through profit and loss | 119              | Financial liabilities held for trading  | 11                    |                          |                                      |  |
|                                      | Financial assets available for sale                               | 1,377            |   | -                     |                          |                                      |  |
|                                      | Loans to customers  | 671              |   | -                     |                          |                                      |  |

The maximum exposure to risk, representing the maximum exposure of the Group to losses deriving from its interests in structured entities, is generally equal to the net book value, to which, where applicable, several types of off-balance sheet exposures are

added (ex. committed credit lines or guarantees given). The net book value equals the exposure in the financial statements net of value adjustments recorded during the current and previous years.

For UCIs, the maximum risk exposure also includes the Group's commitments, not yet called up by the fund, to subscribe additional units.

The table below shows the amount and type of revenues earned over the year by sponsored structured entities for which no exposures or equity investments were posted in the financial statements at the reporting date. Specifically, these are revenues recognised by the Group in the form of fees deriving from the management and placement of the UCIs sponsored and managed by the Group's asset management companies and placed with customers. The fees in question are charged by the asset management company to the funds managed and partly reversed to the distribution network for the placement service.

The Group had no interests in the funds in question at the reporting date.

| Type of structured entity sponsored | (millions of euro) |                      |           |               |       |
|-------------------------------------|--------------------|----------------------|-----------|---------------|-------|
|                                     | Interest           | Fees and commissions | Dividends | Other revenue | TOTAL |
| UCI                                 | -                  | 1,809                | -         | -35           | 1,774 |
| Special-purpose vehicles            | 140                | 27                   | -         | 203           | 370   |



**E. SALES****A. Financial assets sold not fully derecognised****Qualitative information**

For a description of the operations shown in tables E.1, E.2 and E.3 below, reference is made to the information shown below the relevant tables.

Conversely, for operations in debt securities against medium/long-term repurchase agreements, reference is made to the information in Part B of the Notes to the consolidated financial statements.

**Quantitative information****E.1. Banking group - Financial assets sold not derecognised: book value and full value**

| Type / Portfolio  | CASH ASSETS     |          |          |            | DERIVATIVES | 31.12.2016    |                                | 31.12.2015    |                                |
|---|-----------------|----------|----------|------------|-------------|---------------|--------------------------------|---------------|--------------------------------|
|   | Debt securities | Equities | UCI      | Loans      |             | Total         | of which non-performing assets | Total         | of which non-performing assets |
| <b>FINANCIAL ASSETS HELD FOR TRADING</b>                | <b>4,758</b>    | -        | -        | -          | -           | <b>4,758</b>  | -                              | <b>6,080</b>  | -                              |
| - Financial assets sold totally recognised (book value) | 4,758           | -        | -        | -          | -           | 4,758         | -                              | 6,080         | -                              |
| - Financial assets sold partly recognised (book value)  | -               | -        | -        | -          | -           | -             | -                              | -             | -                              |
| - Financial assets sold partly recognised (full value)  | -               | -        | -        | -          | -           | -             | -                              | -             | -                              |
| <b>FINANCIAL ASSETS MEASURED AT FAIR VALUE</b>          | -               | -        | -        | -          | <b>X</b>    | -             | -                              | -             | -                              |
| - Financial assets sold totally recognised (book value) | -               | -        | -        | -          | X           | -             | -                              | -             | -                              |
| - Financial assets sold partly recognised (book value)  | -               | -        | -        | -          | X           | -             | -                              | -             | -                              |
| - Financial assets sold partly recognised (full value)  | -               | -        | -        | -          | X           | -             | -                              | -             | -                              |
| <b>FINANCIAL ASSETS AVAILABLE FOR SALE</b>              | <b>19,091</b>   | -        | -        | -          | <b>X</b>    | <b>19,091</b> | -                              | <b>10,961</b> | -                              |
| - Financial assets sold totally recognised (book value) | 19,081          | -        | -        | -          | X           | 19,081        | -                              | 10,961        | -                              |
| - Financial assets sold partly recognised (book value)  | 5               | -        | -        | -          | X           | 5             | -                              | -             | -                              |
| - Financial assets sold partly recognised (full value)  | 5               | -        | -        | -          | X           | 5             | -                              | -             | -                              |
| <b>INVESTMENTS HELD TO MATURITY</b>                     | -               | <b>X</b> | <b>X</b> | -          | <b>X</b>    | -             | -                              | -             | -                              |
| - Financial assets sold totally recognised (book value) | -               | X        | X        | -          | X           | -             | -                              | -             | -                              |
| - Financial assets sold partly recognised (book value)  | -               | X        | X        | -          | X           | -             | -                              | -             | -                              |
| - Financial assets sold partly recognised (full value)  | -               | X        | X        | -          | X           | -             | -                              | -             | -                              |
| <b>DUE FROM BANKS</b>                                   | -               | <b>X</b> | <b>X</b> | -          | <b>X</b>    | -             | -                              | -             | -                              |
| - Financial assets sold totally recognised (book value) | -               | X        | X        | -          | X           | -             | -                              | -             | -                              |
| - Financial assets sold partly recognised (book value)  | -               | X        | X        | -          | X           | -             | -                              | -             | -                              |
| - Financial assets sold partly recognised (full value)  | -               | X        | X        | -          | X           | -             | -                              | -             | -                              |
| <b>LOANS TO CUSTOMERS</b>                               | <b>826</b>      | <b>X</b> | <b>X</b> | <b>710</b> | <b>X</b>    | <b>1,536</b>  | <b>397</b>                     | <b>2,082</b>  | <b>140</b>                     |
| - Financial assets sold totally recognised (book value) | 826             | X        | X        | 710        | X           | 1,536         | 397                            | 2,082         | 140                            |
| - Financial assets sold partly recognised (book value)  | -               | X        | X        | -          | X           | -             | -                              | -             | -                              |
| - Financial assets sold partly recognised (full value)  | -               | X        | X        | -          | X           | -             | -                              | -             | -                              |
| <b>Total 31.12.2016</b>                                 | <b>24,675</b>   | -        | -        | <b>710</b> | -           | <b>25,385</b> | <b>397</b>                     | <b>X</b>      | <b>X</b>                       |
| <b>Total 31.12.2015</b>                                 | <b>18,550</b>   | -        | -        | <b>573</b> | -           | <b>X</b>      | <b>X</b>                       | <b>19,123</b> | <b>140</b>                     |

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

Operations mainly refer to the use of securities held for short and medium/long-term repurchase agreements and loans to customers assigned as part of the SEC 3 and K-Equity securitisations.

**E.2. Banking group - Financial liabilities corresponding to financial assets sold not derecognised: book value**

(millions of euro)

|   | DUE TO CUSTOMERS |                   | DUE TO BANKS     |                   | SECURITIES ISSUED |                   | Total<br>31.12.2016 | Total<br>31.12.2015 |
|---|------------------|-------------------|------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
|   | Fully recognised | Partly recognised | Fully recognised | Partly recognised | Fully recognised  | Partly recognised |                     |                     |
| Financial assets held for trading       | 3,112            | -                 | 911              | -                 | -                 | -                 | 4,023               | 6,570               |
| Financial assets measured at fair value | -                | -                 | -                | -                 | -                 | -                 | -                   | -                   |
| Financial assets available for sale     | 13,815           | -                 | 5,269            | -                 | -                 | -                 | 19,084              | 10,802              |
| Investments held to maturity            | -                | -                 | -                | -                 | -                 | -                 | -                   | -                   |
| Due from banks                          | -                | -                 | -                | -                 | -                 | -                 | -                   | 189                 |
| Loans to customers                      | 21               | -                 | 771              | -                 | 363               | -                 | 1,155               | 1,570               |
| <b>Total</b>                            | <b>16,948</b>    | <b>-</b>          | <b>6,951</b>     | <b>-</b>          | <b>363</b>        | <b>-</b>          | <b>24,262</b>       | <b>19,131</b>       |

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption. The financial liabilities corresponding to financial assets sold not derecognised (shown in the columns Due to Customers and Due to Banks) mainly relate to repurchase agreements for securities recorded under assets. On the other hand, in accordance with the regulations, the liabilities issued as part of the related securitisations by the SEC3 vehicle (included within the scope of consolidation) and those relating to the K-Equity securitisation, are shown under securities issued. However, they do not include the repurchase agreements relating to securities received under reverse repurchase agreements.

**E.3. Banking group - Sales with liabilities having recourse exclusively on the assets sold: fair value**

(millions of euro)

| Type / Portfolio                 | FINANCIAL ASSETS HELD FOR TRADING |                   | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS |                   | FINANCIAL ASSETS AVAILABLE FOR SALE |                   | INVESTMENTS HELD TO MATURITY (fair value) |                   | DUE FROM BANKS (fair value) |                   | LOANS TO CUSTOMERS (fair value) |                   | Total<br>31.12.2016 | Total<br>31.12.2015 |
|----------------------------------|-----------------------------------|-------------------|---|-------------------|-------------------------------------|-------------------|---|-------------------|-----------------------------|-------------------|---------------------------------|-------------------|---------------------|---------------------|
|                                  | Financial Assets sold:            |                   | Financial Assets sold:  |                   | Financial Assets sold:              |                   | Financial Assets sold:                    |                   | Financial Assets sold:      |                   | Financial Assets sold:          |                   |                     |                     |
|                                  | fully recognised                  | partly recognised | fully recognised  | partly recognised | fully recognised                    | partly recognised | fully recognised                          | partly recognised | fully recognised            | partly recognised | fully recognised                | partly recognised |                     |                     |
| <b>A. Cash assets</b>            | <b>4,758</b>                      | -                 | -   | -                 | <b>19,081</b>                       | <b>5</b>          | -   | -                 | -                           | -                 | <b>1,567</b>                    | -                 | <b>25,411</b>       | <b>18,959</b>       |
| 1. Debt securities               | 4,758                             | -                 | -   | -                 | 19,081                              | 5                 | -   | -                 | -                           | -                 | 845                             | -                 | 24,689              | 18,367              |
| 2. Equities                      | -                                 | -                 | -   | -                 | -                                   | -                 | X   | X                 | X                           | X                 | X                               | X                 | -                   | -                   |
| 3. UCI                           | -                                 | -                 | -   | -                 | -                                   | -                 | X   | X                 | X                           | X                 | X                               | X                 | -                   | -                   |
| 4. Loans                         | -                                 | -                 | -   | -                 | -                                   | -                 | -   | -                 | -                           | -                 | 722                             | -                 | 722                 | 592                 |
| <b>B. Derivatives</b>            | -                                 | -                 | X   | X                 | X                                   | X                 | X   | X                 | X                           | X                 | X                               | X                 | -                   | -                   |
| <b>Total Assets</b>              | <b>4,758</b>                      | -                 | -   | -                 | <b>19,081</b>                       | <b>5</b>          | -   | -                 | -                           | -                 | <b>1,567</b>                    | -                 | <b>25,411</b>       | <b>18,959</b>       |
| <b>C. Associated liabilities</b> | <b>4,023</b>                      | -                 | -   | -                 | <b>19,096</b>                       | -                 | -   | -                 | -                           | -                 | <b>1,146</b>                    | -                 | <b>X</b>            | <b>X</b>            |
| 1. Due to customers              | 3,112                             | -                 | -   | -                 | 13,815                              | -                 | -   | -                 | -                           | -                 | 21                              | -                 | X                   | X                   |
| 2. Due to banks                  | 911                               | -                 | -   | -                 | 5,281                               | -                 | -   | -                 | -                           | -                 | 762                             | -                 | X                   | X                   |
| 3. Securities issued             | -                                 | -                 | -   | -                 | -                                   | -                 | -   | -                 | -                           | -                 | 363                             | -                 | X                   | X                   |
| <b>Total Liabilities</b>         | <b>4,023</b>                      | -                 | -   | -                 | <b>19,096</b>                       | -                 | -   | -                 | -                           | -                 | <b>1,146</b>                    | -                 | <b>24,265</b>       | <b>19,128</b>       |
| <b>Net Value 2016</b>            | <b>735</b>                        | -                 | -   | -                 | <b>-15</b>                          | <b>5</b>          | -   | -                 | -                           | -                 | <b>421</b>                      | -                 | <b>1,146</b>        | <b>X</b>            |
| <b>Net Value 2015</b>            | <b>-490</b>                       | -                 | -   | -                 | <b>146</b>                          | -                 | -   | -                 | <b>-189</b>                 | -                 | <b>364</b>                      | -                 | <b>X</b>            | <b>-169</b>         |

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

**B. Financial assets sold fully derecognised with recognition of continuing involvement**

This type of exposure did not exist as at 31 December 2016.

**E.4. Banking group - Covered bond transactions**

The Intesa Sanpaolo Group uses Covered Bonds (CB) to prudently establish eligible assets with Central Banks, or as a type of funding, by placing Covered Bonds on the market.

Transactions are structured by selling assets (loans, mortgages) to a vehicle, with the simultaneous granting of a subordinated loan for payment of the sale price. In the Intesa Sanpaolo Group, in this phase the seller is always the same entity as the lender. Securities are issued by the Parent Company, relating to assets sold to the vehicle by other Group companies.

In accordance with IAS 39, these transactions do not represent sales without recourse for accounting purposes, as the Group companies involved maintained all the risks and rewards connected to the loans sold. Therefore, when recording the transactions, Bank of Italy provisions are applied, according to which, where the originator and the lender are the same entity, the separate assets of the vehicle, provided as security for the issues of Covered Bonds, are consolidated in the separate financial statements.

Over time, the Intesa Sanpaolo Group has carried out three Covered Bond issue programmes.

The first programme, launched at the end of July 2009, had an amount of 20 billion euro (the original amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. In detail, performing loans and securities to the public sector with a total original nominal value of around 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro) were sold, the last of which (amounting to around 1 billion euro) in April 2013. As at 31 December 2016 loans and securities sold to the vehicle had a book value of 6.6 billion euro.

Against these sales, Covered Bonds were issued over time for a total nominal value of 22.6 billion euro (of which 3 billion euro relating to a covered bond which matured in the fourth quarter of 2011, 12 billion euro relating to issues acquired by the Parent Company and cancelled or subject to early redemption and 3.2 billion euro relating to an exchange offer to investors during 2012). During 2016:

- the early repayment of the eighth series of CB was carried out, for a nominal value of 2.2 billion euro which, as it was fully subscribed by the Parent Company Intesa Sanpaolo, was already cancelled from the accounts;

- the early repayment of the ninth series of CB was carried out, for a nominal value of 1 billion euro which, as it was fully subscribed by the Parent Company Intesa Sanpaolo, was already cancelled from the accounts;
- The eleventh series of Covered Bonds was issued, for a nominal value of 1.1 billion euro. The notes, with floating rate and 2-year maturity, were fully subscribed by the Parent Company. The bonds are listed on the Luxembourg Stock Exchange with Moody's A2 rating, and are eligible for Eurosystem transactions;
- The twelfth series of Covered Bonds was issued, for a nominal value of 1.3 billion euro. The notes, with floating rate and 7-year maturity, were fully subscribed by the Parent Company. The bonds are listed on the Luxembourg Stock Exchange with Moody's A1 rating, and are eligible for Eurosystem transactions;

Therefore, as at 31 December 2016 a total nominal amount of 7.6 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Pubblico was outstanding, of which 7.3 billion repurchased and 0.3 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, government bonds and Adriano Finance S.r.l. bonds originated by Intesa Sanpaolo were transferred with a total original nominal value of 24.8 billion euro (net of retrocessions). During 2016, Intesa Sanpaolo transferred residential mortgage loans to the vehicle in May, for a total original nominal value of approximately 3.7 billion euro.

As at 31 December 2016 loans sold to the vehicle had a book value of 21.2 billion euro.

Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 27.7 billion euro (of which 1 billion euro relating to a covered bond that reached maturity in the fourth quarter of 2015 and 8.2 billion euro subject to early redemption in 2012).

During 2016:

- the second series of CB reached maturity, with a nominal value of 2.5 billion euro;
- in March, series 19 of CB was issued in the form of a fixed-rate bond (0.625%) for a nominal value of 1.25 billion euro, with a 7-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa2 rating. The bond was placed with institutional investors;
- in September, series 20 of CB was issued in the form of a floating-rate bond for a nominal value of 1.25 billion euro, with a 4-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa2 rating. The bond was subscribed by Intesa Sanpaolo for Eurosystem refinancing transactions;
- in November, series 21 of CB was issued in the form of a floating-rate bond for a nominal value of 2.2 billion euro, with a 8-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa2 rating. The bond was subscribed by Intesa Sanpaolo for Eurosystem refinancing transactions.

As at 31 December 2016, a total nominal amount of 16 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Ipotecario was outstanding, of which 12.6 billion placed with third party investors and 3.4 billion subscribed by Intesa Sanpaolo.

In 2012 the new multi-originator CB issue programme was launched, secured by mortgages totalling 30 billion euro. Aimed at retained issues, the programme provides for the issue of unrated securities which thus benefit from the rating of the issuer Intesa Sanpaolo. The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, Banca dell'Adriatico, which was merged by incorporation into Intesa Sanpaolo in May 2016, Cassa di Risparmio in Bologna and Banca CR Firenze. In particular:

- Intesa Sanpaolo sold mortgages to the vehicle with a total original nominal value of 15.4 billion euro, of which 2.4 billion euro sold in June 2016;
- Banco di Napoli sold mortgages to the vehicle for a total original nominal value of 9.4 billion euro, of which 1.1 billion euro sold in March 2016;
- Cassa di Risparmio del Veneto sold mortgages to the vehicle for a total original nominal value of 3.9 billion euro, of which 0.4 billion euro sold in June 2016;
- The former Banca dell'Adriatico sold mortgages to the vehicle with an original nominal value of 1.6 billion euro. No sales were made during 2016; in May 2016, the bank was merged by incorporation into Intesa Sanpaolo;
- Cassa di Risparmio in Bologna sold mortgages to the vehicle for a total original nominal value of 1.9 billion euro, of which 0.7 billion euro sold in June 2016;
- Cassa di Risparmio del Veneto sold mortgages to the vehicle for an original nominal value of 2.2 billion euro, of which 0.6 billion euro sold in June 2016;

As at 31 December 2016 loans sold to the vehicle had a book value of 22.6 billion euro.

Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 46.9 billion euro (of which 25 billion euro subject to early redemption and reimbursed). During 2016:

- in May, the seventh series of CB reached maturity, with a value of 1.375 billion euro;
- in August, the eighth series of CB reached maturity, with a value of 1.375 billion euro;
- in June, the 20th series of CB was issued with a nominal value of 1.6 billion euro. This is a 7-year, floating-rate bond;
- in September, the 21st series of CB was issued with a nominal value of 1.750 billion euro. This is an 8-year, floating-rate bond;
- in September, the 22nd series of CB was issued with a nominal value of 1.750 billion euro. This is a 9-year, floating-rate bond.

All securities issued as part of the multi-originator programme are listed on the Luxembourg Stock Exchange and, as noted above, benefit from the rating of the issuer Intesa Sanpaolo. The characteristics of the issues make them eligible for Eurosystem refinancing transactions.

As at 31 December 2016 a total nominal amount of 21.9 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP OBG was outstanding, fully repurchased by Intesa Sanpaolo.

The key figures for ISP CB Pubblico, ISP CB Ipotecario and ISP OBG as at 31 December 2016 are shown in the table below.

| COVERED BONDS     |  | VEHICLE DATA    |   | SUBORDINATED<br>LOAN <sup>(1)</sup><br>amount | COVERED BONDS ISSUED                |                                 |
|-------------------|--|-----------------|---|---|-------------------------------------|---------------------------------|
|                   |  | Total<br>assets | Cumulated write-<br>downs on<br>securitised |   | Nominal<br>amount<br><sup>(2)</sup> | Book<br>value<br><sup>(2)</sup> |
| ISP CB PUBBLICO   | Performing public sector<br>loans and securities | 9,731           | 6   | 9,312   | 284                                 | 314                             |
| ISP CB IPOTECARIO | RMBs (Performing<br>residential mortgages)       | 21,440          | 100   | 19,464  | 12,576                              | 13,651                          |
| ISP OBG           | Performing<br>mortgages                          | 26,100          | 223   | 11,564  | -                                   | -                               |

<sup>(1)</sup> This caption includes the subordinated loan granted by the originator for the purchase of the portfolio lodged as collateral for the CB. In accordance with the IFRS, this loan has been recognised in the separate financial statements of the originator and the consolidated financial statements of the Intesa Sanpaolo Group. The figure reported also includes the amount of the subordinated loans disbursed during the year, with respect to which no issues have yet been made.

<sup>(2)</sup> The nominal amount and the book value shown in the table are to be considered net of securities repurchased.

In addition to this type of Covered Bonds, provided for by Italian law (Law 80/2005), there are some mortgage bonds issued by the Slovak investee VUB. These are securities whose nominal value and returns are guaranteed by mortgage loans, i.e. loans with maturity of four to thirty years, backed by a pledge on property located in the Slovak Republic, including property under construction, at least 90% of the value of which is financed by the issue of these securities.

Each issue has specific coverage, and the entire nominal value of the issue, including interest, must be backed by mortgages on local properties on at least 90% of their nominal value, and the remaining 10% by liquidity deposits with the National Bank of Slovakia or with other resident banks, by government securities or other mortgage bonds.

As at 31 December 2016 the subsidiary VUB had issued 1.8 billion euro in this type of securities, booked in the financial statements at a value of approximately 1.7 billion euro.

#### **F. BANKING GROUP - MODELS FOR THE MEASUREMENT OF CREDIT RISK**

As at 31 December 2016, the expected loss on core banks (Basel 3 validation area) amounted to 0.52% of disbursed loans, a 0.02 percentage point decrease on the figure as at the end of 2015. The economic capital corresponded to 3.9% of disbursed loans, an increase of 0.2% compared to the figure in 2015.

In particular, the improvement in the expected loss was due to management action aimed at shifting the composition of the portfolio towards the best exposures and reclassifications to non-performing loans, which contribute to eliminating customers with worse ratings from the performing loans portfolio. These effects offset the downgrading of the ratings due to the continuing difficult economic scenario. The increase in economic capital is justified by the effect of concentration risk, caused by the increase in use.

The internal rating, LGD and EAD models are subject to internal validation process by the Internal Validation Sub-Department and a level three control by the Internal Auditing Department. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the existence of the compliance requirements.

## 1.2. BANKING GROUP - MARKET RISKS

As already highlighted in the introduction, the Intesa Sanpaolo Group policies relating to financial risk acceptance are defined by the Parent Company's Management Bodies, with the support of specific Committees, including the Group Risk Governance Committee and Group Financial Risks Committee.

The Group Risk Governance Committee is in charge, beside other functions, of proposing the Group risk management strategies and policies to the Statutory bodies, of ensuring compliance with the guidelines and indications of the Supervisory Authority concerning risk governance and of assessing the adequacy of the Group's economic and regulatory capital. The Committee coordinates the activities of specific Technical Committees, monitoring financial and operational risks, and is chaired by the Managing Director and CEO.

The Group Financial Risks Committee, chaired by the Chief Risk Officer and the Chief Financial Officer, is responsible for setting out the methodological and measurement guidelines for financial risks, establishing the operational limits and assessing the risk profile of the Group and its main operational units. The Committee also sets out the strategies for the management of the banking book to be submitted to the competent Bodies and establishes the guidelines on liquidity, interest rate and foreign exchange risk. The Committee operates on the basis of the operating and functional powers delegated by the Statutory bodies and coordination of the Group Risk Governance Committee.

The Group's overall financial risk profile and the eventual necessary changes are examined periodically by the Group Financial Risks Committee.

The Parent Company's Financial and Market Risks Department is responsible for the development of corporate risk measurement and monitoring methodologies as well as for the proposals on the Bank's and the Group's system of operating limits. It is also responsible in outsourcing for the risk measurement for certain operating units on the basis of specific service contracts.

The table below shows the items of the consolidated Balance Sheet that are subject to market risks, showing the positions for which VaR is the main risk measurement metrics and those for which the risks are monitored with other metrics. The latter mostly include the sensitivity analysis to the different risk factors (interest rate, credit spread, etc.).

|  | BOOK VALUE<br>(supervisory scope) | MAIN RISK MEASUREMENT METRICS |                | Risk factors measured using metrics included under Other |
|--|-----------------------------------|-------------------------------|----------------|--|
|  |                                   | VaR                           | Other          |  |
| (millions of euro)   |                                   |                               |                |  |
| <b>Assets subject to market risk</b>                                   | <b>546,474</b>                    | <b>105,061</b>                | <b>441,413</b> |  |
| Financial assets held for trading                                      | 43,124                            | 42,255                        | 869            | Interest rate risk, credit spread, equity                |
| Financial assets designated at fair value through profit and loss      | 1,372                             | 972                           | 400            | Interest rate risk, credit spread                        |
| Financial assets available for sale                                    | 67,412                            | 61,704                        | 5,708          | Interest rate risk, equity risk                          |
| Financial assets held to maturity                                      | 1,241                             | -                             | 1,241          | Interest rate risk                                       |
| Due from banks   | 52,535                            | -                             | 52,535         | Interest rate risk                                       |
| Loans to customers   | 368,270                           | -                             | 368,270        | Interest rate risk                                       |
| Hedging derivatives  | 6,234                             | 130                           | 6,104          | Interest rate risk                                       |
| Investments in associates and companies subject to joint control       | 6,286                             | -                             | 6,286          | Equity risk  |
| <b>Liabilities subject to market risk</b>                              | <b>520,171</b>                    | <b>45,327</b>                 | <b>474,844</b> |  |
| Due to banks   | 72,555                            | -                             | 72,555         | Interest rate risk                                       |
| Due to customers   | 296,464                           | -                             | 296,464        | Interest rate risk                                       |
| Securities issued  | 97,383                            | -                             | 97,383         | Interest rate risk                                       |
| Financial liabilities held for trading                                 | 44,737                            | 44,492                        | 245            | Interest rate risk                                       |
| Financial liabilities designated at fair value through profit and loss | 4                                 | -                             | 4              | -  |
| Hedging derivatives  | 9,028                             | 835                           | 8,193          | Interest rate risk                                       |

**REGULATORY TRADING BOOK****1.2.1. INTEREST RATE RISK AND PRICE RISK**

Consistent with the use of internal risk measurement models, the sections relative to interest rate and price risk have been grouped within the relevant portfolio.

**QUALITATIVE INFORMATION**

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

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

A number of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios are interest rates and foreign exchange rates, both relating to linear pay-offs.

**Internal model validation**

For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.

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

Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company's hedge fund portfolios.

Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Supervisory Authority following completion of the previously recommended corrective actions.

**Stressed VaR**

Capital absorption includes the requirement for stressed VaR. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":

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

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As at the date of preparation of the document, the period relevant to the measurement of stressed VaR was set as 1 January to 30 December 2011 for Intesa Sanpaolo and as 1 July 2011 to 30 June 2012 for Banca IMI.

**VaR**

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).

VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period. The section "Quantitative information" presents the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

**Incremental Risk Charge (IRC)**

The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading portfolio resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.

**Stress tests**

Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests are applied periodically to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

**Sensitivity and greeks**

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

**Level measures**

Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

**QUANTITATIVE INFORMATION****Daily VaR evolution**

During the fourth quarter of 2016, the market risks originated by Intesa Sanpaolo and Banca IMI declined compared to the previous period: the average daily VaR for the fourth quarter of 2016 was 75.6 million euro, down on the third quarter, primarily for Banca IMI.

With regard to the whole of 2016, the Group's average risk profile (94.9 million euro) increased slightly compared to the average values in 2015 (94.4 million euro).

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

|                 | (millions of euro)  |                     |                     |                     |                     |                     |
|-----------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                 | average 4th quarter | minimum 4th quarter | maximum 4th quarter | average 3rd quarter | average 2nd quarter | average 1st quarter |
| Intesa Sanpaolo | 11.7                | 10.1                | 15.1                | 11.5                | 11.5                | 14.9                |
| Banca IMI       | 63.8                | 51.8                | 70.5                | 90.6                | 85.5                | 90.0                |
| <b>Total</b>    | <b>75.6</b>         | <b>63.3</b>         | <b>84.1</b>         | <b>102.2</b>        | <b>97.0</b>         | <b>104.9</b>        |

<sup>(a)</sup> Each line in the table sets out the past estimates of daily operating VaR calculated on the quarterly historical time-series respectively of Intesa Sanpaolo and Banca IMI; total minimum and maximum values are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

**Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2016-2015<sup>(a)</sup>**

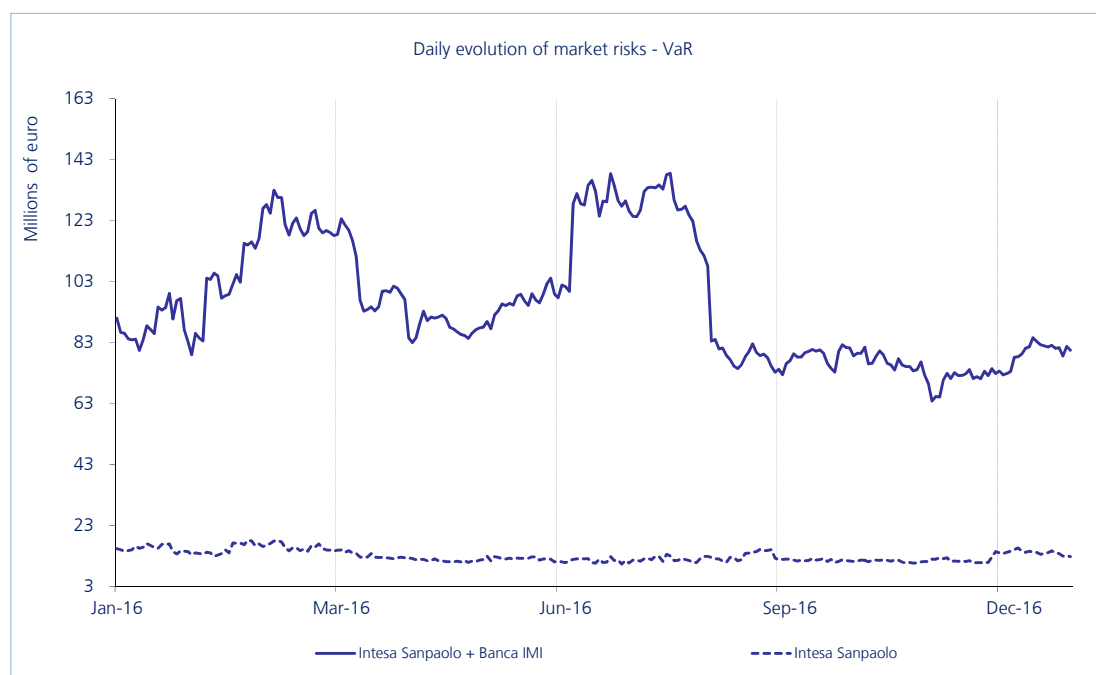
|                 | 2016        |             |              |             | 2015        |             |              |
|-----------------|-------------|-------------|--------------|-------------|-------------|-------------|--------------|
|                 | average     | minimum     | maximum      | last day    | average     | minimum     | maximum      |
| Intesa Sanpaolo | 12.4        | 9.8         | 17.6         | 12.2        | 12.7        | 6.0         | 18.5         |
| Banca IMI       | 82.5        | 51.8        | 125.6        | 67.7        | 81.7        | 54.0        | 116.3        |
| <b>Total</b>    | <b>94.9</b> | <b>63.3</b> | <b>137.9</b> | <b>79.9</b> | <b>94.4</b> | <b>64.6</b> | <b>125.8</b> |

<sup>(a)</sup> Each line in the table sets out the past estimates of daily operating VaR calculated on the annual historical time-series respectively of Intesa Sanpaolo and Banca IMI; total minimum and maximum values are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

The trend in the Group's VaR, shown in the following chart, was mainly determined by Banca IMI.

The performance of VaR is mainly explained by the operations of Banca IMI. In the first part of the year, risks increased due to the purchases made within the RAF limits approved for 2016. Then, in the second quarter, VaR fell following the reduction of risks and exits from scenarios of volatility. On 24 June 2016, in correspondence to the outcome of the referendum in the UK (Leave victory), volatility of credit spreads was then recorded on the markets accompanied by lower interest rates and share prices. This new scenario generated an increase in the Group's VaR, which at the end of June recorded a peak of 134 million euro. Risk measures continued to be contained within the assigned limits. During the third quarter, in addition to further exclusions of volatile scenarios, there was also a decrease in positions in government and financial securities. Thereafter risk measures were stable.





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

| 4th quarter 2016 | Shares    | Hedge funds | Interest rates | Credit spreads | Foreign exchange rates | Other parameters | Commodities |
|------------------|-----------|-------------|----------------|----------------|------------------------|------------------|-------------|
| Intesa Sanpaolo  | 5%        | 8%          | 26%            | 16%            | 42%                    | 3%               | 0%          |
| Banca IMI        | 4%        | 0%          | 12%            | 75%            | 1%                     | 4%               | 4%          |
| <b>Total</b>     | <b>4%</b> | <b>1%</b>   | <b>14%</b>     | <b>67%</b>     | <b>7%</b>              | <b>4%</b>        | <b>3%</b>   |

<sup>(a)</sup> Each line in the table sets out the contribution of risk factors considering the overall VaR 100%, calculated as the average of daily estimates in the fourth quarter of 2016, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

For Intesa Sanpaolo the breakdown of the risk profile in the fourth quarter of 2016, with regard to the various factors, shows the prevalence of the risk generated by foreign exchange, which accounted for 42% of total VaR (primarily linked to hedge positions of banking book entries, excluding which, the component relating to interest rate risk is the main one); for Banca IMI, credit spread risk was the most significant, representing 75% of total VaR.

#### Contribution of strategies to portfolio breakdown<sup>(a)</sup>

|                          | 31.12.2016    | 31.12.2015    |
|--------------------------|---------------|---------------|
| - Catalyst Driven        | 12.4%         | 14.7%         |
| - Credit                 | 37.8%         | 42.0%         |
| - Directional trading    | 33.4%         | 18.2%         |
| - Equity hedged          | 0.0%          | 19.1%         |
| - Equity Long Only       | 3.3%          | 5.8%          |
| - Multi-strategy         | 13.1%         | 0.2%          |
| <b>Total hedge funds</b> | <b>100.0%</b> | <b>100.0%</b> |

<sup>(a)</sup> The table sets out on every line the percentage of total cash exposures calculated on amounts at period-end.

In 2016 the hedge fund portfolio maintained an asset allocation with a focus on strategies relating to distressed credit (38% of the total in terms of portfolio value).

Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of December is summarised in the following table: The shocks applied to the portfolio were updated by the Financial and Market Risks Department.

(millions of euro)

|       | EQUITY |         | INTEREST RATES |            | CREDIT SPREADS |       | FOREIGN EXCHANGE RATES |      | COMMODITIES |         |
|-------|--------|---------|----------------|------------|----------------|-------|------------------------|------|-------------|---------|
|       | Crash  | Bullish | +40bp          | lower rate | -25bp          | +25bp | -10%                   | +10% | Crash       | Bullish |
| Total | -32    | 37      | -73            | 41         | 260            | -253  | 29                     | -40  | 8           | -5      |

In particular:

- for positions on equity markets, there would be a theoretical loss of 32 million euro in the event of a market crash (decline in prices of 15% on the European market and of 10% on the U.S. market and increase in volatility of 25%);
- for positions in interest rates, there would be a loss of 73 million euro in the event of an increase in rate curves of 40 bps;
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 253 million euro;
- for positions in foreign exchange, there would be losses in the event of a 10% increase in the EUR-USD exchange rate.
- finally, for positions in commodities, an increase in commodity prices of 20% (accompanied by a reduction in the price of gold of 15%) would entail a loss of 5 million euro.

### Backtesting

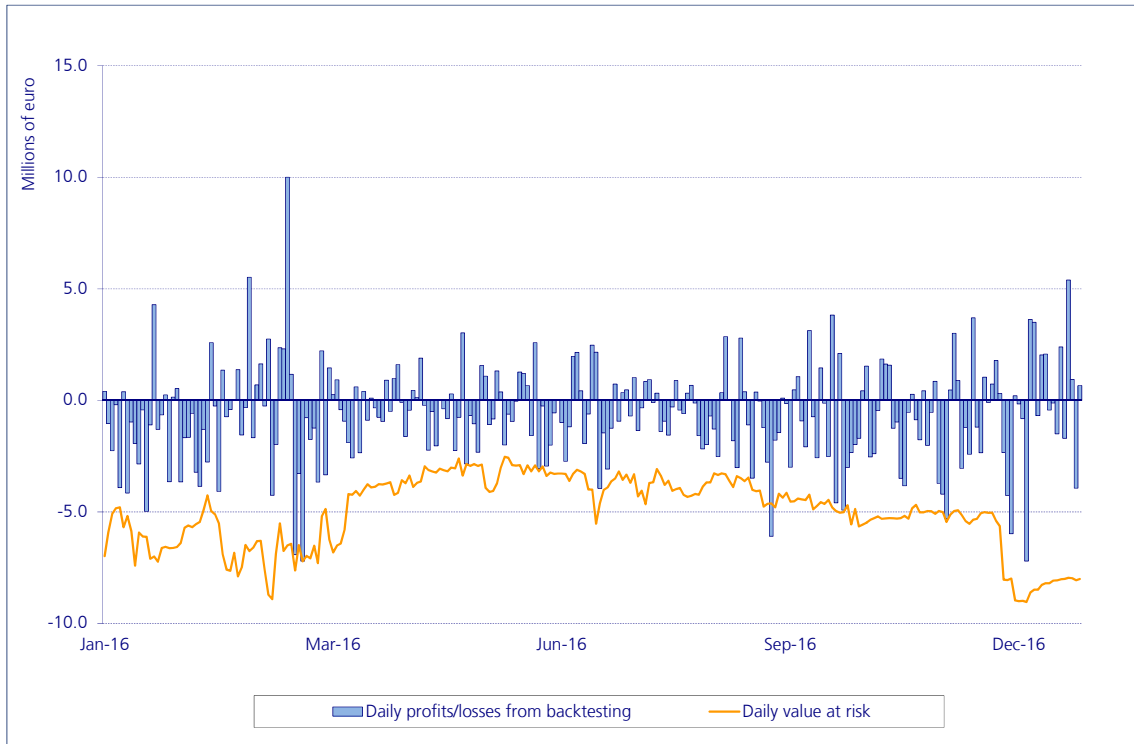
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

- 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.

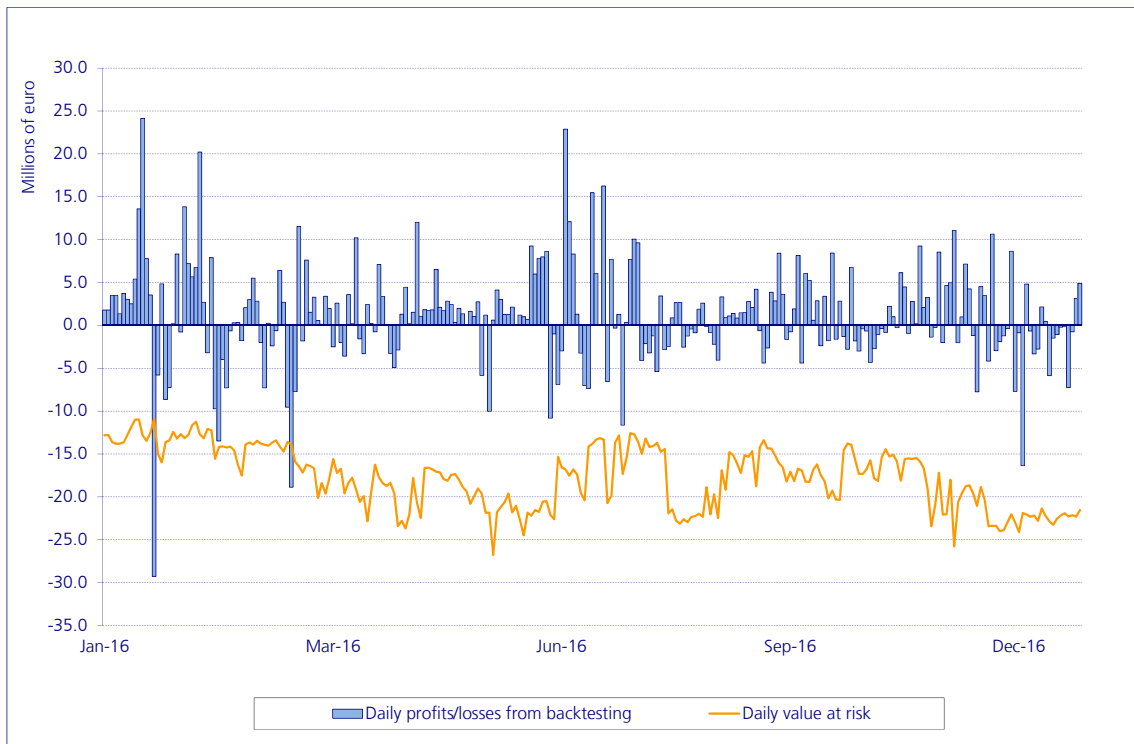
**Backtesting in Intesa Sanpaolo**

The effective backtesting exception of Intesa Sanpaolo relates to interest rate dynamics, with particular regard to the performance of cross currency swaps.



**Backtesting in Banca IMI**

The two backtesting exceptions of Banca IMI refer to the actual P&L data. The losses derive from the increased volatility of credit spreads.



**Issuer risk**

Issuer risk in the trading portfolio is analysed in terms of mark to market, with exposures aggregated by rating class, and it is monitored through a system of operating limits based on both sector/rating classes and concentration indexes.

**Breakdown of exposures by type of issuer for Intesa Sanpaolo and Banca IMI<sup>(a)</sup>**

|                 | TOTAL       | OF WHICH  |            |           |           |            |            |
|-----------------|-------------|-----------|------------|-----------|-----------|------------|------------|
|                 |             | Corporate | Financial  | Emerging  | Covered   | Government | Securitis. |
| Intesa Sanpaolo | 39%         | 5%        | 1%         | 0%        | 4%        | 81%        | 9%         |
| Banca IMI       | 61%         | 8%        | 53%        | 0%        | 1%        | 9%         | 29%        |
| <b>Total</b>    | <b>100%</b> | <b>7%</b> | <b>33%</b> | <b>0%</b> | <b>2%</b> | <b>37%</b> | <b>21%</b> |

<sup>(a)</sup> In the Total column, the table reports the contribution to total exposure of Intesa Sanpaolo and Banca IMI to issuer risk, breaking down the contribution to exposure by type of issuer. The scope is the trading book subject to issuer credit limit (excluding Italian Government and AAA, own securities), including cds.

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for Intesa Sanpaolo and the financial segment for Banca IMI.

**Operating limits**

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the following basic concepts of hierarchy and interaction.

The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

- first level limits (VaR): at the level of individual legal entities, these are approved by the Board of Directors, concurrently with approval of the RAF. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risks Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;
- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures.

In the 2016 RAF, a total limit of 155 million euro was set for the trading component, representing an increase compared to the previous year in relation to the guidelines for the RAF concerning the growth of the securities portfolio.

With respect to the component sub-allocated to the organisational units, it may be noted that the use of the VaR limit (held for trading component) for Intesa Sanpaolo averaged 57% in 2016, with a maximum use of 81%. For Banca IMI, the average VaR limit came to 66%, with a maximum use of 96%. It should be specified that for Banca IMI the VaR limit also includes the AFS component, inasmuch as these assets are managed in close synergy with HFT assets.

The use of the IRC limits at year end amounted to 15.8% for Intesa Sanpaolo (limit of 290 million euro) and 82% for Banca IMI (limit of 400 million euro).

The use of VaR operating limits on the AFS component (excluding Banca IMI) at year end was 38%. For 2016, the limit for this component was revised from 200 million euro to 260 million euro. The new limit is in line with the RAF guidelines concerning the increase in the securities portfolio.

**BANKING BOOK****1.2.2 INTEREST RATE RISK AND PRICE RISK****QUALITATIVE INFORMATION****A. General aspects, interest rate risk and price risk management processes and measurement methods**

Market risk originated by the banking book arises primarily in the Parent Company and the main Group companies involved in retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mostly held by the Parent Company and IMI Investimenti.

The following methods are used to measure financial risks of the Group's banking book:

- Shift sensitivity of value (EVE);
- Value at Risk (VaR);
- Shift sensitivity of net interest income (NII);

The sensitivity of economic value (EVE) measures the change in the economic value of the Group's commercial portfolio following shocks in the market rates curves. The sensitivity of EVE is calculated by adopting various interest rate shock scenarios that consider not only parallel shifts in market curves, but also a range of potential scenarios that include conditions of severe stress with regard to the shape of the curve, the level of the current maturity structure of interest rates and historic and implicit rate volatility. The standard stock is defined as a parallel, uniform shift in the curve of +100 basis points. The measurements include an estimate of the prepayment effect and of the risk originated by on demand customer deposits, whose features of stability and of partial and delayed reaction to interest rate fluctuations have been studied by analysing a large collection of historical data, obtaining a maturity representation model through equivalent deposits. Equity risk sensitivity is measured as the impact of a price shock of  $\pm 10\%$ .

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR). Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

The Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of +100 basis points of the interest rate curve.

The sensitivity of net interest income focuses the analysis on the impact that changes in interest rates can have on the Group's ability to generate stable profit levels. The component of profits measured is represented by the difference between the net interest income generated by interest-bearing assets and liabilities, including the results of hedging activities through the use of derivatives. The time horizon of reference is commonly limited to the short and medium term (from one to three years) and assesses the impact that the institution is able to continue with its activity (the going concern approach).

To determine changes in net interest income ( $\pm$ NII), standard scenarios of parallel rate shocks of  $\pm 50$  basis points are applied, in reference to a time horizon of twelve months.

**B. Fair value hedging****C. Cash flow hedging**

Hedging of interest rate risk is aimed at (i) protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods.

A first method refers to the fair value hedge of specifically identified assets and liabilities (micro-hedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. On the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macro hedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of floating-rate loans.

In 2016 the Group consolidated the use of macrohedging to a portion of fixed-rate loans, adopting an open-portfolio macrohedging model for a portion of fixed-rate loans according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable rate funding, to the extent that the latter finances fixed-rate investments, and on variable rate investments to cover fixed-rate funding (macro cash flow hedges).

The Financial and Market Risks Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with international accounting standards.

During the year no hedging activities were performed to cover the price risk of the banking book.

**D. Hedging of foreign investments**

For equity investments in Group companies held in foreign currencies, risk hedging policies are assessed by the Group Risk Governance Committee and the Group Financial Risks Committee, taking into consideration the advantages and the costs embedded in hedging transactions.

During the year, foreign exchange hedges were implemented against the exchange risk on gains in foreign currency generated by the Parent Company's branches abroad.

## QUANTITATIVE INFORMATION

### Banking book: internal models and other sensitivity analysis methodologies

Interest margin sensitivity – assuming a +50 and +100 basis point change in interest rates – amounted to 571 million euro and 1,081 million euro, respectively, at the end of 2016. This latter figure was up compared to the end of 2015, when it was 535 million euro. In the document “Guidelines on the management of interest rate risk in the Group’s banking book” the Group has also defined a sensitivity limit for the interest margin as the maximum acceptable value of the loss in the income statement, as represented by the greater decrease in the interest margin generated in two scenarios of parallel increases and decreases in rates (+50 bps and -50 bps). Consequently, the measurement of the sensitivity of the margin in the scenario of a change in rates of -50 basis points has also been introduced starting in the fourth quarter of 2016. At the end of 2016, that value was -665 million euro. In the case of invariance of the other income components, the aforesaid potential impact would be reflected also in the Group’s year-end net income and taking into account the abovementioned assumptions concerning the measurement procedures.

In 2016, interest rate risk generated by the Intesa Sanpaolo Group’s banking book, measured through shift sensitivity of value, averaged 891 million euro with a year-end figure of 945 million euro (547 million euro at the end of 2015), almost entirely concentrated on the euro currency. Interest rate risk, measured in terms of VaR, averaged 76 million euro in 2016, with a minimum value of 40 million euro and a maximum value of 122 million euro. The value at the end of 2016 was 117 million euro (139 million euro at the end of 2015).

Price risk generated by minority stakes in quoted companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level during 2016 of 95 million euro (27 million euro at the end of 2015), with peak and minimum values of 161 million euro and 16 million euro respectively (161 million euro at the end of 2016).

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders’ Equity of a price shock of  $\pm 10\%$  for the abovementioned quoted assets recorded in the AFS category.

#### Price risk: impact on Shareholders’ Equity

|             |      | (millions of euro)                        |
|-------------|------|---|
|             |      | <b>Impact on<br/>shareholders’ equity</b> |
| Price shock | +10% | 19  |
| Price shock | -10% | -19                                       |

### 1.2.3. FOREIGN EXCHANGE RISK

#### QUALITATIVE INFORMATION

##### A. General aspects, foreign exchange risk management processes and measurement methods

“Foreign exchange risk” is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in the Group’s balance sheet aggregates. The key sources of exchange rate risk lie in:

- foreign currency loans and deposits held by corporate and/or retail customers;
- purchases of securities, equity investments and other financial instruments in foreign currencies;
- conversion into domestic currency of assets, liabilities and income of branches and subsidiaries abroad;
- trading of foreign currencies and banknotes;
- collection and/or payment of interest, commissions, dividends and administrative costs in foreign currencies.

More specifically, “structural” foreign exchange risk refers to the exposures deriving from the commercial operations and the strategic investment decisions of the Intesa Sanpaolo Group.

Foreign exchange transactions, spot and forward, are carried out mostly by Banca IMI, which also operates in the name and on behalf of the Parent Company with the task of guaranteeing pricing throughout the Bank and the Group while optimizing the proprietary risk profile deriving from brokerage of foreign currencies traded by customers.

The main types of financial instruments traded include: spot and forward exchange transactions in foreign currencies, forex swaps, domestic currency swaps, and foreign exchange options.

##### B. Foreign exchange risk hedging activities

Foreign exchange risk deriving from operating positions in foreign currency in the banking book is systematically transferred from the business units to the Parent Company’s Treasury Department, for the purpose of guaranteeing the elimination of such risk. Similar risk containment is performed by the various Group companies for their banking book. Essentially, foreign exchange risk is mitigated by the practice of raising funds in the same currency as assets.

Held for trading exposures are included in the trading book where foreign exchange risk is measured and subjected to daily VaR limits.

## QUANTITATIVE INFORMATION

## 1. Breakdown by currency of assets and liabilities and of derivatives

(millions of euro)

|                                 | CURRENCIES    |               |              |                  |                |               |              | Yen           | Other currencies |
|---------------------------------|---------------|---------------|--------------|------------------|----------------|---------------|--------------|---------------|------------------|
|                                 | US dollar     | GB pound      | Swiss franc  | Hungarian forint | Egyptian pound | Croatian kuna |              |               |                  |
| <b>A. FINANCIAL ASSETS</b>      | <b>33,177</b> | <b>2,509</b>  | <b>724</b>   | <b>3,261</b>     | <b>2,407</b>   | <b>3,832</b>  | <b>1,732</b> | <b>7,542</b>  |                  |
| A.1 Debt securities             | 7,421         | 872           | 2            | 773              | 677            | 738           | 899          | 1,922         |                  |
| A.2 Equities                    | 419           | 27            | 30           | 4                | 21             | 21            | -            | 52            |                  |
| A.3 Loans to banks              | 7,334         | 83            | 221          | 683              | 577            | 530           | 60           | 1,756         |                  |
| A.4 Loans to customers          | 18,003        | 1,527         | 471          | 1,801            | 1,132          | 2,543         | 773          | 3,812         |                  |
| A.5 Other financial assets      | -             | -             | -            | -                | -              | -             | -            | -             |                  |
| <b>B. OTHER ASSETS</b>          | <b>5,300</b>  | <b>377</b>    | <b>20</b>    | <b>138</b>       | <b>83</b>      | <b>39</b>     | <b>85</b>    | <b>280</b>    |                  |
| <b>C. FINANCIAL LIABILITIES</b> | <b>31,300</b> | <b>1,819</b>  | <b>519</b>   | <b>3,105</b>     | <b>2,030</b>   | <b>2,797</b>  | <b>293</b>   | <b>5,640</b>  |                  |
| C.1 Due to banks                | 8,605         | 886           | 212          | 310              | 5              | 196           | 35           | 814           |                  |
| C.2 Due to customers            | 10,304        | 528           | 300          | 2,787            | 1,330          | 2,601         | 57           | 2,907         |                  |
| C.3 Debt securities             | 12,391        | 405           | 7            | 8                | 695            | -             | 201          | 1,919         |                  |
| C.4 Other financial liabilities | -             | -             | -            | -                | -              | -             | -            | -             |                  |
| <b>D. OTHER LIABILITIES</b>     | <b>859</b>    | <b>360</b>    | <b>1</b>     | <b>81</b>        | <b>-</b>       | <b>171</b>    | <b>8</b>     | <b>260</b>    |                  |
| <b>E. FINANCIAL DERIVATIVES</b> |               |               |              |                  |                |               |              |               |                  |
| - Options                       |               |               |              |                  |                |               |              |               |                  |
| <i>long positions</i>           | 4,077         | 322           | 20           | 6                | -              | -             | 87           | 287           |                  |
| <i>short positions</i>          | 3,989         | 316           | -            | 13               | -              | -             | 64           | 524           |                  |
| - Other derivatives             |               |               |              |                  |                |               |              |               |                  |
| <i>long positions</i>           | 53,725        | 7,126         | 2,963        | 979              | -              | 2             | 3,234        | 10,571        |                  |
| <i>short positions</i>          | 60,662        | 7,701         | 3,296        | 548              | -              | 1             | 4,819        | 11,288        |                  |
| <b>TOTAL ASSETS</b>             | <b>96,279</b> | <b>10,334</b> | <b>3,727</b> | <b>4,384</b>     | <b>2,490</b>   | <b>3,873</b>  | <b>5,138</b> | <b>18,680</b> |                  |
| <b>TOTAL LIABILITIES</b>        | <b>96,810</b> | <b>10,196</b> | <b>3,816</b> | <b>3,747</b>     | <b>2,030</b>   | <b>2,969</b>  | <b>5,184</b> | <b>17,712</b> |                  |
| <b>DIFFERENCE (+/-)</b>         | <b>-531</b>   | <b>138</b>    | <b>-89</b>   | <b>637</b>       | <b>460</b>     | <b>904</b>    | <b>-46</b>   | <b>968</b>    |                  |

## 2. Internal models and other sensitivity analysis methodologies

Management of foreign exchange risk relative to trading activities is included in the operating procedures and in the estimation methodologies of the internal model based on VaR calculations, as already illustrated.

Foreign exchange risk expressed by equity investments in foreign currency (banking book), including Group companies, originated a VaR (99% confidence level, 10-day holding period) amounting to 230 million euro as at 31 December 2016. This potential impact would only be reflected in the Shareholders' Equity.

## 1.2.4. DERIVATIVES

Starting in 2014, the Parent Company and Banca IMI were authorised to use EPE (Expected Positive Exposure) internal models to determine the requirement for counterparty risk. This authorisation was extended also to the banks belonging to the Banca dei Territori (BdT) division starting from 31.12.2016.

This approach is applicable to almost the entire trading portfolio (as shown in the table below, as at 31 December 2016 approximately 95% of the total EAD of financial and credit derivatives is measured using EPE models). Derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2016 accounting for approximately 5% of overall EAD) and refer to:

- residual contracts of Banca IMI, Intesa Sanpaolo and BdT to which EPE is not applied (in compliance with the insignificance of the EBA thresholds);
- EAD generated by all other banks and companies in the group which report using the mark-to-market approach.

As envisaged by Basel 3, also CCPs generate a capital requirement and are thus included in the EPE scope and in the evidence stated below.

The table below shows the overall EAD of exposures in financial and credit derivatives, broken down by measurement approach (EPE internal models or mark-to-market approach).

(millions of euro)

| Transaction categories | 31.12.2016              |                     | 31.12.2015              |                     |
|------------------------|-------------------------|---------------------|-------------------------|---------------------|
|                        | Current Exposure Method | EPE Internal Method | Current Exposure Method | EPE Internal Method |
| Derivative contracts   | 867                     | 17,651              | 1,325                   | 16,412              |

The EPE internal model considers the collateral collected to mitigate credit exposure and any excess collateral paid. The value of the guarantees received and included in the calculation of the EAD amounts to more than 3.6 billion euro for the Parent Company, Banca IMI and the banks of the Banca dei Territori division, while the collateral paid equals 14.5 billion euro (this amount including the collateral connected to transactions with central counterparties).

## A. FINANCIAL DERIVATIVES

## A.1. Regulatory trading book: period-end notional amounts

(millions of euro)

| Underlying assets / Type of derivatives      | 31.12.2016       |                        | 31.12.2015       |                        |
|--|------------------|------------------------|------------------|------------------------|
|  | Over the counter | Central counterparties | Over the counter | Central counterparties |
| <b>1. Debt securities and interest rates</b> | <b>2,009,912</b> | <b>229,069</b>         | <b>1,935,435</b> | <b>164,091</b>         |
| a) Options                                   | 112,610          | 26,038                 | 133,144          | 15,415                 |
| b) Swaps                                     | 1,897,237        | -                      | 1,802,252        | -                      |
| c) Forwards                                  | 65               | -                      | 39               | -                      |
| d) Futures                                   | -                | 203,031                | -                | 148,676                |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>2. Equities and stock indices</b>         | <b>16,431</b>    | <b>19,059</b>          | <b>15,253</b>    | <b>50,315</b>          |
| a) Options                                   | 16,215           | 17,557                 | 14,925           | 48,830                 |
| b) Swaps                                     | 31               | -                      | 302              | -                      |
| c) Forwards                                  | 185              | -                      | 26               | -                      |
| d) Futures                                   | -                | 1,502                  | -                | 1,485                  |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>3. Foreign exchange rates and gold</b>    | <b>149,197</b>   | <b>275</b>             | <b>136,703</b>   | <b>347</b>             |
| a) Options                                   | 22,631           | 60                     | 19,853           | 11                     |
| b) Swaps                                     | 49,169           | -                      | 45,319           | -                      |
| c) Forwards                                  | 76,525           | -                      | 70,415           | -                      |
| d) Futures                                   | -                | 215                    | -                | 336                    |
| e) Others                                    | 872              | -                      | 1,116            | -                      |
| <b>4. Commodities</b>                        | <b>7,118</b>     | <b>3,208</b>           | <b>10,363</b>    | <b>3,403</b>           |
| <b>5. Other underlying assets</b>            | <b>-</b>         | <b>-</b>               | <b>-</b>         | <b>-</b>               |
| <b>TOTAL</b>                                 | <b>2,182,658</b> | <b>251,611</b>         | <b>2,097,754</b> | <b>218,156</b>         |

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 1,780,948 million euro as at 31 December 2016 (1,611,682 million euro as at 31 December 2015).



**A.2. Banking book: period-end notional amounts****A.2.1. Hedging derivatives**

| Underlying assets / Type of derivatives      | 31.12.2016       |                        | 31.12.2015       |                        |
|--|------------------|------------------------|------------------|------------------------|
|  | Over the counter | Central counterparties | Over the counter | Central counterparties |
| <b>1. Debt securities and interest rates</b> | <b>264,632</b>   | -                      | <b>225,394</b>   | -                      |
| a) Options                                   | 3,908            | -                      | 4,852            | -                      |
| b) Swaps                                     | 260,724          | -                      | 220,542          | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>2. Equities and stock indices</b>         | -                | -                      | -                | -                      |
| a) Options                                   | -                | -                      | -                | -                      |
| b) Swaps                                     | -                | -                      | -                | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>3. Foreign exchange rates and gold</b>    | <b>3,794</b>     | -                      | <b>3,819</b>     | -                      |
| a) Options                                   | -                | -                      | -                | -                      |
| b) Swaps                                     | 3,794            | -                      | 3,818            | -                      |
| c) Forwards                                  | -                | -                      | 1                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>4. Commodities</b>                        | -                | -                      | -                | -                      |
| <b>5. Other underlying assets</b>            | -                | -                      | -                | -                      |
| <b>TOTAL</b>                                 | <b>268,426</b>   | -                      | <b>229,213</b>   | -                      |

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 10,461 million euro as at 31 December 2016.

**A.2.2. Other derivatives**

(millions of euro)

| Underlying assets / Type of derivatives      | 31.12.2016       |                        | 31.12.2015       |                        |
|--|------------------|------------------------|------------------|------------------------|
|  | Over the counter | Central counterparties | Over the counter | Central counterparties |
| <b>1. Debt securities and interest rates</b> | <b>2,936</b>     | -                      | <b>3,333</b>     | -                      |
| a) Options                                   | 1,671            | -                      | 1,775            | -                      |
| b) Swaps                                     | 1,265            | -                      | 1,558            | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>2. Equities and stock indices</b>         | <b>2,040</b>     | -                      | <b>2,118</b>     | -                      |
| a) Options                                   | 2,040            | -                      | 2,118            | -                      |
| b) Swaps                                     | -                | -                      | -                | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>3. Foreign exchange rates and gold</b>    | <b>885</b>       | -                      | <b>1,787</b>     | -                      |
| a) Options                                   | 201              | -                      | 61               | -                      |
| b) Swaps                                     | 182              | -                      | 1,038            | -                      |
| c) Forwards                                  | 463              | -                      | 688              | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | 39               | -                      | -                | -                      |
| <b>4. Commodities</b>                        | -                | -                      | -                | -                      |
| <b>5. Other underlying assets</b>            | -                | -                      | -                | -                      |
| <b>TOTAL</b>                                 | <b>5,861</b>     | -                      | <b>7,238</b>     | -                      |

The table above shows the financial derivatives recognised in the financial statements in the trading book, but not forming part of the regulatory trading book. In particular, the table shows the derivatives recorded separately from the combined financial instruments, the derivatives used to hedge debt securities measured at fair value through profit and loss and the put and call options relating to commitments on equity investments.

**A.3. Financial derivatives gross positive fair value – breakdown by product****A.4. Financial derivatives gross negative fair value – breakdown by product****A.5. Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty – contracts not included under netting arrangements****A.6. Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty – contracts included under netting arrangements****A.7. Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty – contracts not included under netting arrangements****A.8. Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty – contracts included under netting arrangements****A.9. Residual maturity of over the counter financial derivatives: notional amounts**

Tables A.3 to A.9 were not filled in as the financial derivatives whose counterparty risk is measured using methods other than internal models represent a residual portion of the portfolio.

Information on derivatives is shown below, in the section relating to internal models<sup>14</sup>.

<sup>14</sup>Based on the financial statement instructions issued by the Bank of Italy, tables A.3 to A.9 do not have to be filled in by banks which use EPE internal models to calculate counterparty risk if this approach covers a significant portion of the portfolio.

**A.10 Over the counter financial derivatives: counterparty risk/financial risk – internal models**

As stated in the initial part of the section on derivatives, Banca IMI, the Parent Company and the banks of the Banca dei Territori Division were authorised to use EPE internal models to determine the requirement for counterparty risk. The other banks of the Group report the requirement using the mark-to-market approach.

At consolidated level, financial derivatives whose counterparty risk is measured using mark-to-market methods represent a residual portion of the portfolio. For this reason, the data relating to these derivatives was included in the tables below, for the purpose of summarising all the information on Group derivatives.

*Financial derivatives gross positive fair value – breakdown by product*

(millions of euro)

| Portfolios /Types of derivatives           | POSITIVE FAIR VALUE |                        |                  |                        |
|--|---------------------|------------------------|------------------|------------------------|
|  | 31.12.2016          |                        | 31.12.2015       |                        |
|  | Over the counter    | Central counterparties | Over the counter | Central counterparties |
| <b>A. Regulatory trading book</b>          | <b>27,645</b>       | <b>647</b>             | <b>28,634</b>    | <b>689</b>             |
| a) Options                                 | 3,755               | 647                    | 4,422            | 689                    |
| b) Interest rate swaps                     | 20,060              | -                      | 19,885           | -                      |
| c) Cross currency swaps                    | 2,382               | -                      | 2,369            | -                      |
| d) Equity swaps                            | -                   | -                      | 14               | -                      |
| e) Forwards                                | 1,120               | -                      | 902              | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | 328                 | -                      | 1,042            | -                      |
| <b>B. Banking book - hedging</b>           | <b>6,234</b>        | <b>-</b>               | <b>7,059</b>     | <b>-</b>               |
| a) Options                                 | 83                  | -                      | 116              | -                      |
| b) Interest rate swaps                     | 5,600               | -                      | 6,381            | -                      |
| c) Cross currency swaps                    | 551                 | -                      | 562              | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | -                   | -                      | -                | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | -                   | -                      | -                | -                      |
| <b>C. Banking book - other derivatives</b> | <b>675</b>          | <b>-</b>               | <b>691</b>       | <b>-</b>               |
| a) Options                                 | 231                 | -                      | 250              | -                      |
| b) Interest rate swaps                     | 441                 | -                      | 429              | -                      |
| c) Cross currency swaps                    | 1                   | -                      | 10               | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | 2                   | -                      | 2                | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | -                   | -                      | -                | -                      |
| <b>TOTAL</b>                               | <b>34,554</b>       | <b>647</b>             | <b>36,384</b>    | <b>689</b>             |

## Financial derivatives gross negative fair value – breakdown by product

(millions of euro)

| Portfolios /Types of derivatives           | NEGATIVE FAIR VALUE |                        |                  |                        |
|--|---------------------|------------------------|------------------|------------------------|
|  | 31.12.2016          |                        | 31.12.2015       |                        |
|  | Over the counter    | Central counterparties | Over the counter | Central counterparties |
| <b>A. Regulatory trading book</b>          | <b>33,101</b>       | <b>718</b>             | <b>32,599</b>    | <b>715</b>             |
| a) Options                                 | 7,069               | 718                    | 7,198            | 715                    |
| b) Interest rate swaps                     | 21,553              | -                      | 21,452           | -                      |
| c) Cross currency swaps                    | 2,867               | -                      | 2,806            | -                      |
| d) Equity swaps                            | -                   | -                      | 9                | -                      |
| e) Forwards                                | 1,257               | -                      | 879              | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | 355                 | -                      | 255              | -                      |
| <b>B. Banking book - hedging</b>           | <b>9,027</b>        | <b>-</b>               | <b>8,230</b>     | <b>-</b>               |
| a) Options                                 | -                   | -                      | -                | -                      |
| b) Interest rate swaps                     | 8,588               | -                      | 7,790            | -                      |
| c) Cross currency swaps                    | 439                 | -                      | 440              | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | -                   | -                      | -                | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | -                   | -                      | -                | -                      |
| <b>C. Banking book - other derivatives</b> | <b>360</b>          | <b>-</b>               | <b>449</b>       | <b>-</b>               |
| a) Options                                 | 329                 | -                      | 390              | -                      |
| b) Interest rate swaps                     | 28                  | -                      | 53               | -                      |
| c) Cross currency swaps                    | 1                   | -                      | 4                | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | 2                   | -                      | 2                | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | -                   | -                      | -                | -                      |
| <b>TOTAL</b>                               | <b>42,488</b>       | <b>718</b>             | <b>41,278</b>    | <b>715</b>             |

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 5,188 million euro (4,076 million euro as at 31 December 2015).

The data contained in the two tables below - unlike the previous tables - refers exclusively to operations in Over the Counter derivatives.

## Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty

(millions of euro)

|  | Governments and Central Banks | Public entities | Banks   | Financial institutions | Insurance companies | Non-financial companies | Other counterparties |
|--|-------------------------------|-----------------|---------|------------------------|---------------------|-------------------------|----------------------|
| <b>1. Debt securities and interest rates</b> |                               |                 |         |                        |                     |                         |                      |
| - notional amount                            | 7,392                         | 2,244           | 121,460 | 1,840,431              | 779                 | 37,511                  | 95                   |
| - positive fair value                        | 3,801                         | 565             | 13,837  | 2,809                  | 56                  | 2,143                   | 12                   |
| - negative fair value                        | -4                            | -17             | -15,221 | -8,534                 | -5                  | -789                    | -42                  |
| <b>2. Equities and stock indices</b>         |                               |                 |         |                        |                     |                         |                      |
| - notional amount                            | -                             | -               | 10,518  | 683                    | 4,864               | 51                      | 315                  |
| - positive fair value                        | -                             | -               | 137     | 52                     | 1                   | 2                       | -                    |
| - negative fair value                        | -                             | -               | -3,327  | -51                    | -104                | -1                      | -12                  |
| <b>3. Foreign exchange rates and gold</b>    |                               |                 |         |                        |                     |                         |                      |
| - notional amount                            | 740                           | -               | 89,681  | 40,456                 | 1,113               | 17,087                  | 120                  |
| - positive fair value                        | 3                             | -               | 1,537   | 1,436                  | 183                 | 593                     | -                    |
| - negative fair value                        | -52                           | -               | -2,605  | -989                   | -3                  | -751                    | -2                   |
| <b>4. Other values</b>                       |                               |                 |         |                        |                     |                         |                      |
| - notional amount                            | -                             | -               | 1,454   | 1,533                  | -                   | 4,131                   | -                    |
| - positive fair value                        | -                             | -               | 67      | 104                    | -                   | 307                     | -                    |
| - negative fair value                        | -                             | -               | -102    | -179                   | -                   | -311                    | -                    |

## Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty

|  | (millions of euro)                  |                    |         |                           |                        |                                |                         |
|--|-------------------------------------|--------------------|---------|---------------------------|------------------------|--------------------------------|-------------------------|
|  | Governments<br>and Central<br>Banks | Public<br>entities | Banks   | Financial<br>institutions | Insurance<br>companies | Non-<br>financial<br>companies | Other<br>counterparties |
| <b>1. Debt securities and interest rates</b> |                                     |                    |         |                           |                        |                                |                         |
| - notional amount                            | 131                                 | 417                | 247,213 | 18,984                    | 15                     | 31                             | 777                     |
| - positive fair value                        | -                                   | 3                  | 6,047   | 193                       | -                      | 5                              | -                       |
| - negative fair value                        | -1                                  | -                  | -7,925  | -751                      | -11                    | -                              | -111                    |
| <b>2. Equities and stock indices</b>         |                                     |                    |         |                           |                        |                                |                         |
| - notional amount                            | -                                   | -                  | 1,549   | 69                        | -                      | 19                             | 403                     |
| - positive fair value                        | -                                   | -                  | 99      | 8                         | -                      | -                              | -                       |
| - negative fair value                        | -                                   | -                  | -97     | -                         | -                      | -                              | -48                     |
| <b>3. Foreign exchange rates and gold</b>    |                                     |                    |         |                           |                        |                                |                         |
| - notional amount                            | 46                                  | -                  | 4,064   | 494                       | -                      | -                              | 75                      |
| - positive fair value                        | 1                                   | -                  | 546     | 7                         | -                      | -                              | -                       |
| - negative fair value                        | -                                   | -                  | -285    | -158                      | -                      | -                              | -1                      |
| <b>4. Other values</b>                       |                                     |                    |         |                           |                        |                                |                         |
| - notional amount                            | -                                   | -                  | -       | -                         | -                      | -                              | -                       |
| - positive fair value                        | -                                   | -                  | -       | -                         | -                      | -                              | -                       |
| - negative fair value                        | -                                   | -                  | -       | -                         | -                      | -                              | -                       |

**B. CREDIT DERIVATIVES****B.1. Credit derivatives: period-end notional amounts**

| Categories of transactions     | (millions of euro)      |                                    |                        |                                    |
|--------------------------------|-------------------------|------------------------------------|------------------------|------------------------------------|
|                                | REGULATORY TRADING BOOK |                                    | BANKING BOOK           |                                    |
|                                | single<br>counterparty  | more<br>counterparties<br>(basket) | single<br>counterparty | more<br>counterparties<br>(basket) |
| <b>1. Protection purchases</b> |                         |                                    |                        |                                    |
| - Credit default products      | 10,736                  | 42,989                             | -                      | -                                  |
| - Credit spread products       | -                       | -                                  | -                      | -                                  |
| - Total rate of return swap    | -                       | -                                  | -                      | -                                  |
| - Others                       | -                       | -                                  | -                      | -                                  |
| <b>Total 31.12.2016</b>        | <b>10,736</b>           | <b>42,989</b>                      | <b>-</b>               | <b>-</b>                           |
| <b>Total 31.12.2015</b>        | <b>13,805</b>           | <b>36,000</b>                      | <b>-</b>               | <b>-</b>                           |
| <b>2. Protection sales</b>     |                         |                                    |                        |                                    |
| - Credit default products      | 13,239                  | 41,532                             | -                      | -                                  |
| - Credit spread products       | -                       | -                                  | -                      | -                                  |
| - Total rate of return swap    | -                       | -                                  | -                      | -                                  |
| - Others                       | -                       | -                                  | -                      | -                                  |
| <b>Total 31.12.2016</b>        | <b>13,239</b>           | <b>41,532</b>                      | <b>-</b>               | <b>-</b>                           |
| <b>Total 31.12.2015</b>        | <b>13,449</b>           | <b>35,655</b>                      | <b>-</b>               | <b>-</b>                           |

Part of the contracts in force as at 31 December 2016, shown in the table above, has been included within the structured credit products, namely: 64 million euro of protection purchases and 41 million euro of protection sales, in any case almost entirely attributable to exposures not included in US subprime exposures.

For further information on the relative economic and risk effects, see the chapter on market risks in this Part of the Notes to the consolidated financial statements.

Also tables B.2 to B.6 were not filled in as the credit derivatives whose counterparty risk is measured using methods other than internal models represent a residual portion of the portfolio.

Information on derivatives is shown below, in the section relating to internal models. Based on the financial statement instructions issued by the Bank of Italy, tables B.2 to B.6 do not have to be filled in by banks which use EPE internal models to calculate counterparty risk if this approach covers a significant portion of the portfolio.

**B.2. Over the counter credit derivatives: gross positive fair value – breakdown by product****B.3. Over the counter credit derivatives: gross negative fair value – breakdown by product****B.4. Over the counter credit derivatives: gross (positive and negative) fair values by counterparty – contracts not included under netting arrangements****B.5. Over the counter credit derivatives: gross (positive and negative) fair values by counterparty - contracts included under netting arrangements****B.6. Residual maturity of credit derivatives: notional amounts****B.7. Credit derivatives: counterparty risk/financial risk – Internal models**

As stated in the initial part of the section on derivatives, Banca IMI, the Parent Company and the banks of the Banca dei Territori Division were authorised to use EPE internal models to determine the requirement for counterparty risk, which is used for most of the portfolio.

Credit derivatives whose counterparty risk is measured using mark-to-market methods represent a residual portion of the portfolio. For this reason, the data relating to these derivatives was included in the tables below, for the purpose of summarising all the information on derivatives.

*Over the counter credit derivatives: gross positive fair value – breakdown by product*

(millions of euro)

| Portfolios /Types of derivatives  | POSITIVE FAIR VALUE |            |
|-----------------------------------|---------------------|------------|
|                                   | 31.12.2016          | 31.12.2015 |
| <b>A. Regulatory trading book</b> | <b>1,226</b>        | <b>879</b> |
| a) Credit default products        | 1,226               | 879        |
| b) Credit spread products         | -                   | -          |
| c) Total rate of return swap      | -                   | -          |
| d) Others                         | -                   | -          |
| <b>B. Banking book</b>            | -                   | -          |
| a) Credit default products        | -                   | -          |
| b) Credit spread products         | -                   | -          |
| c) Total rate of return swap      | -                   | -          |
| d) Others                         | -                   | -          |
| <b>TOTAL</b>                      | <b>1,226</b>        | <b>879</b> |

Part of the positive fair values, recognised as at 31 December 2016, and shown in the table above, has been included within the structured credit products, namely: 7 million attributable to short positions taken on creditworthiness indexes and protection purchases as part of structured packages.

For further information on the relative economic and risk effects, see the chapter on market risks in this Part of the Notes to the consolidated financial statements.

*Over the counter credit derivatives: gross negative fair value – breakdown by product*

(millions of euro)

| Portfolios /Types of derivatives  | NEGATIVE FAIR VALUE |            |
|-----------------------------------|---------------------|------------|
|                                   | 31.12.2016          | 31.12.2015 |
| <b>A. Regulatory trading book</b> | <b>1,275</b>        | <b>940</b> |
| a) Credit default products        | 1,275               | 940        |
| b) Credit spread products         | -                   | -          |
| c) Total rate of return swap      | -                   | -          |
| d) Others                         | -                   | -          |
| <b>B. Banking book</b>            | -                   | -          |
| a) Credit default products        | -                   | -          |
| b) Credit spread products         | -                   | -          |
| c) Total rate of return swap      | -                   | -          |
| d) Others                         | -                   | -          |
| <b>TOTAL</b>                      | <b>1,275</b>        | <b>940</b> |

Part of the negative fair values, recognised as at 31 December 2016, and shown in the table above, has been included within the structured credit products, namely: 19 million attributable to long positions on creditworthiness indexes and protection sales not included under the US subprime category.

*Over the counter credit derivatives: gross (positive and negative) fair values by counterparty*

|                                | (millions of euro)                  |                    |        |                           |                        |                                |                         |
|--------------------------------|-------------------------------------|--------------------|--------|---------------------------|------------------------|--------------------------------|-------------------------|
|                                | Governments<br>and Central<br>Banks | Public<br>entities | Banks  | Financial<br>institutions | Insurance<br>companies | Non-<br>financial<br>companies | Other<br>counterparties |
| <b>REGULATORY TRADING BOOK</b> |                                     |                    |        |                           |                        |                                |                         |
| <b>1. Protection purchases</b> |                                     |                    |        |                           |                        |                                |                         |
| - notional amount              | -                                   | 125                | 29,255 | 24,345                    | -                      | -                              | -                       |
| - positive fair value          | -                                   | 68                 | 110    | 68                        | -                      | -                              | -                       |
| - negative fair value          | -                                   | -                  | -487   | -467                      | -                      | -                              | -                       |
| <b>2. Protection sales</b>     |                                     |                    |        |                           |                        |                                |                         |
| - notional amount              | -                                   | -                  | 31,837 | 22,934                    | -                      | -                              | -                       |
| - positive fair value          | -                                   | -                  | 486    | 494                       | -                      | -                              | -                       |
| - negative fair value          | -                                   | -                  | -81    | -240                      | -                      | -                              | -                       |
| <b>BANKING BOOK</b>            |                                     |                    |        |                           |                        |                                |                         |
| <b>1. Protection purchases</b> |                                     |                    |        |                           |                        |                                |                         |
| - notional amount              | -                                   | -                  | -      | -                         | -                      | -                              | -                       |
| - positive fair value          | -                                   | -                  | -      | -                         | -                      | -                              | -                       |
| - negative fair value          | -                                   | -                  | -      | -                         | -                      | -                              | -                       |
| <b>2. Protection sales</b>     |                                     |                    |        |                           |                        |                                |                         |
| - notional amount              | -                                   | -                  | -      | -                         | -                      | -                              | -                       |
| - positive fair value          | -                                   | -                  | -      | -                         | -                      | -                              | -                       |
| - negative fair value          | -                                   | -                  | -      | -                         | -                      | -                              | -                       |

## C. CREDIT AND FINANCIAL DERIVATIVES

### C.1. Over the counter credit and financial derivatives: net fair values and future exposure by counterparty

This table was not filled in because, as previously illustrated, the Intesa Sanpaolo Group primarily calculates counterparty risk using the EPE approach. According to the internal models approach, the EPE is calculated as a statistical-time-based average of the future mark-to-market evolution of the derivatives, strengthened by conservative restrictions on the mark-to-market profiles that do not decrease over time.

## 1.3 BANKING GROUP - LIQUIDITY RISK

### QUALITATIVE INFORMATION

#### General aspects, liquidity risk management processes and measurement methods

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

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

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the *Official Journal of the European Union* of Commission Delegated Regulation (EU) 61/2015 with regard to liquidity coverage requirements (liquidity coverage ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation 61/2015, from 1 October 2015 banks are required to comply with the new short-term indicator according to the phase-in process provided for in Art. 38 (60% from 1 October 2015, 70% from 1 January 2016, 80% from 1 January 2017 and 100% from 1 January 2018).

The Guidelines for Group Liquidity Risk Management, which already referred to Bank of Italy Circulars 263 and 285, and to Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), were therefore updated with effect from March 2015 to reflect the above additional regulations, which revised the composition of the liquid assets eligible for liquidity reserves and the definition of 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions of the Basel Committee concerning the Net Stable Funding Ratio (NSFR) with its October 2014 publication were also adopted.

The “Guidelines for Group Liquidity Risk Management” approved by Intesa Sanpaolo’s corporate bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:

- the existence of liquidity management guidelines approved by senior management and clearly disseminated throughout the Bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group’s funding conditions.

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.

The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Department, the Planning Head Office Department and the Active Value Management Department, responsible for liquidity management, and the Financial and Market Risks Department, directly responsible for measuring liquidity risk on a consolidated basis.

With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows with certain or estimated maturities included in 12 months’ time horizon, in order to face periods of tension, including extended ones, on different funding markets, also by establishing adequate liquidity reserves in the form of assets eligible for refinancing with Central Banks or liquid securities on private markets. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio - LCR).

The cumulative projected wholesale imbalances indicator measures the Bank’s independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations.



The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. NSFR's regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU).

The Guidelines for Group Liquidity Risk Management also envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions. Within this framework, the Treasury Head Office Department and the Planning and Active Value Management Head Office Department were officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term (6 months). These actions must be updated periodically to verify their compatibility with the market conditions and the stress scenario adopted.

The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Financial and Market Risks Department.

Moreover, there are no medium/long-term loan contracts containing contractual clauses that result in the immediate collectability of the loans following the downgrading of the bank.

For several medium/long-term loan contracts from supranational bodies, compensation for the rating trigger, i.e. loss of the minimum rating, may be requested with the issue of additional guarantees or additional collateral deemed suitable by the counterparty.

The Group's sound liquidity position - supported by suitable high quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained well within the risk limits set out in the current Group Liquidity Policy for all of 2016: both indicators (LCR and NSFR) were met, already reaching a level above the limits under normal conditions. As at 31 December 2016, the Central Banks eligible and liquid reserves, mainly under centralised management by the Treasury Head Office Department of the Parent Company, including the reserves (cash and deposits) held with Central Banks, came to a total of 150 billion euro (117 billion euro at December 2015), of which 86 billion euro, net of haircut, was unencumbered (78 billion euro at the end of December 2015).

Also the stress tests, when considering the consistent liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the ISP 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.

## QUANTITATIVE INFORMATION

## 1. Breakdown by contractual residual maturity of financial assets and liabilities

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity.

Therefore, no operational data was used that would require, for example, the modelling of demand liabilities and the representation of cash items according to their level of liquidity.

## Currency of denomination: Euro

| Type / Residual maturity                              | On demand      | Between 1 and 7 days | Between 7 and 15 days | Between 15 days and 1 month | Between 1 and 3 months | Between 3 and 6 months | Between 6 months and 1 year | Between 1 and 5 years | Over 5 years   | Unspecified maturity |
|---|----------------|----------------------|-----------------------|-----------------------------|------------------------|------------------------|-----------------------------|-----------------------|----------------|----------------------|
| (millions of euro)                                    |                |                      |                       |                             |                        |                        |                             |                       |                |                      |
| <b>Cash assets</b>                                    | <b>55,423</b>  | <b>21,665</b>        | <b>9,108</b>          | <b>16,197</b>               | <b>19,105</b>          | <b>18,050</b>          | <b>27,014</b>               | <b>132,138</b>        | <b>121,876</b> | <b>24,113</b>        |
| A.1 Government bonds                                  | 15             | 4                    | 1                     | 159                         | 343                    | 1,269                  | 2,987                       | 27,649                | 23,978         | -                    |
| A.2 Other debt securities                             | 28             | 4                    | 1,293                 | 2,934                       | 248                    | 477                    | 817                         | 4,783                 | 9,612          | -                    |
| A.3 Quotas of UCI                                     | 1,821          | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -              | -                    |
| A.4 Loans   | 53,559         | 21,657               | 7,814                 | 13,104                      | 18,514                 | 16,304                 | 23,210                      | 99,706                | 88,286         | 24,113               |
| - Banks   | 9,072          | 827                  | 1,015                 | 813                         | 1,980                  | 1,013                  | 863                         | 693                   | 131            | 24,113               |
| - Customers   | 44,487         | 20,830               | 6,799                 | 12,291                      | 16,534                 | 15,291                 | 22,347                      | 99,013                | 88,155         | -                    |
| <b>Cash liabilities</b>                               | <b>227,763</b> | <b>22,073</b>        | <b>2,152</b>          | <b>8,977</b>                | <b>10,891</b>          | <b>13,114</b>          | <b>18,446</b>               | <b>94,985</b>         | <b>26,431</b>  | <b>1,575</b>         |
| B.1 Deposits and current accounts                     | 219,047        | 1,551                | 928                   | 3,381                       | 4,394                  | 3,809                  | 5,163                       | 11,804                | 1,518          | 1                    |
| - Banks   | 3,879          | 63                   | 51                    | 27                          | 58                     | 153                    | 257                         | 2,385                 | 357            | -                    |
| - Customers   | 215,168        | 1,488                | 877                   | 3,354                       | 4,336                  | 3,656                  | 4,906                       | 9,419                 | 1,161          | 1                    |
| B.2 Debt securities                                   | 43             | 193                  | 495                   | 1,413                       | 5,339                  | 8,348                  | 12,346                      | 35,128                | 20,381         | 1,572                |
| B.3 Other liabilities                                 | 8,673          | 20,329               | 729                   | 4,183                       | 1,158                  | 957                    | 937                         | 48,053                | 4,532          | 2                    |
| <b>Off-balance sheet transactions</b>                 |                |                      |                       |                             |                        |                        |                             |                       |                |                      |
| C.1 Financial derivatives with exchange of capital    |                |                      |                       |                             |                        |                        |                             |                       |                |                      |
| - Long positions                                      | 422            | 5,894                | 4,890                 | 8,456                       | 13,124                 | 7,884                  | 5,938                       | 18,241                | 9,586          | -                    |
| - Short positions                                     | 2,098          | 6,146                | 3,098                 | 8,188                       | 10,527                 | 4,315                  | 5,854                       | 13,398                | 8,880          | -                    |
| C.2 Financial derivatives without exchange of capital |                |                      |                       |                             |                        |                        |                             |                       |                |                      |
| - Long positions                                      | 27,036         | 2                    | 31                    | 29                          | 118                    | 116                    | 392                         | 546                   | 63             | -                    |
| - Short positions                                     | 30,762         | 18                   | 33                    | 30                          | 102                    | 154                    | 431                         | 546                   | 63             | -                    |
| C.3 Deposits and loans to be settled                  |                |                      |                       |                             |                        |                        |                             |                       |                |                      |
| - Long positions                                      | 31,166         | -                    | -                     | 50                          | -                      | -                      | -                           | -                     | -              | -                    |
| - Short positions                                     | -              | 31,166               | -                     | 50                          | -                      | -                      | -                           | -                     | -              | -                    |
| C.4 Irrevocable commitments to lend funds             |                |                      |                       |                             |                        |                        |                             |                       |                |                      |
| - Long positions                                      | 2,715          | 27,072               | 673                   | 589                         | 4,140                  | 55                     | 618                         | 15,800                | 2,570          | -                    |
| - Short positions                                     | 52,117         | 51                   | 4                     | 100                         | 64                     | 181                    | 228                         | 1,436                 | 887            | -                    |
| C.5 Financial guarantees given                        | 171            | 1                    | 2                     | 6                           | 70                     | 65                     | 33                          | 69                    | 13             | -                    |
| C.6 Financial guarantees received                     | -              | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -              | -                    |
| C.7 Credit derivatives with exchange of capital       |                |                      |                       |                             |                        |                        |                             |                       |                |                      |
| - Long positions                                      | -              | -                    | -                     | -                           | 544                    | 457                    | 1,793                       | 4,433                 | 1,207          | -                    |
| - Short positions                                     | -              | -                    | -                     | -                           | 544                    | 457                    | 1,793                       | 4,433                 | 1,207          | -                    |
| C.8 Credit derivatives without exchange of capital    |                |                      |                       |                             |                        |                        |                             |                       |                |                      |
| - Long positions                                      | 816            | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -              | -                    |
| - Short positions                                     | 761            | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -              | -                    |

**Currency of denomination: Other currencies**

| Type / Residual maturity                              | (millions of euro) |                      |                       |                             |                        |                        |                             |                       |              |                      |
|---|--------------------|----------------------|-----------------------|-----------------------------|------------------------|------------------------|-----------------------------|-----------------------|--------------|----------------------|
|   | On demand          | Between 1 and 7 days | Between 7 and 15 days | Between 15 days and 1 month | Between 1 and 3 months | Between 3 and 6 months | Between 6 months and 1 year | Between 1 and 5 years | Over 5 years | Unspecified maturity |
| <b>Cash assets</b>                                    | <b>6,171</b>       | <b>2,665</b>         | <b>1,028</b>          | <b>3,344</b>                | <b>5,277</b>           | <b>4,212</b>           | <b>5,603</b>                | <b>18,780</b>         | <b>8,389</b> | <b>1,628</b>         |
| A.1 Government bonds                                  | 2                  | 29                   | 67                    | 320                         | 1,049                  | 763                    | 786                         | 3,428                 | 2,932        | -                    |
| A.2 Other debt securities                             | 20                 | 201                  | 59                    | 207                         | 107                    | 91                     | 224                         | 2,137                 | 1,151        | -                    |
| A.3 Quotas of UCI                                     | 261                | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| A.4 Loans   | 5,888              | 2,435                | 902                   | 2,817                       | 4,121                  | 3,358                  | 4,593                       | 13,215                | 4,306        | 1,628                |
| - Banks   | 3,865              | 1,015                | 364                   | 576                         | 1,475                  | 901                    | 1,324                       | 254                   | 94           | 1,628                |
| - Customers   | 2,023              | 1,420                | 538                   | 2,241                       | 2,646                  | 2,457                  | 3,269                       | 12,961                | 4,212        | -                    |
| <b>Cash liabilities</b>                               | <b>11,948</b>      | <b>4,004</b>         | <b>3,689</b>          | <b>5,634</b>                | <b>4,077</b>           | <b>1,223</b>           | <b>1,732</b>                | <b>9,337</b>          | <b>6,341</b> | <b>2</b>             |
| B.1 Deposits and current accounts                     | 11,167             | 2,226                | 1,151                 | 2,640                       | 1,555                  | 768                    | 924                         | 1,455                 | 475          | -                    |
| - Banks   | 1,154              | 487                  | 228                   | 451                         | 354                    | 41                     | 147                         | 346                   | 198          | -                    |
| - Customers   | 10,013             | 1,739                | 923                   | 2,189                       | 1,201                  | 727                    | 777                         | 1,109                 | 277          | -                    |
| B.2 Debt securities                                   | 4                  | 23                   | 1,600                 | 201                         | 413                    | 210                    | 716                         | 7,101                 | 5,448        | -                    |
| B.3 Other liabilities                                 | 777                | 1,755                | 938                   | 2,793                       | 2,109                  | 245                    | 92                          | 781                   | 418          | 2                    |
| <b>Off-balance sheet transactions</b>                 |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| C.1 Financial derivatives with exchange of capital    |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | 83                 | 10,189               | 4,676                 | 12,460                      | 14,320                 | 6,306                  | 9,410                       | 15,599                | 9,600        | -                    |
| - Short positions                                     | 268                | 9,844                | 6,524                 | 12,702                      | 16,391                 | 10,057                 | 9,796                       | 18,092                | 9,762        | -                    |
| C.2 Financial derivatives without exchange of capital |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | 1,614              | 20                   | 2                     | 21                          | 34                     | 28                     | 26                          | 33                    | 184          | -                    |
| - Short positions                                     | 1,415              | 4                    | 2                     | 7                           | 37                     | 22                     | 64                          | 33                    | 184          | -                    |
| C.3 Deposits and loans to be settled                  |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | 143                | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| - Short positions                                     | 71                 | 51                   | 14                    | 7                           | -                      | -                      | -                           | -                     | -            | -                    |
| C.4 Irrevocable commitments to lend funds             |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | 32                 | 5                    | 4                     | 30                          | 193                    | 465                    | 607                         | 13,873                | 879          | -                    |
| - Short positions                                     | 15,420             | 23                   | 7                     | 83                          | 175                    | 704                    | 273                         | 1,447                 | 10           | -                    |
| C.5 Financial guarantees given                        | 326                | 1                    | 6                     | 4                           | 23                     | 33                     | 20                          | 16                    | 1            | -                    |
| C.6 Financial guarantees received                     | -                  | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| C.7 Credit derivatives with exchange of capital       |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | -                  | -                    | -                     | -                           | -                      | 9                      | 330                         | 2,045                 | 9            | -                    |
| - Short positions                                     | -                  | -                    | -                     | -                           | -                      | 9                      | 330                         | 2,045                 | 9            | -                    |
| C.8 Credit derivatives without exchange of capital    |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | 268                | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| - Short positions                                     | 298                | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |

**2. Self-securitisations**

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.

A brief description of the existing transactions as at 31 December 2016 is provided below.

**Adriano Lease SEC S.r.l.**

The transaction in question is a securitisation undertaken pursuant to Law 130/99 with the support of the vehicle Adriano Lease SEC S.r.l., which took the form of the sale by the subsidiary Leasint S.p.A. (subsequently merged into Mediocredito Italiano) of a portfolio of loans selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts, for a total amount of approximately 5.8 billion euro, with the purpose to expand the liquidity reserve that may be activated through refinancing transactions on the Eurosystem.

The vehicle Adriano Lease SEC issued two series of notes:

- a senior series, with a nominal value of 2.8 billion euro, listed and assigned an A+ rating by Standard & Poor's and AAA by DBRS. The security amortisation period started on July 2013; as at 31 December 2015, it had been fully amortised;
- a junior series, with a nominal value of 3 billion euro, unlisted and unrated, is still being repaid. As at 31 December 2016, securities for 2.1 billion euro were still to be repaid.

All these notes were purchased by the subsidiary Leasint (now Mediocredito Italiano). Until January 2016, the junior notes were partially assigned through a repurchase agreement to Intesa Sanpaolo, which partially used them as collateral for a loan received. In December 2016, the Board of Directors of Mediocredito Italiano approved the early redemption of the transaction, considering that, after the repayment in full of the senior tranche, this no longer contributes to the formation of collateral for the refinancing transactions with the ECB, which is the source of fixed costs to maintain the underlying structure, and that alternative uses for the junior tranche are not foreseen.

For the purposes of the early closing of the transaction, in January 2017 Mediocredito Italiano reacquired from Adriano Lease Sec the portfolio of loans at its book value (2.2 billion euro) and terminated all the contracts related to the transaction.

It should be noted that, having reconsolidated all the securitised assets in its financial statements as these were not subject to derecognition, the repurchase of the portfolio did not have any economic or capital impact on the Bank.

On the payment date of 27 January 2017 Adriano Lease Sec repaid all the securities in full.

**Intesa Sanpaolo SEC S.A.**

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxembourg-based vehicle company Intesa Sanpaolo SEC. SA.

The securities issued, with a total value of about 326 million euro, were subscribed by Intesa Sanpaolo and used for a value of about 308 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.

***Intesa Sanpaolo Securitisation Vehicle S.r.l.***

In December 2014, a new securitisation was approved, involving three portfolios of loans originated by CIB Bank ZRT, primarily non-performing positions, secured by guarantees and mortgages and denominated in euro, Hungarian forints and Swiss francs. Those portfolios were transferred without recourse to Intesa Sanpaolo, which on 30 December 2014 in turn sold the three portfolios without recourse to the vehicle for 241 million euro, 17.1 billion Hungarian forints and 57.2 million Swiss francs, respectively.

Intesa Sanpaolo is the servicer of the portfolio and CIB Bank ZRT the sub-servicer, in accordance with applicable legislation.

In February 2015, Intesa Sanpaolo Securitisation Vehicle S.r.l. issued two classes of notes for each of the three separate asset pools. All classes of notes, which are unlisted and unrated, were subscribed for by Intesa Sanpaolo, as summarised below:

- class-A (senior) notes of 138.2 million euro and class-J (junior) notes of 103.3 million euro were issued for the portfolio of securitised loans in euro;
- class-A (senior) notes of 7.8 billion forints and class-J (junior) notes of 9.3 billion forints were issued for the portfolio of securitised loans in Hungarian forints;
- class-A (senior) notes of 29.4 million francs and class-J (junior) notes of 27.9 million francs were issued for the portfolio of securitised loans in Swiss francs.

As at 31 December 2016, the asset pools held by the vehicle were composed as follows:

- securitised assets in euro of 79.1 million, in addition to cash of 12.9 million euro. The securities in issue had a residual value of 74.3 million euro (class A) and 103.3 million euro (class J);
- securitised assets in Hungarian forints with a value in euro of 15.6 million and cash with a value in euro of 1.8 million euro. The securities in issue had a residual value of 12.9 million euro (class A) and 30.1 million euro (class J);
- securitised assets in Swiss francs with a value in euro of 5.1 million euro and cash with a value in euro of 0.5 million euro. The securities in issue had a residual value of 1.5 million euro (class A) and 26 million euro (class J);

The table below shows the characteristics of the securities issued by the vehicles and subscribed by the Group companies.

|   |   |  |                 | (millions of euro)         |  |
|---|---|--|-----------------|----------------------------|--|
| Vehicle   | Type of security issued                     | Type of asset securitised                                | External rating | Principal as at 31.12.2015 |  |
| <b>Adriano Lease SEC S.r.l.</b>                   |   |  |                 | <b>2,137</b>               |  |
|   | Senior                                      | Receivables from lease payments                          | A+              | -                          |  |
|   | Junior                                      | Receivables from lease payments                          | no rating       | 2,137                      |  |
| <b>Intesa Sanpaolo SEC SA</b>                     |   |  |                 | <b>326</b>                 |  |
| <i>of which issued in EUR</i>                     |   |  |                 | <b>291</b>                 |  |
|   | Secured Principal Notes                     | Receivables from large international corporate customers | no rating       | 276                        |  |
|   | Secured Income Notes                        | Receivables from large international corporate customers | no rating       | 15                         |  |
| <i>of which issued in USD</i>                     |   |  |                 | <b>35</b>                  |  |
|   | Secured Principal Notes                     | Receivables from large international corporate customers | no rating       | 33                         |  |
|   | Secured Income Notes                        | Receivables from large international corporate customers | no rating       | 2                          |  |
| <b>Intesa Sanpaolo Securitisation Vehicle SRL</b> |   |  |                 | <b>349</b>                 |  |
| <i>of which issued in EUR</i>                     |   |  |                 | <b>241</b>                 |  |
|   | Class A ABS F/R Notes                       | Commercial mortgage loans                                | no rating       | 138                        |  |
|   | Class J ABS F/R and Additional Return Notes | Commercial mortgage loans                                | no rating       | 103                        |  |
| <i>of which issued in CHF</i>                     |   |  |                 | <b>53</b>                  |  |
|   | Class A ABS F/R Notes                       | Commercial mortgage loans                                | no rating       | 27                         |  |
|   | Class J ABS F/R and Additional Return Notes | Commercial mortgage loans                                | no rating       | 26                         |  |
| <i>of which issued in HUF</i>                     |   |  |                 | <b>55</b>                  |  |
|   | Class A ABS F/R Notes                       | Commercial mortgage loans                                | no rating       | 25                         |  |
|   | Class J ABS F/R and Additional Return Notes | Commercial mortgage loans                                | no rating       | 30                         |  |
| <b>TOTAL</b>                                      |   |  |                 | <b>2,812</b>               |  |

## OTHER INFORMATION ON FINANCIAL RISKS

## SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

The following table illustrates the value of the main exposures of the Intesa Sanpaolo Group to sovereign risk.

(millions of euro)

|                                | DEBT SECURITIES       |                                     |                              |   |                                       | INSURANCE COMPANIES (**) | LOANS          |               |
|--------------------------------|-----------------------|-------------------------------------|------------------------------|---|---------------------------------------|--------------------------|----------------|---------------|
|                                | Loans and Receivables | Financial assets available for sale | BANKING GROUP                |   | Financial assets held for trading (*) |                          | TOTAL          |               |
|                                |                       |                                     | Investments held to maturity | Financial assets designated at fair value through profit and loss |                                       |                          |                |               |
| <b>EU Countries</b>            | <b>6,977</b>          | <b>50,467</b>                       | <b>959</b>                   | <b>725</b>  | <b>2,401</b>                          | <b>54,550</b>            | <b>116,079</b> | <b>16,981</b> |
| Austria                        | -                     | -                                   | 4                            | -   | -6                                    | 3                        | 1              | -             |
| Belgium                        | -                     | 609                                 | -                            | -   | 28                                    | 8                        | 645            | -             |
| Bulgaria                       | -                     | -                                   | -                            | -   | -                                     | 59                       | 59             | -             |
| Croatia                        | 94                    | 161                                 | 2                            | 725   | 67                                    | 61                       | 1,110          | 1,103         |
| Cyprus                         | -                     | -                                   | -                            | -   | -                                     | -                        | -              | -             |
| Czech Republic                 | -                     | -                                   | -                            | -   | -                                     | -                        | -              | 9             |
| Denmark                        | -                     | 19                                  | -                            | -   | -                                     | -                        | 19             | -             |
| Estonia                        | -                     | -                                   | -                            | -   | -                                     | -                        | -              | -             |
| Finland                        | -                     | 83                                  | -                            | -   | -                                     | 9                        | 92             | 6             |
| France                         | 101                   | 3,446                               | -                            | -   | 217                                   | 90                       | 3,854          | 6             |
| Germany                        | -                     | 9,569                               | -                            | -   | 131                                   | 867                      | 10,567         | -             |
| Greece                         | -                     | -                                   | -                            | -   | -                                     | -                        | -              | -             |
| Hungary                        | 33                    | 643                                 | -                            | -   | 126                                   | 39                       | 841            | 27            |
| Ireland                        | -                     | 77                                  | -                            | -   | -9                                    | 101                      | 169            | -             |
| Italy                          | 6,461                 | 26,291                              | 355                          | -   | 1,521                                 | 51,852                   | 86,480         | 15,099        |
| Latvia                         | -                     | 21                                  | -                            | -   | -                                     | -                        | 21             | 50            |
| Lithuania                      | -                     | 57                                  | -                            | -   | 6                                     | -                        | 63             | -             |
| Luxembourg                     | -                     | -                                   | -                            | -   | -                                     | -                        | -              | -             |
| Malta                          | -                     | -                                   | -                            | -   | -                                     | -                        | -              | -             |
| Netherlands                    | -                     | 553                                 | -                            | -   | 1                                     | 100                      | 654            | -             |
| Poland                         | 17                    | 89                                  | -                            | -   | 41                                    | 19                       | 166            | -             |
| Portugal                       | 17                    | -                                   | -                            | -   | -4                                    | -                        | 13             | 25            |
| Romania                        | -                     | 150                                 | -                            | -   | 4                                     | 132                      | 286            | 1             |
| Slovakia                       | -                     | 348                                 | 598                          | -   | -                                     | -                        | 946            | 123           |
| Slovenia                       | -                     | 225                                 | -                            | -   | -                                     | 8                        | 233            | 247           |
| Spain                          | 254                   | 8,036                               | -                            | -   | 225                                   | 1,202                    | 9,717          | 285           |
| Sweden                         | -                     | -                                   | -                            | -   | 53                                    | -                        | 53             | -             |
| United Kingdom                 | -                     | 90                                  | -                            | -   | -                                     | -                        | 90             | -             |
| <b>North African Countries</b> | <b>-</b>              | <b>605</b>                          | <b>-</b>                     | <b>-</b>  | <b>-</b>                              | <b>-</b>                 | <b>605</b>     | <b>-</b>      |
| Algeria                        | -                     | -                                   | -                            | -   | -                                     | -                        | -              | -             |
| Egypt                          | -                     | 605                                 | -                            | -   | -                                     | -                        | 605            | -             |
| Libya                          | -                     | -                                   | -                            | -   | -                                     | -                        | -              | -             |
| Morocco                        | -                     | -                                   | -                            | -   | -                                     | -                        | -              | -             |
| Tunisia                        | -                     | -                                   | -                            | -   | -                                     | -                        | -              | -             |
| <b>Japan</b>                   | <b>-</b>              | <b>-</b>                            | <b>-</b>                     | <b>-</b>  | <b>709</b>                            | <b>-</b>                 | <b>709</b>     | <b>-</b>      |

(\*) Taking into consideration on-balance sheet positions

(\*\*) Debt securities of insurance companies are classified almost entirely to the available-for-sale portfolio

As illustrated in the table, the exposure to Italian government securities totalled approximately 86 billion euro, in addition to around 15 billion euro represented by loans. The value of debt security exposures decreased by approximately 1.5 billion euro compared to the figure recorded as at 31 December 2015.

**INFORMATION ON STRUCTURED CREDIT PRODUCTS**

The risk exposure to structured credit products reached 2,471 million euro as at 31 December 2016 with respect to funded and unfunded ABS/CDOs, compared to 2,429 million euro as at 31 December 2015, in addition to an exposure of 7 million euro with respect to structured packages, which compares with the 2 million euro as at 31 December 2015.

The strategy regarding the portfolio in question in 2016 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 rise in exposure in funded and unfunded ABS/CDOs designated at fair value (from 1,988 million euro in December 2015 to 2,081 million euro in December 2016) is attributable to higher investments in ABS by the subsidiary Banca IMI, part of which was classified to the available-for-sale portfolio, as well as to European ABS acquired by the Parent Company and classified in the trading portfolio, only partially offset by the sales of the period.

Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings. The Parent Company confirmed its transactions in European RMBS with mainly AAA ratings, aimed at seizing market opportunities, with new investments that are only partially offset by sales.

With regard to the exposure represented by securities classified under the loan portfolio, on the other hand, a decrease was recorded (from 441 million euro in December 2015 to 390 million euro in December 2016), attributable to the sales that concerned the portfolio of the Parent Company and Banca IMI, only partially offset by higher investments.

The increase in the exposure of structured packages is attributable to valuation components of the period.

From an income statement perspective, a result of +13 million euro was recorded in 2016, compared to -1 million euro for 2015.

As at 31 December 2016 the "Profits (losses) on trading – caption 80" of the exposure to funded and unfunded ABSs/CDOs came to +12 million euro, generated by the positions in funded European and U.S. ABSs/CDOs, while positions in multi-sector CDOs and U.S. subprime had a nil result.

The exposure to funded and unfunded ABSs/CDOs in securities classified by the subsidiary Banca IMI in the available-for-sale portfolio recorded a net increase in fair value of 5 million euro, accounted for in the specific Shareholders' Equity Reserve, and an impact on the income statement for sales made in the period of +5 million euro. The securities reclassified in the Loan portfolio recorded an impact of -6 million euro in 2016, to be attributed to the Parent Company, which posted negative adjustments due to the impairment of several securities in the portfolio (-1 million euro in 2015).

The "Monoline risk" and "Non-monoline packages" segments made a contribution to "Profits (Losses) on trading – caption 80" of +2 million euro in 2016, compared with the nil contribution in 2015.

### INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

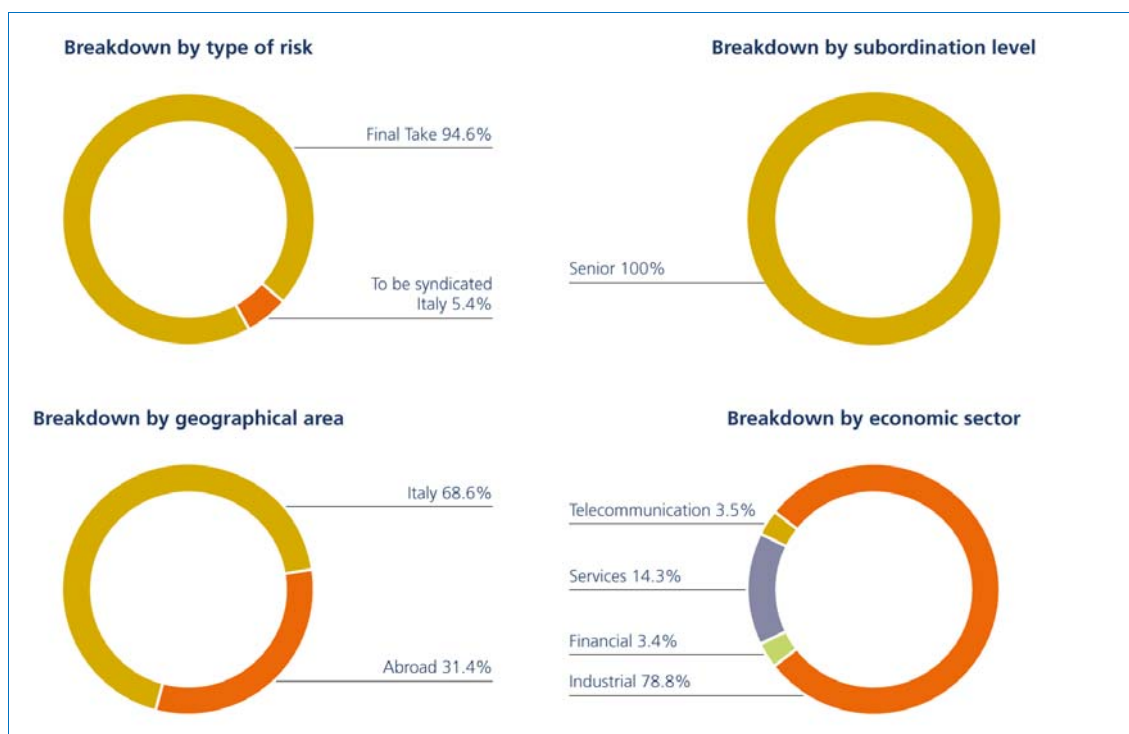
Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long term) to legal entities, in which the 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 created for this purpose. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.

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

As at 31 December 2016, 111 transactions for a total amount granted of 3,024 million euro met the above definition.

These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.



### INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio held for trading as at 31 December 2016 totalled 352 million euro, compared to 758 million euro recorded in December 2015, 80% of which were funds on the MAP platform.

The reduction in the portfolio is mainly due to significant distributions and redemptions starting in the second quarter - aimed at reducing the risk level of the exposure and resulting from the obligation to comply with the instructions of the Volker Rule on U.S. Funds - as well as to the decrease in the value of the units underwritten mainly during the first quarter, partly offset by recoveries recorded in the last few months of the year.

As at the same date, the economic result of the investments in this segment was negative for 35 million euro, compared to the positive 8 million euro of "Profits (Losses) on trading – caption 80" in the third quarter of 2015. The 35 million euro net loss is almost entirely attributable to a decline in the NAV of several funds witnessed in the first quarter.

More specifically, the greatest losses were recorded on the Paulson fund (16 million euro), which is heavily exposed to the healthcare sector, which was affected by idiosyncratic events and is at the centre of the US electoral campaign on the price of drugs, and on the Eurizon Penghua fund (4 million euro), focusing on the Asian equity market, and the Chinese one in particular; several losses also concerned funds on the Map 12 and Map 10 platforms, focused on financials and the Italian banking system. On the contrary worth mentioning are the positive results of the Map19 fund, which skilfully takes advantage of merger arbitrage and corporate recapitalisation and restructuring operations.

Overall, the portfolio's strategy remains oriented towards benefiting from the occurrence of specific corporate events, largely independent of the general trend, and the reduction of risk through a general downwards revision of allocations of individual funds in response to market uncertainty.



**INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS**

Considering relations with customers only, as at 31 December 2016, 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 7,532 million euro (7,670 million euro as at 31 December 2015). The notional value of these derivatives totalled 47,698 million euro (45,855 million euro as at 31 December 2015). Of these, the notional value of plain vanilla contracts was 44,451 million euro (42,521 million euro as at 31 December 2015), while that of structured contracts was 3,247 million euro (3,334 million euro as at 31 December 2015).

Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 5,175 million euro (5,161 million euro as at 31 December 2015), of which 463 million euro (493 million euro as at 31 December 2015) referred to structured contracts.

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,971 million euro as at 31 December 2016 (1,929 million euro as at 31 December 2015). The notional value of these derivatives totalled 22,030 million euro (20,304 million euro as at 31 December 2015). Of these, the notional value of plain vanilla contracts was 18,745 million euro (17,999 million euro as at 31 December 2015), while that of structured contracts was 3,285 million euro (2,305 million euro as at 31 December 2015).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2016, this led to a negative effect of 18 million euro being recorded under "Profits (Losses) on trading" in the income statement.

As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs in Part A of the Notes to the consolidated financial statements.

Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.

## 1.4. BANKING GROUP – OPERATIONAL RISK

### QUALITATIVE INFORMATION

#### General aspects, operational risk management processes and measurement methods

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract liability or other disputes; ICT (Information and Communication Technology) risk; compliance risk and model risk. Strategic and reputational risks are not included.

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

With regard to operational risk, on 31 December 2009, the Group adopted the Advanced Measurement Approach (AMA - internal model), in partial use with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the main banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium and by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.

The control of the Group's operational risk was attributed to the Board of Directors, which identifies risk management policies, and to the Management Control Committee, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.

Moreover, the tasks of the Intesa Sanpaolo Group Internal Control Coordination and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

The Group has a centralised function within the Enterprise Risk Management Department for management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.

In compliance with current requirements, the individual organisational units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these organisational units to be responsible for Operational Risk Management (structured collection of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).

The Self-diagnosis Process, conducted on an annual basis, allows the Group to:

- identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
- analyse exposure to ICT risk;
- create significant synergies with the Information Security Governance and Business Continuity Sub-Department, which supervises the planning of operational processes, IT security and business continuity issues, with the Administrative and Financial Governance and with control functions (Compliance and Internal Auditing) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests on the effectiveness of controls of company processes.

The Self-diagnosis process for 2016 identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of these risks. During the Self-diagnosis process, the organisational units also analysed their exposure to ICT risk. This assessment is in addition to that conducted by the technical functions (ISGS - ICT Head Office Department, Market Risk IT Infrastructure Office of the ISP Financial and Market Risks Head Office Department and the IT functions of the main Italian and international subsidiaries) and the other functions with control duties (Information Security Governance and Business Continuity Sub-Department and the IT Security functions of the main Italian and international subsidiaries).

The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.

The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative (Self-diagnosis) information.

The quantitative component is based on an analysis of historical data concerning internal events (recorded by the organisational units, appropriately verified by the Head Office Department and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).

The qualitative component (scenario analysis) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company's business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly severe operational events.

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment (Business Environment Evaluation), to take into account the effectiveness of internal controls in the various organisational units.

Operational risks are monitored by an integrated reporting system, which provides management with support information for managing and/or mitigating the operational risk. In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.

In addition, the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and damage, cash and valuables in transit losses, computer fraud, forgery, cyber-crimes, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an insurance coverage policy named Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market.

The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

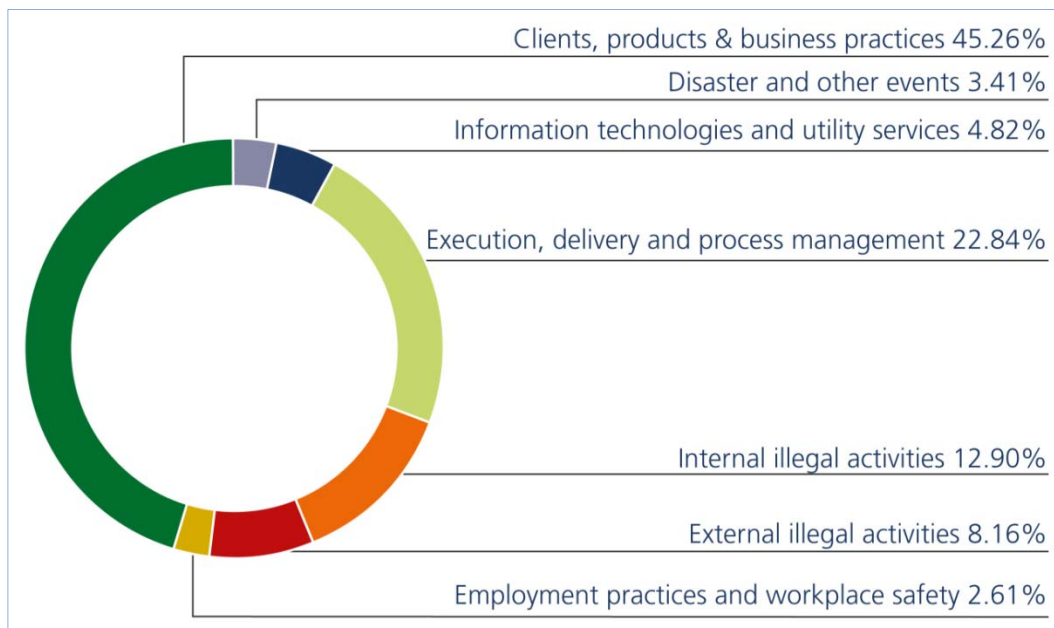
In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

**QUANTITATIVE INFORMATION**

To determine its capital requirements, the Group employs a combination of the approaches allowed under applicable regulations. The resulting capital absorption was 1,563 million euro as at 31 December 2016, down compared to 31 December 2015 (1,652 million euro), with a significant decline in the AMA portion (-112 million euro, due to the update of the databases used to determine it, as regards both the prospective part - from scenario analysis - and the historical part - internal and external operating losses) and a lesser decrease in the TSA - standardised approach - and BIA - basic approach - components (-13 million euro, due to the annual update to the relevant indicator data used for this purpose).

The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by type of operational event.

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



**LEGAL RISKS**

Legal risks are thoroughly and individually analysed by the Parent Company and Group companies. Provisions have been made to the Allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.

As at 31 December 2016 a total of about 17,000 disputes were pending (excluding Risanamento S.p.A., which is not subject to management and coordination by Intesa Sanpaolo) with a total remedy sought of 6,682 million euro and provisions of approximately 744 million euro.

In further detail, the most important of these are:

- bankruptcy revocatory disputes, with remedy sought of 467 million euro and allowances of 81 million euro;
- insolvency compensation disputes, with remedy sought of 496 million euro and allowances of 19 million euro
- disputes concerning investment services, with remedy sought of 410 million euro and allowances of 78 million euro;
- disputes concerning anatocism and other conditions, with remedy sought of 866 million euro and allowances of 134 million euro;
- disputes concerning bank products, with remedy sought of 225 million euro and allowances of 32 million euro;
- complaints concerning loan positions, with remedy sought of 2,143 million euro and allowances of 73 million euro;
- disputes concerning lease contracts, with remedy sought of 112 million euro and allowances of 6 million euro;
- other civil and administrative disputes, with remedy sought of 1,358 million euro and allowances of 105 million euro.

In addition to brief remarks on the litigation involving anatocism, other banking products and investment services, the following paragraphs provide concise information about the individual relevant disputes (indicatively, those with a remedy sought of more than 100 million euro and where the risk of an outlay is currently deemed probable or possible).

*Dispute relating to anatocism and other current account or credit facility conditions* – As is common knowledge, in 1999 the Italian Court of Cassation reversed its stance and found the quarterly capitalisation of interest payable on current accounts to be unlawful. Following this decision, a series of disputes emerged on the subject of the capitalisation of interest for contracts executed prior to that date, whereas the problem was partly resolved for contracts executed after the amendment of Art. 120 of the Consolidated Law on Banking introduced in the interim by Legislative Decree 342/99, which made it legal to capitalise interest payable and receivable, provided that both occur with the same frequency. In many cases, lawsuits pertaining to anatocism also concern other contractual current account or credit facility conditions, such as interest rates and overdraft charges (no longer applied).

The overall economic impact of lawsuits in this area remain at insignificant level in absolute terms. The risks related to these disputes are covered by specific, adequate provisions to the Allowances for risks and charges.

A new version of Art. 120 of the Consolidated Law on Banking banning the compounding of interest in banking transactions – without prejudice to the authority delegated to CICR (the Interdepartmental Committee for Credit and Savings) to establish the implementing provisions envisaged in the previous text – entered into force at the beginning of 2014. In 2015 the Consumers Movement Association (AMC) sued various banks, including Intesa Sanpaolo, claiming that the ban on compounding was immediately applicable, contrary to the position taken by the banking industry, i.e. that the implementing resolution by the CICR was necessary. During the trial, the Court of Milan handed down an order on 1 July 2015 against Intesa Sanpaolo enjoining it from compounding interest payable by its consumer customers.

In April 2016, Art. 120 of the Consolidated Law on Banking was amended again to permit annual compounding of interest with the customer's authorisation. The implementing resolution by the CICR was published in August 2016. According to the new provisions, it applies to interest accrued from 1 October 2016.

For the time being, the compounding of interest is not applied to consumer customers of Intesa Sanpaolo, since the above order of the Court of Milan is still in effect. A motion has been filed to quash the above order and a decision is pending.

The dispute regarding account conditions also includes the class action suit brought in 2010 by Altroconsumo against Intesa Sanpaolo concerning the illegal nature of overdraft charges. The Court of Turin ruled that overdraft charges were void according to the principle that, in the absence of a formal credit facility, any overdraft would not justify the application of additional costs to the account-holder. The decision was upheld in the second instance, but will be appealed before the Court of Cassation. In October 2012, the overdraft charge was replaced by the expedited approval fee.

*Dispute concerning other banking products* – In the context of the dispute relating to other banking products, which remained at normal, limited overall levels, in recent years there was an increase, with regard to consumer credit business, in requests from customers who repaid their loans in advance to obtain a partial refund of sums paid at the signing of the contract (by way of financial fees or insurance costs). In particular, the complaints revolve around an unclear distinction in contracts between fees for services rendered by the disbursing entity during the process of granting the loan, which thus are not eligible for a refund in the event of early repayment, and fees relating to management of the loan over time, which are therefore eligible for a pro-rated refund in the event of early repayment.

The contractual uncertainties in question relate to contracts entered into until 2010, in respect of which appropriate provisions have been set aside. In contracts entered into thereafter, the aspects outlined above have been clearly and explicitly stated. This was also acknowledged by an October 2016 decision by the Coordination Panel of the Financial and Banking Arbitrator, which supports the belief that there is not a significant risk for such contracts.

*Dispute concerning investment services* - In 2016 cases of this type of dispute continued to decline in absolute terms and (albeit marginally) by value. The risks related to this type of dispute are also covered by specific, adequate provisions to the Allowances for risks and charges.

*Alis Holding lawsuit* – At the end of 2014, Alis Holding S.r.l. in liquidation sued Intesa Sanpaolo, seeking compensation for damages of 127.6 million euro, on the grounds that the Bank allegedly breached an obligation to provide financing to its investee Cargoitalia without justification. In addition to objecting that Alis Holding lacked standing to sue, the Bank challenged the opposing party's claims from various perspectives, in particular due to the lack of a causal link between its actions and the alleged damages, the absence of any commitment whatsoever on the Bank's part to fund Cargoitalia and the improper representation and quantification of the alleged damages.

While the suit was ongoing, the claimant formulated an additional subordinate compensation claim (in the same amount as its principal claim), alleging that the Bank was liable on the basis of statements made by a Bank employee in the capacity of member of the company's Board of Directors. In its defence, Intesa Sanpaolo disputed this allegation and objected to the new claim. Considering the large amount of the remedy sought and the risks that – despite the favourable scenario for the Bank – are inevitably associated with the outcomes of such complex litigation, negotiations have been initiated to seek a settlement of the overall matter.

*ENPAM lawsuit* - In June 2015 ENPAM sued Cassa di Risparmio di Firenze, along with other defendants such as JP Morgan Chase & Co and BNP Paribas, before the Court of Milan.

ENPAM's allegations concern the issuance and trading (in 2005) of several complex financial products known as "JP Morgan 69,000,000" and "JP Morgan 5,000,000" and the subsequent "swap" (held on 26 May 2006) of those products with other products known as "CLN Corsair 74,000,000", subsequently "restructured" in 2009 and 2010. In particular, the latter products were credit-linked notes, i.e. securities the repayment of whose principal at maturity was tied to the credit risk associated with a tranche of a synthetic CDO. Due to the defaults on the CDO portfolio, the investment allegedly resulted in significant losses, for which compensation is sought.

In the writ of summons, ENPAM petitions the court to make inquiries and hand down rulings on the basis of various legal concepts (contractual and tort liability and breach of Articles 23, 24 and 30 of the Consolidated Law on Finance). It also petitions the court to order the defendants to make restitution of the sum "of 222,209,776.71 euro, in addition to interest and additional damages, and compensation for damages to be paid on an equitable basis pursuant to Art. 1226 of the Italian Civil Code". The portion attributable to the position of Cassa di Risparmio di Firenze is argued to be 103,806,716 euro (in addition to interest and the purported "additional damages").

Cassa di Risparmio di Firenze was sued as the transferee of the Italian branch of Cortal Consorts S.A. (subsequently merged into BNP Paribas), which had provided ENPAM with the investment services within the framework of which the securities in question were subscribed.

At a preliminary stage, Cassa di Risparmio di Firenze raised various objections (including a lack of standing to be sued and the time bar of the actions brought). On the merits, it argued, among other positions, that the provisions of the Consolidated Law on Finance indicated by ENPAM were not applicable and that there was no evidence of the damages. It also disputed the quantification of the damages by ENPAM and, alternatively, that it contributed to causing the damages in question. If an unfavourable judgment is rendered, Cassa di Risparmio di Firenze has requested that the court determine its internal share of the total liability of the defendants and that the other defendants be ordered to indemnify it against any sums that it may be required to pay by the court in excess of its share of the liability, and that BNP Paribas be ordered to indemnify Cassa di Risparmio di Firenze against any sums that it is ordered to pay ENPAM.

After several procedural steps, the new first hearing in the trial has been scheduled for March 2017.

At present it is not possible to express a reliable assessment of the risk inherent in the trial since it is still in the initial phase.

*Disputes regarding tax-collection companies* - In the context of the government's decision to reassume responsibility for tax collection, Intesa Sanpaolo sold to Equitalia S.p.A. full ownership of Gest Line and ETR/ESATRI, companies that managed tax-collection activities, undertaking to indemnify the buyer against any expenses associated with the collection activity carried out up to the time of purchase of the equity interests.

In particular, such expenses refer to liabilities for disputes (with tax authorities, taxpayers and employees) and out-of-period expenses and capital losses with respect to financial situation at the time of the sale.

A technical roundtable has been formed with Equitalia in order to assess the parties' claims.

*Dealings with the Giacomini Group* - In May 2012, the Public Prosecutor's Offices of Verbania and Novara initiated investigations of possible tax offences committed by the Giacomini family and their advisors, and the Public Prosecutor's Office of Milan launched an investigation of possible complicity in money-laundering by certain of the Giacomini's financial advisors and the former CEO of the Luxembourg subsidiary, Société Européenne de Banque - SEB (now Intesa Sanpaolo Bank Luxembourg S.A.) and the head of Corporate Division relations of Intesa Sanpaolo, as well as SEB and ISP for administrative liability pursuant to Legislative Decree no. 231/01.

In 2015 and 2016 all positions relating to the Intesa Sanpaolo Group were dismissed.

*Administrative and judicial proceedings against Banca IMI Securities Corp. of New York* - The SEC (the U.S. financial market supervisory authority) has launched an investigation concerning the dealings of certain brokers, including our subsidiary IMI Securities of New York, involving particular financial instruments known as "ADRs" (deposit receipts for shares issued by non-U.S. companies). IMI Securities discontinued this line of business in 2014.

In recent months, collaborative discussions have been held with the SEC to settle the proceedings.

In October 2016, the Antitrust Division of the Department of Justice (DOJ) of New York launched an investigation into such dealings in ADRs, and specifically into a possible cartel formed by certain participants, including IMI Securities. The proceedings are in the initial stages, characterised by requests for documents and information.

*Administrative and judicial proceedings involving the New York branch* - As already indicated in the chapter Executive summary, in December a final settlement was reached with the New York State Department of Financial Services (a New York State banking supervisor) in relation to a civil penalty imposed on the Bank following a public supervisory action related to certain weaknesses and deficiencies in the anti-money laundering controls, policies and procedures at the New York branch.

In the second half of 2016 the Supervisory Authority specified the alleged violations incurred by the branch.

Negotiations were then initiated between the Bank and Supervisory Authority, resulting in a penalty being imposed on the Bank. The penalty – expensed to the income statement in 2016 – was 235 million dollars (225 million euro). As previously disclosed, the supervisory action was initiated in 2007 and the Bank was also subject to a criminal investigation initiated in 2008 by the New York District Attorney's Office and the Department of Justice into the methods used by the Bank for clearing through the United States payments in dollars to/from countries subject to U.S. economic sanctions in the years from 2001 to 2008. The criminal investigation was concluded in 2012, when both law enforcement agencies determined to terminate their investigation and not to take any action against the Bank.

### Potential assets

*IMI/SIR dispute* - In judgement 11135 filed on 21 May 2015, the Court of Rome ordered Giovanni Acampora and Vittorio Metta, the latter jointly liable with the Prime Minister's Office (pursuant to Law 117/1988 on the accountability of the judiciary), to pay Intesa Sanpaolo 173 million euro net of tax, plus legal interest running from 1 February 2015 to the date of final payment, plus legal expenses.

The above judgement followed on:

- judgement of the Rome Court of Appeal 1306/2013, which overturned, on the basis of judicial corruption, the judgement handed down by that same Rome Court of Appeal in 1990, ordering IMI to pay the heir of entrepreneur Nino Rovelli (who passed away in the interim) the sum of approximately 980 billion Italian lire;
- the compensation claim put forward by Intesa Sanpaolo (successor to IMI) on the basis of the judgements establishing the criminal liability of the corrupt judge (and his accomplices) and ordering the defendants to provide compensation for damages, referring the question of the amount of such damages to the civil courts.

The Court of Rome therefore proceeded to quantify the financial and non-financial damages due to Intesa Sanpaolo for a total of 173 million euro net of tax and after deduction of the amounts since received by the bank as part of the settlements with the Rovelli family and with the counterparties Previti and Pacifico.

Given that it was calculated net of tax, the award was grossed up and accounted for net of the amounts relating to: sums already recognised in the balance sheet (but not taken into account in the ruling by the Court of Rome) and to tax credits sold to Intesa Sanpaolo by the Rovelli family by way of settlement. These related to taxes previously paid by IMI as a result of the revoked, corrupt ruling, and the fiscal authorities have already been asked to pay them back. Consequently, 211 million euro has been booked in other operating income, along with the related taxes of 62 million euro.

The opposing parties have filed an appeal with a motion for a stay. The appeal briefs do not introduce any substantially new issues not already considered and deemed groundless by the court.

In July 2016 the Rome Court of Appeal stayed the enforcement of the judgment of the first instance with respect to the amount in excess of 130 million euro, in addition to ancillary charges and expenses. As a result of this decision, in December 2016 the Office of the President of the Council of Ministers credited Intesa Sanpaolo with the sum of 131,173,551.58 euro (corresponding to the 130 million euro of the order, in addition to legal interest and reimbursement of expenses). To avoid dispute, for the time being only the exact amount of the decision, without applying the "gross-up", has been demanded and collected. The case has been continued until June 2018.

### Labour litigation

There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2016. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

### TAX LITIGATION

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

The Parent Company has 234 pending litigation proceedings (303 as at 31 December 2015) for a total amount of 240 million euro (847 million euro as at 31 December 2015, including three disputes in the settlement phase the value of which was 467 million euro), calculated considering proceedings in both administrative and judicial venues at various instances. As regards those situations, actual risk was quantified at 81 million euro as at 31 December 2016 (229 million euro at the end of 2015, of which 135 million euro relating to litigation being settled).

At the Group's other Italian companies included in the scope of consolidation (with the exclusion of Risanamento S.p.A., not subject to management and coordination by Intesa Sanpaolo), tax litigation totalled 198 million euro at year-end (217 million euro in 2015), covered by specific provisions of 35 million euro (27 million euro in 2015).

Tax disputes involving international subsidiaries, totalling 8 million euro (537 million euro in 2015), are covered by allowances of 3 million euro (10 million euro in 2015). The significant decrease in potential risks observed during the year is related to the settlement of the charge of illegal use of an offshore tax structure brought by the Italian tax authorities against the Luxembourg subsidiary Eurizon Capital S.A., as discussed in further detail below.

The main events affecting Intesa Sanpaolo in 2016 included the following.

On 22 March, by implementing the resolution of the Management Board of 23 February, the Bank finalised a framework agreement with the Italian Revenue Agency to settle three important disputes deriving from two reports on findings by the Guardia di Finanza (Italian Tax Police), served in September 2013 and February 2015, previously illustrated in detail in the 2015 Annual Report. Under the agreement, the above disputes, which represented approximately 55% of the total value of the pending litigation of Intesa Sanpaolo, were settled for a total payment of 125 million euro of principal and interest. No penalties were levied.

During the year, also the procedure was completed for the implementation of the framework agreements stipulated with the Italian Revenue Agency in 2015 for complete settlement of the charges concerning tax period 2005, resulting in a reduction of the revenue authority's claim from the original 376 million euro (including tax, penalties and interest) to approximately 6 million euro (so-called "Castello Finance dispute"). On 5 February 2016, the settlement led the repayment of 107 million euro, previously disbursed on a preliminary basis, and the related interest of 6 million euro.

The most significant aspect of the disputes still pending relates to recoveries of registry tax on company contributions and the subsequent sale of equity investments, which the revenue authorities have treated as sales of business units. Within this framework, there are currently 11 pending disputes involving a total of 59.5 million euro of additional taxes, in addition to interest of 11.2 million euro, with the application of penalties. Of these, six disputes (with a total value of 48.3 million euro, plus interest) are currently pending before the Court of Cassation, five on appeal by the revenue authority and one on appeal by the Bank. In the light of recent case law of Italy's Supreme Court, Intesa Sanpaolo has provisioned for potential charges, calculated on the basis of the clauses of the contracts of sale of the equity interests, according to which the taxes associated with the transactions may be passed on to the buyer.

In respect of those same contributions, the Italian Revenue Agency has assessed a greater value of the companies than indicated in the purchase and sale agreements for the equity interests, also for the purposes of registry tax. In this context, there are two pending disputes with a total value of approximately 33 million euro, in which the risk of an unfavourable outcome is considered remote. One of the two disputes (total value of 1.8 million euro, in addition to interest) was initiated in 2016 and concerns the contribution of bank branches by ISP, Cariveneto and Carifirenze to Cariparma and Friuladria.

In 2016 four cases of litigation with a total value of approximately 22.2 million euro (taxes, interest and penalties) were brought to a positive conclusion. The cases concerned registry tax paid on certain rulings of the judicial authority rendered in favour of a

number of financial institutions in respect of pool loans to the Costanzo Group.

In addition, in August and November 2016 two auditors' reports, dated 27 July 2015 and 29 March 2016, issued by the Italian Revenue Agency, Emilia Romagna Regional Office, concerning the corporate income tax (IRES) of the merged company Neos Finance in tax periods 2011 and 2012, were resolved by tax settlement proposal. The claims, concerning IRES and penalties of about 3.4 million euro, in addition to interest, concern the determination criteria of the threshold under which the impairment of loans covered by insurance policies contracted by customers could be immediately deducted. Since the effects of the tax claim were strictly temporary, as it concerned an issue of timing only, the total effective amount of penalties and interest was 0.7 million euro for the two years.

The most significant tax disputes of the former Centro Leasing, relating to the years from 2003 to 2007 (total value of approximately 41.7 million euro) and primarily concerning lease-back transactions, were resolved in December. Resolution of the cases entailed the payment of 1.8 million euro (taxes of 0.8 million euro, interest of 0.2 million euro and penalties of 0.8 million euro), covered in their entirety by previous provisions.

Turning to the other Group companies, an agreement was reached with the Italian Revenue Agency, Emilia Romagna Regional Office, to settle the claims concerning the tax treatment by Group banks based in the region (Carirromagna, Carisbo and the merged Banca Monte Parma) of the losses related to the transfer of loans to customers out of the performing category, subject to lump-sum write-downs, to positions subject to individual impairment testing, as a consequence of their involvement in insolvency procedures. The total risk associated with the claims in question, 61 million euro, was settled for a total charge of 3 million euro (taxes of 2 million euro, interest of 0.3 million euro and penalties of 0.7 million euro). Deferred tax assets were recognised on the basis of the tax charge, which may be recovered in tax periods after the periods of assessment, since they derive from a challenge of jurisdiction. Consequently, the actual charge in the income statement is represented by the interest and penalties only, for a total of 1 million euro.

In a case involving abuse of the law, Banca IMI was served an auditors' report by the Guardia di Finanza on 20 July 2016 concerning the reclassification as repurchase agreements of transactions in securities and single stock futures on regulated markets undertaken in tax periods 2011 and 2012. The Bank reached an agreement with the Italian Revenue Agency for 2011, under which it settled the claims for a total charge of 1.8 million euro, compared to total claims of 25.6 million euro. Negotiations to reach a settlement on the basis of the same criteria applied for 2011 (the total value of the dispute is 42 million euro) are also under way for 2012.

The dispute with the Italian revenue authority concerning the Luxembourg subsidiary Eurizon Capital S.A. ("EC LUX"), as set out in the auditors' report dated 10 February 2015 issued by the Guardia di Finanza, was settled in December 2016. Based on the claim (supported by documentation obtained by auditors while at the offices of Eurizon Capital SGR - "EC SPA") that the company is resident in Italy for tax purposes due to the alleged presence in Italy of its administrative office and primary place of business, the auditors' report charged the company with failing to report income of approximately 731 million euro for the periods from 2004 to 2013. In June 2015, EC LUX had received notices of assessment for the periods from 2004 to 2008 (total IRES due of 122 million euro, plus interest and penalties), which it appealed, providing evidence that it had operated in Luxembourg since 1988 with over 50 highly qualified employees primarily dedicated to managing, marketing and administering Luxembourg funds, it is subject to supervision by the local authorities and has always acted in full compliance with Italian tax law and the treaty for the avoidance of double taxation between Italy and Luxembourg.

In 2016 the Italian Revenue Agency, Lombardia Regional Office, which has jurisdiction over EC SPA, in coordination with Provincial Department 1 ("DP1"), reviewed the claims and conducted further inquiries concerning the relations between EC SPA and the Luxembourg subsidiary during the tax periods from 2011 to 2015. Following its review, the Regional Office concluded, in support of the soundness of the company's arguments, that during the periods 2003 to 2013 the Luxembourg company could not be considered to constitute an illegal offshore tax structure. However, according to the Regional Office, a part of the "profit" earned in the years in question by EC LUX should have been attributed to EC SPA, due to the alleged functional integration of the two companies and the contribution to management provided by the Italian parent to the Luxembourg subsidiary. According to a profit allocation model essentially based on a profit split, the Regional Office assigned EC SPA total taxable revenue for tax periods 2011 to 2015 of 102 million euro and total additional taxes due of 35 million euro, in addition to interest of 3 million euro, without any penalties. In addition, the Luxembourg company was permitted to file a petition (subject to review by the Luxembourg tax authority) to recover the taxes paid in Luxembourg on the taxable revenue attributed by the Regional Office to EC SPA, estimated at approximately 8 million euro.

Although EC SPA considers its position on transfer prices to be sound, a settlement was viewed in a favourable light due to the connection to the dispute concerning the illegal use of an offshore tax structure involving the Luxembourg subsidiary, which the Italian Revenue Agency simultaneously dismissed. In the agreement, finalised in December, the Agency thus acknowledges that it "considered the claims of illegal use of an offshore tax structure brought against Eurizon Capital SA in the auditors' report drafted on 12 February 2015 for the years 2004-2013 to be no longer current" and that it had "taken internal review measures with regard to the assessments issued to Eurizon Capital SA". In this framework, EC SPA has also filed a petition for an international transfer pricing ruling, so as to subject the adequacy of the transfer pricing system currently applied in dealings with foreign subsidiaries to more impartial, technical review. The ruling will enter into effect from the tax period in which the agreement is signed with the Italian Revenue Agency, but with possible retroactive effect, without the application of penalties, from the tax period in which the petition is filed (2016).

In November 2016, the Italian Revenue Agency, Lazio Regional Office, served Fideuram Vita with an auditors' report in which it proposed IRES and IRAP be levied on the additional sums of 0.75 million euro in 2012 and 0.01 million euro in 2013. Negotiations with the Italian Revenue Agency to settle the dispute are in progress.

In December 2016, an auditors' report issued by the Italian Revenue Agency, Lombardy Regional Office, in 2015 to Fideuram Investimenti SGR concerning IRES and IRAP for 2011, and specifically the fairness of the prices applied to outsourced management of investment funds on behalf of the Irish sister company Fideuram Asset Management Ireland, was settled. Resolution of the dispute entailed a total cost, by way of taxes and interest, of 2.3 million euro. An appropriate provision continues to be carried to cover the risk of a potential liability in connection with the same alleged irregularities in the subsequent periods of 2012 and 2013.

For Intesa Sanpaolo Group Services, the general audit by the Guardia di Finanza, which began on 26 November 2015 and concerned IRES, IRAP, VAT, other indirect taxes and labour regulations, was concluded in 2016. An initial auditors' report for 2011 was served in October and a second auditors' report for 2012, 2013 and 2014 in December 2016. The claims against the company concern the prices of services received from a Group company based in Romania. The greater IRES and IRAP assessed total 1.67 million euro, in addition to interest. No objections have been raised with regard to the suitability of the documentation submitted on the subject of the determination of intra-group prices, and thus the alleged irregularities will not result in the levying of penalties.

In October 2016, the Italian Revenue Agency, Veneto Regional Office, served the conclusive auditors' report in the audit of Cassa di Risparmio del Veneto launched on 22 January 2016 concerning tax periods 2011 to 2014. The claims related solely to the

fairness of the spread applied to Intesa Sanpaolo Bank Ireland on a subordinated loan and were resolved by levying IRES and IRAP on a total additional amount of 1.4 million euro for all of the tax periods considered. In the subsequent negotiations with the Agency, the Veneto-based bank was able to obtain recognition of the validity of the criteria used to price the disputed transaction and to have the charge for 2011 reduced to tax and interest of 0.02 million euro, without penalties. On this basis, 2011 was resolved through a tax settlement proposal. The same criteria will also be applied to the subsequent years, from 2012 to 2014, which will be settled in 2017.

For Mediocredito Italiano, on 29 June 2016, the Italian Revenue Agency, Lombardy Regional Office, served a report on findings relating to a tax audit launched on 9 April 2014 concerning direct taxes, IRAP, VAT and obligations of the tax collection agents relating to the 2011 tax period. The audit concluded without any findings against the Company. As for previous disputes, a dispute concerning VAT for 2007, involving allegedly non-existent transactions and boat leasing (6 million euro), was settled in a manner partially favourable to the Company.

Cassa di Risparmio di Firenze received a request for clarification, for the years 2011 to 2013, concerning the VAT deductibility regime applied to purchases of goods and services by the merged Immobiliare Nuova Sede s.r.l., the builder of a property complex intended for use as the Bank's new headquarters. At present, no assessment notices have been served.

In December, Intesa Sanpaolo Private Banking and Intesa Sanpaolo, as consolidating entity, were served assessment notices by the Italian Revenue Agency, Lombardy Regional Office, concerning claims involving 2011 IRES and IRAP. The notices claim that the tax realignment pursuant to Law Decree 185/2008 of the goodwill resulting from the contribution of business units by the Parent Company and by Cariromagna and the resulting deduction of amortisation charges were unlawful. Due to the inability to deduct the portion (one-tenth) amortised in 2011, amounting to 11.6 million euro, the Agency claimed additional IRES and IRAP of 3.8 million euro, penalties of 3.4 million euro and interest. After verifying that its behaviour was consistent with practice (Revenue Agency Circular 8/E of 4 March 2010), the Company decided to conduct a defence in the appropriate legal venues. No provision was recognised, since the risk of a tax liability was regarded as remote.

Intesa Bank Russia is a party to an ongoing tax dispute concerning 2010 and 2011. The local tax authorities have disputed the application of the withholding of 0% envisaged in the treaty for the avoidance of double taxation in effect between Russia and Luxembourg on the interest paid by the Russian bank to Intesa Sanpaolo Holding International S.A. ("ISPHI") in respect of certain financing contracts. According to the Russian tax authorities, the beneficial owner of the interest is Intesa Sanpaolo and not ISPHI, characterised as a mere "conduit company". As a result, the interest paid by Intesa Bank Russia should have been subject to the 10% withholding tax envisaged in the Italy - Russia treaty. The value of the dispute, approximately 1.6 million euro (taxes, interest and penalties), has already been paid in full to the local tax authority. The third instance of the dispute, as the first two, was unfavourable to the Company. The dispute in question could be extended to other years and financing transactions undertaken with other Group companies, but at present the risk of a potential tax liability is deemed remote in that no back-to-back loans have been issued since 2012.

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In connection with all of the ongoing tax disputes as at 31 December 2016, the Group had recognised receivables of 86 million euro to account for amounts paid on a provisional basis in cases of assessments (262 million euro in the 2015 financial statements), 57 million euro of which related to the Parent Company.

The share of the provision for risks that covers the disputes in question amounts to 57 million euro, of which 29 million euro relates to Intesa Sanpaolo (131 million euro as at 31 December 2015, of which 119 million euro for Intesa Sanpaolo).

The provisional payments in question were made in compliance with specific legal provisions, which mandate such payments based on an automatic mechanism independent of whether the related tax claims are actually founded and, thus, irrespective of the higher or lower level of risk of a negative outcome in the related proceedings. Thus, these payments were made solely based on the administrative deeds that set forth the related tax claim, which does not lose its effectiveness even when appealed, has no suspensive effect and does not add to the assessments of the actual risk of a negative outcome, which must be measured using the criteria set forth in IAS 37 for liabilities.



## SECTION 2 – RISKS OF INSURANCE COMPANIES

### 2.1 INSURANCE RISKS

#### QUALITATIVE AND QUANTITATIVE INFORMATION

##### Life business

The typical risks of the life insurance portfolio (managed by Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita) may be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.

Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities). During the definition of a product, profit testing is used, aimed at measuring profitability and identifying any weaknesses beforehand, by means of specific sensitivity analyses.

Actuarial and demographic risks arise when an unfavourable trend is recorded in the actual loss ratio compared with the trend estimated when the rate was calculated, and these risks are reflected in the level of “reserves”. The loss ratio refers not only to actuarial loss, but also to financial loss (guaranteed interest rate risk). The Company guards against these risks by means of systematic statistical analysis of the evolution of liabilities in its own contract portfolio, divided by risk type, and through simulations of expected profitability of the assets hedging technical reserves.

Reserve risk is guarded against through the exact calculation of mathematical reserves, with a series of detailed checks (for example, checking that all the variables required for the calculation such as yields, quotations, technical foundations, parameters for the supplementary reserves, and recalculation of the value of single contracts are correctly saved in the system) as well as overall verifications, by comparing results with the estimates produced on a monthly basis. Specific attention is paid to checking the correct assumption of contracts, by checking the relative portfolio against the reconstruction of movements during the period, divided by purpose, and checking the consistency of the amounts settled compared with the movements of reserves.

The tables below show the structure of the mathematical reserves by expiry date, excluding reserves for amounts to be paid and before intercompany netting, and the structure of the guaranteed minimum yield as at 31 December 2016.

|  | (millions of euro)              |               |
|--|---------------------------------|---------------|
| <b>Breakdown of mathematical reserves of life branch:<br/>maturity</b> | <b>Mathematical<br/>reserve</b> | <b>%</b>      |
| up to 1 year   | 1,662                           | 2.09          |
| 1 to 5 years   | 5,516                           | 6.95          |
| 6 to 10 years  | 1,347                           | 1.70          |
| 11 to 20 years   | 1,223                           | 1.54          |
| over 20 years  | 69,625                          | 87.72         |
| <b>TOTAL</b>   | <b>79,373</b>                   | <b>100.00</b> |

|   | (millions of euro)        |               |
|---|---------------------------|---------------|
| <b>Breakdown of risk concentration<br/>by type of guarantee</b>           | <b>Total<br/>Reserves</b> | <b>%</b>      |
| <b>Insurance and investment products with guaranteed<br/>annual yield</b> |                           |               |
| 0% - 1%   | 11,619                    | 13.65         |
| from 1% to 3%   | 54,951                    | 64.54         |
| from 3% to 5%   | 7,344                     | 8.62          |
| <b>Insurance products</b>   | <b>5,459</b>              | <b>6.41</b>   |
| <b>Shadow reserve</b>   | <b>5,776</b>              | <b>6.78</b>   |
| <b>TOTAL</b>  | <b>85,149</b>             | <b>100.00</b> |

The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

The following table shows a breakdown by maturity of financial liabilities, before intercompany netting, represented by assets covering commitments arising under unit- and index-linked policies and subordinated liabilities.

(millions of euro)

| Breakdown of financial liabilities by maturity | Within 12 months | Over 12 months | Total as at 31.12.2016 | Total as at 31.12.2015 |
|--|------------------|----------------|------------------------|------------------------|
| Unit linked                                    | 50               | 57,303         | 57,353                 | 46,889                 |
| Index linked                                   | -                | 1              | 1                      | 276                    |
| Subordinated liabilities                       | -                | 1,402          | 1,402                  | 1,399                  |
| <b>Total</b>                                   | <b>50</b>        | <b>58,706</b>  | <b>58,756</b>          | <b>48,564</b>          |

### Non-life business

The typical risks of the non-life insurance portfolio (managed through Intesa Sanpaolo Assicura and Intesa Sanpaolo Vita) mainly relate to premium and reserve risks.

Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).

Reserve risk is monitored through the exact calculation of technical reserves. More specifically, for companies with non-life business the technical reserves may be broken down into: premium reserves, claims reserves, profit sharing and reversal reserves, other technical reserves and the equalisation reserve.

With regard to risk assumption, policies are checked when acquired through an automatic system aimed at detecting the underwriting parameters associated with the applicable tariff. The check is thus not only formal, but also substantive, and in particular allows the identification of exposures in terms of capital and limits of liability, in order to verify that the portfolio matches the technical and tariff scheme agreed upon with the sales network.

Subsequently, statistical checks are carried out to verify potentially anomalous situations (such as concentration by area or by type of risk) and to keep under control accumulation at the level of individual persons (with particular reference to policies that provide cover in the accident and health branches). This is also carried out in order to provide the Financial Reporting Actuarial Analysis and Reinsurance Unit with suitable indications on the portfolio characteristics in order to prepare the annual reinsurance plan.

The following table presents the development of claims by year of generation, broken down into the major business lines of operation, as at 31 December 2016.

(millions of euro)

| Development of Claims Reserves                      | YEAR OF GENERATION/EVENT |           |           |           |           | TOTAL      |
|---|--------------------------|-----------|-----------|-----------|-----------|------------|
|   | 2012                     | 2013      | 2014      | 2015      | 2016      |            |
| <b>Reserve amount:</b>                              |                          |           |           |           |           |            |
| as at 31/12 generation year N                       | 92                       | 116       | 124       | 122       | 128       |            |
| as at 31/12 year N+1                                | 92                       | 110       | 102       | 98        |           |            |
| as at 31/12 year N+2                                | 88                       | 108       | 99        |           |           |            |
| as at 31/12 year N+3                                | 88                       | 106       |           |           |           |            |
| as at 31/12 year N+4                                | 87                       |           |           |           |           |            |
| <b>Total claims paid</b>                            | <b>74</b>                | <b>89</b> | <b>81</b> | <b>73</b> | <b>43</b> | <b>360</b> |
| <b>Claims reserve booked as at 31.12.2016</b>       | <b>13</b>                | <b>17</b> | <b>18</b> | <b>25</b> | <b>86</b> | <b>159</b> |
| <b>Final claims reserve for previous years</b>      |                          |           |           |           |           | <b>13</b>  |
| <b>Total claims reserve booked as at 31.12.2016</b> |                          |           |           |           |           | <b>172</b> |

## 2.2 FINANCIAL RISKS

### Financial Risks

These risks derive from the level or volatility of market prices of financial instruments that impact the book value of both assets and liabilities. The risk factors identified by the company are as follows:

- Interest rate risk: impacts assets and liabilities whose value is sensitive to changes in the forward structure of interest rates or the volatility of interest rates;
- Equity price risk: derives from the level or volatility of market prices of equities and impacts assets and liabilities whose value is sensitive to changes in equity prices;
- Property risk: derives from the level or volatility of market prices of real estate property and impacts assets and liabilities sensitive to said changes;
- Foreign exchange risk: derives from changes in the level or volatility of foreign exchange rates;
- Spread risk: impacts assets and liabilities whose value is sensitive to adverse changes in credit spreads;
- Concentration risk: reflects the risk of holding high percentages of financial assets of the same counterparty.

### Investment portfolios

As at 31 December 2016, the investment portfolios of Group companies, recorded at book value, amounted to 147,105 million euro. Of these, the part regarding traditional revaluable life policies, the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined, non-life policies and free capital amounted to 84,312 million euro. The other component, whose risk is borne solely by the policyholders, mainly consists of investments related to Index-Linked policies, Unit-Linked policies and Pension Funds and amounted to 62,793 million euro. Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the financial assets used to cover traditional revaluable life policies, non-life policies and free capital.

### Financial assets under segregated funds and free capital

In terms of breakdown by asset class, net of loans on policies and positions in derivative financial instruments (-73 million euro at book value) detailed below, 87.22% of the assets (73,601 million euro) consisted of bonds, whereas assets subject to equity price risk represented 1.87% of the total and amounted to 1,575 million euro. The remainder (10.91%, 9,209 million euro) consisted of investments relating to UCI, private equity and hedge funds.

### Interest rate risk exposure

The breakdown by maturity of bonds was as follows: 6.88% short-term (under 1 year), 35.74% medium-term and 57.38% long-term (over five years).

| Financial assets                              | Book value    | %             | (millions of euro) |  |
|---|---------------|---------------|--------------------|--|
|   |               |               | Duration           |  |
| <b>Fixed-rate bonds</b>                       | <b>66,664</b> | <b>79.00</b>  | <b>6.45</b>        |  |
| up to 1 year                                  | 3,440         | 4.08          |                    |  |
| 1 to 5 years                                  | 23,336        | 27.65         |                    |  |
| over 5 years                                  | 39,888        | 47.27         |                    |  |
| <b>Floating rate/indexed bonds</b>            | <b>6,937</b>  | <b>8.22</b>   | <b>3.09</b>        |  |
| up to 1 year                                  | 1,623         | 1.92          |                    |  |
| 1 to 5 years                                  | 2,968         | 3.52          |                    |  |
| over 5 years                                  | 2,346         | 2.78          |                    |  |
| <b>TOTAL</b>                                  | <b>73,601</b> | <b>87.22</b>  | <b>-</b>           |  |
| <b>Equities or similar capital securities</b> | <b>1,575</b>  | <b>1.87</b>   |                    |  |
| <b>UCI, Private Equity, Hedge Fund</b>        | <b>9,209</b>  | <b>10.91</b>  |                    |  |
| <b>TOTAL AS AT 31.12.2016</b>                 | <b>84,385</b> | <b>100.00</b> |                    |  |

The sensitivity of the fair value of the portfolio of financial assets to interest rate movements, summarised in the table below, highlights both exposure of the securities portfolio and the effect of positions represented by hedging derivatives which reduce its sensitivity. For example, a parallel shift in the yield curve of +100 basis points leads to a negative fair value change in the bond portfolios of 4,252 million euro.

|                                   | Book value    | %             | (millions of euro)                                   |              |
|-----------------------------------|---------------|---------------|--|--------------|
|                                   |               |               | Fair value changes due to interest rate fluctuations |              |
|                                   |               |               | +100 bps   | -100 bps     |
| Fixed-rate bonds                  | 66,664        | 90.57         | -4,044   | 4,494        |
| Floating rate/indexed bonds       | 6,937         | 9.43          | -208   | 227          |
| Interest rate risk hedging effect | -             | -             | -  | -            |
| <b>TOTAL</b>                      | <b>73,601</b> | <b>100.00</b> | <b>-4,252</b>  | <b>4,721</b> |

**Credit risk exposure**

The table below sets forth the distribution of the bond portfolio by rating class: AAA/AA bonds represented 3.85% of total investments and A bonds approximately 4.73%. Low investment grade securities (BBB) were 76.29% of the total, while the portion of speculative grade or unrated was minimal (2.35%).

With regard to exposure to BBB rated securities, the majority of the exposure related to bonds issued by the Republic of Italy.

(millions of euro)

| <b>Breakdown of financial assets by issuer rating</b> | <b>Book value</b> | <b>%</b>      |
|---|-------------------|---------------|
| <b>Bonds</b>  | <b>73,601</b>     | <b>87.22</b>  |
| AAA   | 2,135             | 2.53          |
| AA  | 1,113             | 1.32          |
| A   | 3,994             | 4.73          |
| BBB   | 64,374            | 76.29         |
| Speculative grade                                     | 1,822             | 2.16          |
| Unrated   | 163               | 0.19          |
| <b>Equities or similar capital securities</b>         | <b>1,575</b>      | <b>1.87</b>   |
| <b>UCI, Private Equity, Hedge Fund</b>                | <b>9,209</b>      | <b>10.91</b>  |
| <b>TOTAL</b>  | <b>84,385</b>     | <b>100.00</b> |

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by governments, central banks and other public entities made up 75.22% of bonds, whereas the securities of corporate issuers contributed around 24.78%.

The sensitivity values of the fair value of the bonds with respect to a variation in the creditworthiness of the issuers, namely a market credit spread shock of  $\pm 100$  basis points, as at end of 2016, are shown in the table below.

(millions of euro)

|                  | Book value    | %             | Fair value changes due to credit spread fluctuations |              |
|------------------|---------------|---------------|--|--------------|
|                  |               |               | +100 bps   | -100 bps     |
| Government bonds | 55,366        | 75.22         | -3,393   | 3,799        |
| Corporate bonds  | 18,235        | 24.78         | -953   | 993          |
| <b>TOTAL</b>     | <b>73,601</b> | <b>100.00</b> | <b>-4,346</b>  | <b>4,792</b> |

**Equity risk exposure**

The sensitivity of the equity portfolio to a hypothetical deterioration in equity prices of 10% amounts to 157 million euro, as shown in the table below.

(millions of euro)

|   | Book value   | %             | Fair value changes due to stock price fluctuations |
|---|--------------|---------------|--|
|   |              |               | -10%   |
| Equities - Financial institutions                           | 161          | 10.22         | -16  |
| Equities - Non-financial companies and other counterparties | 1,414        | 89.78         | -141   |
| <b>TOTAL</b>  | <b>1,575</b> | <b>100.00</b> | <b>-157</b>  |

**Exchange risk exposure**

The investment portfolio is not appreciably exposed to foreign exchange risk: approximately 97% of investments are made up of assets denominated in the EU currency. The residual exposure to exchange risk was hedged by positions in financial instruments, particularly domestic currency swaps, in the same currency.

**Financial derivative instruments**

Financial derivative instruments are used to hedge the financial risks of the investment portfolio or for effective management.

Liquidity risk associated with positions in financial derivative instruments is primarily attributable to plain-vanilla derivatives (chiefly interest rate swaps, credit default swaps and futures) traded on OTC markets with significant liquidity characteristics and sizes. These instruments are thus also liquid and easily liquidated both with the counterparty with which they were traded and with other market operators.

The table below shows the book values of the financial derivative instruments as at 31 December 2016.

| Type of underlying               | (millions of euro) |            |   |          |          |            |
|----------------------------------|--------------------|------------|---|----------|----------|------------|
|                                  | INTEREST RATES     |            | EQUITIES, EQUITY INDICES,<br>COMMODITIES,<br>EXCHANGE RATES |          | TOTAL    |            |
|                                  | Quoted             | Unquoted   | Quoted  | Unquoted | Quoted   | Unquoted   |
| Hedging derivatives              | -                  | -          | -   | -        | -        | -          |
| Effective management derivatives | -                  | -80        | 3   | 4        | 3        | -76        |
| <b>TOTAL</b>                     | <b>-</b>           | <b>-80</b> | <b>3</b>  | <b>4</b> | <b>3</b> | <b>-76</b> |

The capital losses shown for the hedging derivatives are offset, due to the nature of the instruments, by the capital gains on the positions hedged. For the purpose of reducing investment risk, the instruments shown under effective management derivatives are also netted with the appreciation of the associated assets.

## SECTION 3 – RISKS OF OTHER COMPANIES

Risks of other companies are essentially concentrated in the companies Romulus Funding Corporation and Duomo Funding Plc, subsidiaries included within the scope of consolidation pursuant to IFRS 10, and in the Risanamento Group companies, consolidated for accounting purposes starting in 2015, but not subject to management and coordination.

### THE VEHICLES ROMULUS FUNDING CORPORATION AND DUOMO FUNDING PLC

#### Qualitative and quantitative information

These two special-purpose vehicles are the Intesa Sanpaolo Group's asset-backed commercial paper conduits, originally established to support Intesa Sanpaolo's strategy of offering customers an alternative financing channel via access to the international asset-backed commercial paper market. The assets originated by European customers are purchased by Duomo, whereas Romulus is responsible for U.S. assets and fund-raising on the U.S. market through the issuance of asset-backed commercial paper. Nonetheless, due to the subsequent downgrading of Intesa Sanpaolo at the end of 2014, U.S. investors gradually divested without the vehicle being able to find new third party investors with which to place the asset-backed commercial papers. As at 31 December 2016, around 4.8 billion euro of the securities issued by Romulus had been subscribed by the Parent Company Intesa Sanpaolo.

The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks.

As already indicated for Banking Group risks, risk management performs dynamic hedging on the OTC derivatives market to manage both volatility and interest rate risk, as well as listed derivatives to optimise interest rate strategies.

Companies are not generally permitted to take foreign-exchange positions.

As at 31 December 2016, the investment portfolio of vehicle Romulus included 4,791 million euro in loans to the vehicle Duomo. These are in addition to cash, other assets and the positive fair value of hedging derivatives totalling approximately 0.4 million euro.

Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 4,791 million euro, almost all of which has been subscribed by the Parent Company, Intesa Sanpaolo.

The table below shows the information and figures for the above two vehicles as at 31 December 2016.

|                       |                                       | Vehicle data         |                  | Liquidity lines      |     | Guarantees given |        | Securities issued | of which: held by the Group |                    |                |
|-----------------------|---------------------------------------|----------------------|------------------|----------------------|-----|------------------|--------|-------------------|-----------------------------|--------------------|----------------|
|                       |                                       | Total assets         | Cumulated losses | loan facilities      | use | nature           | amount | amount            | amount                      | IAS classification | Valuation      |
| ROMULUS FUNDING CORP. | Asset backed commercial paper conduit | 4,792 <sup>(1)</sup> | -                | -                    | -   | -                | -      | 4,791             | 4,764                       | Loans              | Amortised cost |
| DUOMO FUNDING CORP.   | Asset backed commercial paper conduit | 4,802                | -                | 5,012 <sup>(2)</sup> | -   | -                | -      | -                 | -                           | -                  | -              |

<sup>(1)</sup> Entirely made up of loans disbursed to Duomo for transactions booked in the financial statements of the vehicle.

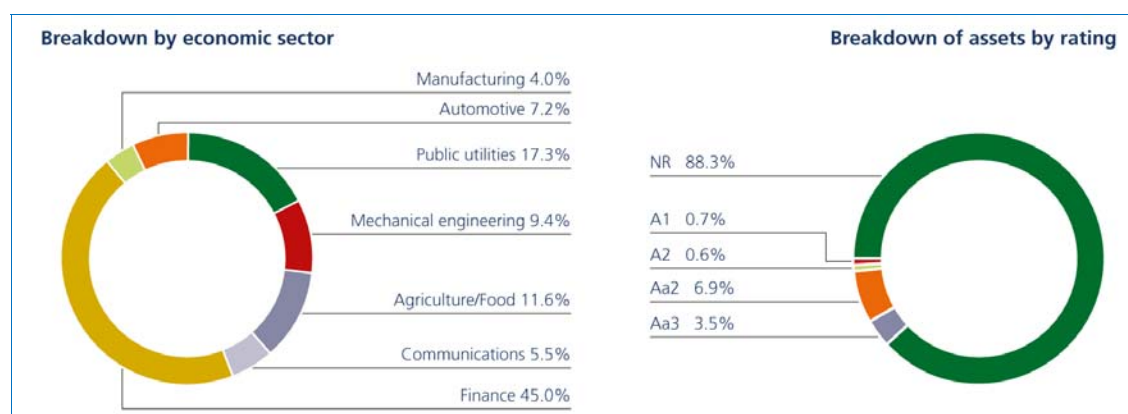
<sup>(2)</sup> of which 2.506 million euro referring to credit lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39.

With regard to the portfolio of the vehicle Duomo, at the end of 2016 – in addition to receivables from Group banks for 2,038 million euro – this portfolio includes loans to customers for 2,763 million euro.

The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 0.4% of the total consolidated assets.

The portfolio of the two vehicles is approximately 54% accounted for by trade receivables and the remainder by consumer loans (23%), by loans deriving from lease contracts (10%), by inventory-backed loans (7%), by mortgage loans (4%) and by loans/lease contracts to pharmaceutical companies (2%). Almost all of the eligible assets held by the vehicles are expressed in euro (94% of the total portfolio). The remainder is denominated primarily in British pounds (4%) and US dollars (2%).

The following information is provided concerning the portfolio of eligible assets.



The unrated share of eligible assets is structured in such a way as to obtain an implicit A/AA rating.

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 96% of the debtors are located in Italy.

The credit facilities made available by Intesa Sanpaolo to Duomo and the credit quality of the assets financed ensure that the asset-backed commercial papers issued by Romulus will retain its A-3/P-2 ratings.

## RISANAMENTO GROUP

### Qualitative and quantitative information

With regard to the risks of other companies, mention should also be made of the potential effects of the unfavourable real-estate market situation on the Risanamento Group, in consideration of the specific nature of that Group's business.

Expectations for the real-estate sector are conditioned by economic growth, difficult credit access conditions and the high unemployment rate. The situation of the real-estate sector thus continues to appear uncertain and complex, just as the macroeconomic context of reference. Indeed, the expected performance of the real-estate market in the coming months is linked to the development of the complex economic scenario.

The real-estate market is subject to the cyclical performance of rent values and property prices. The length of such cycles varies, but normally spans multiple years. The macro-economic factors with the greatest influence on property values and cyclical performance are as follows:

- interest rate performance;
- market liquidity and access to remunerative alternative investments;
- economic growth.

The Risanamento Group's management policy is aimed at minimising the effects of the various phases of the cycle through long-term contracts with tenants of high standing, low vacancy rates to avoid the risk of having to locate new tenants in periods of limited demand for lease space, and investments in development projects with high quality standards.

The main risks specifically relating to real estate managed by the Risanamento Group are represented below.

### *Inability to sell / valuation of assets not in line with the Risanamento Group's strategic projections*

This risk relates to all potential events that may influence the achievement of the sales and lease targets for the Risanamento Group's assets. At present, the ability to identify potential commercial tenants that meet the Company's expected needs and requirements is often subject to factors and circumstances beyond the Company's control. The consequences for operations could translate into a decrease in purchasing transactions and an increase in vacant properties.

The Risanamento Group manages this risk through constant monitoring of commercial activities and observance of strategic objectives that allow it to assess and implement sales actions with a full awareness of the established strategic objectives, including through processes structured in the form of international tenders to involve the major global players.

In the leasing business, the Group's primary asset (which generates over 85% of its lease revenue) is a long-term lease contract entered into with a tenant of high standing.

### *Risks associated with project execution*

The execution of real-estate initiatives presents risks associated with planning activity, environmental problems, building activity, and the length and potential exposure of the initiative to the cyclical nature of the real-estate market.

This latter aspect is inherent in larger, long-term projects that are inevitably affected by the cyclical nature of the real-estate sector due to the need to combine administrative formalities with innovative design quality, harnessed to stimulate demand from the market.

The potential risk in question also translates into the possibility that i) errors in or critical aspects of a design may compromise the objectives of the timeliness and proper execution of the works, and ii) the works may not be completed according to the agreed terms and conditions for reasons attributable to the contractor.

In reference to point i), the Group has implemented a structured contractor selection process aimed at identifying professionals with a track record of strong technical expertise. In addition, the Group enters into contracts that include warranty and

indemnification clauses. The Group monitors the design process through constant discussions with counterparties about all related activities and verification of periodic quality status and project compliance.

In reference to point ii), the Group adopts structured supplier selection processes to select contractors that meet requirements of good character, integrity, technical and professional qualification and operational and organisational adequacy in addition to being financially solid. Contractors are constantly monitored in order to ensure constant access to information useful in assessing the situation and taking the appropriate corrective measures in a timely manner. In addition, the contracts contain warranty clauses benefiting the principal.

The total carrying amount of the Risanamento Group's real-estate portfolio in Intesa Sanpaolo's consolidated financial statements is 1,011 million euro.

In further detail, the portfolio may be broken down as follows:

- non-investment properties; 41 million euro (registered office and place of business);
- properties held for sale; 271 million euro;
- real-estate development areas and projects; 658 million euro;
- trading properties; 41 million euro.

As mentioned above, Intesa Sanpaolo does not perform management and coordination activity over Risanamento S.p.A. and its subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.



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# Part F – Information on consolidated capital

## SECTION 1 – CONSOLIDATED CAPITAL

### A. Qualitative information

The control of capital adequacy both at consolidated level and at single entities level is ensured by capital management which defines the size and optimum combination of the different capital instruments in accordance with regulatory constraints and consistently with the risk exposure taken on by the Group.

The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, considering this to be an instrument for strategic leverage, as well as a way to ensure consistency of the operating plans of the business units.

Once the Group's strategic profitability, capital soundness and liquidity objectives have been defined, capital and financial resources are allocated to the business units through a process that evaluates their growth potential, capacity to generate value and financial autonomy.

The capital at risk considered is twofold:

- regulatory capital covering Pillar 1 risks;
- overall internal capital covering Pillar 2 risks, for ICAAP purposes.

Regulatory capital and overall internal capital differ from each other by definition and by their coverage of risk categories. The first arises from formats defined in supervisory provisions, the second from operational measurements.

Hence, the capital management activity comprises the management of current and prospective capital adequacy through careful control of both regulatory Pillar 1 constraints (in compliance with Basel 3 rules, effective from 1 January 2014) and operational Pillar 2 constraints. Projections are also produced under stress conditions in order to ensure that the available resources are adequate to cover all risks, even in adverse conditions. Furthermore, since 2013, the Group has been drawing up a Recovery Plan, in line with regulatory indications ("Bank Recovery and Resolution Directive – BRRD" - 2014/59/EU transposed in Italy through Legislative Decree 180 and 181 on 16 November 2015), with international practice and in compliance with both the Group Risk Appetite Framework and the crisis management model adopted by the Bank.

As part of the process of defining budget targets, a projection compatibility analysis is conducted annually at Group level and at the level of individual entities in the Group. Depending on the expected performance of balance sheet and income statement aggregates, the appropriate capital management measures to ensure the required financial resources for the individual business units are already identified in this phase, if necessary.

Compliance with the target levels of capitalisation is monitored on a quarterly basis, taking appropriate action when necessary.

Compliance with capital adequacy is sought via various levers, such as the dividend distribution policy, the definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of investments, particularly loans, on the basis of counterparty risk.

Further analyses for preliminary assessment of capital adequacy are performed during extraordinary operations (mergers, acquisitions, disposals, etc.) whether internal to the Group or changing the scope of consolidation of the Group.

Following the Supervisory Review and Evaluation Process (SREP), the ECB annually makes a final decision on the capital requirement that Intesa Sanpaolo must comply with at consolidated level.

Starting from 1 January 2016 (ECB decision of 27 November 2015) the Common Equity Tier 1 ratio to be met was set at 9.5%. This requirement was the result of: a) the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 requirement of 2.5%, entirely in terms of Common Equity Tier 1 ratio; and b) the additional requirement of the Capital Conservation Buffer, equal to 2.5%.

On 12 December 2016 Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that it has to meet, as of 1 January 2017. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 7.25% under the transitional criteria for 2017 and 9.25% under the standard criteria.

This is the result of: a) the SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and an additional Pillar 2 capital requirement of 1.5%, entirely in terms of Common Equity Tier 1 ratio; b) additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 1.25% under the transitional criteria for 2017 and 2.5% the standard criteria in 2019, and an O-SII Buffer (Other Systemically Important Institutions Buffer) of zero under the transitional criteria for 2017 and 0.75% under the standard criteria in 2021.

**B. Quantitative information****B.1. Consolidated shareholders' equity: breakdown by type of company**

(millions of euro)

|  | Banking group | Insurance companies | Other companies | Netting and adjustments on consolidation | TOTAL         | of which: minority interests |
|--|---------------|---------------------|-----------------|--|---------------|------------------------------|
| <b>Share capital</b>   | <b>9,106</b>  | -                   | <b>290</b>      | <b>-290</b>                              | <b>9,106</b>  | <b>374</b>                   |
| Ordinary shares  | 8,621         | -                   | 289             | -289                                     | 8,621         | 374                          |
| Savings shares   | 485           | -                   | 1               | -1                                       | 485           | -                            |
| <b>Share premium reserve</b>   | <b>27,375</b> | -                   | <b>1</b>        | <b>-1</b>                                | <b>27,375</b> | <b>26</b>                    |
| <b>Reserves</b>  | <b>9,525</b>  | <b>-705</b>         | <b>-386</b>     | <b>1,091</b>                             | <b>9,525</b>  | <b>-3</b>                    |
| Legal reserve  | 2,065         | -                   | -               | -  | 2,065         | -                            |
| Extraordinary reserve  | 1,130         | -                   | -               | -  | 1,130         | -                            |
| Concentration reserve<br>(as per Art. 7, par. 3 of Law 218 of 30/7/1990) | 232           | -                   | -               | -  | 232           | -                            |
| Concentration reserve<br>(as per Art. 7 of Law 218 of 30/7/1990)         | 302           | -                   | -               | -  | 302           | -                            |
| Consolidation reserve  | 5,709         | -705                | -386            | 1,091                                    | 5,709         | -3                           |
| Other reserves   | 87            | -                   | -               | -  | 87            | -                            |
| <b>Equity instruments</b>  | <b>2,117</b>  | -                   | -               | -  | <b>2,117</b>  | -                            |
| <b>(Treasury shares)</b>   | <b>-72</b>    | <b>-2</b>           | -               | -  | <b>-74</b>    | <b>-2</b>                    |
| <b>Valuation reserves:</b>   | <b>-1,930</b> | <b>502</b>          | <b>6</b>        | <b>-508</b>                              | <b>-1,930</b> | <b>-76</b>                   |
| Financial assets available for sale                                      | -42           | 503                 | -               | -  | 461           | 8                            |
| Property and equipment   | -             | -                   | -               | -  | -             | -                            |
| Intangible assets  | -             | -                   | -               | -  | -             | -                            |
| Hedges of foreign investments  | -             | -                   | -               | -  | -             | -                            |
| Cash flow hedges   | -1,143        | -                   | -               | -  | -1,143        | -                            |
| Foreign exchange differences   | -1,050        | -                   | 6               | -6                                       | -1,050        | -78                          |
| Non current assets held for sale   | -             | -                   | -               | -  | -             | -                            |
| Actuarial gains (losses) on defined benefit plans                        | -652          | -1                  | -               | -  | -653          | -6                           |
| Share of valuation reserves connected with investments carried at equity | 609           | -                   | -               | -502                                     | 107           | -                            |
| Legally-required revaluations  | 348           | -                   | -               | -  | 348           | -                            |
| <b>Parent Company's net income (loss) and minority interest</b>          | <b>3,200</b>  | <b>523</b>          | <b>-138</b>     | <b>-385</b>                              | <b>3,200</b>  | <b>89</b>                    |
| <b>Shareholders' equity</b>  | <b>49,321</b> | <b>318</b>          | <b>-227</b>     | <b>-93</b>                               | <b>49,319</b> | <b>408</b>                   |

The table above indicates the components of net book value, adding those of the Group to those of third parties, broken down by the type of consolidated company. In further detail, the column for the Banking group indicates the amount resulting from the consolidation of the companies belonging to such group, gross of the effects on the income statement of transactions with other companies within the scope of consolidation. Subsidiaries other than those belonging to the Banking group and consolidated on a line-by-line basis are stated here at equity. The columns Insurance companies and Other companies contain the amounts resulting from consolidation, gross of the effects on the income statement of transactions with companies belonging to the Banking group. The columns Netting and Adjustments on consolidation show the adjustments required to obtain the figure represented in the financial statements.

**B.2. Valuation reserves of financial assets available for sale: breakdown**

(millions of euro)

|                               | Banking group    |                  | Insurance companies |                  | Other companies  |                  | Netting and adjustments on consolidation |                  | TOTAL 31.12.2016 |                  |
|-------------------------------|------------------|------------------|---------------------|------------------|------------------|------------------|--|------------------|------------------|------------------|
|                               | Positive reserve | Negative reserve | Positive reserve    | Negative reserve | Positive reserve | Negative reserve | Positive reserve                         | Negative reserve | Positive reserve | Negative reserve |
| 1. Debt securities            | 642              | -535             | 472                 | -11              | -                | -                | -472                                     | 11               | 642              | -535             |
| 2. Equities                   | 285              | -42              | 27                  | -4               | -                | -                | -27                                      | 4                | 285              | -42              |
| 3. Quotas of UCI              | 137              | -8               | 25                  | -6               | -                | -                | -25                                      | 6                | 137              | -8               |
| 4. Loans                      | -                | -                | -                   | -                | -                | -                | -  | -                | -                | -                |
| <b>Total as at 31.12.2016</b> | <b>1,064</b>     | <b>-585</b>      | <b>524</b>          | <b>-21</b>       | <b>-</b>         | <b>-</b>         | <b>-524</b>                              | <b>21</b>        | <b>1,064</b>     | <b>-585</b>      |
| <b>Total as at 31.12.2015</b> | <b>1,455</b>     | <b>-473</b>      | <b>715</b>          | <b>-33</b>       | <b>98</b>        | <b>-</b>         | <b>-813</b>                              | <b>33</b>        | <b>1,455</b>     | <b>-473</b>      |

Approximately 18 % of the positive reserve on equities is attributable to quoted securities classified as level 1, while the remaining 82 % is attributable to securities classified as level 2 and 3.

**B.3. Valuation reserves of financial assets available for sale: annual changes**

(millions of euro)

|   | Debt securities | Equities    | Quotas of UCI | Loans     |
|---|-----------------|-------------|---------------|-----------|
| <b>1. Initial amount</b>  | <b>475</b>      | <b>420</b>  | <b>85</b>     | <b>2</b>  |
| <b>2. Positive fair value differences</b>                           | <b>426</b>      | <b>188</b>  | <b>147</b>    | <b>1</b>  |
| 2.1 Fair value increases  | 340             | 141         | 109           | 1         |
| 2.2 Reversal to the income statement of negative reserves           | 66              | 26          | 11            | -         |
| - impairment  | -               | 25          | 7             | -         |
| - disposal  | 66              | 1           | 4             | -         |
| 2.3 Other changes   | 20              | 21          | 27            | -         |
| <b>3. Negative fair value differences</b>                           | <b>-794</b>     | <b>-365</b> | <b>-103</b>   | <b>-3</b> |
| 3.1 Fair value decreases  | -581            | -150        | -79           | -3        |
| 3.2 Impairment losses   | -2              | -1          | -             | -         |
| 3.3 Reversal to the income statement of positive reserves: disposal | -153            | -202        | -6            | -         |
| 3.4 Other changes   | -58             | -12         | -18           | -         |
| <b>4. Closing amount</b>  | <b>107</b>      | <b>243</b>  | <b>129</b>    | <b>-</b>  |

## Trading on treasury shares

During the year, Intesa Sanpaolo and Group companies – on the basis of specific Shareholders' Meeting authorisations – carried out the following transactions on treasury shares:

## Ordinary shares:

|                    |     |             |
|--------------------|-----|-------------|
| Initial number     | no. | 20,605,530  |
| Purchases          | no. | 9,358,959   |
| Sales              | no. | - 6,604,165 |
| End-of-year number | no. | 23,360,324  |

## Non-convertible savings shares:

During the year no transactions on savings shares were recorded.

**B.4. Valuation reserves relating to the defined benefit plans: annual changes**

During the year the reserves in question recorded a negative change of 170 million euro (119 million euro of which referring to pension funds and 51 million euro to employee termination indemnities). As at 31 December 2016 there is an overall negative reserve equal to approximately 653 million euro for defined benefit plans.

## SECTION 2 – OWN FUNDS AND CAPITAL RATIOS FOR BANKS

### 2.1. Scope of application of regulations

The “Banking Group” differs from the scope of consolidation for the purposes of the financial statements prepared in accordance with the IAS/IFRS. The differences essentially relate to:

- the line-by-line consolidation in the IAS/IFRS financial statements of non-banking, financial and instrumental companies (primarily the insurance segment) not included in the “Banking group”;
- the proportional consolidation in the “Banking Group” of the jointly controlled entities conducting banking, financial and instrumental business that are consolidated at equity in the financial statements.

Own funds and capital ratios were calculated on the basis of the provisions in force (Circulars 285 and 286, both issued during 2013, 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.

### 2.2. Own funds of banks

#### A. Qualitative information

The new regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:

- Tier 1 capital, in turn composed of:
  - o Common Equity Tier 1 Capital (CET1);
  - o Additional Tier 1 Capital (AT1);
- Tier 2 capital (T2)

Tier 1’s predominant element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, profit reserves, valuation reserves and eligible minority interests, plus deducted elements.

In order to be eligible for Common Equity, the equity instruments issued must guarantee absorption of losses on going concern, by satisfying the following characteristics:

- maximum level of subordination;
- option for suspending the payment of dividends/coupons at the full discretion of the issuer and in a non-cumulative manner;
- unredeemability;
- absence of redemption incentives.

At present, with reference to the Intesa Sanpaolo Group, no equity instrument other than ordinary shares is eligible for inclusion in Common Equity.

A number of prudential filters are also envisaged with effects on Common Equity:

- filter on profits associated with future margins deriving from securitisations;
- filter on cash flow hedge (CFH) reserves;
- filter on profits or losses on liabilities designated at fair value (derivatives or otherwise) associated with changes in own credit rating;
- adjustments to fair value assets associated with the “prudent valuation”.

The regulations also envisage a series of elements to be deducted from Common Equity Tier 1:

- goodwill, intangible assets and residual intangible assets;
- deferred tax assets (DTA) associated with future income not deriving from temporary differences (e.g. DTA on losses carried forward);
- expected losses exceeding total adjustments (the shortfall reserve) for positions weighted according to IRB approaches;
- net assets deriving from defined benefit plans;
- exposures for which it is decided to opt for deduction rather than a 1.250% weighting among RWA;
- minor investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations);
- deferred tax assets (DTA) that rely on future profitability and arise from temporary differences (deducted for the amount exceeding thresholds envisaged in the regulations);
- significant investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations).

In general, the AT1 category includes equity instruments other than ordinary shares, meeting the regulatory requirements for inclusion in that level of own funds (e.g. savings shares or the specific issues of Additional Tier 1 instruments).

Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.

In addition the introduction was foreseen of the new regulatory framework (so-called Basel 3) gradually over a transitional period, generally through 2017, during which several elements that, when the framework is in full effect, will be eligible for full inclusion in or deduction from common equity, will only have a partial percent effect on common equity tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from additional tier 1 capital (AT1) or tier 2 capital (T2), or is considered among risk-weighted.

Specific transitional provisions have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

The main contractual characteristics of the financial instruments included in Common Equity Tier 1 – CET 1, in the Additional Tier 1 – AT1 and in the Tier 2 –T2, respectively, are summarised below. A distinction is also made between the financial instruments that are subject to grandfathering and other eligible financial instruments.

For a detailed analysis of the contractual characteristics of the issued subordinated instruments such as, for example, the duration, remuneration, etc., please see the information in the document “Basel 3 Pillar 3”.

### 1. Common Equity Tier 1 Capital (CET1)

The Common Equity Tier 1 only includes listed ordinary shares, for an amount equal to 35,596 million euro, including 8,247 million euro of share premium reserve.

### 2. Additional Tier 1 Capital (AT1)

The Additional Tier 1 includes listed savings shares for 485 million euro, in addition to the subordinated liabilities listed below.

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

| Issuer  | Interest rate  | S<br>t<br>e<br>p<br>-<br>u<br>p | Issue date  | Expiry date | Early redemption as of | C<br>u<br>r<br>r<br>e<br>n<br>c<br>y | Subject to grandfathering | Original amount in currency | Contribution to regulatory capital (millions of euro) |
|---|--|---------------------------------|-------------|-------------|------------------------|--------------------------------------|---------------------------|-----------------------------|---|
| Intesa Sanpaolo   | up to 14/10/2019: 8.375% fixed rate; thereafter 3-month Euribor + 687 bps/year | YES                             | 14-Oct-2009 | perpetual   | 14-Oct-2019            | Eur                                  | YES                       | 1,500,000,000               | 580   |
| Intesa Sanpaolo   | up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10%         | YES                             | 20-Jun-2008 | perpetual   | 20-Jun-2018            | Eur                                  | YES                       | 1,250,000,000               | 454   |
| Intesa Sanpaolo   | up to 24/9/2018 (excluded): 8.698%; thereafter 3-month Euribor + 5.05%         | YES                             | 24-Sep-2008 | perpetual   | 24-Sep-2018            | Eur                                  | YES                       | 250,000,000                 | 196   |
| <b>Total Additional Tier 1 instruments subject to transitional provisions</b>     |  |                                 |             |             |                        |                                      |                           |                             | <b>1,230</b>  |
| Intesa Sanpaolo   | 7% fixed rate  | NO                              | 19-Jan-2016 | perpetual   | 19-Jan-2021            | Eur                                  | NO                        | 1,250,000,000               | 1,250   |
| Intesa Sanpaolo   | 7.70% fixed rate (up to the first call date)                                   | NO                              | 19-Sep-2015 | perpetual   | 17-Sep-2025            | Usd                                  | NO                        | 1,000,000,000               | 871   |
| <b>Total Additional Tier 1 instruments not subject to transitional provisions</b> |  |                                 |             |             |                        |                                      |                           |                             | <b>2,121</b>  |
| <b>Total Additional Tier 1 equity instruments</b>                                 |  |                                 |             |             |                        |                                      |                           |                             | <b>3,351</b>  |

## 3. Tier 2 capital (T2).

| Issuer   | Interest rate  | S<br>t<br>e<br>p<br>-<br>u<br>p | Issue date  | Expiry date | Early redemption as of | C<br>u<br>r<br>r<br>e<br>n<br>c<br>y | Subject to grandfathering | Original amount in currency | Contribution to regulatory capital (millions of euro) |
|--|--|---------------------------------|-------------|-------------|------------------------|--------------------------------------|---------------------------|-----------------------------|---|
| Intesa Sanpaolo (*)  | 8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 687 bps/p.a.                    | YES                             | 14-Oct-2009 | perpetual   | 14-Oct-2019            | Eur                                  | YES                       | 1,500,000,000               | 150   |
| Intesa Sanpaolo (*)  | up to 20/6/2018 excluded: 8.047%; thereafter 3-month Euribor + 4.10%                             | YES                             | 20-Jun-2008 | perpetual   | 20-Jun-2018            | Eur                                  | YES                       | 1,250,000,000               | 118   |
| Intesa Sanpaolo (*)  | 8,698% up to 24/9/2018 excluded; thereafter 3-month Euribor 3 + 5.05%                            | YES                             | 24-Sep-2008 | perpetual   | 24-Sep-2018            | Eur                                  | YES                       | 250,000,000                 | 50  |
| Intesa Sanpaolo  | quarterly interests according to the formula (3-month Euribor + 2%)/4                            | NO                              | 31-Mar-2011 | 31-Mar-2018 | NO                     | Eur                                  | YES                       | 373,400,000                 | 37  |
| Intesa Sanpaolo  | quarterly interests according to the formula (3-month Euribor + 1,6%)/4                          | NO                              | 30-Sep-2010 | 30-Sep-2017 | NO                     | Eur                                  | YES                       | 805,400,000                 | 24  |
| Intesa Sanpaolo  | quarterly interests according to the formula (3-month Euribor + 1,60%)/4                         | NO                              | 10-Nov-2010 | 10-Nov-2017 | NO                     | Eur                                  | YES                       | 479,050,000                 | 17  |
| Intesa Sanpaolo  | up to 18/3/2019 excluded: 5.625% p.a.; thereafter: 3-month Sterling Libor + 1.125 p.a.           | YES                             | 18-Mar-2004 | 18-Mar-2024 | 18-Mar-2019            | Gbp                                  | YES                       | 165,000,000                 | 14  |
| <b>Total Tier 2 capital instruments subject to transition requirements</b>     |  |                                 |             |             |                        |                                      |                           |                             | <b>410</b>  |
| Intesa Sanpaolo  | 5.017% fixed rate  | NO                              | 26-Jun-2014 | 26-Jun-2024 | NO                     | Usd                                  | NO                        | 2,000,000,000               | 1,865   |
| Intesa Sanpaolo  | 5,71% fixed  | NO                              | 15-Jan-2016 | 15-Jan-2026 | NO                     | Usd                                  | NO                        | 1,500,000,000               | 1,423   |
| Intesa Sanpaolo  | 6,6625% fixed rate   | NO                              | 13-Sep-2013 | 13-Sep-2023 | NO                     | Eur                                  | NO                        | 1,445,656,000               | 1,408   |
| Intesa Sanpaolo  | 3.928% fixed rate  | NO                              | 15-Sep-2014 | 15-Sep-2026 | NO                     | Eur                                  | NO                        | 1,000,000,000               | 980   |
| Intesa Sanpaolo  | 3-month Euribor + 237 bps/4  | NO                              | 30-Jun-2015 | 30-Jun-2022 | NO                     | Eur                                  | NO                        | 781,962,000                 | 721   |
| Intesa Sanpaolo  | 5.15% fixed rate   | NO                              | 16-Jul-2010 | 16-Jul-2020 | NO                     | Eur                                  | NO                        | 1,250,000,000               | 652   |
| Intesa Sanpaolo  | 5% fixed rate  | NO                              | 23-Sep-2009 | 23-Sep-2019 | NO                     | Eur                                  | NO                        | 1,500,000,000               | 571   |
| Intesa Sanpaolo  | 2,855% fixed rate  | NO                              | 23-Apr-2015 | 23-Apr-2025 | NO                     | Eur                                  | NO                        | 500,000,000                 | 480   |
| Intesa Sanpaolo  | 6.625% fixed rate  | NO                              | 08-May-2008 | 08-May-2018 | NO                     | Eur                                  | NO                        | 1,250,000,000               | 226   |
| Intesa Sanpaolo  | 5.75% fixed rate; from 28/05/2013 3-month Euribor +1.98%   | YES                             | 28-May-2008 | 28-May-2018 | NO                     | Eur                                  | NO                        | 1,000,000,000               | 71  |
| Intesa Sanpaolo  | 6.16 % fixed rate  | NO                              | 27-Jun-2008 | 27-Jun-2018 | NO                     | Eur                                  | NO                        | 120,000,000                 | 36  |
| Intesa Sanpaolo  | up to 20/2/2013 excluded: 3-month Euribor + 0.25% p.a.; thereafter: 3-month Euribor + 0.85% p.a. | YES                             | 20-Feb-2006 | 20-Feb-2018 | NO                     | Eur                                  | NO                        | 750,000,000                 | 34  |
| Intesa Sanpaolo  | up to 26/6/2013 excluded: 4.375% p.a.; thereafter: 3-month Euribor + 1.00% p.a.                  | YES                             | 26-Jun-2006 | 26-Jun-2018 | NO                     | Eur                                  | NO                        | 500,000,000                 | 32  |
| Intesa Sanpaolo  | 3-month Euribor + 0.85%  | NO                              | 17-Jul-2007 | 17-Jul-2017 | NO                     | Eur                                  | NO                        | 30,000,000                  | 3   |
| Intesa Sanpaolo  | 6.375% fixed rate ; from 12 Nov 2012 3-month gpb libor   | YES                             | 12-Oct-2007 | 12-Nov-2017 | NO                     | Gbp                                  | NO                        | 250,000,000                 | 1   |
| <b>Total Tier 2 capital instruments not subject to transition requirements</b> |  |                                 |             |             |                        |                                      |                           |                             | <b>8,503</b>  |
| <b>Total Tier 2 capital instruments</b>  |  |                                 |             |             |                        |                                      |                           |                             | <b>8,913</b>  |

(\*) Instrument subject to "Grandfathering" in Additional Tier 1 capital, portion subject to cap pursuant to Art. 486 of EU Regulation 575/2013 (CRR).

**B. Quantitative information**

|  | (millions of euro) |               |
|--|--------------------|---------------|
|  | 31.12.2016         | 31.12.2015    |
| <b>A. Common Equity Tier 1 (CET1) before the application of prudential filters</b>   | <b>43,298</b>      | <b>44,134</b> |
| of which CET1 instruments subject to transitional adjustments  | -                  | -             |
| <b>B. CET1 prudential filters (+ / -)</b>  | <b>-808</b>        | <b>-743</b>   |
| <b>C. CET1 before items to be deducted and effects of transitional period (A +/- B)</b>  | <b>42,490</b>      | <b>43,391</b> |
| <b>D. Items to be deducted from CET 1</b>  | <b>-7,670</b>      | <b>-7,940</b> |
| <b>E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional adjustments</b>                                     | <b>1,106</b>       | <b>1,457</b>  |
| <b>F. Total Common Equity Tier 1 (CET1) (C-D +/-E)</b>   | <b>35,926</b>      | <b>36,908</b> |
| <b>G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period</b>   | <b>3,842</b>       | <b>2,799</b>  |
| of which AT1 instruments subject to transitional adjustments   | 1,230              | 1,435         |
| <b>H. Items to be deducted from AT1</b>  | -                  | -             |
| <b>I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 pursuant to transitional adjustments</b> | <b>-309</b>        | <b>-497</b>   |
| <b>L. Total Additional Tier 1 (AT1) (G - H +/- I)</b>  | <b>3,533</b>       | <b>2,302</b>  |
| <b>M. Tier 2 ( T2) before items to be deducted and effects of transitional period</b>  | <b>9,154</b>       | <b>8,480</b>  |
| of which T2 instruments subject to transitional adjustments  | 410                | 877           |
| <b>N. Items to be deducted from T2</b>   | <b>-152</b>        | <b>-152</b>   |
| <b>O. Transitional period - Impact on T2 (+ / -), including instruments issued by subsidiaries and included in T2 pursuant to transitional adjustments</b> | <b>-187</b>        | <b>-239</b>   |
| <b>P. Total Tier 2 (T2) (M - N +/- O)</b>  | <b>8,815</b>       | <b>8,089</b>  |
| <b>Q. Total own funds (F + L + P)</b>  | <b>48,274</b>      | <b>47,299</b> |

Consolidated own funds benefited from the regulation which permits the gradual recognition in the regulatory capital of the effects deriving from application of the new IAS 19.

The amount of the "prudential filter" under the actuarial profits (losses) reserve on the defined benefit pension plans, negative for about 648 million euro, equals around 226 million euro.

Following the process conducted by the ECB on the harmonisation of the national discretion adopted by the competent authorities in the different EU countries, with effect from 1 October 2016, the date when Regulation (EU) 2016/445 of the ECB came into force, the prudential filter was eliminated; this filter had been aimed at excluding unrealised gains or losses on exposures to central administrations classified in the category Financial assets available for sale (AFS).

The effect on Common Equity Tier 1 Capital as at 31 December 2015 was one basis point negative, equal to 40 million euro.

The tables below show the changes in Own Funds

### Common Equity Tier 1 Capital and Additional Tier 1 Capital

| INFORMATION  | (millions of euro) |               |
|--|--------------------|---------------|
|  | 31.12.2016         | 31.12.2015    |
| <b>Common Equity Tier 1 capital (CET1) - Beginning of the period<sup>(a)</sup></b>   | <b>36,908</b>      | <b>36,547</b> |
| <b>Common Equity Tier 1 capital (CET1) before regulatory adjustments (beginning of the period)</b>   | <b>44,134</b>      | <b>43,067</b> |
| <b>Common Equity Tier 1 capital (CET1)</b>   |                    |               |
| Share capital - ordinary shares  | -                  | 7             |
| Share premium reserve <sup>(a)</sup>   | -                  | -             |
| Reserves <sup>(b)</sup>  | -4                 | -1,089        |
| Accumulated other comprehensive income   | -836               | 604           |
| Allocation of previous period loss   | -                  | -             |
| Net income for the year  | 3,111              | 2,739         |
| Non-eligible net income for the year <sup>(c)</sup>  | -3,111             | -             |
| Dividends distributed during the period  | -                  | 1,195         |
| Dividends to be distributed <sup>(d)</sup>   | -                  | -2,383        |
| Minority interests   | 4                  | -6            |
| <b>Common Equity Tier 1 capital (CET1) before regulatory adjustments (end of the period)</b>   | <b>43,298</b>      | <b>44,134</b> |
| <b>Total regulatory adjustments to Common Equity Tier 1 capital (CET1) - (beginning of the period)</b>   | <b>-8,683</b>      | <b>-8,307</b> |
| <b>Common Equity Tier 1 capital (CET1): Regulatory adjustments</b>   |                    |               |
| Treasury shares  | -30                | -5            |
| Goodwill <sup>(e)</sup>  | 66                 | -12           |
| Other intangible assets <sup>(e)</sup>   | -31                | 70            |
| Deferred tax assets that rely on future profitability and do not arise from temporary differences  | 60                 | 58            |
| Negative amounts resulting from the calculation of expected losses (shortfall reserve)   | 276                | -187          |
| Defined benefit pension funds assets   | -                  | -             |
| Prudential filters   |                    |               |
| - of which Cash Flow Hedge Reserves  | 1                  | -217          |
| - of which Gains or Losses due to change in own credit risk (DVA)  | 13                 | 79            |
| - of which Prudent valuation adjustments   | -12                | 37            |
| - of which Other prudential filters  | -                  | -             |
| Exposures to securitisations deducted rather than risk weighted at 1250%   | -115               | -             |
| CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically  | -                  | -             |
| Deductions with 10% threshold  | 48                 | -177          |
| - of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences  | -                  | -             |
| - of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically | 48                 | -177          |
| Deductions with 17.65% threshold <sup>(f) (g)</sup>  | -                  | -             |
| Positive or negative items - other   | -71                | -22           |
| <b>Total regulatory adjustments to Common Equity Tier 1 capital (CET1) - (end of the period)</b>   | <b>-8,478</b>      | <b>-8,683</b> |
| <b>Total adjustments in the transitional period (CET1) - (beginning of the period)</b>   | <b>1,457</b>       | <b>1,787</b>  |
| Changes in adjustments in the transitional period  | -351               | -330          |
| <b>Total adjustments in the transitional period (CET1) - (end of the period)</b>   | <b>1,106</b>       | <b>1,457</b>  |
| <b>Common Equity Tier 1 capital (CET1) - (end of the period)</b>   | <b>35,926</b>      | <b>36,908</b> |



|  |               |               |
|--|---------------|---------------|
| <b>Additional Tier 1 capital (AT1) - beginning of the period</b>   | <b>2,302</b>  | <b>1,700</b>  |
| <b>Additional Tier 1 capital (AT1) before regulatory adjustments - (beginning of the period)</b>   | <b>1,364</b>  | <b>491</b>    |
| <b>Additional Tier 1 capital (AT1)</b>   |               |               |
| Savings shares   | -             | -             |
| Other AT1 instruments  | 1,250         | 871           |
| Minority interests   | -2            | 2             |
| <b>Additional Tier 1 capital (AT1) before regulatory adjustments - (end of the period)</b>   | <b>2,612</b>  | <b>1,364</b>  |
| <b>Total regulatory adjustments to Additional Tier 1 capital (AT1) - (beginning of the period)</b>   | <b>-</b>      | <b>-</b>      |
| <b>Additional Tier 1 capital (AT1) : Regulatory adjustments</b>  |               |               |
| AT1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically | -             | -             |
| AT1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically           | -             | -             |
| Positive or negative items - other   | -             | -             |
| <b>Total regulatory adjustments to Additional Tier 1 capital (AT1) - (end of the period)</b>   | <b>-</b>      | <b>-</b>      |
| <b>Total adjustments in the transitional period including minority interests (AT1) - (beginning of the period)</b>                                     | <b>-497</b>   | <b>-431</b>   |
| Changes in adjustments in the transitional period  | 188           | -66           |
| <b>Total adjustments in the transitional period including minority interests (AT1) - (end of the period)</b>   | <b>-309</b>   | <b>-497</b>   |
| <b>AT1 instruments eligible for grandfathering - (beginning of period)</b>   | <b>1,435</b>  | <b>1,640</b>  |
| Change in AT1 instruments eligible for grandfathering  | -205          | -205          |
| <b>AT1 instruments eligible for grandfathering - (end of period)</b>   | <b>1,230</b>  | <b>1,435</b>  |
| <b>Additional Tier 1 capital (AT1) - end of the period</b>   | <b>3,533</b>  | <b>2,302</b>  |
| <b>TIER 1 CAPITAL (Tier 1 = CET1 + AT1)</b>  | <b>39,459</b> | <b>39,210</b> |

(a) Net of the distribution of reserves approved by the Shareholders' Meeting on 8 May 2014.

(b) In the calculation of Common Equity Tier 1 at 31 December 2016 no account has been taken of profit for 2016, or - for consistency - of the proposed dividend and distribution of reserves.

(c) Net of related deferred tax liabilities.

(d) The deductions reported refer solely to DTAs and significant investments not deducted in the 10% threshold.

## Development of Own Funds - Tier 2 Capital

(millions of euro)

| INFORMATION   | 31.12.2016    | 31.12.2015    |
|---|---------------|---------------|
| <b>Tier 2 Capital (T2) - beginning of the period</b>  | <b>8,089</b>  | <b>8,043</b>  |
| <b>Tier 2 Capital (T2) before regulatory adjustments - (beginning of the period)</b>  | <b>7,603</b>  | <b>6,890</b>  |
| Tier 2 Capital (T2)   |               |               |
| T2 instruments  | 906           | 712           |
| Minority interests  | -4            | 1             |
| Excess of provisions over expected losses eligible (excess reserve)   | 239           | -             |
| <b>Tier 2 capital (T2) before regulatory adjustments - (end of the period)</b>  | <b>8,744</b>  | <b>7,603</b>  |
| <b>Total regulatory adjustments to Tier 2 capital (T2) - (beginning of the period)</b>  | <b>-152</b>   | <b>-178</b>   |
| Tier 2 capital (T2): Regulatory adjustments   |               |               |
| T2 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically | -             | -             |
| T2 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically           | -             | 26            |
| Positive or negative items - other  | -             | -             |
| <b>Total regulatory adjustments to Tier 2 capital (T2) - (end of the period)</b>  | <b>-152</b>   | <b>-152</b>   |
| <b>Total adjustments in the transitional period including minority interests (T2) - (beginning of the period)</b>                                     | <b>-239</b>   | <b>-133</b>   |
| Changes in adjustments in the transitional period   | 52            | -106          |
| <b>Total adjustments in the transitional period including minority interests (T2) - (end of the period)</b>   | <b>-187</b>   | <b>-239</b>   |
| <b>T2 instruments eligible for grandfathering - (beginning of period)</b>   | <b>877</b>    | <b>1,464</b>  |
| Change in T2 instruments eligible for grandfathering  | -467          | -587          |
| <b>T2 instruments eligible for grandfathering - (end of period)</b>   | <b>410</b>    | <b>877</b>    |
| <b>Tier 2 Capital (T2) - (end of the period)</b>  | <b>8,815</b>  | <b>8,089</b>  |
| <b>TOTAL CAPITAL (TC = T1 + T2)</b>   | <b>48,274</b> | <b>47,299</b> |

## 2.3. Capital adequacy

## A. Qualitative information

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group's total own funds must amount to at least 10.5% of total risk-weighted assets (total capital ratio including the minimum requirement and capital conservation buffer) arising from the risks typically associated with banking and financial activity (credit, counterparty, market and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risks following insurance coverage. The competent authorities, as part of the Supervisory Review and Evaluation Process (SREP), may require higher capital requirements compared to those resulting from the application of the regulatory provisions.

With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report as at 31 December 2008 on the Corporate portfolio for a scope extending to the Parent Company, network banks in the Banca dei Territori Division and the main Italian product companies. Progressively, the scope of application has been gradually extended to include the SME Retail and Mortgage portfolios, as well as other Italian and international Group companies.

For additional information reference should be made to Part E of these Notes, paragraph "Basel 3 regulations and the Internal Project".

As already illustrated in Section 2.2 on "Own funds of banks" above, the total regulatory capital is made up of the algebraic sum of the elements specified below:

- Tier 1 Capital (capable of absorbing losses under going concern conditions). This capital is divided into Common Equity Tier 1 Capital and Additional Tier 1 Capital;
- Tier 2 Capital (capable of absorbing losses in the event of a crisis).

The elements indicated above are subject to the following limits:

- Common Equity Tier 1 must at all times be equal to at least 4.5% of risk-weighted assets;
- Tier 1 Capital must at all times be equal to at least 6% of risk-weighted assets;
- Own funds (i.e. the total regulatory capital), equal to Tier 1 plus Tier 2 capital, must at all times be equal to at least 8.0% of risk-weighted assets.

Following the Supervisory Review and Evaluation Process (SREP), the ECB annually makes a final decision on the capital requirement that Intesa Sanpaolo must comply with at consolidated level.

Starting from 1 January 2016 (ECB decision of 27 November 2015) the Common Equity Tier 1 ratio to be met was set at 9.5%. This requirement was the result of: a) the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 requirement of 2.5%, entirely in terms of Common Equity Tier 1 ratio; and b) the additional requirement of the Capital Conservation Buffer, equal to 2.5%.

On 12 December 2016 Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that it has to meet, as of 1 January 2017. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 7.25% under the transitional criteria for 2017 and 9.25% under the standard criteria.

This is the result of: a) the SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and an additional Pillar 2 capital requirement of 1.5%, entirely

in terms of Common Equity Tier 1 ratio; b) additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 1.25% under the transitional criteria for 2017 and 2.5% the standard criteria in 2019, and an O-SII Buffer (Other Systemically Important Institutions Buffer) of zero under the transitional criteria for 2017 and 0.75% under the standard criteria in 2021.

For the sake of completeness, please note that Directive 2013/36/EU (CRD IV) establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular no. 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical ratio (relating to the exposures towards Italian counterparties) for the first three months of 2017 at 0%.

**B. Quantitative information**

|  | 31.12.2016             |                                | 31.12.2015             |                                |
|--|------------------------|--------------------------------|------------------------|--------------------------------|
|  | Unweighted amounts (*) | Weighted amounts/ requirements | Unweighted amounts (*) | Weighted amounts/ requirements |
| <b>A. RISK ASSETS</b>  |                        |                                |                        |                                |
| <b>A.1 Credit and counterparty risk</b>                                    | <b>571,335</b>         | <b>242,312</b>                 | <b>541,351</b>         | <b>244,760</b>                 |
| 1. Standardised approach   | 270,507                | 114,333                        | 246,977                | 117,528                        |
| 2. Internal rating based approach  | 291,705                | 123,656                        | 289,159                | 122,807                        |
| 2.1 Basic  | 2,842                  | 6,622                          | 2,391                  | 4,917                          |
| 2.2 Advanced   | 288,863                | 117,034                        | 286,768                | 117,890                        |
| 3. Securitisations   | 9,123                  | 4,323                          | 5,215                  | 4,425                          |
| <b>B. CAPITAL REQUIREMENTS</b>   |                        |                                |                        |                                |
| <b>B.1 Credit and counterparty risks</b>                                   |                        | <b>19,385</b>                  |                        | <b>19,581</b>                  |
| <b>B.2 Credit valuation adjustment risk</b>                                |                        | <b>83</b>                      |                        | <b>83</b>                      |
| <b>B.3 Settlement risk</b>   |                        | -                              |                        | -                              |
| <b>B.4 Market risk</b>   |                        | <b>1,536</b>                   |                        | <b>1,326</b>                   |
| 1. Standardised approach   |                        | 130                            |                        | 228                            |
| 2. Internal models   |                        | 1,406                          |                        | 1,098                          |
| 3. Concentration risk  |                        | -                              |                        | -                              |
| <b>B.5 Operational risk</b>  |                        | <b>1,563</b>                   |                        | <b>1,652</b>                   |
| 1. Basic indicator approach  |                        | 39                             |                        | 45                             |
| 2. Standardised approach   |                        | 224                            |                        | 232                            |
| 3. Advanced measurement approach   |                        | 1,300                          |                        | 1,375                          |
| <b>B.6 Other calculation elements</b>                                      |                        | <b>146</b>                     |                        | <b>103</b>                     |
| <b>B.7 Total capital requirements</b>                                      |                        | <b>22,713</b>                  |                        | <b>22,745</b>                  |
| <b>C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS</b>                          |                        |                                |                        |                                |
| <b>C.1 Risk-weighted assets</b>  |                        | <b>283,918</b>                 |                        | <b>284,319</b>                 |
| <b>C.2 Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio)</b> |                        | <b>12.7%</b>                   |                        | <b>13.0%</b>                   |
| <b>C.3 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)</b>    |                        | <b>13.9%</b>                   |                        | <b>13.8%</b>                   |
| <b>C.4 Total own funds / Risk-weighted assets (Total capital ratio)</b>    |                        | <b>17.0%</b>                   |                        | <b>16.6%</b>                   |

(\*) In the case of the standardised approach, “unweighted amounts” correspond – in accordance with regulatory provisions – to the exposure value, which takes into account prudential filters, risk mitigation techniques and credit conversion factors. In the case of the internal rating based approach, “unweighted amounts” correspond to “exposure at default” (EAD). For guarantees given and commitments to disburse funds, credit conversion factors are also included when determining EAD.

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

The Supervisory Authority authorised the Group to extend the internal model to specific risk on debt securities from the third quarter of 2012.

Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company’s hedge fund portfolios.

Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Surveillance Body following completion of the previously recommended corrective actions.

In compliance with the recommendation of the Financial Stability Board, the Basel Committee on Banking Supervision developed a methodology to identify the Global Systemically Important Banks (“G-SIBs”) subject to additional requirements to absorb the losses starting from 1 January 2016.

The Committee has included since 2013 a new obligation of minimum disclosure of the 12 indicators used in the assessment methodology for the banks with a leverage ratio exposure measure at the end of the year exceeding 200 billion euro and for those which though being below this threshold - were designated as G-SIBs in the year before the reference one, or were added based on the judgement of the national Supervisory Authority.

Based on the provisions of the Financial Stability Board, for Italian banks with a leverage ratio exposure measure exceeding 200 billion euro – like the Intesa Sanpaolo Group - the Bank of Italy has envisaged the obligation of publication on their website of the information concerning the 12 significant indicators. The publication will take place within the terms provided at the link [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com)

### SECTION 3 – REGULATORY CAPITAL AND CAPITAL RATIOS FOR INSURANCE COMPANIES

The insurance companies controlled solely by the Intesa Sanpaolo Group and subject to insurance supervision are:

- Intesa Sanpaolo Vita;
- Intesa Sanpaolo Life;
- Intesa Sanpaolo Assicura;
- Fideuram Vita.

The new Solvency II framework of prudential supervision regulations, applicable to the entire European insurance segment, came into force on 1 January 2016. The new regulatory framework completely revised the calculation method for synthetic indicators to measure the solvency of insurance companies.

Thus, the Group's insurance companies implemented all the new obligations required in that regard by the new calendar for sending data reports to the Supervisory Authorities IVASS. The main data included in these reports concerned Eligible Own Funds, the Solvency Capital Requirement (SCR) and the Solvency Ratio.

Intesa Sanpaolo Vita calculates the aggregate Solvency Ratio for the insurance companies as the Parent Company of the Insurance Group within the Intesa Sanpaolo Banking Group. Based on Art. 96 of Legislative Decree 209/2005 (the Insurers' Code), Intesa Sanpaolo Vita is also required to prepare the "consolidated aggregate" financial statements of the Insurance Group that includes Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Intesa Sanpaolo Smart Care, inasmuch as they are 100% subsidiaries, and Fideuram Vita, inasmuch as it is subject to unitary management in accordance with the insurers' code.

As at 31 December 2016, the Intesa Sanpaolo Vita Group had a solvency ratio of 182.6%, understood as the ratio of Group eligible own funds to the solvency capital requirement, both calculated according to Solvency II.

According to Art. 62 – Transitional provisions of IVASS Measure no. 53/2016, the figures regarding the Solvency Capital Requirement and the Minimum Capital Requirement indicated above are to be understood as estimates. The final figures will be reported to the supervisory authority and included in the Solvency and Financial Condition Report (SFCR) drawn up by the Parent Company of the Insurance Group Intesa Sanpaolo Vita according to the timeline set out in the IVASS regulation on Solvency II.

Lastly, on 30 August 2016, the Ordinary Shareholders' Meeting of Intesa Sanpaolo Vita resolved to distribute a portion of other shareholders' equity reserves in the amount of around 504 million euro. The dividends were paid on 7 September 2016, according to the terms decided.

**SECTION 4 – THE CAPITAL ADEQUACY OF THE FINANCIAL CONGLOMERATE**

(millions of euro)

|  | <b>Amounts</b> |
|--|----------------|
| A. Financial conglomerate amount   | 51,049         |
| B. Capital requirements for banking elements                             | 29,161         |
| C. Solvency margins for insurance elements                               | 3,755          |
| <b>D. Total capital requirements of the financial conglomerate (B+C)</b> | <b>32,916</b>  |
| <b>E. Financial conglomerate surplus (deficit) (A-D)</b>                 | <b>18,133</b>  |

The Intesa Sanpaolo Group operates as a financial conglomerate that engages in universal banking activity and insurance services. As at 31 December 2016 the capital of the Intesa Sanpaolo financial conglomerate exceeded its capital requirements, defined as the conglomerate's capital needs, by 18,133 million euro. For the purpose of calculating the capital requirements of the banks, a Total Capital Ratio of 10.5% was considered, as taken from the outcomes of the Supervisory Review and Evaluation Process (SREP) for financial year 2016.

According to Art. 62 – Transitional provisions of IVASS Measure no. 53/2016, the figures regarding the Solvency Capital Requirement and the Minimum Capital Requirement used to calculate the Solvency Ratio are to be understood as estimates. The final figures will be reported to the supervisory authority and included in the Solvency and Financial Condition Report (SFCR) drawn up by the Parent Company of the Insurance Group Intesa Sanpaolo Vita according to the timeline set out in the IVASS regulation on Solvency II.

# Part G – Business combinations

## SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

### 1.1 Business combinations

|                        |                                |                         |                       |  |                                       |  | (millions of euro) |
|------------------------|--------------------------------|-------------------------|-----------------------|--|---------------------------------------|--|--------------------|
| Companies              | Date of the transaction<br>(a) | Cost of the transaction | Equity stake %<br>(b) | Net interest and other banking income<br>(c) | Net income / loss for the year<br>(d) | Net income / loss recorded as of acquisition date<br>(e) |                    |
| 1. Eurizon SLJ Capital | 01-Jul-2016                    | 23                      | 65.00                 | 2  | -                                     | -  |                    |
| 2. Banca ITB           | 19-Dec-2016                    | 153                     | 90.00                 | 43   | 12                                    | -  |                    |

(a) Date of acquisition of control.

(b) Percentage of voting rights at the Ordinary Shareholders' Meeting plus possible options on minorities' stakes.

(c) Net interest and other banking income (Caption 120 of the income statement) referred to full year 2016.

(d) Net income / loss recorded by the subsidiary for full year 2016.

(e) Net income / loss recorded by the subsidiary after acquisition date and included in the consolidated result of the Intesa Sanpaolo Group.

In addition to business combinations accounted for by IFRS 3, summarised in the previous table, several extraordinary intragroup transactions were carried out during the year, which had no effects on the consolidated financial statements. Such transactions, which are scoped out of IFRS 3, involved the transfer of business lines or legal entities between companies within the Intesa Sanpaolo Group or business combinations between entities under common control. Since the transfers were carried out for reorganisation purposes only, in accordance with the Group's accounting policy, these transactions were simply recorded applying book value accounting in the individual statements of the companies involved, without recognition of any economic effect.

The intragroup transactions completed during the year concerned:

- the contribution of the business line (Amsterdam branch) from Intesa Sanpaolo to Intesa Sanpaolo Bank Luxembourg;
- the partial demerger of Setefi (the "commercial acquiring" line towards captive customers) into Intesa Sanpaolo;
- the merger by incorporation of Banca dell'Adriatico into Intesa Sanpaolo;
- the partial proportional demerger of Oldequiter into Intesa Sanpaolo;
- the partial proportional demerger of Mediocredito Italiano into Intesa Sanpaolo;
- the partial proportional demerger of Mediocredito Italiano into Intesa Sanpaolo Group Services;
- the merger by incorporation of Euro Trésorerie into Financière Fideuram;
- the demerger of the investment in CIB held by Intesa Sanpaolo Holding International into Engenia;
- the merger by incorporation of Engenia into Intesa Sanpaolo;
- the sale of the investment of Intesa Sanpaolo in Banca Intesa Beograd to Intesa Sanpaolo Holding International;
- the merger by incorporation of Casse di Risparmio dell'Umbria into Intesa Sanpaolo;
- the transfer of the investments in VUB Asset Management from VUB and PBZ to Eurizon Capital SA;
- the transfer of the investment in Manzoni from IMI Investimenti to Private Equity International.

*Annual changes in goodwill*

(millions of euro)

|   | <b>31.12.2016</b> |
|---|-------------------|
| <b>Initial goodwill</b>                                   | <b>3,914</b>      |
| <b>Increases</b>  | <b>146</b>        |
| - Goodwill recorded in the year                           | 146               |
| - Positive foreign exchange differences and other changes | -                 |
| <b>Decreases</b>  | <b>-1</b>         |
| - Impairment recorded in the year                         | -                 |
| - Disinvestments  | -                 |
| - Negative foreign exchange differences and other changes | -1                |
| <b>Final Goodwill</b>                                     | <b>4,059</b>      |

*Goodwill*

(millions of euro)

| <b>CGUs/Goodwill</b>             | <b>31.12.2016</b> | <b>31.12.2015</b> |
|----------------------------------|-------------------|-------------------|
| Banca dei Territori              | 1,214             | 1,091             |
| Corporate and Investment Banking | -                 | -                 |
| Insurance                        | 494               | 494               |
| Asset Management                 | 1,060             | 1,038             |
| Private Banking                  | 1,291             | 1,291             |
| Interenational Subsidiary Banks  | -                 | -                 |
| Bank of Alexandria (Egypt)       | -                 | -                 |
| Pravex Bank (Ukraine)            | -                 | -                 |
| <b>Total</b>                     | <b>4,059</b>      | <b>3,914</b>      |

**1.2 Other information****The acquisition of Eurizon SLJ Capital**

On 1 July 2016 Eurizon Capital SGR acquired a 65% equity investment in SLJ Macro Partners, a Limited Liability Partnership (LLP) established in London in March 2011 by two individuals, Stephen Lee Jen and Fatih Yilmaz, who have consolidated experience in the asset management sector. SLJ Macro Partners is primarily engaged in macroeconomic research, currencies and the advisory business on investments and portfolio management.

On 4 July, SLJ Macro Partners transferred all the assets to SLJ Capital, a newly formed company; as a result of the abovementioned transaction and the simultaneous capital increase in favour of the shareholders of the transferring company, Eurizon Capital SGR owns 65% of the capital of SLJ Capital (Stephen Lee Jen and Fatih Yilmaz own the remaining 35%). On the same date SLJ Capital changed its name to Eurizon SLJ Capital. Simultaneously to the transfer of the assets to Eurizon SLJ Capital, SLJMP terminated its operations and started the procedures for liquidation.

The purchase of the 65% equity investment in SLJMP was made with a payment of approximately GBP 19 million (approximately 23 million euro).

The business acquired by Eurizon Capital SGR consists of two segments, a research business and a business regarding the provision of investment and financial consultancy services.

The first sector of activity focuses on Stephen Lee Jen, which conducts research on macroeconomic issues and the consequent effects on currencies. The research is sent to customers, typically international financial institutions, which have signed an agreement whereby Eurizon SLJ Capital undertakes to provide periodic research for a year. This is a standard agreement for all the customers and does not imply the automatic renewal after the 12 months from subscription.

The second business segment concerns specific investment and financial consultancy services on currency issues and based on a macro/top down approach. These services are provided to international institutional customers based on open-ended agreements (in line with industry practises) that allow the parties to withdraw at any time subject to notice of a few months.

As required by IFRS 3, a comparison was made between the cost incurred for the acquisition, equal to 23 million euro, and the company's proportional balance sheet figures at 30 June 2016 (substantially the assets and liabilities are zero considering the adjustments made at the time of assignment from SLJ Macro Partners to SLJ Capital, subsequently renamed Eurizon SLJ Capital). Specifically, IFRS 3 indicates that the cost of acquisition should be allocated to the identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or identifiable liabilities assumed (including contingent liabilities) recognised at the respective fair values at acquisition date; any excess not allocated to specific assets or liabilities must be recognised as goodwill. Following the analyses carried out, no specific intangible assets were identified, other



than goodwill, not previously recognised by the target firm. Consequently, it was deemed worthwhile to allocate to goodwill the full difference between the cost of the acquisition and the proportional shareholders' equity of the company from the date of acquisition. Goodwill equalled GBP 19 million, corresponding to 23 million euro based on the EUR/GBP exchange rate on the acquisition date (22 million euro at 31 December 2016 in consideration of the exchange rate at year end).

According to IAS 36, goodwill acquired in a business combination shall, from the acquisition date, be allocated to the CGU that is expected to benefit from the synergies of the business combination; the goodwill in question was allocated to the Asset Management CGU.

### Acquisition of Banca ITB

On 19 December 2016 Intesa Sanpaolo acquired 90% of the share capital of Banca ITB by paying a cash consideration of 153 million euro.

In 2009 Intesa Sanpaolo already held a 10% stake in the capital of Banca ITB; this investment was classified as asset "available for sale" (AFS) and was measured in the financial statements at 12 million euro, an amount that included a positive valuation reserve of 7 million euro (net of tax).

Banca ITB, founded in 2008, is the first online bank in Italy to operate in the payment system sector and dedicated exclusively to the tobacconist channel. The bank is authorised for the deposit-taking activity and to exercise lending activities in their various forms, for all the financial and banking operations and services permitted, including investment services and the related ancillary services.

Based on the provisions of IFRS 3, the acquisition of Banca ITB by Intesa Sanpaolo is recognised as a business combination created in several phases, as a consequence of the share already held by Intesa Sanpaolo in the acquired company; in this regard, according to IFRS 3 the "the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income (for example, because the investment was classified as available for sale). If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest"; as a consequence, for the 10% share of Banca ITB already held by Intesa Sanpaolo, the related AFS reserve accrued, equal to 7 million euro, was recognised in the consolidated income statement under item "100 Profits (losses) on disposal or repurchase of financial assets available for sale".

According to IFRS 3, the acquisition cost must be determined as the sum of the consideration transferred and, in a business combination created in several phases, of the fair value at the acquisition date of the stakes in the acquired company previously held by the buyer. For the case in question, the acquisition cost is given by the amount of the consideration transferred, equal to 153 million euro, added to the fair value attributable to the share already held by Intesa Sanpaolo (10% of the share capital) equal to 12 million euro. The total amount, equal to 165 million euro, thus represents the cost of the business combination; this value is compared with a Banca ITB's shareholders' equity at 31 December 2016 equal to 42 million euro, determining a difference to be allocated of 123 million euro.

IFRS 3 requires for the cost of the acquisition to be allocated to the assets (including intangible assets not previously recognised) and liabilities of Banca ITB, within the limits of their fair value; the residual amount after this allocation must be entered as goodwill. Following the analyses conducted, no differences were identified in fair value or intangible assets previously not recognised by Banca ITB which the acquisition cost is to be allocated to; as a consequence, the full difference, equal to 123 million euro, between the acquisition cost and Banca ITB's shareholders' equity was charged to goodwill.

Pursuant to IAS 36, for the purpose of checking any impairment losses, the goodwill acquired in a business combination must, from the acquisition date, be allocated to each Cash Generating Unit (CGU) which is expected to benefit from the synergies of the business combination. Following the acquisition, Banca ITB will be placed in the Banca dei Territori Division and, as a consequence, also the goodwill recognised consequently to this acquisition was allocated to the Banca dei Territori CGU.

**Book value and fair value of Banca ITB's assets and liabilities**

(millions of euro)

| <b>Assets/liabilities</b>  | <b>Banca ITB</b>  |                   |
|--|-------------------|-------------------|
|  | <b>Book value</b> | <b>Fair value</b> |
| <b>Assets</b>  |                   |                   |
| Financial assets   | 163               | 163               |
| Due to banks   | 29                | 29                |
| Loans to customers   | 17                | 17                |
| Investments in associates and companies subject to joint control | -                 | -                 |
| Property and equipment   | 27                | 27                |
| Intangible assets  | 1                 | 1                 |
| Goodwill   | -                 | 123               |
| Other assets   | 43                | 43                |
| <b>Total assets</b>  | <b>280</b>        | <b>403</b>        |
| <b>Liabilities</b>   |                   |                   |
| Due to banks   | 5                 | 5                 |
| Due to customers   | 207               | 207               |
| Securities issued  | -                 | -                 |
| Financial liabilities  | -                 | -                 |
| Technical reserves   | -                 | -                 |
| Other liabilities and provisions for risks                       | 26                | 26                |
| Minority interests   | -                 | -                 |
| Group shareholders' equity                                       | 42                | 165               |
| <b>Total liabilities and shareholders' equity</b>                | <b>280</b>        | <b>403</b>        |

## **SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR**

### **2.1 Business combinations**

No business combinations within the scope of IFRS 3 have been undertaken since the end of 2016.

## **SECTION 3 – RETROSPECTIVE ADJUSTMENTS**

No adjustments are recognised in the current year that relate to business combinations that occurred in previous reporting periods.

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# Part H – Information on compensation and transactions with related parties

## A) TRANSACTIONS WITH RELATED PARTIES

### 1. Procedural features

With resolution dated 2 August 2016 the Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, new Internal Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which replaces the previous version approved in 2012.

In line with the previous ones, these Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to "Associated Entities", issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

The Procedures apply to the entire Intesa Sanpaolo Group with respect to the following aspects:

- the criteria for identifying Related Parties and Associated Entities;
- the process of analysis, decision-making and information for corporate bodies in connection with transactions with Related Parties and Associated Entities;
- market disclosure for transactions with Related Parties;
- the prudential limits and obligations for periodic reporting to the Bank of Italy for activities at risk in relation to Associated Entities;
- the rules governing organisational controls and safeguards;
- the general rules for disclosure and abstention about the management of the personal interests by board members and general managers, employees and company staff, including other than Associated Entities.

Pursuant to the abovementioned Procedures, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.

The set of Associated Entities of the Group consists of the Associated Entities of each bank of the Group (including the Parent Company) and each monitored significant intermediary with own funds greater than 2% of consolidated own funds. The following are considered to be Associated Entities for each monitored significant bank or intermediary of the Group: i) shareholders that exercise control, significant influence or that are required to request authorisation pursuant to Article 19 of the Consolidated Law on Banking or that may appoint a member of the management or strategic supervisory body and the relative corporate groups; ii) subsidiaries, associated companies under joint control and associated companies, as well as the companies controlled by the latter, also jointly with others; iii) board members and general managers and their relative close family members up to the second degree and significant subsidiary entities.

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on activities involving risk and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank's voting capital of greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with. This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as the transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.

The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank's financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full and partial exemptions from the application of the regulations is also envisaged.

With regard to decision-making, the procedure distinguishes between:

- transactions involving smaller amounts: with a value of less than or equal to 250,000 euro for individuals and 1 million euro for legal entities (excluded from application of the regulations);
- less significant transactions: with a value higher than the small-amount thresholds (250,000 euro for individuals and 1 million euro for legal entities) but lower or equal to the most significant thresholds indicated below;
- more significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 2.5 billion euro for Intesa Sanpaolo);
- transactions attributed to the shareholders' meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.

For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.

All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for Transactions with Related Parties.

The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

Transactions undertaken by subsidiaries with Related Parties of Intesa Sanpaolo and Associated Entities of the Group must be approved by the Board of Directors of the subsidiaries concerned, subject to prior authorisation from the Parent Company released in accordance with the procedure described above.

The Procedures also define the general criteria for the information to be provided, at least quarterly – also pursuant to Article 150 of the Consolidated Law on Finance – to the directors and the control body regarding transactions with Related Parties and Associated Entities completed in the reference period by the Parent Company or by its subsidiaries. All of the above is aimed at providing a complete overview of the transactions of greater importance, as well as the volumes and the main features of all those delegated. Reports must include all transactions, even if exempt from the decision-making procedure, for amounts greater than the small-amount thresholds. Transactions of less significant importance and intragroup loans and bank funding are excluded from this requirement (provided they do not regard a subsidiary with significant interests of another Related Party or Associated Entity and are not carried out at market or standard conditions). For ordinary intragroup transactions of less significant importance and at market conditions, reporting is on an aggregate annual basis.

Transactions undertaken by Italian subsidiary banks with Related Parties and Associated Entities of the Group that have not been considered exempt must, subject to authorisation by the Parent Company, be approved by the relative Board of Directors, upon obtaining the opinion of a Committee of independent directors set up within the Board of Directors of the bank itself. Furthermore, specific reporting rules apply to transactions by the Bank's Bodies.

The new Procedures also apply to transactions with Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which must be applied by all the Italian banks of the Intesa Sanpaolo Group, including the Parent Company. This provision requires the adoption of a more thorough decision-making procedure (unanimous decision by the management body, excluding the vote of the interested member, and favourable vote of members of the control body) in order to allow the bank officers to contract obligations, directly or indirectly, with the bank of which they act as officers.

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.

Article 2391, paragraph 1 of the Italian Civil Code requires each Board Member to report every interest held, in his/her own name or on behalf of third parties, that may be significant in carrying out his/her management function, with reference to a specific transaction. In accordance with the abovementioned provision, the Board has jurisdiction over decisions regarding transactions – including those with Related Parties – in which the Managing Director possesses an interest on his/her own account or through a third party and must therefore abstain from the decision, entrusting the Board as per Article 2391 of the Italian Civil Code.

In addition, Article 53 of the Consolidated Law on Banking requires banks' shareholders and directors to abstain from voting on resolutions where they have a conflict of interest on their own behalf or on behalf of third parties.

## 2. Information on balances with related parties

Receivable and payable balances with related parties as at 31 December 2016 within the consolidated accounts – other than those intragroup – amount to a total that is insignificant compared to the size of the Group's capital base. Likewise, the weight of income and charges with related parties on consolidated operating margin is insignificant.

|                             | 31.12.2016                   |               |
|-----------------------------|------------------------------|---------------|
|                             | Amount<br>(millions of euro) | Impact<br>(%) |
| Total financial assets      | 1,855                        | 0.3           |
| Total other assets          | 12                           | 0.1           |
| Total financial liabilities | 1,097                        | 0.3           |
| Total other liabilities     | 502                          | 0.2           |

Equity investments in companies subject to significant influence or joint control (carried at equity), amounting to 1,278 million euro, are to be added to the foregoing balance sheet aggregates.

|                                  | 31.12.2016                   |               |
|----------------------------------|------------------------------|---------------|
|                                  | Amount<br>(millions of euro) | Impact<br>(%) |
| Total interest income            | 42                           | 0.3           |
| Total interest expense           | 2                            | 0.1           |
| Total fee and commission income  | 10                           | 0.1           |
| Total fee and commission expense | 25                           | 1.4           |
| Total operating costs            | 79                           | 0.8           |

During the year there were net provisions for non-performing loans for 39 million euro on cash loans and 9 million euro on existing guarantees towards associates and companies subject to joint control.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24, net of operations with fully consolidated entities, with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management, including as a form of self-regulation.

The table does not show the impact of related party transactions on the Group's cash flows, as this was not significant.

For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments totalling 227 million euro.

|  | (millions of euro)                |   |                                     |                |                    |                        |              |                  |  |                             |                                  |                                     |
|--|-----------------------------------|---|-------------------------------------|----------------|--------------------|------------------------|--------------|------------------|--|-----------------------------|----------------------------------|-------------------------------------|
|  | Financial assets held for trading | Financial assets designated at fair value through profit and loss | Financial assets available for sale | Due from banks | Loans to customers | Other financial assets | Due to banks | Due to customers | Financial liabilities held for trading | Other financial liabilities | Guarantees and commitments given | Guarantees and commitments received |
| Subsidiaries not consolidated on a line-by-line basis                      | -                                 | -   | -                                   | -              | -                  | 3                      | -            | 30               | -                                      | 2                           | 24                               | -                                   |
| Companies subject to joint control and their subsidiaries                  | 18                                | -   | 9                                   | 1              | 212                | 2                      | 1            | 64               | -                                      | 56                          | 82                               | 242                                 |
| Associates and their subsidiaries  | 214                               | -   | 145                                 | 20             | 1,224              | 3                      | 30           | 326              | 24                                     | 21                          | 672                              | 92                                  |
| Board Members and General Managers, Key Managers and their related parties | -                                 | -   | -                                   | -              | 10                 | -                      | -            | 12               | -                                      | 7                           | 1                                | 25                                  |
| Pension funds  | -                                 | -   | -                                   | -              | -                  | 4                      | -            | 434              | -                                      | 416                         | 1                                | -                                   |
| <b>Total</b>   | <b>232</b>                        | <b>-</b>  | <b>154</b>                          | <b>21</b>      | <b>1,446</b>       | <b>12</b>              | <b>31</b>    | <b>866</b>       | <b>24</b>                              | <b>502</b>                  | <b>780</b>                       | <b>359</b>                          |
| Shareholders <sup>(*)</sup>  | -                                 | -   | -                                   | -              | 2                  | -                      | -            | 176              | -                                      | -                           | 48                               | 3                                   |

(\*) Shareholders and their groups that hold a stake in the Bank's voting share capital exceeding the minimum threshold set by the regulations on disclosure of material shareholdings in listed companies (calculated considering only shares owned).

For the sake of completeness, the Group's most significant associates – and the companies controlled by them – included in the category of related parties in accordance with the version of IAS 24 in effect are: Bank of Qingdao Co. Ltd., Penghua Fund Management Co. Ltd., Autostrade Lombarde S.p.A., Cassa di Risparmio di Fermo S.p.A., Autostrada Pedemontana Lombarda S.p.A., Equiter S.p.A., Nuovo Trasporto Viaggiatori S.p.A., Consorzio Bancario Sir S.p.A. in liquidation. The main companies subject to joint control (joint venture) include Tangenziali Esterne di Milano S.p.A., Mir Capital Sca Sicar and Allfunds Bank Sa.

### 3. Information on transactions with related parties

#### Most significant transactions

In 2016 the Group did not carry out any transactions that qualified as non-ordinary "most significant transactions" and/or at non-market or non-standard conditions that would have resulted – in accordance with the Group Procedures regulating the conduct of transactions with related parties of Intesa Sanpaolo S.p.A. and associated entities of the Group – in an obligation to publish a market disclosure document.

#### Most significant intragroup transactions

With regard to most significant intragroup transactions – exempt, pursuant to the aforementioned internal Procedures, from the special decision-making procedure and from the obligation to publish a market disclosure document, unless other related parties hold significant interests in the subsidiary – note that several securitisation transactions took place during the year, as well as transactions aimed at the issue of Covered Bonds. Note that more significant transactions are those that exceed the threshold of 5% of own funds at consolidated level (approximately 2.5 billion euro for the year for Intesa Sanpaolo) or of the other indicators defined by the Consob regulation.

### **Other significant transactions**

Transactions entered into with related parties fall within the scope of the Group's ordinary activities and are usually entered into at market conditions, in any case based on valuations of mutual economic convenience, in line with the internal procedures mentioned above.

Some less significant transactions concluded during 2016 by the Parent Company or subsidiaries with related parties are reported below.

Transactions with fully consolidated intragroup related parties are not included in this report since they are netted at consolidated level. As a consequence, reference is made to the similar section of the separate financial statements.

Relations between the Intesa Sanpaolo Group, Board Members and General Managers, their close family members and entities controlled by them refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied, or, in relation to independent professionals with which a term contract exists, applying the terms reserved to professionals of similar standing, in full compliance with relevant regulations.

With respect to transactions with Shareholders with equity investments with voting rights greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management (to which the provisions governing transactions with related parties were extended as a form of self-regulation, subjecting them to the same assessment and approval procedure as applied to transactions with related parties), mainly ordinary lending transactions were undertaken, settled at market conditions.

For the purpose of completeness, please note the proposal submitted by Banca Fideuram to purchase on the market 20 million euro of the first bond issue expressed in Euro (totalling 700 million euro) of BlackRock Inc., in addition to the proposal submitted by Banca IMI to invest in a dedicated closed-end fund discretionally managed by BlackRock.

With regard to Fondazione Cassa di Risparmio di Padova e Rovigo, it is noted that Banca IMI purchased call options on securities held by Fondazione for 2 million euro. In relation to Fondazione Cassa di Risparmio in Bologna, please note the loan backed by pledge on Mediobanca shares with an amount not exceeding 70% of the value of the shares, with a maximum duration of one year.

Regarding Intesa Sanpaolo Provis, CIB Bank Zrt, Intesa Sanpaolo RE.O.CO. S.p.A., Qindao Yicai Welth Management co. Ltd and Neva Finventures S.p.A., share capital increases were subscribed or payments were made for future capital increases.

With regard to the Group's most significant relationships with entities under joint control and associates and their subsidiaries, during the period loans and renewals were granted to: Italconsult S.p.A., Merlata Mall S.p.A., Ambienta Sgr, Alitalia-Società Aerea Italiana S.p.A., Autostrada Pedemontana Lombarda, Immobiliare Novoli S.p.A., Euromilano S.p.A., Re.Consult Infrastrutture, Prelios Sgr, Società di Progetto Autostrada Diretta Brescia Milano, Intermarine S.p.A. and other minor companies, transactions whose interest rates were in line with market rates.

### **Other significant information**

With regard to investments carried at equity, value adjustments were posted, amounting to 16 million euro for Tangenziali esterne di Milano and 15 million euro for Autostrade Lombarde. The negative impact on the income statement deriving from Compagnia Aerea Italiana was instead zero, since the dedicated allowance for risks and charges accrued in 2015 was used to offset the value adjustments recorded for 17 million euro.

For Pension Funds in which Group companies are co-obliged by virtue of guarantees given, during the year provisions were made for the settlement of the technical imbalance of said Funds, as indicated in the Notes to the consolidated financial statements – Part B – Information on the consolidated balance sheet – Liabilities, Point 12.3 Post employment defined benefit plans, to which reference is made. Allowances for risks and charges include the provisions made against any outstanding or probable disputes.

## B) INFORMATION REGARDING COMPENSATION OF THE MEMBERS OF MANAGEMENT AND CONTROL BODIES AND KEY MANAGERS

The following table shows the amounts of the compensation paid in 2016 to the members of the management and control bodies and the General Managers of the subsidiary companies, as well as the compensation paid to other Key Managers of the Parent Company who fall within the notion of “related party”. This also includes the maximum amounts of the variable portion of remuneration which shall be paid in cash and/or shares of the Parent Company, based on the Group's remuneration and incentive policy, subject to the verification of achievement of the assigned targets and the decisions of the competent bodies of the Parent Company.

(millions of euro)

|   | MANAGEMENT BODIES/<br>CONTROL BODIES <sup>(1)</sup> |             | OTHER MANAGERS <sup>(2)</sup> |             | TOTAL as at 31.12.2016 |             |
|---|---|-------------|-------------------------------|-------------|------------------------|-------------|
|   | Amount due  | Amount paid | Amount due                    | Amount paid | Amount due             | Amount paid |
| Short-term benefits <sup>(3)</sup>      | 24  | 20          | 38                            | 32          | 62                     | 52          |
| Post-employment benefits <sup>(4)</sup> | -   | -           | 2                             | 2           | 2                      | 2           |
| Other long-term benefits <sup>(5)</sup> | -   | -           | 9                             | -           | 9                      | -           |
| Termination benefits <sup>(6)</sup>     | -   | -           | 4                             | 3           | 4                      | 3           |
| Share-based payments <sup>(7)</sup>     | -   | -           | 10                            | -           | 10                     | -           |
| <b>Total</b>                            | <b>24</b>   | <b>20</b>   | <b>63</b>                     | <b>37</b>   | <b>87</b>              | <b>57</b>   |

<sup>(1)</sup> Figures referring to 519 positions. The table does not include approximately 2 million euro relating to 93 positions on the Boards of Directors (or similar bodies), as this was fully transferred to other Group Companies

<sup>(2)</sup> Figures referring to 83 positions. The table does not include approximately 7 million euro relating to 18 General Manager positions (or similar positions), as this was fully transferred to other Group Companies

<sup>(3)</sup> Includes fixed and variable remuneration of Directors that may be treated as equivalent to labour cost and social security charges paid by the company for its employees

<sup>(4)</sup> Includes company contribution to pension funds and provisions for employee termination indemnities pursuant to law and company regulations

<sup>(5)</sup> Includes an estimate of provisions for employee seniority bonuses

<sup>(6)</sup> Includes benefits due under the employment contract for termination of employment

<sup>(7)</sup> The cost refers to the variable portion of short-/long-term remuneration to be paid in Intesa Sanpaolo shares/through LECOIPs

For detailed information on remuneration policies, pursuant to Art. 123 ter of the Consolidated Law on Finance, refer to the separate document “Report on Corporate Governance and Ownership Structures – Report on Remuneration”, approved and published together with these financial statements, which sets forth:

- a detailed indication of the compensation paid to the members of the management and control bodies and General Managers and, in aggregate, the Key Managers, as well as the stock option plans reserved for Board Members, General Managers and Key Managers;
- the details and the evolution of the stock option plans relative to Key Managers;
- Parent Company's and subsidiary companies' shares held by the members of the management and control bodies, General Managers, Key Managers and other associated entities.



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# Part I – Share-based payments

## A. QUALITATIVE INFORMATION

### 1. Description of share-based payments

#### 1.1. Incentive Plan based on financial instruments

The Provisions regarding remuneration and incentive policies and practices in banks and in banking groups, issued on 30 March 2011 (now integrated in Circular 285 of the Bank of Italy), required, inter alia, that a portion of incentives paid (50%) to “Risk Takers” be granted through the assignment of financial instruments, over a multi-year time horizon. As a result:

- with regard to the results for 2011, and in implementation of the Shareholders' Meeting resolution of 28 May 2012, on 26 June 2012 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 12,894,692 Intesa Sanpaolo ordinary shares (representing approximately 0.08% of the ordinary share capital) at an average purchase price of 0.97969 euro per share, for a total value of 12,632,743 euro;
- with regard to the results for 2012, and in implementation of the Shareholders' Meeting resolution of 22 April 2013, on 8 October 2013 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,920,413 Intesa Sanpaolo ordinary shares (representing approximately 0.06% of the ordinary share capital) at an average purchase price of 1.72775 euro per share, for a total value of 15,412,287 euro;
- with regard to the results for 2014, and in implementation of the Shareholders' Meeting resolution of 27 April 2015, on 09 October 2015 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 4,501,521 Intesa Sanpaolo ordinary shares (representing approximately 0.03% of the ordinary share capital) at an average purchase price of 3.18822 euro per share, for a total value of 14,389,260 euro.
- with regard to the results for 2015, and in implementation of the Shareholders' Meeting resolution of 27 April 2016, on 16 November 2016 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,440,911 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.149 euro per share, for a total value of 18,139,446 euro.

The above Shareholders' Meetings also authorised the sale on the regulated market of any shares exceeding requirements, or their retention for any future incentive plans.

The above shares shall be assigned to the beneficiaries in compliance with the implementing regulations set forth in the above incentive system. Generally, according to these regulations, the beneficiaries must remain in service up to the time the shares are actually delivered to them, and the deferred portion (either in cash or in financial instruments) of the incentive is subject to an ex post correction mechanism – the “malus condition” – according to which the relative amount paid and the number of shares assigned, if any, may be reduced by the level of achievement, in the year to which the deferred portion refers, of specific income statement-balance sheet targets which measure the sustainability of the results achieved over time.

#### 1.2 Long-term share-based instruments: PAD and LECOIP

The long-term employee shareholding instruments aim to support the motivation and loyalty of all the Group's resources, at the time of launching the 2014-2017 Business Plan. In particular, these instruments have the aim of encouraging the identification (ownership), the alignment to the medium/long-term objectives and the sharing of the value created over time.

There have been two long-term instruments offered to employees during 2014: an Employee Share Ownership Plan (PAD) and the Leveraged Employee Co – Investment Plans (LECOIP), because there is the desire, on one side, to strengthen the sense of belonging and cohesion (PAD) and, on the other, to search for the explicit sharing of the “challenge to create value” represented by the Business Plan (LECOIP).

The share ownership proposal is subdivided into two phases:

1. launch of an Employee Share Ownership Plan that allows each employee to share in the value of Intesa Sanpaolo through ownership and, therefore, to increase their sense of belonging;
2. the possibility for each employee to use the shares received and:
  - maintain them in their securities account, in order to sell them subsequently or transfer them immediately;
  - invest them in Co-Investment Plans through long-term financial instruments, the “LECOIP Certificates”, with the duration aligned to the Business Plan.

These financial instruments originate from purchases in the market and from capital increases.

As a matter of fact, the free assignment of Intesa Sanpaolo ordinary shares (PAD) implied the purchase of these shares on the market – Free Shares – while the Lecoip Certificates - issued by a third-party financial company not belonging to the Group – use as underlying some additional newly issued Intesa Sanpaolo ordinary shares assigned to the employee against a free capital increase - Matching shares - and the subscription, by the same employee, of newly issued Intesa Sanpaolo ordinary shares deriving from a paid capital increase reserved to employees, at a discounted price compared to the market value – Discounted shares.

The Lecoip Certificates are subdivided into three categories and have different characteristics, depending on whether these are addressed to so-called Risk Takers, Executives or all employees. Lecoip Certificates in general incorporate:

- the right to receive an amount in cash (or in Intesa Sanpaolo ordinary shares) upon maturity, equal to the original reference value (calculated as the average of the market values recorded during November 2014) of the Free Shares and Matching Shares (“protected capital”) and

- the right to receive, always upon maturity, a portion of any appreciation in the value of the shares (Free Shares, Matching Shares and Discounted Shares) compared to the original reference value described above.

Adhesion to the plans did not imply any outlay for the employees. At the time of signing the Certificates, the employees entered into a forward agreement with the counterparty issuing the Certificates for the sale of the Free Shares, the Matching Shares and the discounted Shares. The sale consideration was used by the employees to subscribe the discounted shares and, for the remaining part, for the purchase of the Certificates.

The Co-Investment Plans were subject to the approval of the ordinary Shareholders' Meeting of 8 May 2014. The ordinary meeting of the Bank also resolved on the purchase of treasury shares (pursuant to Art. 2357, paragraph 2 of the Italian Civil Code) to confer the free shares (Free Shares). On 8 May 2014, ISP's extraordinary meeting resolved on the Board of Directors' mandate to:

- increase the capital (free share capital increase) to grant the employees the free shares (Matching Shares) and
- increase the paid capital in favour of the employees, without option rights, through the issue of shares at a discounted price compared to the market price of ISP ordinary shares.

The Co-Investment Plans were authorised by the Bank of Italy on 30 September 2014; after this measure, the Management Board took the necessary resolutions on 2 October 2014 to implement the plan.

The offer period for the employees to adhere to the Co-Investment Plans ended on 31 October 2014. The date for the assignment of the shares to the employees is 1 December 2014, which corresponds to the start of the vesting period, which will end in April 2018.

In compliance with IFRS 2 - Share-based payment, the PAD and the LECOIP are represented in the consolidated financial statements of the Group as "equity settled" plans since the Group has assigned its own equity instruments as additional remuneration for the services received (the work performed). Instead the Group did not assume any liability to be settled with cash equivalents or other assets towards the employees.

Due to the impossibility of reliably estimating the fair value of the services received from employees, the cost of the benefit to employees is given by the fair value of the assigned shares, calculated on the assignment date, recognised in the income statement under caption 180a "Administrative expenses: personnel expenses", as a balancing entry for an increase in the shareholders' equity by valorising a specific reserve. The fair value of the Free Shares and Matching Shares was calculated on the basis of the market price of the shares on the date of assignment. As regards the Discounted shares, the fair value of the subscription discount was determined in consideration of the market price of the shares on the assignment date. For the shares assigned to Risk Takers only, the market price was adjusted to account for the constraint to the subsequent transfer upon the accrual period (holding period).

For the employees who only adhered to the Employee Share Ownership Plan, without adhering to the LECOIP investment plans (and who, thus, received the Free Shares only), the cost was entirely charged at the time of the assignment, as the shares are not subject to accrual conditions (vesting period).

For the employees who adhered to the LECOIPs, on the other hand, the condition applies of continuation of employment for the duration of the Plan, plus the additional performance conditions for Risk Takers and Executives (i.e. the achievement of certain objectives associated to the company capitalisation and the achievement of income results). If the accrual conditions fail to be respected, Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates.

The economic and financial effects of the Plan, estimated by suitably weighing the vesting conditions defined (including the probability of the employees continuing employment within the Group for the duration of the Plan), will be recognised during the period of accrual of the benefit and throughout the duration of the Plan.

## B. QUANTITATIVE INFORMATION

### 2.1 Incentive plans based on financial instruments in 2016

|   | Number of shares | Average strike price (euro) | Residual life                   |
|---|------------------|-----------------------------|---------------------------------|
| Financial instruments outstanding as at 31 December 2015    | 10,507,574       | -                           | Mar - Jun 2016 / Sep - Oct 2019 |
| Financial instruments granted during the year               | 9,172,206        | -                           | Mar - Jun 2018 / Sep - Oct 2020 |
| Financial instruments no longer assignable <sup>(a)</sup>   | 53,054           | -                           | -                               |
| Financial instruments vested during the year and assigned   | 4,252,748        | -                           | -                               |
| Financial instruments outstanding as at 31 December 2016    | 15,373,978       | -                           | Mar - Jun 2017 / Sep - Oct 2020 |
| <i>of which: vested and assigned as at 31 December 2016</i> | -                | -                           | -                               |

<sup>(a)</sup> Shares no longer deliverable to the beneficiaries following the related employment agreement ceasing and/or due to the application of the so-called malus conditions

**Breakdown by residual life**

| Residual life  | Number of shares |
|----------------|------------------|
| Mar - Oct 2017 | 5,090,549        |
| Mar - Oct 2018 | 7,721,735        |
| Mar - Oct 2019 | 2,014,453        |
| Sep - Oct 2020 | 547,241          |

**2.2 Long-term share-based instruments: LECOIP**

The economic effects for 2016 connected to the LECOIP Plans amount to about 157 million euro (including the repayment of the tax charges - sell to cover - to be borne by the assignees).

This being an equity settled plan, payables for cash settled payments are not recorded.

The following tables summarise the changes in the LECOIP Plans from the date of acceptance (December 2014) to 31 December 2016.

|                 | Free Shares<br>31.12.2014 |                            | Matching Shares<br>31.12.2014 |                            | LECOIP<br>Discounted Shares<br>31.12.2014 |                                | Sell to cover shares<br>31.12.2014 (a) |                                | Total number of<br>shares assigned<br>31.12.2014 | Number of<br>LECOIP<br>Certificates<br>31.12.2015 |
|-----------------|---------------------------|----------------------------|-------------------------------|----------------------------|---|--------------------------------|--|--------------------------------|--|---|
|                 | Number<br>of shares       | Average unit<br>fair value | Number<br>of shares           | Average unit<br>fair value | Number<br>of shares                       | Average unit<br>fair value (b) | Number<br>of shares                    | Average unit<br>fair value (b) |  |   |
| Total employees | 22,646,388                | 2.3442                     | 42,332,754                    | 2.3310                     | 259,916,568                               | 0.3736                         | 46,201,721                             | 2.4007                         | 371,097,431                                      | 63,451,959  |

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.

(b) Fair value of the subscription discount.

|                 | Number of<br>LECOIP<br>Certificates<br>31.12.2015 | Changes<br>in the year<br>(c) | Number of<br>LECOIP<br>Certificates<br>31.12.2016 | Average<br>fair value<br>31.12.2016 |
|-----------------|---|-------------------------------|---|-------------------------------------|
| Total employees | 63,451,959  | -1,016,181                    | 62,435,778  | 3.7532                              |

(c) Number of Certificates for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan

## Part L – Segment reporting

### Breakdown by business area: 2016 income statement figures <sup>(a)</sup>

|   | (millions of euro)  |                                  |                                |                 |                  |              |                      |               |
|---|---------------------|----------------------------------|--------------------------------|-----------------|------------------|--------------|----------------------|---------------|
|   | Banca dei Territori | Corporate and Investment Banking | International Subsidiary Banks | Private Banking | Asset Management | Insurance    | Corporate Centre (b) | Total         |
| Net interest income   | 4,623               | 1,447                            | 1,428                          | 175             | 1                | -            | -381                 | 7,293         |
| Net fee and commission income   | 3,895               | 1,111                            | 483                            | 1,527           | 567              | -            | -296                 | 7,287         |
| Income from insurance business  | -                   | -                                | -                              | -               | -                | 1,179        | -184                 | 995           |
| Profits (Losses) on trading   | 70                  | 808                              | 108                            | 31              | 11               | -            | 162                  | 1,190         |
| Other operating income (expenses)                                     | 23                  | 19                               | -17                            | 7               | 68               | -7           | 71                   | 164           |
| <b>Operating income</b>   | <b>8,611</b>        | <b>3,385</b>                     | <b>2,002</b>                   | <b>1,740</b>    | <b>647</b>       | <b>1,172</b> | <b>-628</b>          | <b>16,929</b> |
| Personnel expenses  | -3,024              | -372                             | -533                           | -292            | -64              | -71          | -952                 | -5,308        |
| Other administrative expenses   | -1,877              | -582                             | -341                           | -227            | -76              | -100         | 583                  | -2,620        |
| Adjustments to property, equipment and intangible assets              | -1                  | -3                               | -88                            | -15             | -1               | -2           | -636                 | -746          |
| <b>Operating costs</b>  | <b>-4,902</b>       | <b>-957</b>                      | <b>-962</b>                    | <b>-534</b>     | <b>-141</b>      | <b>-173</b>  | <b>-1,005</b>        | <b>-8,674</b> |
| <b>Operating margin</b>   | <b>3,709</b>        | <b>2,428</b>                     | <b>1,040</b>                   | <b>1,206</b>    | <b>506</b>       | <b>999</b>   | <b>-1,633</b>        | <b>8,255</b>  |
| Net adjustments to loans  | -2,039              | -333                             | -221                           | 6               | -                | -            | -1,121               | -3,708        |
| Net provisions and net impairment losses on other assets              | -57                 | -10                              | -8                             | -44             | 1                | -12          | -292                 | -422          |
| Other income (expenses)   | 109                 | 33                               | 71                             | -               | -                | 21           | 121                  | 355           |
| Income (Loss) from discontinued operations                            | 892                 | -                                | 31                             | -               | -                | -            | 29                   | 952           |
| <b>Gross income (loss)</b>  | <b>2,614</b>        | <b>2,118</b>                     | <b>913</b>                     | <b>1,168</b>    | <b>507</b>       | <b>1,008</b> | <b>-2,896</b>        | <b>5,432</b>  |
| Taxes on income   | -725                | -664                             | -179                           | -339            | -139             | -315         | 939                  | -1,422        |
| Charges (net of tax) for integration and exit incentives              | -44                 | -6                               | -31                            | -35             | -                | -5           | -29                  | -150          |
| Effect of purchase price allocation (net of tax)                      | -8                  | -                                | -                              | -84             | -                | -19          | -1                   | -112          |
| Levies and other charges concerning the banking industry (net of tax) | -                   | -                                | -                              | -               | -                | -            | -559                 | -559          |
| Impairment (net of tax) of goodwill and other intangible assets       | -                   | -                                | -                              | -               | -                | -            | -                    | -             |
| Minority interests  | -                   | -                                | -                              | -               | -11              | -            | -67                  | -78           |
| <b>Net income (loss)</b>  | <b>1,837</b>        | <b>1,448</b>                     | <b>703</b>                     | <b>710</b>      | <b>357</b>       | <b>669</b>   | <b>-2,613</b>        | <b>3,111</b>  |

### Breakdown by business area: balance sheet figures as at 31 December 2016 <sup>(a)</sup>

|                                       | (millions of euro)  |                                  |                                |                 |                  |           |                      |         |
|---------------------------------------|---------------------|----------------------------------|--------------------------------|-----------------|------------------|-----------|----------------------|---------|
|                                       | Banca dei Territori | Corporate and Investment Banking | International Subsidiary Banks | Private Banking | Asset Management | Insurance | Corporate Centre (b) | Total   |
| Loans to customers                    | 187,649             | 98,183                           | 26,492                         | 9,597           | 298              | 26        | 42,468               | 364,713 |
| Direct deposits from banking business | 173,599             | 112,661                          | 32,978                         | 27,540          | 8                | -         | 47,012               | 393,798 |

<sup>(a)</sup> Figures from the reclassified forms as described in the Report on operations.

<sup>(b)</sup> Netting between segments is reported by the Corporate Centre.

**Breakdown by geographical area: 2016 income statement figures <sup>(a)</sup>**

(millions of euro)

|   | Italy         | Europe        | Rest of the world | Total         |
|---|---------------|---------------|-------------------|---------------|
| Net interest income   | 5,081         | 1,380         | 832               | 7,293         |
| Net fee and commission income   | 5,831         | 1,247         | 209               | 7,287         |
| Income from insurance business  | 883           | 112           | -                 | 995           |
| Profits (Losses) on trading   | 1,082         | 127           | -19               | 1,190         |
| Other operating income (expenses)                                     | 63            | 22            | 79                | 164           |
| <b>Operating income</b>   | <b>12,940</b> | <b>2,888</b>  | <b>1,101</b>      | <b>16,929</b> |
| Personnel expenses  | -4,620        | -535          | -153              | -5,308        |
| Other administrative expenses   | -2,102        | -441          | -77               | -2,620        |
| Adjustments to property, equipment and intangible assets              | -648          | -89           | -9                | -746          |
| <b>Operating costs</b>  | <b>-7,370</b> | <b>-1,065</b> | <b>-239</b>       | <b>-8,674</b> |
| <b>Operating margin</b>   | <b>5,570</b>  | <b>1,823</b>  | <b>862</b>        | <b>8,255</b>  |
| Net adjustments to loans  | -3,457        | -219          | -32               | -3,708        |
| Net provisions and net impairment losses on other assets              | -375          | -31           | -16               | -422          |
| Other income (expenses)   | 278           | 77            | -                 | 355           |
| Income (Loss) from discontinued operations                            | 878           | 74            | -                 | 952           |
| <b>Gross income (loss)</b>  | <b>2,894</b>  | <b>1,724</b>  | <b>814</b>        | <b>5,432</b>  |
| Taxes on income   | -1,031        | -326          | -65               | -1,422        |
| Charges (net of tax) for integration and exit incentives              | -128          | -6            | -16               | -150          |
| Effect of purchase price allocation (net of tax)                      | -111          | -1            | -                 | -112          |
| Levies and other charges concerning the banking industry (net of tax) | -529          | -30           | -                 | -559          |
| Impairment (net of tax) of goodwill and other intangible assets       | -             | -             | -                 | -             |
| Minority interests  | -44           | -10           | -24               | -78           |
| <b>Net income (loss)</b>  | <b>1,051</b>  | <b>1,351</b>  | <b>709</b>        | <b>3,111</b>  |

**Breakdown by geographical area: balance sheet figures as at 31 December 2016 <sup>(a)</sup>**

(millions of euro)

|                                       | Italy   | Europe | Rest of the world | Total   |
|---------------------------------------|---------|--------|-------------------|---------|
| Loans to customers                    | 306,142 | 43,773 | 14,798            | 364,713 |
| Direct deposits from banking business | 329,438 | 57,902 | 6,458             | 393,798 |

Breakdown by geographical area is carried out with reference to the country of residence of Group entities.

<sup>(a)</sup> Figures from the reclassified forms as described in the Report on operations, to which reference should be made for comparison with the previous year.

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# Certification of the consolidated financial statements pursuant to Art. 154 bis of Legislative Decree 58/1998

1. The undersigned Carlo Messina (as Managing Director and CEO) and Fabrizio Dabbene (as Manager responsible for preparing the Company's financial reports) of Intesa Sanpaolo, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of 24 February 1998, do hereby certify to:
  - the adequacy in relation to the Company's features and
  - the actual application of the administrative and accounting procedures employed to draw up the consolidated financial statements during 2016.
2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the consolidated financial statements as at 31 December 2016 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems<sup>15</sup>.
3. The undersigned also certify that:
  - 3.1 The Consolidated financial statements as at 31 December 2016:
    - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of 19 July 2002;
    - correspond to the results of the books and accounts;
    - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer and of the companies included in the scope of consolidation.
  - 3.2 The report on operations includes a fair review of the development and operating margin, as well as of the position of the issuer and the companies included in the consolidation, together with a description of the main risks and uncertainties that they face.

21 february 2017

Carlo Messina  
Managing Director and CEO

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

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<sup>15</sup> The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and organisation. The COBIT Framework - Control Objectives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.

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



KPMG S.p.A.  
Revisione e organizzazione contabile  
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20124 MILANO MI  
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(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010**

To the shareholders of  
Intesa Sanpaolo S.p.A.

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of the Intesa Sanpaolo Group (the "group"), which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, statement of consolidated comprehensive income, statement of changes in consolidated shareholders' equity and consolidated statement of cash flows for the year then ended and notes thereto.

### ***Directors' responsibility for the consolidated financial statements***

The parent's directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

### ***Independent auditors' responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud





or error. In making those risk assessments, we consider internal control relevant to the bank's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

### **Report on other legal and regulatory requirements**

#### ***Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the consolidated financial statements***

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the parent's directors, with the consolidated financial statements of Intesa Sanpaolo Group as at and for the year ended 31 December 2016. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Intesa Sanpaolo Group as at and for the year ended 31 December 2016.

Milan, 13 March 2017

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli  
Director



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# Attachments to the Consolidated Financial Statements

## **Reconciliation between published consolidated financial statements and adjusted consolidated financial statements**

Reconciliation between the published consolidated balance sheet as at 31 December 2015 and the adjusted consolidated balance sheet as at 31 December 2015

Reconciliation between published consolidated income statement for 2015 and adjusted consolidated income statement for 2015

## **Reconciliation between adjusted/published consolidated financial statements and restated consolidated financial statements**

Reconciliation between the published consolidated balance sheet as at 31 December 2015 and the restated consolidated balance sheet as at 31 December 2015

Reconciliation between adjusted consolidated income statement for 2015 and restated consolidated income statement for 2015

Reconciliation between consolidated balance sheet as at 31 December 2016 and the restated consolidated balance sheet as at 31 December 2016

Reconciliation between consolidated income statement for 2016 and restated consolidated income statement for 2016

## **Restated consolidated financial statements**

Restated consolidated balance sheet

Restated consolidated income statement

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

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

## **Other Attachments**

List of the IAS/IFRS endorsed by the European Commission as at 31 December 2016



## Reconciliation between published consolidated financial statements and adjusted consolidated financial statements



**Reconciliation between the published consolidated balance sheet as at 31 December 2015 and the adjusted consolidated balance sheet as at 31 December 2015**

The published consolidated balance sheet as at 31 December 2015 did not require any adjustments.

## Reconciliation between published consolidated income statement for 2015 and adjusted consolidated income statement for 2015

|  | (millions of euro)       |   |                  |
|--|--------------------------|---|------------------|
|  | 2015<br>Published<br>(*) | Effects of IFRS 5<br>application<br>(a) | 2015<br>Adjusted |
| 10. Interest and similar income  | 14,148                   | -                                       | 14,148           |
| 20. Interest and similar expense   | -4,910                   | -                                       | -4,910           |
| <b>30. Interest margin</b>   | <b>9,238</b>             | <b>-</b>                                | <b>9,238</b>     |
| 40. Fee and commission income  | 8,735                    | -12                                     | 8,723            |
| 50. Fee and commission expense   | -1,686                   | -142                                    | -1,828           |
| <b>60. Net fee and commission income</b>   | <b>7,049</b>             | <b>-154</b>                             | <b>6,895</b>     |
| 70. Dividend and similar income  | 378                      | -                                       | 378              |
| 80. Profits (Losses) on trading  | 285                      | -                                       | 285              |
| 90. Fair value adjustments in hedge accounting   | -68                      | -                                       | -68              |
| 100. Profits (Losses) on disposal or repurchase of   | 1,205                    | -                                       | 1,205            |
| <i>a) loans</i>  | -44                      | -                                       | -44              |
| <i>b) financial assets available for sale</i>  | 1,452                    | -                                       | 1,452            |
| <i>c) investments held to maturity</i>   | -                        | -                                       | -                |
| <i>d) financial liabilities</i>  | -203                     | -                                       | -203             |
| 110. Profits (Losses) on financial assets and liabilities designated at fair value             | 977                      | -                                       | 977              |
| <b>120. Net interest and other banking income</b>  | <b>19,064</b>            | <b>-154</b>                             | <b>18,910</b>    |
| 130. Net losses / recoveries on impairment   | -2,824                   | -                                       | -2,824           |
| <i>a) loans</i>  | -2,751                   | -                                       | -2,751           |
| <i>b) financial assets available for sale</i>  | -203                     | -                                       | -203             |
| <i>c) investments held to maturity</i>   | -                        | -                                       | -                |
| <i>d) other financial activities</i>   | 130                      | -                                       | 130              |
| <b>140. Net income from banking activities</b>   | <b>16,240</b>            | <b>-154</b>                             | <b>16,086</b>    |
| 150. Net insurance premiums  | 12,418                   | -                                       | 12,418           |
| 160. Other net insurance income (expense)  | -14,680                  | -                                       | -14,680          |
| <b>170. Net income from banking and insurance activities</b>                                   | <b>13,978</b>            | <b>-154</b>                             | <b>13,824</b>    |
| 180. Administrative expenses   | -9,506                   | 76                                      | -9,430           |
| <i>a) personnel expenses</i>   | -5,394                   | 30                                      | -5,364           |
| <i>b) other administrative expenses</i>  | -4,112                   | 46                                      | -4,066           |
| 190. Net provisions for risks and charges  | -536                     | 1                                       | -535             |
| 200. Net adjustments to / recoveries on property and equipment                                 | -360                     | 3                                       | -357             |
| 210. Net adjustments to / recoveries on intangible assets                                      | -557                     | 3                                       | -554             |
| 220. Other operating expenses (income)   | 934                      | -19                                     | 915              |
| <b>230. Operating expenses</b>   | <b>-10,025</b>           | <b>64</b>                               | <b>-9,961</b>    |
| 240. Profits (Losses) on investments in associates and companies subject to joint control      | 111                      | -                                       | 111              |
| 250. Valuation differences on property, equipment and intangible assets measured at fair value | -                        | -                                       | -                |
| 260. Goodwill impairment   | -                        | -                                       | -                |
| 270. Profits (Losses) on disposal of investments   | 103                      | -                                       | 103              |
| <b>280. Income (Loss) before tax from continuing operations</b>                                | <b>4,167</b>             | <b>-90</b>                              | <b>4,077</b>     |
| 290. Taxes on income from continuing operations  | -1,359                   | 28                                      | -1,331           |
| <b>300. Income (Loss) after tax from continuing operations</b>                                 | <b>2,808</b>             | <b>-62</b>                              | <b>2,746</b>     |
| 310. Income (Loss) after tax from discontinued operations                                      | -2                       | 62                                      | 60               |
| <b>320. Net income (loss)</b>  | <b>2,806</b>             | <b>-</b>                                | <b>2,806</b>     |
| 330. Minority interests  | -67                      | -                                       | -67              |
| <b>340. Parent Company's net income (loss)</b>   | <b>2,739</b>             | <b>-</b>                                | <b>2,739</b>     |

(\*) Figures originally published in the Annual Report 2015

(a) Profit and loss results for the period ended 31 December 2015 of the subsidiaries Setefi and Intesa Sanpaolo Card, the sale agreement for which was signed in the second quarter of 2016



Reconciliation between adjusted/published consolidated financial statements and restated consolidated financial statements

## Reconciliation between the published consolidated balance sheet as at 31 December 2015 and the restated consolidated balance sheet as at 31 December 2015

(millions of euro)

| Assets  | 31.12.2015<br>Published<br>(* ) | Discontinued<br>operations<br>(a) | 31.12.2015<br>Restated |
|---|---------------------------------|-----------------------------------|------------------------|
| 10. Cash and cash equivalents   | 9,344                           | -                                 | 9,344                  |
| 20. Financial assets held for trading                                 | 51,597                          | -                                 | 51,597                 |
| 30. Financial assets designated at fair value through profit and loss | 53,663                          | -                                 | 53,663                 |
| 40. Financial assets available for sale                               | 131,402                         | -68                               | 131,334                |
| 50. Investments held to maturity                                      | 1,386                           | -                                 | 1,386                  |
| 60. Due from banks  | 34,445                          | -                                 | 34,445                 |
| 70. Loans to customers  | 350,010                         | -2,677                            | 347,333                |
| 80. Hedging derivatives   | 7,059                           | -                                 | 7,059                  |
| 90. Fair value change of financial assets in hedged portfolios (+/-)  | 110                             | -                                 | 110                    |
| 100. Investments in associates and companies subject to joint control | 1,727                           | -344                              | 1,383                  |
| 110. Technical insurance reserves reassured with third parties        | 22                              | -                                 | 22                     |
| 120. Property and equipment   | 5,367                           | -9                                | 5,358                  |
| 130. Intangible assets  | 7,195                           | -17                               | 7,178                  |
| <i>of which</i>   |                                 |                                   | -                      |
| <i>- goodwill</i>   | 3,914                           | -                                 | 3,914                  |
| 140. Tax assets   | 15,021                          | -14                               | 15,007                 |
| <i>a) current</i>   | 3,626                           | -13                               | 3,613                  |
| <i>b) deferred</i>  | 11,395                          | -1                                | 11,394                 |
| <i>- of which convertible into tax credit (Law no. 214/2011)</i>      | 8,749                           | -                                 | 8,749                  |
| 150. Non-current assets held for sale and discontinued operations     | 27                              | 3,404                             | 3,431                  |
| 160. Other assets   | 8,121                           | -203                              | 7,918                  |
| <b>Total Assets</b>   | <b>676,496</b>                  | <b>72</b>                         | <b>676,568</b>         |

(\*) Figures originally published in the Annual Report 2015.

(a) Restatement of discontinued operations, in accordance with the reclassification in the income statement pursuant to IFRS 5. In particular, reference is made to the sale of the subsidiaries Setefi and Intesa Sanpaolo Card, the sale agreement for which was signed in the second quarter of 2016. In addition, there were the sales of Re.consult and A4 Holding and the sale of the portfolio of performing salary-backed loans and consumer credit loans, finalised in May 2016 by the subsidiary ACCEDO.

(millions of euro)

| <b>Liabilities and Shareholders' Equity</b>  | <b>31.12.2015</b><br>Published (*) | <b>Discontinued</b><br><b>operations</b><br>(a) | <b>31.12.2015</b><br>Restated |
|--|------------------------------------|---|-------------------------------|
| 10. Due to banks   | 59,327                             | -   | 59,327                        |
| 20. Due to customers   | 255,258                            | 17  | 255,275                       |
| 30. Securities issued  | 110,144                            | -   | 110,144                       |
| 40. Financial liabilities held for trading   | 43,522                             | -   | 43,522                        |
| 50. Financial liabilities designated at fair value through profit and loss                   | 47,022                             | -   | 47,022                        |
| 60. Hedging derivatives  | 8,234                              | -   | 8,234                         |
| 70. Fair value change of financial liabilities in hedged portfolios (+/-)                    | 1,014                              | -   | 1,014                         |
| 80. Tax liabilities  | 2,367                              | -16   | 2,351                         |
| <i>a) current</i>  | 508                                | -12   | 496                           |
| <i>b) deferred</i>   | 1,859                              | -4  | 1,855                         |
| 90. Liabilities associated with non-current assets held for sale and discontinued operations | -                                  | 116   | 116                           |
| 100. Other liabilities   | 11,566                             | -41   | 11,525                        |
| 110. Employee termination indemnities  | 1,353                              | -2  | 1,351                         |
| 120. Allowances for risks and charges  | 3,480                              | -2  | 3,478                         |
| <i>a) post employment benefits</i>   | 859                                | -2  | 857                           |
| <i>b) other allowances</i>   | 2,621                              | -   | 2,621                         |
| 130. Technical reserves  | 84,616                             | -   | 84,616                        |
| 140. Valuation reserves  | -1,018                             | -   | -1,018                        |
| 150. Redeemable shares   | -                                  | -   | -                             |
| 160. Equity instruments  | 877                                | -   | 877                           |
| 170. Reserves  | 9,167                              | -   | 9,167                         |
| 180. Share premium reserve   | 27,349                             | -   | 27,349                        |
| 190. Share capital   | 8,732                              | -   | 8,732                         |
| 200. Treasury shares (-)   | -70                                | -   | -70                           |
| 210. Minority interests (+/-)  | 817                                | -   | 817                           |
| 220. Net income (loss)   | 2,739                              | -   | 2,739                         |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>676,496</b>                     | <b>72</b>                                       | <b>676,568</b>                |

(\*) Figures originally published in the Annual Report 2015.

(a) Restatement of liabilities associated with discontinued operations, in accordance with the reclassification of the income statement pursuant to IFRS 5. In particular, reference is made to the sale of the subsidiaries Setefi and Intesa Sanpaolo Card, the sale agreement for which was signed in the second quarter of 2016.

## Reconciliation between adjusted consolidated income statement for 2015 and restated consolidated income statement for 2015

(millions of euro)

|  | 2015<br>Adjusted | Changes in the scope of<br>consolidation<br>Risanamento Group<br>consolidation<br>(a) | Non-current<br>assets<br>held for sale<br>(b) | 2015<br>Restated |
|--|------------------|---|---|------------------|
| 10. Interest and similar income  | 14,148           | -   | -95   | 14,053           |
| 20. Interest and similar expense   | -4,910           | -11   | -   | -4,921           |
| <b>30. Interest margin</b>   | <b>9,238</b>     | <b>-11</b>  | <b>-95</b>                                    | <b>9,132</b>     |
| 40. Fee and commission income  | 8,723            | -   | -   | 8,723            |
| 50. Fee and commission expense   | -1,828           | -2  | -   | -1,830           |
| <b>60. Net fee and commission income</b>   | <b>6,895</b>     | <b>-2</b>   | <b>-</b>                                      | <b>6,893</b>     |
| 70. Dividend and similar income  | 378              | -   | -   | 378              |
| 80. Profits (Losses) on trading  | 285              | -   | -   | 285              |
| 90. Fair value adjustments in hedge accounting   | -68              | -   | -   | -68              |
| 100. Profits (Losses) on disposal or repurchase of   | 1,205            | -   | -   | 1,205            |
| <i>a) loans</i>  | -44              | -   | -   | -44              |
| <i>b) financial assets available for sale</i>  | 1,452            | -   | -   | 1,452            |
| <i>c) investments held to maturity</i>   | -                | -   | -   | -                |
| <i>d) financial liabilities</i>  | -203             | -   | -   | -203             |
| 110. Profits (Losses) on financial assets and liabilities designated at fair value             | 977              | -   | -   | 977              |
| <b>120. Net interest and other banking income</b>  | <b>18,910</b>    | <b>-13</b>  | <b>-95</b>                                    | <b>18,802</b>    |
| 130. Net losses / recoveries on impairment   | -2,824           | -   | -   | -2,824           |
| <i>a) loans</i>  | -2,751           | -   | -   | -2,751           |
| <i>b) financial assets available for sale</i>  | -203             | -   | -   | -203             |
| <i>c) investments held to maturity</i>   | -                | -   | -   | -                |
| <i>d) other financial activities</i>   | 130              | -   | -   | 130              |
| <b>140. Net income from banking activities</b>   | <b>16,086</b>    | <b>-13</b>  | <b>-95</b>                                    | <b>15,978</b>    |
| 150. Net insurance premiums  | 12,418           | -   | -   | 12,418           |
| 160. Other net insurance income (expense)  | -14,680          | -   | -   | -14,680          |
| <b>170. Net income from banking and insurance activities</b>                                   | <b>13,824</b>    | <b>-13</b>  | <b>-95</b>                                    | <b>13,716</b>    |
| 180. Administrative expenses   | -9,430           | -8  | -   | -9,438           |
| <i>a) personnel expenses</i>   | -5,364           | -3  | -   | -5,367           |
| <i>b) other administrative expenses</i>  | -4,066           | -5  | -   | -4,071           |
| 190. Net provisions for risks and charges  | -535             | -   | -   | -535             |
| 200. Net adjustments to / recoveries on property and equipment                                 | -357             | -3  | -   | -360             |
| 210. Net adjustments to / recoveries on intangible assets                                      | -554             | -   | -   | -554             |
| 220. Other operating expenses (income)   | 915              | 7   | -   | 922              |
| <b>230. Operating expenses</b>   | <b>-9,961</b>    | <b>-4</b>   | <b>-</b>                                      | <b>-9,965</b>    |
| 240. Profits (Losses) on investments in associates and companies subject to joint control      | 111              | 11  | -   | 122              |
| 250. Valuation differences on property, equipment and intangible assets measured at fair value | -                | -   | -   | -                |
| 260. Goodwill impairment   | -                | -   | -   | -                |
| 270. Profits (Losses) on disposal of investments   | 103              | -   | -   | 103              |
| <b>280. Income (Loss) before tax from continuing operations</b>                                | <b>4,077</b>     | <b>-6</b>   | <b>-95</b>                                    | <b>3,976</b>     |
| 290. Taxes on income from continuing operations  | -1,331           | -1  | 31  | -1,301           |
| <b>300. Income (Loss) after tax from continuing operations</b>                                 | <b>2,746</b>     | <b>-7</b>   | <b>-64</b>                                    | <b>2,675</b>     |
| 310. Income (Loss) after tax from discontinued operations                                      | 60               | -1  | -   | 59               |
| <b>320. Net income (loss)</b>  | <b>2,806</b>     | <b>-8</b>   | <b>-64</b>                                    | <b>2,734</b>     |
| 330. Minority interests  | -67              | 8   | 64  | 5                |
| <b>340. Parent Company's net income (loss)</b>   | <b>2,739</b>     | <b>-</b>  | <b>-</b>                                      | <b>2,739</b>     |

<sup>(a)</sup> Profit and loss results for the period ended 30 June 2015 of the line-by-line consolidation of Gruppo Risanamento instead of the previously applied equity method.

<sup>(b)</sup> Profit and loss results for the period ended 31 December 2015 of the portfolio of performing loans subject to the sale finalised at the end of May 2016 by the subsidiary ACCEDO.

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## **Reconciliation between consolidated balance sheet as at 31 December 2016 and the restated consolidated balance sheet as at 31 December 2016**

The consolidated balance sheet as at 31 December 2016 did not require any restatements.

## Reconciliation between consolidated income statement for 2016 and restated consolidated income statement for 2016

(millions of euro)

|  | 2016           | Changes in the scope of consolidation<br>(a) | 2016 Restated  |
|--|----------------|--|----------------|
| 10. Interest and similar income  | 12,865         | -18  | 12,847         |
| 20. Interest and similar expense   | -4,250         | -  | -4,250         |
| <b>30. Interest margin</b>   | <b>8,615</b>   | <b>-18</b>                                   | <b>8,597</b>   |
| 40. Fee and commission income  | 8,465          | -  | 8,465          |
| 50. Fee and commission expense   | -1,730         | -  | -1,730         |
| <b>60. Net fee and commission income</b>   | <b>6,735</b>   | <b>-</b>                                     | <b>6,735</b>   |
| 70. Dividend and similar income  | 461            | -  | 461            |
| 80. Profits (Losses) on trading  | 527            | -  | 527            |
| 90. Fair value adjustments in hedge accounting   | -34            | -  | -34            |
| 100. Profits (Losses) on disposal or repurchase of   | 990            | -  | 990            |
| <i>a) loans</i>  | -34            | -  | -34            |
| <i>b) financial assets available for sale</i>  | 990            | -  | 990            |
| <i>c) investments held to maturity</i>   | -              | -  | -              |
| <i>d) financial liabilities</i>  | 34             | -  | 34             |
| 110. Profits (Losses) on financial assets and liabilities designated at fair value             | 1,051          | -  | 1,051          |
| <b>120. Net interest and other banking income</b>  | <b>18,345</b>  | <b>-18</b>                                   | <b>18,327</b>  |
| 130. Net losses / recoveries on impairment   | -3,288         | -  | -3,288         |
| <i>a) loans</i>  | -3,026         | -  | -3,026         |
| <i>b) financial assets available for sale</i>  | -314           | -  | -314           |
| <i>c) investments held to maturity</i>   | -              | -  | -              |
| <i>d) other financial activities</i>   | 52             | -  | 52             |
| <b>140. Net income from banking activities</b>   | <b>15,057</b>  | <b>-18</b>                                   | <b>15,039</b>  |
| 150. Net insurance premiums  | 8,433          | -  | 8,433          |
| 160. Other net insurance (expense)   | -10,508        | -  | -10,508        |
| <b>170. Net income from banking and insurance activities</b>                                   | <b>12,982</b>  | <b>-18</b>                                   | <b>12,964</b>  |
| 180. Administrative expenses   | -9,505         | -  | -9,505         |
| <i>a) personnel expenses</i>   | -5,494         | -  | -5,494         |
| <i>b) other administrative expenses</i>  | -4,011         | -  | -4,011         |
| 190. Net provisions for risks and charges  | -241           | -  | -241           |
| 200. Net adjustments to / recoveries on property and equipment                                 | -354           | -  | -354           |
| 210. Net adjustments to / recoveries on intangible assets                                      | -577           | -  | -577           |
| 220. Other operating expenses (income)   | 430            | -  | 430            |
| <b>230. Operating expenses</b>   | <b>-10,247</b> | <b>-</b>                                     | <b>-10,247</b> |
| 240. Profits (Losses) on investments in associates and companies subject to joint control      | 125            | -  | 125            |
| 250. Valuation differences on property, equipment and intangible assets measured at fair value | -              | -  | -              |
| 260. Goodwill impairment   | -              | -  | -              |
| 270. Profits (Losses) on disposal of investments   | 356            | -  | 356            |
| <b>280. Income (Loss) before tax from continuing operations</b>                                | <b>3,216</b>   | <b>-18</b>                                   | <b>3,198</b>   |
| 290. Taxes on income from continuing operations  | -1,003         | 7  | -996           |
| <b>300. Income (Loss) after tax from continuing operations</b>                                 | <b>2,213</b>   | <b>-11</b>                                   | <b>2,202</b>   |
| 310. Income (Loss) after tax from discontinued operations                                      | 987            | -  | 987            |
| <b>320. Net income (loss)</b>  | <b>3,200</b>   | <b>-11</b>                                   | <b>3,189</b>   |
| 330. Minority interests  | -89            | 11   | -78            |
| <b>340. Parent Company's net income (loss)</b>   | <b>3,111</b>   | <b>-</b>                                     | <b>3,111</b>   |

(a) Profit and loss results for the first five months of 2016 of the portfolio of performing loans subject to the sale finalised at the end of May 2016 by the subsidiary ACCEDO.

Restated consolidated financial statements

## Restated consolidated balance sheet

(millions of euro)

| Assets  | 31.12.2016     | 31.12.2015<br>Restated | Changes       |            |
|---|----------------|------------------------|---------------|------------|
|   |                |                        | amount        | %          |
| 10. Cash and cash equivalents   | 8,686          | 9,344                  | -658          | -7.0       |
| 20. Financial assets held for trading                                 | 43,613         | 51,597                 | -7,984        | -15.5      |
| 30. Financial assets designated at fair value through profit and loss | 63,865         | 53,663                 | 10,202        | 19.0       |
| 40. Financial assets available for sale                               | 146,692        | 131,334                | 15,358        | 11.7       |
| 50. Investments held to maturity                                      | 1,241          | 1,386                  | -145          | -10.5      |
| 60. Due from banks  | 53,146         | 34,445                 | 18,701        | 54.3       |
| 70. Loans to customers  | 364,713        | 347,333                | 17,380        | 5.0        |
| 80. Hedging derivatives   | 6,234          | 7,059                  | -825          | -11.7      |
| 90. Fair value change of financial assets in hedged portfolios (+/-)  | 321            | 110                    | 211           |            |
| 100. Investments in associates and companies subject to joint control | 1,278          | 1,383                  | -105          | -7.6       |
| 110. Technical insurance reserves reassured with third parties        | 17             | 22                     | -5            | -22.7      |
| 120. Property and equipment   | 4,908          | 5,358                  | -450          | -8.4       |
| 130. Intangible assets  | 7,393          | 7,178                  | 215           | 3.0        |
| <i>of which</i>   |                |                        |               |            |
| - <i>goodwill</i>   | 4,059          | 3,914                  | 145           | 3.7        |
| 140. Tax assets   | 14,444         | 15,007                 | -563          | -3.8       |
| <i>a) current</i>   | 3,313          | 3,613                  | -300          | -8.3       |
| <i>b) deferred</i>  | 11,131         | 11,394                 | -263          | -2.3       |
| - <i>of which convertible into tax credit (Law no. 214/2011)</i>      | 8,491          | 8,749                  | -258          | -2.9       |
| 150. Non-current assets held for sale and discontinued operations     | 312            | 3,431                  | -3,119        | -90.9      |
| 160. Other assets   | 8,237          | 7,918                  | 319           | 4.0        |
| <b>Total Assets</b>   | <b>725,100</b> | <b>676,568</b>         | <b>48,532</b> | <b>7.2</b> |



(millions of euro)

| Liabilities and Shareholders' Equity   | 31.12.2016     | 31.12.2015<br>Restated | Changes       |            |
|--|----------------|------------------------|---------------|------------|
|  |                |                        | amount        | %          |
| 10. Due to banks   | 72,641         | 59,327                 | 13,314        | 22.4       |
| 20. Due to customers   | 291,876        | 255,275                | 36,601        | 14.3       |
| 30. Securities issued  | 94,783         | 110,144                | -15,361       | -13.9      |
| 40. Financial liabilities held for trading   | 44,790         | 43,522                 | 1,268         | 2.9        |
| 50. Financial liabilities designated at fair value through profit and loss                   | 57,187         | 47,022                 | 10,165        | 21.6       |
| 60. Hedging derivatives  | 9,028          | 8,234                  | 794           | 9.6        |
| 70. Fair value change of financial liabilities in hedged portfolios (+/-)                    | 773            | 1,014                  | -241          | -23.8      |
| 80. Tax liabilities  | 2,038          | 2,351                  | -313          | -13.3      |
| <i>a) current</i>  | 497            | 496                    | 1             | 0.2        |
| <i>b) deferred</i>   | 1,541          | 1,855                  | -314          | -16.9      |
| 90. Liabilities associated with non-current assets held for sale and discontinued operations | 272            | 116                    | 156           |            |
| 100. Other liabilities   | 11,944         | 11,525                 | 419           | 3.6        |
| 110. Employee termination indemnities  | 1,403          | 1,351                  | 52            | 3.8        |
| 120. Allowances for risks and charges  | 3,427          | 3,478                  | -51           | -1.5       |
| <i>a) post employment benefits</i>   | 1,025          | 857                    | 168           | 19.6       |
| <i>b) other allowances</i>   | 2,402          | 2,621                  | -219          | -8.4       |
| 130. Technical reserves  | 85,619         | 84,616                 | 1,003         | 1.2        |
| 140. Valuation reserves  | -1,854         | -1,018                 | 836           | 82.1       |
| 150. Redeemable shares   | -              | -                      | -             |            |
| 160. Equity instruments  | 2,117          | 877                    | 1,240         |            |
| 170. Reserves  | 9,528          | 9,167                  | 361           | 3.9        |
| 180. Share premium reserve   | 27,349         | 27,349                 | -             | -          |
| 190. Share capital   | 8,732          | 8,732                  | -             | -          |
| 200. Treasury shares (-)   | -72            | -70                    | 2             | 2.9        |
| 210. Minority interests (+/-)  | 408            | 817                    | -409          | -50.1      |
| 220. Net income (loss)   | 3,111          | 2,739                  | 372           | 13.6       |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>725,100</b> | <b>676,568</b>         | <b>48,532</b> | <b>7.2</b> |

## Restated consolidated income statement

(millions of euro)

|  | 2016           | 2015          | Changes     |              |
|--|----------------|---------------|-------------|--------------|
|  | Restated       | Restated      | amount      | %            |
| 10. Interest and similar income  | 12,847         | 14,053        | -1,206      | -8.6         |
| 20. Interest and similar expense   | -4,250         | -4,921        | -671        | -13.6        |
| <b>30. Interest margin</b>   | <b>8,597</b>   | <b>9,132</b>  | <b>-535</b> | <b>-5.9</b>  |
| 40. Fee and commission income  | 8,465          | 8,723         | -258        | -3.0         |
| 50. Fee and commission expense   | -1,730         | -1,830        | -100        | -5.5         |
| <b>60. Net fee and commission income</b>   | <b>6,735</b>   | <b>6,893</b>  | <b>-158</b> | <b>-2.3</b>  |
| 70. Dividend and similar income  | 461            | 378           | 83          | 22.0         |
| 80. Profits (Losses) on trading  | 527            | 285           | 242         | 84.9         |
| 90. Fair value adjustments in hedge accounting   | -34            | -68           | -34         | -50.0        |
| 100. Profits (Losses) on disposal or repurchase of   | 990            | 1,205         | -215        | -17.8        |
| <i>a) loans</i>  | -34            | -44           | -10         | -22.7        |
| <i>b) financial assets available for sale</i>  | 990            | 1,452         | -462        | -31.8        |
| <i>c) investments held to maturity</i>   | -              | -             | -           |              |
| <i>d) financial liabilities</i>  | 34             | -203          | 237         |              |
| 110. Profits (Losses) on financial assets and liabilities designated at fair value             | 1,051          | 977           | 74          | 7.6          |
| <b>120. Net interest and other banking income</b>  | <b>18,327</b>  | <b>18,802</b> | <b>-475</b> | <b>-2.5</b>  |
| 130. Net losses / recoveries on impairment   | -3,288         | -2,824        | 464         | 16.4         |
| <i>a) loans</i>  | -3,026         | -2,751        | 275         | 10.0         |
| <i>b) financial assets available for sale</i>  | -314           | -203          | 111         | 54.7         |
| <i>c) investments held to maturity</i>   | -              | -             | -           |              |
| <i>d) other financial activities</i>   | 52             | 130           | -78         | -60.0        |
| <b>140. Net income from banking activities</b>   | <b>15,039</b>  | <b>15,978</b> | <b>-939</b> | <b>-5.9</b>  |
| 150. Net insurance premiums  | 8,433          | 12,418        | -3,985      | -32.1        |
| 160. Other net insurance income (expense)  | -10,508        | -14,680       | -4,172      | -28.4        |
| <b>170. Net income from banking and insurance activities</b>                                   | <b>12,964</b>  | <b>13,716</b> | <b>-752</b> | <b>-5.5</b>  |
| 180. Administrative expenses   | -9,505         | -9,438        | 67          | 0.7          |
| <i>a) personnel expenses</i>   | -5,494         | -5,367        | 127         | 2.4          |
| <i>b) other administrative expenses</i>  | -4,011         | -4,071        | -60         | -1.5         |
| 190. Net provisions for risks and charges  | -241           | -535          | -294        | -55.0        |
| 200. Net adjustments to / recoveries on property and equipment                                 | -354           | -360          | -6          | -1.7         |
| 210. Net adjustments to / recoveries on intangible assets                                      | -577           | -554          | 23          | 4.2          |
| 220. Other operating expenses (income)   | 430            | 922           | -492        | -53.4        |
| <b>230. Operating expenses</b>   | <b>-10,247</b> | <b>-9,965</b> | <b>282</b>  | <b>2.8</b>   |
| 240. Profits (Losses) on investments in associates and companies subject to joint control      | 125            | 122           | 3           | 2.5          |
| 250. Valuation differences on property, equipment and intangible assets measured at fair value | -              | -             | -           |              |
| 260. Goodwill impairment   | -              | -             | -           |              |
| 270. Profits (Losses) on disposal of investments   | 356            | 103           | 253         |              |
| <b>280. Income (Loss) before tax from continuing operations</b>                                | <b>3,198</b>   | <b>3,976</b>  | <b>-778</b> | <b>-19.6</b> |
| 290. Taxes on income from continuing operations  | -996           | -1,301        | -305        | -23.4        |
| <b>300. Income (Loss) after tax from continuing operations</b>                                 | <b>2,202</b>   | <b>2,675</b>  | <b>-473</b> | <b>-17.7</b> |
| 310. Income (Loss) after tax from discontinued operations                                      | 987            | 59            | 928         |              |
| <b>320. Net income (loss)</b>  | <b>3,189</b>   | <b>2,734</b>  | <b>455</b>  | <b>16.6</b>  |
| 330. Minority interests  | -78            | 5             | -83         |              |
| <b>340. Parent Company's net income (loss)</b>   | <b>3,111</b>   | <b>2,739</b>  | <b>372</b>  | <b>13.6</b>  |

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

## Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

|  |  | (millions of euro) |                     |
|--|--|--------------------|---------------------|
| Captions of the reclassified consolidated balance sheet - Assets                             | Captions of the consolidated balance sheet - Assets  | 31.12.2016         | 31.12.2015 Restated |
| Financial assets held for trading  |  | 43,613             | 51,597              |
|  | <i>Caption 20 - Financial assets held for trading</i>  | 43,613             | 51,597              |
| Financial assets designated at fair value through profit and loss                            |  | 63,865             | 53,663              |
|  | <i>Caption 30 - Financial assets designated at fair value through profit and loss</i>                        | 63,865             | 53,663              |
| Financial assets available for sale  |  | 146,692            | 131,334             |
|  | <i>Caption 40 - Financial assets available for sale</i>  | 146,692            | 131,334             |
| Investments held to maturity   |  | 1,241              | 1,386               |
|  | <i>Caption 50 - Investments held to maturity</i>   | 1,241              | 1,386               |
| Due from banks   |  | 53,146             | 34,445              |
|  | <i>Caption 60 - Due from banks</i>   | 53,146             | 34,445              |
| Loans to customers   |  | 364,713            | 347,333             |
|  | <i>Caption 70 - Loans to customers</i>   | 364,713            | 347,333             |
| Investments in associates and companies subject to joint control                             |  | 1,278              | 1,383               |
|  | <i>Caption 100 - Investments in associates and companies subject to joint control</i>                        | 1,278              | 1,383               |
| Property, equipment and intangible assets  |  | 12,301             | 12,536              |
|  | <i>Caption 120 - Property and equipment</i>  | 4,908              | 5,358               |
|  | <i>+ Caption 130 - Intangible assets</i>   | 7,393              | 7,178               |
| Tax assets   |  | 14,444             | 15,007              |
|  | <i>Caption 140 - Tax assets</i>  | 14,444             | 15,007              |
| Non-current assets held for sale and discontinued operations                                 |  | 312                | 3,431               |
|  | <i>Caption 150 - Non-current assets held for sale and discontinued operations</i>                            | 312                | 3,431               |
| Other assets   |  | 23,495             | 24,453              |
|  | <i>Caption 10 - Cash and cash equivalents</i>  | 8,686              | 9,344               |
|  | <i>+ Caption 160 - Other assets</i>  | 8,237              | 7,918               |
|  | <i>+ Caption 110 - Technical insurance reserves reassured with third parties</i>                             | 17                 | 22                  |
|  | <i>+ Caption 80 - Hedging derivatives</i>  | 6,234              | 7,059               |
|  | <i>+ Caption 90 - Fair value change of financial assets in hedged portfolios</i>                             | 321                | 110                 |
| <b>Total Assets</b>  | <b>Total Assets</b>  | <b>725,100</b>     | <b>676,568</b>      |
| Captions of the reclassified consolidated balance sheet Liabilities and Shareholders' Equity | Captions of the consolidated balance sheet - Liabilities and Shareholders' Equity                            | 31.12.2016         | 31.12.2015 Restated |
| Due to banks   |  | 72,641             | 59,327              |
|  | <i>Caption 10 - Due to banks</i>   | 72,641             | 59,327              |
| Due to customers and securities issued   |  | 386,659            | 365,419             |
|  | <i>Caption 20 - Due to customers</i>   | 291,876            | 255,275             |
|  | <i>+ Caption 30 - Securities issued</i>  | 94,783             | 110,144             |
| Financial liabilities held for trading   |  | 44,790             | 43,522              |
|  | <i>Caption 40 - Financial liabilities held for trading</i>   | 44,790             | 43,522              |
| Financial liabilities designated at fair value through profit and loss                       |  | 57,187             | 47,022              |
|  | <i>Caption 50 - Financial liabilities designated at fair value through profit and loss</i>                   | 57,187             | 47,022              |
| Tax liabilities  |  | 2,038              | 2,351               |
|  | <i>Caption 80 - Tax liabilities</i>  | 2,038              | 2,351               |
| Liabilities associated with non-current assets held for sale and discontinued operations     |  | 272                | 116                 |
|  | <i>Caption 90 - Liabilities associated with non-current assets held for sale and discontinued operations</i> | 272                | 116                 |
| Other liabilities  |  | 21,745             | 20,773              |
|  | <i>Caption 100 - Other liabilities</i>   | 11,944             | 11,525              |
|  | <i>+ Caption 60 - Hedging derivatives</i>  | 9,028              | 8,234               |
|  | <i>+ Caption 70 - Fair value change of financial liabilities in hedged portfolios</i>                        | 773                | 1,014               |
| Technical reserves   |  | 85,619             | 84,616              |
|  | <i>Caption 130 - Technical reserves</i>  | 85,619             | 84,616              |
| Allowances for specific purpose  |  | 4,830              | 4,829               |
|  | <i>Caption 110 - Employee termination indemnities</i>  | 1,403              | 1,351               |
|  | <i>Caption 120 - Allowances for risks and charges</i>  | 3,427              | 3,478               |
| Share capital  |  | 8,732              | 8,732               |
|  | <i>Caption 190 - Share capital</i>   | 8,732              | 8,732               |
| Reserves (net of treasury shares)  |  | 36,805             | 36,446              |
|  | <i>Caption 170 - Reserves</i>  | 9,528              | 9,167               |
|  | <i>Caption 180 - Share premium reserve</i>   | 27,349             | 27,349              |
|  | <i>- Caption 200 - Treasury shares</i>   | -72                | -70                 |
| Valuation reserves   |  | -1,854             | -1,018              |
|  | <i>Caption 140 - Valuation reserves</i>  | -1,854             | -1,018              |
| Equity instruments   |  | 2,117              | 877                 |
|  | <i>Caption 160 - Equity instruments</i>  | 2,117              | 877                 |
| Minority interests   |  | 408                | 817                 |
|  | <i>Caption 210 - Minority interests</i>  | 408                | 817                 |
| Net income (loss)  |  | 3,111              | 2,739               |
|  | <i>Caption 220 - Net income (loss)</i>   | 3,111              | 2,739               |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>Total Liabilities and Shareholders' Equity</b>  | <b>725,100</b>     | <b>676,568</b>      |

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

|   |  | (millions of euro) |                  |
|---|--|--------------------|------------------|
| Captions of the reclassified consolidated income statement      | Captions of the consolidated income statement  | 2016<br>Restated   | 2015<br>Restated |
| <b>Net interest income</b>                                      |  | <b>7,293</b>       | <b>7,717</b>     |
|   | Caption 30 Interest margin   | 8,597              | 9,132            |
|   | - Caption 30 (partial) Contribution of insurance business  | -1,953             | -2,020           |
|   | - Caption 30 (partial) Interest margin (Effect of purchase price allocation)   | 7                  | 12               |
|   | + Caption 80 (partial) Components of the profits (losses) on trading relating to net interest                                    | -2                 | -4               |
|   | + Caption 130 a (partial) Net losses/recoveries on impairment of loans (Time value loans)  | 700                | 643              |
|   | + Caption 180 a (partial) Personnel expenses (Time value employee termination indemnities and other)                             | -55                | -45              |
|   | + Caption 190 (partial) Net provisions for risks and charges (Time value allowances for risks and charges)                       | -1                 | -1               |
| <b>Net fee and commission income</b>                            |  | <b>7,287</b>       | <b>7,342</b>     |
|   | Caption 60 Net fee and commission income   | 6,735              | 6,893            |
|   | - Caption 60 (partial) Contribution of insurance business  | 544                | 474              |
|   | - Caption 60 (partial) Components of net fee and commission income relating to profits (losses) on trading                       | 38                 | -                |
|   | + Caption 180 b (partial) Other administrative expenses (Recovery of other expenses)   | -30                | -25              |
| <b>Income from insurance business</b>                           |  | <b>995</b>         | <b>997</b>       |
|   | Caption 150 Net insurance premiums   | 8,433              | 12,418           |
|   | + Caption 160 Other net insurance income (expense)   | -10,508            | -14,680          |
|   | + Caption 30 (partial) Contribution of insurance business  | 1,953              | 2,020            |
|   | + Caption 60 (partial) Contribution of insurance business  | -544               | -474             |
|   | + Caption 70 (partial) Contribution of insurance business  | 238                | 171              |
|   | + Caption 80 (partial) Contribution of insurance business  | 1,469              | 1,619            |
|   | - Caption 160 (partial) Other net insurance income (expense)-changes in technical reserves due to impairm. of securities AFS     | -46                | -77              |
| <b>Profits (Losses) on trading</b>                              |  | <b>1,190</b>       | <b>1,034</b>     |
|   | Caption 80 Profits (Losses) on trading   | 527                | 285              |
|   | + Caption 90 Fair value adjustments in hedge accounting  | -34                | -68              |
|   | + Caption 100 b) Profits (Losses) on disposal or repurchase of financial assets available for sale                               | 990                | 1,452            |
|   | + Caption 100 d) Profits (Losses) on disposal or repurchase of financial liabilities   | 34                 | -203             |
|   | + Caption 110 Profits (Losses) on financial assets and liabilities designated at fair value                                      | 1,051              | 977              |
|   | + Caption 60 (partial) Components of net fee and commission income relating to profits (losses) on trading                       | -38                | -                |
|   | + Caption 70 (partial) Dividend and similar income on shares available for sale and held for trading                             | 223                | 206              |
|   | - Caption 80 (partial) Components of the profits (losses) on trading relating to net interest                                    | 2                  | 4                |
|   | - Caption 80 (partial) Contribution of insurance business  | -1,469             | -1,619           |
|   | - Caption 100 b (partial) Visa Europe Transaction  | -87                | -                |
|   | + Caption 180 b (partial) Other administrative expenses (stocking costs)   | -9                 | -                |
| <b>Other operating income (expenses)</b>                        |  | <b>164</b>         | <b>96</b>        |
|   | Caption 70 Dividend and similar income   | 461                | 378              |
|   | + Caption 220 Other operating income (expenses)  | 430                | 922              |
|   | - Caption 70 (partial) Contribution of insurance business  | -238               | -171             |
|   | - Caption 70 (partial) Dividend and similar income on shares available for sale and held for trading                             | -223               | -206             |
|   | - Caption 220 (partial) Other operating income (expenses) (Recovery of expenses)   | -8                 | -15              |
|   | - Caption 220 (partial) Other operating income (expenses) (Recovery of indirect taxes)   | -701               | -711             |
|   | - Caption 220 (partial) Other operating income (expenses) (Impairment losses on repurchased property and equipment)              | 32                 | 23               |
|   | - Caption 220 (partial) Other operating income (expenses) (Profits (losses) on disposal of repurchased property and equipment)   | -4                 | -8               |
|   | - Caption 220 (partial) Other operating income (expenses) (IM/SIR dispute)   | -13                | -211             |
|   | + Caption 220 (partial) Other operating income (expenses) (USA sanction)   | 225                | -                |
|   | + Caption 240 (partial) Profits (Losses) on investments in associates and companies subject to joint control (carried at equity) | 203                | 95               |
| <b>Operating income</b>   |  | <b>16,929</b>      | <b>17,186</b>    |
| <b>Personnel expenses</b>                                       |  | <b>-5,308</b>      | <b>-5,286</b>    |
|   | Caption 180 a) Personnel expenses  | -5,494             | -5,367           |
|   | - Caption 180 a (partial) Personnel expenses (Charges for integration and exit incentives)                                       | 131                | 36               |
|   | - Caption 180 a (partial) Personnel expenses (Time value employee termination indemnities and other)                             | 55                 | 45               |
| <b>Administrative expenses</b>                                  |  | <b>-2,620</b>      | <b>-2,720</b>    |
|   | Caption 180 b) Other administrative expenses   | -4,011             | -4,071           |
|   | - Caption 180 b (partial) Other administrative expenses (Charges for integration)  | 65                 | 84               |
|   | - Caption 180 b (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)                           | 578                | 516              |
|   | - Caption 180 b (partial) Other administrative expenses (stocking costs)   | 9                  | -                |
|   | - Caption 180 b (partial) Other administrative expenses (Recovery of other expenses)   | 30                 | 25               |
|   | + Caption 220 (partial) Other operating income (expenses) (Recovery of indirect taxes)   | 701                | 711              |
|   | + Caption 220 (partial) Other operating income (expenses) (Recovery of expenses)   | 8                  | 15               |
| <b>Adjustments to property, equipment and intangible assets</b> |  | <b>-746</b>        | <b>-728</b>      |
|   | Caption 200 Net adjustments to/recoveries on property and equipment  | -354               | -360             |
|   | + Caption 210 Net adjustments to/recoveries on intangible assets   | -577               | -554             |
|   | - Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Charges for integration)                        | 8                  | -                |
|   | - Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Charges for integration)                             | 7                  | 6                |
|   | - Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Impairment)                                     | 22                 | 22               |
|   | - Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Impairment)  | -                  | 7                |
|   | - Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)            | -7                 | -17              |
|   | - Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)                 | 155                | 168              |
| <b>Operating costs</b>  |  | <b>-8,674</b>      | <b>-8,734</b>    |
| <b>Operating margin</b>   |  | <b>8,255</b>       | <b>8,452</b>     |

|   |   | (millions of euro) |                  |
|---|---|--------------------|------------------|
| Captions of the reclassified consolidated income statement      | Captions of the consolidated income statement   | 2016<br>Restated   | 2015<br>Restated |
| <b>Operating margin</b>   |   | <b>8,255</b>       | <b>8,452</b>     |
| <b>Net adjustments to loans</b>                                 |   | <b>-3,708</b>      | <b>-3,306</b>    |
|   | <i>Caption 100 a) Profits (Losses) on disposal or repurchase of loans</i>   | -34                | -44              |
|   | + <i>Caption 130 a) Net losses/recoveries on impairment of loans</i>  | -3,026             | -2,751           |
|   | + <i>Caption 130 d) Net losses/recoveries on impairment of other financial activities</i>   | 52                 | 130              |
|   | - <i>Caption 130 a) (partial) Net losses/recoveries on impairment of loans (Time value loans)</i>   | -700               | -643             |
|   | - <i>Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)</i>   | -                  | 2                |
| <b>Net provisions and net impairment losses on other assets</b> |   | <b>-422</b>        | <b>-570</b>      |
|   | <i>Caption 130 b) Net losses/recoveries on impairment of financial assets available for sale</i>  | -314               | -203             |
|   | + <i>Caption 130 c) Net losses/recoveries on impairment of investments held to maturity</i>   | -                  | -                |
|   | + <i>Caption 190 Net provisions for risks and charges</i>   | -241               | -535             |
|   | - <i>Caption 130 b) (partial) Net losses/recoveries on impairment of financial assets available for sale (Investments for the stability of the banking system)</i>      | 182                | -                |
|   | + <i>Caption 160 (partial) Other net insurance income (expense) - changes in technical reserves due to impairment of securities AFS</i>                                 | 46                 | 77               |
|   | - <i>Caption 190 (partial) Net provisions for risks and charges (Time value allowances for risks and charges)</i>   | 1                  | 1                |
|   | - <i>Caption 190 (partial) Net provisions for risks and charges (Investments for the stability of the banking system)</i>   | 60                 | -                |
|   | - <i>Caption 190 (partial) Net provisions for risks and charges (tax charges)</i>   | -                  | 135              |
|   | - <i>Caption 190 (partial) Net provisions for risks and charges (charges for integration)</i>   | 2                  | -                |
|   | + <i>Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Impairment)</i>   | -22                | -22              |
|   | - <i>Caption 200 (partial) Net adjustments to/recoveries on property and equipment (Impairment - Effect of purchase price allocation)</i>                               | 9                  | 10               |
|   | + <i>Caption 210 (partial) Net adjustments to/recoveries on intangible assets (Impairment)</i>  | -                  | -7               |
|   | + <i>Caption 220 (partial) Other operating income (expenses) (Impairment losses on repurchased property and equipment)</i>  | -32                | -23              |
|   | + <i>Caption 240 (partial) Profits (Losses) on investments in associates and companies subject to joint control (Net losses/recoveries on impairment of associates)</i> | -113               | -3               |
| <b>Other income (expenses)</b>                                  |   | <b>355</b>         | <b>352</b>       |
|   | <i>Caption 100 c) Profits (Losses) on disposal or repurchase of investments held to maturity</i>  | -                  | -                |
|   | + <i>Caption 240 Profits (Losses) on investments in associates and companies subject to joint control</i>   | 125                | 122              |
|   | + <i>Caption 270 Profits (Losses) on disposal of investments</i>  | 356                | 103              |
|   | + <i>Caption 100 b) (partial) Visa Europe Transaction</i>   | 87                 | -                |
|   | + <i>Caption 220 (partial) Other operating income (expenses) (Profits (losses) on disposal of repurchased property and equipment)</i>                                   | 4                  | 8                |
|   | + <i>Caption 220 (partial) Other operating income (expenses) (IMISIR dispute)</i>   | 13                 | 211              |
|   | - <i>Caption 220 (partial) Other operating income (expenses) (USA sanction)</i>   | -225               | -                |
|   | - <i>Caption 240 (partial) Profits (Losses) on investments in associates and companies subject to joint control (carried at equity)</i>                                 | -203               | -95              |
|   | - <i>Caption 240 (partial) Profits (Losses) on investments in associates and companies subject to joint control (Net losses/recoveries on impairment of associates)</i> | 113                | 3                |
|   | - <i>Caption 270 (partial) Profits (Losses) on disposal of investments (Effect of purchase price allocation)</i>  | 2                  | -                |
|   | + <i>Caption 310 (partial) Income (Loss) after tax from discontinued operations (Visa Europe Transaction)</i>   | 83                 | -                |
| <b>Income (Loss) after tax from discontinued operations</b>     |   | <b>952</b>         | <b>87</b>        |
|   | <i>Caption 310 Income (Loss) after tax from discontinued operations</i>   | 987                | 59               |
|   | + <i>Caption 290 (partial) Taxes on income from continuing operations (Goodwill impairment)</i>   | 42                 | 28               |
|   | - <i>Caption 310 (partial) Income (Loss) after tax from discontinued operations (Visa Europe Transaction)</i>   | -83                | -                |
|   | - <i>Caption 310 (partial) Income (Loss) after tax from discontinued operations (Taxes for Visa Europe Transaction)</i>   | 6                  | -                |
| <b>Gross income (loss)</b>                                      |   | <b>5,432</b>       | <b>5,015</b>     |

|  |   | (millions of euro) |                  |
|--|---|--------------------|------------------|
| Captions of the reclassified consolidated income statement                   | Captions of the consolidated income statement   | 2016<br>Restated   | 2015<br>Restated |
| <b>Gross income (loss)</b>   |   | <b>5,432</b>       | <b>5,015</b>     |
| <b>Taxes on income</b>   |   | <b>-1,422</b>      | <b>-1,727</b>    |
|  | <i>Caption 290 Taxes on income from continuing operations</i>   | -996               | -1,301           |
|  | + <i>Caption 190 (partial) Net provisions for risks and charges (tax charges)</i>   | -                  | -135             |
|  | - <i>Caption 290 (partial) Taxes on income from continuing operations (Discontinued operations)</i>   | -42                | -28              |
|  | - <i>Caption 290 (partial) Taxes on income from continuing operations (Charges for integration)</i>   | -63                | -43              |
|  | - <i>Caption 290 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)</i>   | -54                | -56              |
|  | - <i>Caption 290 (partial) Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)</i>  | -181               | -164             |
|  | - <i>Caption 290 (partial) Taxes on income from continuing operations (Impairment losses on financial assets - Investments for the stability of the banking system)</i> | -80                | -                |
|  | + <i>Caption 310 (partial) Income (Loss) after tax from discontinued operations (Taxes for Visa Europe Transaction)</i>   | -6                 | -                |
| <b>Charges (net of tax) for integration and exit incentives</b>              |   | <b>-150</b>        | <b>-83</b>       |
|  | + <i>Caption 180 a) (partial) Personnel expenses (Charges for integration and exit incentives)</i>  | -131               | -36              |
|  | + <i>Caption 180 b) (partial) Other administrative expenses (Charges for integration)</i>   | -65                | -84              |
|  | + <i>Caption 190 (partial) Net provisions for risks and charges (Charges for integration)</i>   | -2                 | -                |
|  | + <i>Caption 200 (partial) Net adjustments to recoveries on property and equipment (Impairment - Charges for integration)</i>   | -8                 | -                |
|  | + <i>Caption 210 (partial) Net adjustments to recoveries on intangible assets (Charges for integration)</i>   | -7                 | -6               |
|  | + <i>Caption 290 (partial) Taxes on income from continuing operations (Charges for integration)</i>   | 63                 | 43               |
| <b>Effect of purchase price allocation (net of tax)</b>                      |   | <b>-112</b>        | <b>-119</b>      |
|  | + <i>Caption 30 (partial) Interest margin (Effect of purchase price allocation)</i>   | -7                 | -12              |
|  | + <i>Caption 200 (partial) Net adjustments to recoveries on property and equipment (Effect of purchase price allocation)</i>  | 7                  | 17               |
|  | + <i>Caption 200 (partial) Net adjustments to recoveries on property and equipment (Impairment - Effect of purchase price allocation)</i>                               | -9                 | -10              |
|  | + <i>Caption 210 (partial) Net adjustments to recoveries on intangible assets (Effect of purchase price allocation)</i>   | -155               | -168             |
|  | + <i>Caption 100 a) (partial) Profits (Losses) on disposal or repurchase of loans (Effect of purchase price allocation)</i>   | -                  | -2               |
|  | + <i>Caption 270 (partial) Profits (Losses) on disposal of investments (Effect of purchase price allocation)</i>  | -2                 | -                |
|  | + <i>Caption 290 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)</i>   | 54                 | 56               |
| <b>Levies and other charges concerning the banking industry (net of tax)</b> |   | <b>-559</b>        | <b>-352</b>      |
|  | + <i>Caption 130 b) (partial) Net losses/recoveries on impairment of financial assets available for sale (Investments for the stability of the banking system)</i>      | -182               | -                |
|  | + <i>Caption 180 b) (partial) Other administrative expenses (Contribution to resolution fund and deposit guarantee scheme)</i>  | -578               | -516             |
|  | + <i>Caption 190 (partial) Net provisions for risks and charges (Investments for the stability of the banking system)</i>   | -60                | -                |
|  | + <i>Caption 290 (partial) Taxes on income from continuing operations (Contribution to resolution fund and deposit guarantee scheme)</i>                                | 181                | 164              |
|  | + <i>Caption 290 (partial) Taxes on income from continuing operations (Impairment losses on financial assets - Investments for the stability of the banking system)</i> | 80                 | -                |
| <b>Impairment (net of tax) of goodwill and other intangible assets</b>       |   | <b>-</b>           | <b>-</b>         |
|  | <i>Caption 260 Goodwill impairment</i>  | -                  | -                |
| <b>Minority interests</b>  |   | <b>-78</b>         | <b>5</b>         |
|  | <i>Caption 330 Minority interests</i>   | -78                | 5                |
| <b>Net income (loss)</b>   | <b>Caption 340 Parent Company's net income (loss)</b>   | <b>3,111</b>       | <b>2,739</b>     |





## Other consolidated attachments



## List of the IAS/IFRS endorsed by the European Commission as at 31 December 2016

| ACCOUNTING STANDARDS   | Regulation endorsement   |
|--|--|
| IFRS 1 First-time Adoption of International Financial Reporting Standards                                | 1126/2008 mod. 1260/2008 - 1274/2008 - 69/2009 - 70/2009 - 254/2009 - 494/2009 - 495/2009 - 1136/2009 - 1164/2009 - 550/2010 - 574/2010 - 662/2010 - 149/2011 - 1205/2011 - 475/2012 - 1254/2012 - 1255/2012 - 183/2013 - 301/2013 - 1174/2013 - 2173/2015 - 2343/2015 - 2441/2015 - 1905/2016 (*) - 2067/2016 (*) |
| IFRS 2 Share-based Payment   | 1126/2008 mod. 1261/2008 - 495/2009 - 243/2010 - 244/2010 - 1254/2012 - 1255/2012 - 28/2015 - 2067/2016 (*)  |
| IFRS 3 Business Combinations   | 1126/2008 mod. 495/2009 - 149/2011 - 1254/2012 - 1255/2012 - 1174/2013 - 1361/2014 - 28/2015 - 1905/2016 (*) - 2067/2016 (*)   |
| IFRS 4 Insurance Contracts   | 1126/2008 mod. 1274/2008 - 494/2009 - 1165/2009 - 1255/2012 - 1905/2016 (*) - 2067/2016 (*)  |
| IFRS 5 Non-current Assets Held for Sale and Discontinued Operations                                      | 1126/2008 mod. 1274/2008 - 70/2009 - 494/2009 - 1142/2009 - 243/2010 - 475/2012 - 1254/2012 - 1255/2012 - 2343/2015 - 2067/2016 (*)  |
| IFRS 6 Exploration for and Evaluation of Mineral Resources   | 1126/2008  |
| IFRS 7 Financial Instruments: Disclosures  | 1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 495/2009 - 824/2009 - 1165/2009 - 574/2010 - 149/2011 - 1205/2011 - 475/2012 - 1254/2012 - 1255/2012 - 1256/2012 - 1174/2013 - 2343/2015 - 2406/2015 - 2067/2016 (*)  |
| IFRS 8 Operating Segments  | 1126/2008 mod. 1274/2008 - 243/2010 - 632/2010 - 475/2012 - 28/2015  |
| IFRS 9 Financial Instruments   | 2067/2016 (*)  |
| IFRS 10 Consolidated Financial Statements  | 1254/2012 mod. 313/2013 - 1174/2013 - 1703/2016  |
| IFRS 11 Joint Arrangements   | 1254/2012 mod. 313/2013 - 2173/2015  |
| IFRS 12 Disclosure of Interests in Other Entities  | 1254/2012 mod. 313/2013 - 1174/2013 - 1703/2016  |
| IFRS 13 Fair Value Measurement   | 1255/2012 mod. 1361/2014 - 2067/2016 (*)   |
| IFRS 15 Revenue from Contracts with Customers  | 1905/2016 (*)  |
| IAS 1 Presentation of Financial Statements   | 1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 243/2010 - 149/2011 - 475/2012 - 1254/2012 - 1255/2012 - 301/2013 - 2113/2015 - 2406/2015 - 1905/2016 (*) - 2067/2016 (*)  |
| IAS 2 Inventories  | 1126/2008 mod. 70/2009 - 1255/2012 - 1905/2016 (*) - 2067/2016 (*)   |
| IAS 7 Statement of Cash Flows  | 1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 494/2009 - 243/2010 - 1254/2012 - 1174/2013   |
| IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors                                    | 1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 2067/2016 (*)   |
| IAS 10 Events after the Reporting Period   | 1126/2008 mod. 1274/2008 - 70/2009 - 1142/2009 - 1255/2012 - 2067/2016 (*)   |
| IAS 11 Construction Contracts  | 1126/2008 mod. 1260/2008 - 1274/2008 - 1905/2016 (*)   |
| IAS 12 Income Taxes  | 1126/2008 mod. 1274/2008 - 495/2009 - 475/2012 - 1254/2012 - 1255/2012 - 1174/2013 - 1905/2016 (*) - 2067/2016 (*)   |
| IAS 16 Property, Plant and Equipment   | 1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 495/2009 - 1255/2012 - 301/2013 - 28/2015 - 2113/2015 - 2231/2015 - 1905/2016 (*)   |
| IAS 17 Leases  | 1126/2008 mod. 243/2010 - 1255/2012 - 2113/2015  |
| IAS 18 Revenue   | 1126/2008 mod. 69/2009 - 1254/2012 - 1255/2012 - 1905/2016 (*)   |
| IAS 19 Employee Benefits   | 1126/2008 mod. 1274/2008 - 70/2009 - 475/2012 - 1255/2012 - 29/2015 - 2343/2015  |
| IAS 20 Accounting for Government Grants and Disclosure of Government Assistance                          | 1126/2008 mod. 1274/2008 - 70/2009 - 475/2012 - 1255/2012 - 2067/2016 (*)  |
| IAS 21 The Effects of Changes in Foreign Exchange Rates  | 1126/2008 mod. 1274/2008 - 69/2009 - 494/2009 - 149/2011 - 475/2012 - 1254/2012 - 1255/2012 - 2067/2016 (*)  |
| IAS 23 Borrowing costs   | 1126/2008 mod. 1260/2008 - 70/2009 - 2113/2015 - 2067/2016 (*)   |
| IAS 24 Related Party Disclosures   | 1126/2008 mod. 1274/2008 - 632/2010 - 475/2012 - 1254/2012 - 1174/2013 - 28/2015   |
| IAS 26 Accounting and Reporting by Retirement Benefit Plans  | 1126/2008  |
| IAS 27 Consolidated and Separate Financial Statements  | 1126/2008 mod. 1274/2008 - 69/2009 - 70/2009 - 494/2009 - 1254/2012 - 1174/2013 - 2441/2015  |
| IAS 28 Investments in Associates   | 1126/2008 mod. 1274/2008 - 70/2009 - 494/2009 - 495/2009 - 1254/2012 - 1255/2012 - 2441/2015 - 1703/2016 - 2067/2016 (*)   |
| IAS 29 Financial Reporting in Hyperinflationary Economies  | 1126/2008 mod. 1274/2008 - 70/2009   |
| IAS 32 Financial Instruments: Presentation   | 1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 495/2009 - 1293/2009 - 475/2012 - 1254/2012 - 1255/2012 - 1256/2012 - 301/2013 - 1174/2013 - 1905/2016 (*) - 2067/2016 (*)   |
| IAS 33 Earnings per Share  | 1126/2008 mod. 1274/2008 - 494/2009 - 495/2009 - 475/2012 - 1254/2012 - 1255/2012 - 2067/2016 (*)  |
| IAS 34 Interim Financial Reporting   | 1126/2008 mod. 1274/2008 - 70/2009 - 495/2009 - 149/2011 - 475/2012 - 1255/2012 - 301/2013 - 1174/2013 - 2343/2015 - 2406/2015 - 1905/2016 (*)   |
| IAS 36 Impairment of Assets  | 1126/2008 mod. 1274/2008 - 69/2009 - 70/2009 - 495/2009 - 243/2010 - 1254/2012 - 1255/2012 - 1374/2013 - 2113/2015 - 1905/2016 (*) - 2067/2016 (*)   |
| IAS 37 Provisions, Contingent Liabilities and Contingent Assets  | 1126/2008 mod. 1274/2008 - 495/2009 - 28/2015 - 1905/2016 (*) - 2067/2016 (*)  |
| IAS 38 Intangible Assets   | 1126/2008 mod. 1260/2008 - 1274/2008 - 70/2009 - 495/2009 - 243/2010 - 1254/2012 - 1255/2012 - 28/2015 - 2231/2015 - 1905/2016 (*)   |
| IAS 39 Financial Instruments: Recognition and Measurement (except for certain rules on hedge accounting) | 1126/2008 mod. 1274/2008 - 53/2009 - 70/2009 - 494/2009 - 495/2009 - 824/2009 - 839/2009 - 1171/2009 - 243/2010 - 149/2011 - 1254/2012 - 1255/2012 - 1174/2013 - 1375/2013 - 28/2015 - 1905/2016 (*) - 2067/2016 (*)   |
| IAS 40 Investment Property   | 1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 1361/2014 - 2113/2015 - 1905/2016 (*)   |
| IAS 41 Agriculture   | 1126/2008 mod. 1274/2008 - 70/2009 - 1255/2012 - 2113/2015   |

(\*) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 2018.

**INTERPRETATIONS**

**Regulation endorsement**

|          |   |  |
|----------|---|--|
| IFRIC 1  | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                | 1126/2008 mod. 1260/2008 - 1274/2008                                       |
| IFRIC 2  | Members' Shares in Cooperative Entities and Similar Instruments   | 1126/2008 mod. 53/2009 - 1255/2012 - 301/2013 - 2067/2016 (*)              |
| IFRIC 4  | Determining whether an Arrangement contains a Lease   | 1126/2008 mod. 254/2009 - 1255/2012  |
| IFRIC 5  | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds    | 1126/2008 mod. 1254/2012 - 2067/2016 (*)                                   |
| IFRIC 6  | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | 1126/2008  |
| IFRIC 7  | Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies     | 1126/2008 mod. 1274/2008   |
| IFRIC 9  | Reassessment of Embedded Derivatives  | 1126/2008 mod. 495/2009 - 1171/2009 - 243/2010 - 1254/2012 - 2067/2016 (*) |
| IFRIC 10 | Interim Financial Reporting and Impairment  | 1126/2008 mod. 1274/2008 - 2067/2016 (*)                                   |
| IFRIC 12 | Service Concession Arrangements   | 254/2009 - 1905/2016 (*) - 2067/2016 (*)                                   |
| IFRIC 13 | Customer Loyalty Programmes   | 1262/2008 mod. 149/2011 - 1255/2012 - 1905/2016 (*)                        |
| IFRIC 14 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction                | 1263/2008 mod. 1274/2008 - 633/2010 - 475/2012                             |
| IFRIC 15 | Agreements for the Construction of Real Estate  | 636/2009 - 1905/2016 (*)   |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation   | 460/2009 mod. 243/2010 - 1254/2012 - 2067/2016 (*)                         |
| IFRIC 17 | Distributions of Non-cash Assets to Owners  | 1142/2009 mod. 1254/2012 - 1255/2012                                       |
| IFRIC 18 | Transfers of Assets from Customers  | 1164/2009 - 1905/2016 (*)  |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments   | 662/2010 mod. 1255/2012 - 2067/2016 (*)                                    |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine   | 1255/2012  |
| IFRIC 21 | Levies  | 634/2014   |
| SIC 7    | Introduction of the Euro  | 1126/2008 mod. 1274/2008 - 494/2009  |
| SIC 10   | Government Assistance - No Specific Relation to Operating Activities                                    | 1126/2008 mod. 1274/2008   |
| SIC 15   | Operating Leases - Incentives   | 1126/2008 mod. 1274/2008   |
| SIC 25   | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                               | 1126/2008 mod. 1274/2008   |
| SIC 27   | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                            | 1126/2008 - 1905/2016 (*) - 2067/2016 (*)                                  |
| SIC 29   | Service Concession Arrangements: Disclosures  | 1126/2008 mod. 1274/2008 - 254/2009  |
| SIC 31   | Revenue - Barter Transactions Involving Advertising Services  | 1126/2008 - 1905/2016 (*)  |
| SIC 32   | Intangible Assets - Web Site Costs  | 1126/2008 mod. 1274/2008 - 1905/2016 (*)                                   |

(\*) Companies apply this Regulation at the latest as of the first financial year starting after 1 January 2018.

# **Report and Parent Company's financial statements**



# Report on operations

# Intesa Sanpaolo – Financial highlights and alternative performance measures

| income statement figures (millions of euro) |                  | Changes |       |
|---|------------------|---------|-------|
|   |                  | amount  | %     |
| Net interest income                         | 2,836<br>2,790   | 46      | 1.6   |
| Net fee and commission income               | 2,807<br>2,930   | -123    | -4.2  |
| Profits (losses) on trading                 | 133<br>319       | -186    | -58.3 |
| Operating income                            | 7,607<br>8,947   | -1,340  | -15.0 |
| Operating costs                             | -4,385<br>-4,361 | 24      | 0.6   |
| Operating margin                            | 3,222<br>4,586   | -1,364  | -29.7 |
| Net adjustments to loans                    | -1,960<br>-1,208 | 752     | 62.3  |
| Net income (loss)                           | 1,760<br>2,880   | -1,120  | -38.9 |

| Balance sheet figures (millions of euro) |                    | Changes |     |
|--|--------------------|---------|-----|
|  |                    | amount  | %   |
| Loans to customers                       | 200,549<br>195,479 | 5,070   | 2.6 |
| Total assets                             | 447,692<br>429,237 | 18,455  | 4.3 |
| Direct customer deposits                 | 232,188<br>229,824 | 2,364   | 1.0 |
| Indirect customer deposits:              | 182,946<br>181,890 | 1,056   | 0.6 |
| <i>of which: Assets under management</i> | 116,010<br>112,016 | 3,994   | 3.6 |
| Shareholders' equity                     | 43,487<br>43,131   | 356     | 0.8 |

| Operating structure        | 2016          | 2015          | Changes<br>amount |
|----------------------------|---------------|---------------|-------------------|
| <b>Number of employees</b> | <b>33,341</b> | <b>33,070</b> | <b>271</b>        |
| Italy                      | 32,698        | 32,402        | 296               |
| Abroad                     | 643           | 668           | -25               |
| <b>Number of branches</b>  | <b>2,273</b>  | <b>2,131</b>  | <b>142</b>        |
| Italy                      | 2,163         | 1,979         | 184               |
| Abroad                     | 110           | 152           | -42               |

Figures restated on a consistent basis.

|      |  |
|------|--|
| 2016 |  |
| 2015 |  |



### Profitability ratios (%)

|  |      |      |
|--|------|------|
| Cost / Income  | 57.6 | 48.7 |
| Net income / Average shareholders' equity (ROE) <sup>(a)</sup> | 4.3  | 7.0  |
| Net income / Total assets (ROA)                                | 0.4  | 0.7  |

### Risk ratios (%)

|   |      |      |
|---|------|------|
| Net bad loans / Loans to customers                                | 3.8  | 4.0  |
| Cumulated adjustments on bad loans / Gross bad loans to customers | 61.1 | 61.4 |

### Capital ratios (%)

|   |         |         |
|---|---------|---------|
| Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio) | 18.2    | 19.3    |
| TIER 1 Capital / Risk-weighted assets   | 20.0    | 20.6    |
| Total owns funds / Risk-weighted assets   | 24.4    | 24.9    |
| Risk-weighted assets (millions of euro)   | 199,175 | 194,650 |

Figures restated, where necessary, on a consistent basis.

<sup>(a)</sup> Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves.

|      |   |
|------|---|
| 2016 |  |
| 2015 |  |



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# The Parent Company Intesa Sanpaolo

## Introduction

Regarding the content of the Report on operations of the Intesa Sanpaolo S.p.A. separate financial statements 2016, reference is made to the Report of the consolidated financial statements.

## General aspects

A condensed reclassified income statement has been prepared to give a more immediate understanding of results. To enable consistent comparison, the figures for previous periods are restated, where necessary, to retroactively reflect the effects of the corporate operations in 2015 and 2016.

The structure of the reclassified income statement has been amended compared to the previous format used, in order to provide a more coherent and concise presentation of the contribution of the different income components, with details of their nature. The main changes introduced, which have been adopted with effect from this document, are as follows:

- within operating income, the new caption “Other operating income (expenses)”, which only includes the operating income and expenses strictly connected to operations;
- the income (loss) from discontinued operations, which is accordingly reallocated, after tax, to “Gross income”;
- Within Gross income, the net provisions for risks and charges and the net impairment losses on assets other than loans are aggregated in the new caption “Net provisions and net impairment losses on other assets”. This caption therefore represents the summary of the effects of the measurement of risks and assets other than loans;
- also within Gross income, the caption “Other income (expenses)”, which incorporates the realised profits (losses) on investments held to maturity and on other investments and other income and expenses not strictly linked to operations. In addition to these items, the new caption also represents the summary of the effects from the realisation of assets other than loans;
- the new caption “Levies and other charges concerning the banking industry (net of tax)”, not included in Gross income, which consists of the expenses (other than tax expenses) imposed by legislative provisions or aimed at maintaining the stability of the banking system and are therefore outside the company management.

Consequently, Gross income does not include income components outside the company management (taxes, levies and expenses aimed at maintaining the stability of the banking system), components of an “accounting” nature (income statement effects of the allocation of acquisition costs and goodwill impairment), as well as expenses related to restructuring/reorganisation processes.

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

In particular, restatements in the income statement involved:

- the partial demerger of Accedo (formerly Intesa Sanpaolo Personal Finance) on 1 June 2015;
- the partial demerger of Mediocredito of a line relating to the bad medium/long-term loans on 1 October 2015;
- the partial demerger of the acquiring line of Setefi on 1 January 2016;
- the merger of Banca dell’Adriatico on 16 May 2016, with accounting and tax effects from 1 January 2016;
- the merger of Cassa di Risparmio dell’Umbria on 21 November 2016, with accounting and tax effects from 1 January 2016.

Whereas the balance sheet was restated to mainly consider the mergers by incorporation of Banca dell’Adriatico and Cassa di Risparmio dell’Umbria and the partial demerger of Setefi.

Reclassifications and aggregations are as follows:

- dividends on shares classified as assets available for sale and as assets held for trading have been reallocated to Profits (Losses) on trading;
- fair value adjustments in hedge accounting, which were reallocated to Profits (Losses) on trading;
- profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities have been reclassified to Profits (Losses) on trading;
- profits (losses) on financial assets and liabilities designated at fair value through profit and loss, which have been recognised in Profits (Losses) on trading;
- the recoveries of expenses, taxes and duties have been subtracted from Administrative expenses;
- profits and losses on disposal or repurchase of loans are posted in Net adjustments to loans;
- net impairment losses on other financial activities, related to guarantees, commitments and credit derivatives, have been recognised under Net adjustments to loans;
- the reversal in time value on loans is recorded in Net interest income instead of being allocated to Net adjustments to loans, since the phenomenon derives directly from the application of the amortised cost criterion in the absence of changes in expected future flows. A consistent approach is used for the time value of Employee termination indemnities and Allowances for risks and charges;
- net impairment losses on financial assets available for sale and held to maturity, on investments other than controlling investments as well as property and equipment and intangible assets (except for goodwill and intangible assets subject to revaluation following the Banca Intesa and Sanpaolo IMI merger) which are transferred to the caption Net provisions and

Net impairment losses on other assets. Therefore, this caption includes, in addition to the provisions for risks and charges, the valuation effects of assets other than loans;

- realised profits (losses) on investments held to maturity, on equity investments and on other investments which were allocated to Other income (expenses). Accordingly, in addition to the income and expenses not strictly related to operations, this caption represents the summary of the effects from the realisation of assets other than loans;
- Charges (net of tax) for integration and exit incentives, which have been reclassified from Personnel expenses, Administrative expenses and, to a lesser extent, other captions of the income statement mainly to a separate caption;
- Effect of purchase price allocation, net of tax, is indicated in a specific caption. It represents the adjustments to 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 system, which have been reclassified, after tax, to the new specific caption;
- the Adjustments of goodwill, controlling stakes and intangible assets subject to revaluation following the Banca Intesa and Sanpaolo IMI merger in application of IFRS 3 and adjustments of other controlling stakes are shown, net of tax, in a specific caption amongst "non-current" income components.

For the balance sheet, aggregations of assets and liabilities are as follows:

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

Again, for the purposes of a more effective representation of the composition of the aggregates, in the relative comments, financial assets/liabilities held for trading have been presented on a net basis.

## Reclassified income statement

|  | 2016          | 2015          | (millions of euro) |              |
|--|---------------|---------------|--------------------|--------------|
|  |               |               | Changes<br>amount  | %            |
| Net interest income  | 2,836         | 2,790         | 46                 | 1.6          |
| Net fee and commission income  | 2,807         | 2,930         | -123               | -4.2         |
| Profits (Losses) on trading  | 133           | 319           | -186               | -58.3        |
| Other operating income (expenses)  | 1,831         | 2,908         | -1,077             | -37.0        |
| <b>Operating income</b>  | <b>7,607</b>  | <b>8,947</b>  | <b>-1,340</b>      | <b>-15.0</b> |
| Personnel expenses   | -2,487        | -2,422        | 65                 | 2.7          |
| Other administrative expenses  | -1,772        | -1,801        | -29                | -1.6         |
| Adjustments to property, equipment and intangibles assets                              | -126          | -138          | -12                | -8.7         |
| <b>Operating costs</b>   | <b>-4,385</b> | <b>-4,361</b> | <b>24</b>          | <b>0.6</b>   |
| <b>Operating margin</b>  | <b>3,222</b>  | <b>4,586</b>  | <b>-1,364</b>      | <b>-29.7</b> |
| Net adjustments to loans   | -1,960        | -1,208        | 752                | 62.3         |
| Net provisions and net impairment losses on other assets                               | -171          | -308          | -137               | -44.5        |
| Other income (expenses)  | 139           | 379           | -240               | -63.3        |
| Income (Loss) from discontinued operations   | 1,090         | 141           | 949                |              |
| <b>Gross Income (Loss)</b>   | <b>2,320</b>  | <b>3,590</b>  | <b>-1,270</b>      | <b>-35.4</b> |
| Taxes on income  | 139           | -332          | 471                |              |
| Charges (net of tax) for integration and exit incentives                               | -83           | -61           | 22                 | 36.1         |
| Effect of purchase price allocation (net of tax)                                       | 1             | 3             | -2                 | -66.7        |
| Levies and other charges concerning the banking industry (net of tax)                  | -366          | -194          | 172                | 88.7         |
| Impairment (net of tax) of goodwill, other intangible assets and controlling interests | -251          | -126          | 125                | 99.2         |
| <b>Net income (loss)</b>   | <b>1,760</b>  | <b>2,880</b>  | <b>-1,120</b>      | <b>-38.9</b> |

Figures restated on a consistent basis.

The 2016 income statement of Intesa Sanpaolo S.p.A. closed with net income of 1,760 million euro, compared to 2,880 million euro in the previous year.

The operating margin amounted to 3,222 million euro, down 29.7% compared to the previous year. All the components, excluding net interest income, which records a slight increase, negatively affected operating income. Operating costs also increased moderately, primarily attributable to personnel expenses.

The profit of gross income is down 35.4%, consequently to higher adjustments to loans (62.3%) and lower net income on other assets (-44.5%), partially offset by lower provisions and impairment losses on other assets (-63.3%). The aggregate also includes the income from discontinued operations, supported by income from the sale of Setefi and the dividends distributed by it.

Analysing the various components of operating income in further detail, net interest income amounted to 2,836 million euro, up slightly (1.6%). Considering the mitigating effects of hedging derivatives, customer dealing declined (-343 million euro) and the contribution from financial instruments decreased gradually (-100 million euro, of which -77 million euro on financial instruments classified to the AFS category), offset by a significant decrease in the costs of funding represented by securities (468 million euro) and positive result on the interbank position (37 million euro). In addition, negatively affected were also the cost components related to the time value, up 7 million euro, and the reduction of other net interest income (-8 million euro). Hedging derivative business generated income of 591 million euro, down (28.1%) compared to 823 million euro in 2015.

Net fee and commission income amounted to 2,807 million euro, down 4.2% compared to 2,930 million euro in the previous year. The decrease concerned to a greater extent management, dealing and consultancy activities (-136 million euro or -9.1%), particularly securities placement (-100 million euro), portfolio management (-42 million euro) and receipt and transmission of orders (-23 million euro); conversely, the distribution of insurance products increased by 48 million euro. In the commercial banking business, down 6.7% overall, all components are in decline; in particular, a marked decrease is recorded in fees relating to the debit and credit card services (-52 million euro), and, by a less significant amount, in fees on current account and deposit services (-15 million euro), guarantees given (-10 million euro) and collection and payment services (-5 million euro). Conversely, the other net fee and commission income produced a positive effect, especially commissions received on financing transactions.

Profits on trading amounted to 133 million euro at the end of 2016, compared to 319 million euro in 2015. The positive result for the year was driven by profits on disposal of securities classified as available for sale and financial liabilities, including the dividends collected, of a total of 251 million euro, of which 166 million euro on the disposal of debt securities,

essentially government securities, 17 million on the disposal of equities and 95 million euro of dividends, of which 84 million euro related to the stake in the Bank of Italy. The aggregate also includes losses on the early discharge of own liabilities of 27 million euro.

Losses on transactions in interest rates and commodity derivatives amounted to 18 million euro, due to profits of 22 million euro on debt securities held for trading, of 13 million euro in Fair Value Option trading and 3 million euro in transactions in commodity derivatives which were offset by losses of 31 million euro on financial derivatives and 25 million euro on hedging activities.

Negative results were also recorded on transactions in currencies of 56 million euro, on transactions in equity instruments, mainly hedge funds, of 39 million euro, and on transactions in structured products and credit derivatives of 5 million euro.

Other net operating income came to 1,831 million euro, down 37% compared to 31 December 2015. The aggregate is significantly affected by the lower dividends paid in the period by the subsidiaries (1,750 million euro at 31 December 2016 against 2,814 million euro in the previous year); in particular, lower profits (or profit reserves) were distributed by Banca IMI, Eurizon Capital SGR, Banco di Napoli, Cassa di Risparmio in Bologna, Cassa di Risparmio di Firenze and Cassa di Risparmio del Veneto, also as a consequence of the payment of early dividends taking place in 2015 concerning profits being generated.

Other income is also down 12 million euro, mainly including the recoveries for services rendered to Group companies, up by about 10 million euro, and other non-recurring income/charges, down by about 22 million euro.

Operating costs amounted to 4,385 million euro, up 0.6% on the previous year, due to the increase in personnel expenses from 2,422 million euro to 2,487 million euro (+2.7%) while the other administrative expenses are down from 1,801 to 1,772 million euro (-1.6%), and the property, equipment and intangible assets decreased from 138 to 126 million euro.

Net adjustments to loans amounted to 1,960 million euro in total, with an increase of 752 million euro compared to the previous year, to ensure adequate and rigorous coverage of non-performing loans. In particular, greater provisions for bad loans were allocated for 624 million euro, offset by lower requirements in the remaining categories of non-performing loans for about 100 million euro. Performing loans and guarantees/commitments recorded small recoveries in the two periods compared, leading to a negative effect of about 170 million euro. In addition, the disposal of loans led to losses of 52 million euro, against profits recorded in the previous year of 5 million euro. In further detail, adjustments to non-performing loans during the year, totalling 1,716 million euro, consist of 61% adjustments to bad loans, 31% loans classified as unlikely to pay and 8% to past due loans.

Net provisions and net impairment losses on other assets amount to 171 million euro against 308 million euro on 31 December 2015 and include the provisions for risks and charges (equal to 47 million euro), intended to cover probable risks arising from revocatory actions, compensation suits, legal disputes and other issues, the value adjustments on instruments classified in the category of the assets available for sale and on investments other than controlling investments (in total 121 million euro) and the impairment losses on intangible assets (3 million euro). Among the equities classified in the AFS (available for sale) category, the main impairment losses concerned Quattrodue, Palladio Finanziaria, Prelios and Milanosesto; while among the non-controlling investments, the interests in Compagnia Aerea Italiana, Tangenziale Esterna Milano, Autostrade Lombarde, Autostrada Pedemontana and Tangenziale Esterna were subject to adjustment.

Net income on other assets, equal to 139 million euro compared to 379 million euro in 2015, mainly include the profit from the value generation project for a portfolio of non-investment properties for 325 million euro, along with the expenses from the settlement of the dispute in the US with the Supervisory Body of the New York State for 225 million euro.

Income from discontinued operations amounted to 1,090 million euro and refers to the profit deriving from the transfer of the investment in Setefi for 957 million euro and the dividend paid by the subsidiary prior to the transfer for 133 million euro. In the previous period the caption only included the dividend paid by the subsidiary, for an amount of 141 million euro.

Gross income from continuing operations amounted to 2,320 million euro.

Income tax was 139 million euro, compared to charges of 332 million euro in 2015. In particular, income taxes for the year benefited from the realignment of goodwill of 123 million euro recognised in the consolidated financial statements with reference to the acquisition of the controlling interest in Banca ITB, as permitted by art. 15, paragraphs 10 bis and 10 ter, of Law Decree 185/2008; the accounting of a substitute tax charge of 20 million euro, corresponds to the recognition of future tax benefits, represented by deferred tax assets, equal to 40 million euro consequent to the deduction of the redeemed goodwill from the corporate income, in five instalments on a straight-line basis starting from 2019.

The caption in question also recognised the 20% substitute tax, in place of the ordinary Ires (27.5%) and Irap (5.56%) tax, on the income deriving from a transaction to develop a non-investment real-estate portfolio and the application of the participation exemption tax regime to the capital gain obtained from the transfer of the investment in Setefi. Lastly, the taxes of the period felt the effects of a different composition of the income statement compared to the previous year; in both periods, the presence of the dividend component generated a considerable difference from the nominal tax rates (Ires 27.5% and Irap 5.56%)

Charges for integration and exit incentives amounted to 83 million euro, net of the tax effect of 36 million euro, and include additional charges for exist incentive plans deriving from agreements entered into in previous years, in addition to IT expenses and professional service fees attributable to integration projects.

The purchase price allocation of Sanpaolo Imi revealed an income amounting to 1 million euro, compared to 3 million euro in the previous year.

The caption levies and other charges concerning the banking industry, net of taxes, amounted to 366 million euro against 194 million euro in 2015 and includes both the payments to the resolution funds and the charges connected to the participation in the Atlante Fund, established to tackle the banking crisis, and to the Voluntary Scheme of the Interbank Deposit Guarantee Fund for the intervention in favour of Cassa di Risparmio di Cesena.

The impairment of goodwill and controlling stakes of 251 million euro refer solely to the impairment losses recognised on investments, in particular in Intesa Sanpaolo Provis, Accedo, Risanamento, Pravex Bank, IN.FRA, Oldequiter, Intesa Sanpaolo Highline and Intesa Sanpaolo Servicios e Empreendimentos.

## Reclassified balance sheet

| Assets  | 31.12.2016     | 31.12.2015     | (millions of euro) |            |
|---|----------------|----------------|--------------------|------------|
|   |                |                | Changes amount     | %          |
| Financial assets held for trading                                 | 19,577         | 23,005         | -3,428             | -14.9      |
| Financial assets designated at fair value through profit and loss | 371            | 356            | 15                 | 4.2        |
| Financial assets available for sale                               | 38,983         | 29,848         | 9,135              | 30.6       |
| Investments held to maturity                                      | 335            | 335            | -                  | -          |
| Due from banks  | 126,634        | 120,009        | 6,625              | 5.5        |
| Loans to customers  | 200,549        | 195,479        | 5,070              | 2.6        |
| Equity investments  | 30,589         | 27,634         | 2,955              | 10.7       |
| Property, equipment and intangible assets                         | 5,137          | 5,280          | -143               | -2.7       |
| Tax assets  | 10,589         | 10,652         | -63                | -0.6       |
| Non-current assets held for sale and discontinued operations      | 1              | 1              | -                  | -          |
| Other assets  | 14,927         | 16,638         | -1,711             | -10.3      |
| <b>Total Assets</b>   | <b>447,692</b> | <b>429,237</b> | <b>18,455</b>      | <b>4.3</b> |

| Liabilities and Shareholders' Equity   | 31.12.2016     | 31.12.2015     | Changes       |            |
|--|----------------|----------------|---------------|------------|
|  |                |                | amount        | %          |
| Due to banks   | 139,036        | 125,914        | 13,122        | 10.4       |
| Due to customers and securities issued   | 232,188        | 229,824        | 2,364         | 1.0        |
| Financial liabilities held for trading   | 16,670         | 15,949         | 721           | 4.5        |
| Financial liabilities designated at fair value through profit and loss                   | 8              | 4              | 4             |            |
| Tax liabilities  | 811            | 748            | 63            | 8.4        |
| Liabilities associated with non-current assets held for sale and discontinued operations | -              | -              | -             | -          |
| Other liabilities  | 12,807         | 11,036         | 1,771         | 16.0       |
| Allowances for specific purpose  | 2,684          | 2,631          | 53            | 2.0        |
| Share capital  | 8,732          | 8,732          | -             | -          |
| Reserves   | 31,304         | 30,888         | 416           | 1.3        |
| Valuation reserves   | -425           | -246           | 179           | 72.8       |
| Equity instruments   | 2,117          | 877            | 1,240         |            |
| Net income (loss)  | 1,760          | 2,880          | -1,120        | -38.9      |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>447,692</b> | <b>429,237</b> | <b>18,455</b> | <b>4.3</b> |

Figures restated on a consistent basis.

At 31 December 2016 loans to customers totalled 201 billion euro, up by 5 billion euro (+2.6%) compared to the end of 2015. This increase concerned mortgages and repurchase agreements to a greater extent, while current account facilities decreased. As to loan quality, net non-performing loans decreased to 15.3 billion euro, compared to 16.7 billion euro in December 2015. The performance of the individual components shows:

- a decrease in doubtful positions of 2.3% (from 7,748 million euro to 7,569 million euro);
- a reduction in loans classified as “unlikely to pay” (the category in which substandard and restructured exposures have been included), which fell from 8,532 million euro to 7,555 million euro;
- a decrease in past due loans, which amounted to 207 million euro compared to 407 million euro at the end of 2015.

Performing loans, excluding those represented by securities and intragroup loans, of approximately 23 billion euro, amounted to 162.4 billion euro, compared to 152.2 billion euro at the end of 2015. The coverage ratio for the physiological risk inherent in the portfolio is 0.42%.

Direct deposits amounted to 232 billion euro, up 1% compared to 31 December 2015, due to the rise in non-securities funding of 14 billion euro (with a marked increase in current accounts and deposits and a slight increase in repurchase agreements) against the fall in securities funding of almost 12 billion euro.

Financial assets held for trading, which include financial and credit derivatives, debt securities and equities held for trading, came to a total of approximately 3 billion euro, net of liabilities of approximately 17 billion euro, essentially stable compared to 31 December 2015 (7 billion euro).

Financial assets available for sale amounted to 39 billion euro. Such assets, which consist of debt securities of 35 billion euro and equity investments and private equity interests of 4 billion euro, increased by over 9 billion euro on the first segment.

Equity investments, which amounted to approximately 30.6 billion euro, include controlling interests in subsidiaries, associates and companies subject to joint control, up 10.7% on the previous year.

Shareholders' equity was approximately 43.5 billion euro, including the net income for the year of 1,760 million euro. Valuation reserves deteriorated by 179 million euro compared to the end of 2015. The decline is caused especially by the reserves relating to the actuarial losses, amounting to -449 million euro against -318 million euro at the end of the previous year, while the reserve referring to the cash flow hedges went from -1,064 million euro to -1,075 million euro and the reserves of financial assets available for sale decreased by 131 million euro to 104 million euro, the last two reserves being subdivided into positive reserves on equities and units of funds for 246 million euro and negative reserves on debt securities for 142 million euro.

Own funds, calculated excluding net income for the year and considering the distribution of reserves, amounted to 48.6 billion euro, essentially stable compared to the previous year. Capital ratios remained high, far above the regulatory requirements. In particular, the Common Equity Tier 1 ratio was 18.2% according to the transitional rules in effect for 2016.



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## Other information

As provided for by article 2497 and subsequent articles of the Italian Civil Code, Intesa Sanpaolo exercises management and coordination activities for its direct and indirect subsidiaries, including companies which, on the basis of current laws, are not part of the Banking group, with the exception of Risanamento S.p.A..

This Report on the Intesa Sanpaolo S.p.A. financial statements includes only a comment on the Bank's performance and related alternative performance measures. For all other information required by Law or regulations, reference should be made to the consolidated financial statements or the Notes to these Parent Company's financial statements, when illustrating specific themes.

Specifically, reference should be made to the Notes to these Parent Company's financial statements with regard to:

- information on the Bank's transactions with related parties, provided in Part H;
- information on financial and operational risks, illustrated in Part E;
- the list of subsidiaries, companies subject to joint control and companies subject to significant influence as at 31 December 2016, provided in Part B;
- information on capital, provided in Part F.

Reference should instead be made to the consolidated financial statements with regard to:

- information on the main risks and uncertainties, as the same considerations as those illustrated in the corresponding paragraph of the introduction to the Report on operations of the consolidated financial statements also apply;
- risks linked to capital stability and to going concern issues, discussed in the introduction to the Consolidated Report on Operations;
- information regarding obligations pursuant to art. 36 of the Consob Market Regulation, with reference to subsidiaries located in non-EU member states, provided in Part E.

Information on the Intesa Sanpaolo Corporate Governance system and on remuneration as required, respectively, by art. 123-bis and art. 123-ter of the Consolidated Law on Finance is briefly illustrated in the Consolidated Report on Operations and in a separate document.

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## Forecast for 2017

In 2017 Intesa Sanpaolo expects a dynamic growth in Gross Income (excluding the components deriving from disposals of investments), linked to the favourable trend in net operating income, the constant monitoring of costs and the reduction in the cost of risk, all within the framework of sustainable profitability. The commitment to distribute 10 billion euro of cumulative cash dividends in four years (2014-2017), as indicated in the Business Plan, is confirmed.

The Board of Directors

Torino, 21 February 2017

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## **Proposals to the Shareholders' Meeting**



Distinguished Shareholders.

Pursuant to Art. 2364 of the Italian Civil Code and Articles 7.3 and 29.3 of the Company's Articles of Association, we hereby submit for your approval the financial statements of the parent company Intesa Sanpaolo as at 31 December 2016 and the proposal for allocation of Intesa Sanpaolo's net income, subject to reclassification of the net amount of the differences in merger, exchange transaction and demerger, currently stated under Other Reserves, as a decrease of Extraordinary Reserve.

Indeed, during 2016 Intesa Sanpaolo has recorded into specific shareholders' equity reserves the differences in merger, exchange transaction and demerger for corporate transactions carried out in the year. In particular, the subsidiaries Banca dell'Adriatico and Casse di Risparmio dell'Umbria were merged by incorporation, while specific branches of the subsidiaries Oldequiter and Setefi were subject to demerger.

The cancellation and swapping of shares of the merged or demerged companies resulted in positive and negative merger differences, recognised under Other Reserves, for a negative net amount of 191,833,864.38 euro. It should be noted that, pursuant to Art. 172, paragraph 5, of the Consolidated Law on Income Taxes, Reserves qualifying for deferred taxation applicable to the merger surplus will be reconstituted for a total of 285,129.85 euro.

Pursuant to Art. 6, paragraph 1, letter a) of Legislative Decree 38/2005, a portion of net income corresponding to capital gains recognised in the income statement, net of the related tax charge, arising from application of the fair value criterion, must be recorded in an unavailable reserve. As at 31 December 2016, such amount was 9,400,081.73 euro.

Given the above, it is proposed to allocate the net income of 1,759,516,827.14 euro as follows:

|  | (euro)           |
|--|------------------|
| Net income for the year  | 1,759,516,827.14 |
| Assignment of a dividend of 0.109 euro (determined pursuant to Art. 29 of the Articles of Association) for each of the 932,490,561 savings shares, for a total disbursement of | 101,641,471.15   |
| Assignment of a dividend of 0.098 euro for each of the 15,859,786,585 ordinary shares outstanding, for a total disbursement of   | 1,554,259,085.33 |
| for a total disbursement for dividends of  | 1,655,900,556.48 |
| Assignment to the Extraordinary reserve of the residual net income   | 103,616,270.66   |

Furthermore, taking into account that the consolidated net income relating to 2016 is equal to 3,111 million euro, we hereby propose to resolve on a partial distribution of the Share Premium Reserve of 0.080 euro for each of the 16,792,277,146 shares constituting the ordinary and savings share capital, pursuant to Art. 30.3 of the Company's Articles of Association, for a total amount of 1,343,382,171.68 euro.

As a consequence, the total dividend amounts to 2,999,282,728.16 euro.

This assignment of reserves shall be subject to the same tax regime as the distribution of dividends.

The proposed dividend and the anticipated distribution of part of the Share Premium Reserve makes it possible to remunerate shareholders consistently with the sustainable profitability of the Group, while ensuring the capital adequacy of the Bank and the Banking Group. This is as a result of the Basel 3 series of Rules, as well as the provisions issued by the European Central Bank. If this proposal is approved, capital requirements would stand at the following levels:

- Intesa Sanpaolo S.p.A. – Common Equity Tier 1: 18.2% and Total Capital Ratio: 24.5%;
- Intesa Sanpaolo Group - Common Equity Tier 1: 12.7% and Total Capital Ratio: 17.0%.

The aforesaid capital ratios exceed the requirements of EU Bodies and the Supervisory Authority.

We propose that the above distributions be made payable, in compliance with legal provisions, as of 24 May 2017, with detachment of the coupon on 22 May 2017.

Please note that dividends not distributed in respect of any treasury shares held by the Bank at the record date shall be allocated to the Extraordinary Reserve.

If the proposals formulated obtain your approval, the resulting shareholders' equity of Intesa Sanpaolo S.p.A. will be as indicated in the table below.

|                             | (millions of euro)        |  |   |
|-----------------------------|---------------------------|--|---|
| <b>Shareholders' equity</b> | <b>Annual report 2016</b> | <b>Change due to the Shareholders' Meeting resolutions</b> | <b>Share capital and reserves after the Shareholders' Meeting resolutions</b> |
| Share capital               |                           |  |   |
| - <i>ordinary</i>           | 8,247                     | -  | 8,247   |
| - <i>savings</i>            | 485                       | -  | 485   |
| <b>Total share capital</b>  | <b>8,732</b>              | <b>-</b>   | <b>8,732</b>  |
| Share premium reserve       | 27,508                    | -1,343   | 26,165  |
| Reserves                    | 3,816                     | 103  | 3,919   |
| Valuation reserves          | -425                      | -  | -425  |
| Equity instruments          | 2,117                     | -  | 2,117   |
| Treasury shares             | -20                       | -  | -20   |
| <b>Total reserves</b>       | <b>32,996</b>             | <b>-1,240</b>  | <b>31,756</b>   |
| <b>TOTAL</b>                | <b>41,728</b>             | <b>-1,240</b>  | <b>40,488</b>   |

Board of Directors

Turin, February 21, 2017

# Parent Company's financial statements





# Financial statements

## Balance sheet

| Assets  | 31.12.2016             | 31.12.2015             | (euro)                |            |
|---|------------------------|------------------------|-----------------------|------------|
|   |                        |                        | Changes amount        | %          |
| 10. Cash and cash equivalents   | 6,213,061,883          | 7,477,547,444          | -1,264,485,561        | -16.9      |
| 20. Financial assets held for trading                                 | 19,577,097,879         | 22,971,959,692         | -3,394,861,813        | -14.8      |
| 30. Financial assets designated at fair value through profit and loss | 371,284,919            | 355,523,001            | 15,761,918            | 4.4        |
| 40. Financial assets available for sale                               | 38,982,566,972         | 29,794,218,699         | 9,188,348,273         | 30.8       |
| 50. Investments held to maturity                                      | 334,833,432            | 298,870,548            | 35,962,884            | 12.0       |
| 60. Due from banks  | 126,634,511,488        | 122,044,376,484        | 4,590,135,004         | 3.8        |
| 70. Loans to customers  | 200,548,518,866        | 186,426,949,651        | 14,121,569,215        | 7.6        |
| 80. Hedging derivatives   | 5,720,102,749          | 6,386,635,076          | -666,532,327          | -10.4      |
| 90. Fair value change of financial assets in hedged portfolios (+/-)  | 160,047,319            | 66,239,334             | 93,807,985            |            |
| 100. Equity investments   | 30,589,126,130         | 28,581,589,307         | 2,007,536,823         | 7.0        |
| 110. Property and equipment   | 2,758,072,076          | 2,867,522,439          | -109,450,363          | -3.8       |
| 120. Intangible assets  | 2,378,906,198          | 2,343,076,036          | 35,830,162            | 1.5        |
| <i>of which</i>   |                        |                        |                       |            |
| - goodwill  | 858,532,215            | 820,300,337            | 38,231,878            | 4.7        |
| 130. Tax assets   | 10,588,545,954         | 10,383,106,634         | 205,439,320           | 2.0        |
| a) current  | 2,562,704,416          | 2,422,549,173          | 140,155,243           | 5.8        |
| b) deferred   | 8,025,841,538          | 7,960,557,461          | 65,284,077            | 0.8        |
| - of which convertible into tax credit (Law no. 214/2011)             | 6,758,409,444          | 6,728,550,675          | 29,858,769            | 0.4        |
| 140. Non-current assets held for sale and discontinued operations     | 1,365,205              | 1,152,500              | 212,705               | 18.5       |
| 150. Other assets   | 2,834,453,572          | 2,361,327,188          | 473,126,384           | 20.0       |
| <b>Total Assets</b>   | <b>447,692,494,642</b> | <b>422,360,094,033</b> | <b>25,332,400,609</b> | <b>6.0</b> |

## Balance sheet

| Liabilities and Shareholders' Equity   | 31.12.2016             | 31.12.2015             | (euro)                |            |
|--|------------------------|------------------------|-----------------------|------------|
|  |                        |                        | Changes amount        | %          |
| 10. Due to banks   | 139,035,582,228        | 125,517,148,598        | 13,518,433,630        | 10.8       |
| 20. Due to customers   | 147,364,280,391        | 124,245,111,940        | 23,119,168,451        | 18.6       |
| 30. Securities issued  | 84,823,937,105         | 99,444,916,462         | -14,620,979,357       | -14.7      |
| 40. Financial liabilities held for trading   | 16,669,826,899         | 15,920,938,735         | 748,888,164           | 4.7        |
| 50. Financial liabilities designated at fair value through profit and loss                   | 7,966,878              | 4,435,126              | 3,531,752             | 79.6       |
| 60. Hedging derivatives  | 6,517,246,619          | 5,960,365,528          | 556,881,091           | 9.3        |
| 70. Fair value change of financial liabilities in hedged portfolios (+/-)                    | 528,416,248            | 679,681,792            | -151,265,544          | -22.3      |
| 80. Tax liabilities  | 811,518,875            | 745,320,093            | 66,198,782            | 8.9        |
| <i>a) current</i>  | 189,891,442            | 86,147,032             | 103,744,410           |            |
| <i>b) deferred</i>   | 621,627,433            | 659,173,061            | -37,545,628           | -5.7       |
| 90. Liabilities associated with non-current assets held for sale and discontinued operations | -                      | -                      | -                     | -          |
| 100. Other liabilities   | 5,761,906,598          | 4,134,660,256          | 1,627,246,342         | 39.4       |
| 110. Employee termination indemnities  | 736,374,747            | 644,926,449            | 91,448,298            | 14.2       |
| 120. Allowances for risks and charges  | 1,947,847,258          | 1,866,409,239          | 81,438,019            | 4.4        |
| <i>a) post employment benefits</i>   | 835,550,285            | 700,186,372            | 135,363,913           | 19.3       |
| <i>b) other allowances</i>   | 1,112,296,973          | 1,166,222,867          | -53,925,894           | -4.6       |
| 130. Valuation reserves  | -425,109,781           | -258,215,809           | 166,893,972           | 64.6       |
| 140. Redeemable shares   | -                      | -                      | -                     | -          |
| 150. Equity instruments  | 2,117,321,664          | 877,201,768            | 1,240,119,896         |            |
| 160. Reserves  | 3,816,072,856          | 3,576,534,339          | 239,538,517           | 6.7        |
| 170. Share premium reserve   | 27,507,513,386         | 27,507,513,386         | -                     | -          |
| 180. Share capital   | 8,731,984,116          | 8,731,874,498          | 109,618               | -          |
| 190. Treasury shares (-)   | -19,708,272            | -17,013,442            | 2,694,830             | 15.8       |
| 200. Net income (loss)   | 1,759,516,827          | 2,778,285,075          | -1,018,768,248        | -36.7      |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>447,692,494,642</b> | <b>422,360,094,033</b> | <b>25,332,400,609</b> | <b>6.0</b> |

## Income statement

(euro)

|  | 2016                  | 2015                  | Changes               |              |
|--|-----------------------|-----------------------|-----------------------|--------------|
|  |                       |                       | amount                | %            |
| 10. Interest and similar income  | 6,580,673,834         | 6,772,110,686         | -191,436,852          | -2.8         |
| 20. Interest and similar expense   | -4,066,869,038        | -4,640,072,877        | -573,203,839          | -12.4        |
| <b>30. Interest margin</b>   | <b>2,513,804,796</b>  | <b>2,132,037,809</b>  | <b>381,766,987</b>    | <b>17.9</b>  |
| 40. Fee and commission income  | 3,482,123,330         | 3,167,485,078         | 314,638,252           | 9.9          |
| 50. Fee and commission expense   | -653,990,646          | -491,334,089          | 162,656,557           | 33.1         |
| <b>60. Net fee and commission income</b>   | <b>2,828,132,684</b>  | <b>2,676,150,989</b>  | <b>151,981,695</b>    | <b>5.7</b>   |
| 70. Dividend and similar income  | 1,845,156,349         | 2,937,048,614         | -1,091,892,265        | -37.2        |
| 80. Profits (Losses) on trading  | -106,060,586          | -110,074,386          | -4,013,800            | -3.6         |
| 90. Fair value adjustments in hedge accounting   | -25,210,954           | -10,043,733           | 15,167,221            |              |
| 100. Profits (Losses) on disposal or repurchase of   | 129,989,209           | 322,281,263           | -192,292,054          | -59.7        |
| a) loans   | -52,084,805           | 7,893,992             | -59,978,797           |              |
| b) financial assets available for sale   | 208,575,050           | 373,399,821           | -164,824,771          | -44.1        |
| c) investments held to maturity  | -                     | -                     | -                     | -            |
| d) financial liabilities   | -26,501,036           | -59,012,550           | -32,511,514           | -55.1        |
| 110. Profits (Losses) on financial assets and liabilities designated at fair value             | 12,975,097            | 420,122               | 12,554,975            |              |
| <b>120. Net interest and other banking income</b>  | <b>7,198,786,595</b>  | <b>7,947,820,678</b>  | <b>-749,034,083</b>   | <b>-9.4</b>  |
| 130. Net losses / recoveries on impairment   | -1,788,042,361        | -813,940,527          | 974,101,834           |              |
| a) loans   | -1,586,917,634        | -856,342,428          | 730,575,206           | 85.3         |
| b) financial assets available for sale   | -231,780,004          | -70,550,233           | 161,229,771           |              |
| c) investments held to maturity  | 66,662                | -23,908               | 90,570                |              |
| d) other financial activities  | 30,588,615            | 112,976,042           | -82,387,427           | -72.9        |
| <b>140. Net income from banking activities</b>   | <b>5,410,744,234</b>  | <b>7,133,880,151</b>  | <b>-1,723,135,917</b> | <b>-24.2</b> |
| 150. Administrative expenses   | -5,115,466,013        | -4,724,790,326        | 390,675,687           | 8.3          |
| a) personnel expenses  | -2,576,593,491        | -2,288,800,007        | 287,793,484           | 12.6         |
| b) other administrative expenses   | -2,538,872,522        | -2,435,990,319        | 102,882,203           | 4.2          |
| 160. Net provisions for risks and charges  | -107,838,666          | -263,922,560          | -156,083,894          | -59.1        |
| 170. Net adjustments to / recoveries on property and equipment                                 | -124,302,815          | -131,646,537          | -7,343,722            | -5.6         |
| 180. Net adjustments to / recoveries on intangible assets                                      | -2,521,643            | -2,637,300            | -115,657              | -4.4         |
| 190. Other operating expenses (income)   | 246,791,642           | 699,366,514           | -452,574,872          | -64.7        |
| <b>200. Operating expenses</b>   | <b>-5,103,337,495</b> | <b>-4,423,630,209</b> | <b>679,707,286</b>    | <b>15.4</b>  |
| 210. Profits (Losses) on equity investments  | -315,403,030          | -115,286,115          | 200,116,915           |              |
| 220. Valuation differences on property, equipment and intangible assets measured at fair value | -                     | -                     | -                     | -            |
| 230. Goodwill impairment   | -                     | -                     | -                     | -            |
| 240. Profits (Losses) on disposal of investments   | 324,620,741           | 66,480,152            | 258,140,589           |              |
| <b>250. Income (Loss) before tax from continuing operations</b>                                | <b>316,624,450</b>    | <b>2,661,443,979</b>  | <b>-2,344,819,529</b> | <b>-88.1</b> |
| 260. Taxes on income from continuing operations  | 368,110,138           | -22,685,664           | 390,795,802           |              |
| <b>270. Income (Loss) after tax from continuing operations</b>                                 | <b>684,734,588</b>    | <b>2,638,758,315</b>  | <b>-1,954,023,727</b> | <b>-74.1</b> |
| 280. Income (Loss) after tax from discontinued operations                                      | 1,074,782,239         | 139,526,760           | 935,255,479           |              |
| <b>290. Net income (loss)</b>  | <b>1,759,516,827</b>  | <b>2,778,285,075</b>  | <b>-1,018,768,248</b> | <b>-36.7</b> |

## Statement of comprehensive income

|   | 2016                 | 2015                 | (euro)                |              |
|---|----------------------|----------------------|-----------------------|--------------|
|   |                      |                      | Changes<br>amount     | %            |
| <b>10. NET INCOME (LOSS)</b>  | <b>1,759,516,827</b> | <b>2,778,285,075</b> | <b>-1,018,768,248</b> | <b>-36.7</b> |
| <b>Other comprehensive income (net of tax) that may not be reclassified to the income statement</b> | <b>-130,460,553</b>  | <b>221,188,824</b>   | <b>-351,649,377</b>   |              |
| 20. Property and equipment  | -                    | -                    | -                     |              |
| 30. Intangible assets   | -                    | -                    | -                     |              |
| 40. Defined benefit plans   | -130,460,553         | 221,188,824          | -351,649,377          |              |
| 50. Non-current assets held for sale  | -                    | -                    | -                     |              |
| 60. Share of valuation reserves connected with investments carried at equity                        | -                    | -                    | -                     |              |
| <b>Other comprehensive income (net of tax) that may be reclassified to the income statement</b>     | <b>-37,896,228</b>   | <b>110,304,091</b>   | <b>-148,200,319</b>   |              |
| 70. Hedges of foreign investments   | -                    | -                    | -                     |              |
| 80. Foreign exchange differences  | -                    | -                    | -                     |              |
| 90. Cash flow hedges  | -11,094,442          | 203,223,693          | -214,318,135          |              |
| 100. Financial assets available for sale  | -26,801,786          | -92,919,602          | -66,117,816           | -71.2        |
| 110. Non-current assets held for sale   | -                    | -                    | -                     |              |
| 120. Share of valuation reserves connected with investments carried at equity                       | -                    | -                    | -                     |              |
| <b>130. Total other comprehensive income (net of tax)</b>   | <b>-168,356,781</b>  | <b>331,492,915</b>   | <b>-499,849,696</b>   |              |
| <b>140. TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 +130)</b>   | <b>1,591,160,046</b> | <b>3,109,777,990</b> | <b>-1,518,617,944</b> | <b>-48.8</b> |

## Statement of changes in shareholders' equity as at 31 December 2016

(euro)

|   | 31.12.2016                       |   |                               |               |                    |                    |                 |                   |                      |                |
|---|----------------------------------|---|-------------------------------|---------------|--------------------|--------------------|-----------------|-------------------|----------------------|----------------|
|   | Share capital<br>ordinary shares | Share premium reserve<br>savings shares | Reserves<br>retained earnings | other         | Valuation reserves | Equity instruments | Treasury shares | Net income (loss) | Shareholders' equity |                |
| AMOUNTS AS AT 1.1.2016                        | 8,246,979,407                    | 484,895,091                             | 27,507,513,386                | 2,998,336,065 | 578,198,274        | -258,215,809       | 877,201,768     | -17,013,442       | 2,778,285,075        | 43,196,179,815 |
| ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR |                                  |   |                               |               |                    |                    |                 |                   |                      |                |
| Reserves                                      |                                  |   | 407,138,390                   |               |                    |                    |                 |                   | -407,138,390         | -              |
| Dividends and other allocations               |                                  |   |                               |               |                    |                    |                 |                   | -2,371,146,685       | -2,371,146,685 |
| CHANGES IN THE PERIOD                         |                                  |   |                               |               |                    |                    |                 |                   |                      |                |
| Changes in reserves                           |                                  |   | -167,599,873                  | -             | 1,462,809          |                    |                 |                   |                      | -166,137,064   |
| Operations on shareholders' equity            |                                  |   |                               |               |                    |                    |                 |                   |                      |                |
| Issue of new shares                           | 109,618                          |   |                               |               |                    |                    |                 | 5,029,808         |                      | 5,139,426      |
| Purchase of treasury shares                   |                                  |   |                               |               |                    |                    |                 | -7,724,638        |                      | -7,724,638     |
| Extraordinary dividends                       |                                  |   |                               |               |                    |                    |                 |                   |                      | -              |
| Changes in equity instruments                 |                                  |   |                               |               |                    |                    | 1,240,119,896   |                   |                      | 1,240,119,896  |
| Derivatives on treasury shares                |                                  |   |                               |               |                    |                    |                 |                   |                      | -              |
| Stock options                                 |                                  |   |                               |               |                    |                    |                 |                   |                      | -              |
| Total comprehensive income for the period     |                                  |   |                               |               |                    | -168,356,781       |                 |                   | 1,759,516,827        | 1,591,160,046  |
| SHAREHOLDERS' EQUITY AS AT 31.12.2016         | 8,247,089,025                    | 484,895,091                             | 27,507,513,386                | 3,237,874,582 | 578,198,274        | -425,109,781       | 2,117,321,664   | -19,708,272       | 1,759,516,827        | 43,487,590,796 |

## Statement of changes in shareholders' equity as at 31 December 2015

(euro)

|   | 31.12.2015                       |   |                               |               |                    |                    |                 |                   |                      |                |
|---|----------------------------------|---|-------------------------------|---------------|--------------------|--------------------|-----------------|-------------------|----------------------|----------------|
|   | Share capital<br>ordinary shares | Share premium reserve<br>savings shares | Reserves<br>retained earnings | other         | Valuation reserves | Equity instruments | Treasury shares | Net income (loss) | Shareholders' equity |                |
| AMOUNTS AS AT 1.1.2015                        | 8,239,966,688                    | 484,895,091                             | 27,507,513,386                | 2,985,509,928 | 565,306,820        | -596,514,141       | -               | -17,287,358       | 1,212,765,890        | 40,382,156,304 |
| ALLOCATION OF NET INCOME OF THE PREVIOUS YEAR |                                  |   |                               |               |                    |                    |                 |                   |                      |                |
| Reserves                                      |                                  |   | 18,007,870                    |               |                    |                    |                 |                   | -18,007,870          | -              |
| Dividends and other allocations               |                                  |   |                               |               |                    |                    |                 |                   | -1,194,758,020       | -1,194,758,020 |
| CHANGES IN THE PERIOD                         |                                  |   |                               |               |                    |                    |                 |                   |                      |                |
| Changes in reserves                           |                                  |   | -5,181,733                    | 12,891,454    | 6,805,417          |                    |                 |                   |                      | 14,515,138     |
| Operations on shareholders' equity            |                                  |   |                               |               |                    |                    |                 |                   |                      |                |
| Issue of new shares                           | 7,012,719                        |   |                               |               |                    |                    |                 | 7,981,352         |                      | 14,994,071     |
| Purchase of treasury shares                   |                                  |   |                               |               |                    |                    |                 | -7,707,436        |                      | -7,707,436     |
| Extraordinary dividends                       |                                  |   |                               |               |                    |                    |                 |                   |                      | -              |
| Changes in equity instruments                 |                                  |   |                               |               |                    |                    | 877,201,768     |                   |                      | 877,201,768    |
| Derivatives on treasury shares                |                                  |   |                               |               |                    |                    |                 |                   |                      | -              |
| Stock options                                 |                                  |   |                               |               |                    |                    |                 |                   |                      | -              |
| Total comprehensive income for the period     |                                  |   |                               |               |                    | 331,492,915        |                 |                   | 2,778,285,075        | 3,109,777,990  |
| SHAREHOLDERS' EQUITY AS AT 31.12.2015         | 8,246,979,407                    | 484,895,091                             | 27,507,513,386                | 2,998,336,065 | 578,198,274        | -258,215,809       | 877,201,768     | -17,013,442       | 2,778,285,075        | 43,196,179,815 |

## Statement of cash flows

(euro)

|  | 31.12.2016             | 31.12.2015             |
|--|------------------------|------------------------|
| <b>A. OPERATING ACTIVITIES</b>   |                        |                        |
| <b>1. Cash flow from operations</b>  | <b>2,628,707,428</b>   | <b>1,357,326,847</b>   |
| - net income (loss) (+/-)  | 1,759,516,827          | 2,778,285,075          |
| - gains/losses on financial assets held for trading and on assets/liabilities designated at fair value through profit and loss (-/+) | 479,101,903            | -67,691,122            |
| - gains/losses on hedging activities (-/+)   | 25,210,954             | 10,043,733             |
| - net losses/recoveries on impairment (+/-)  | 2,227,309,344          | 1,057,260,974          |
| - adjustments to/net recoveries on property, equipment and intangible assets (+/-)   | 126,824,458            | 134,283,838            |
| - net provisions for risks and charges and other costs/revenues (+/-)  | 333,423,031            | 418,220,935            |
| - taxes, duties and tax credits to be paid/collected(+/-)  | -328,007,174           | 38,608,106             |
| - net adjustments to/recoveries on discontinued operations net of tax effect (-/+)   | -                      | -                      |
| - other adjustments (+/-)  | -1,994,671,915         | -3,011,684,692         |
| <b>2. Cash flow from / used in financial assets</b>  | <b>-28,799,639,865</b> | <b>-19,775,501,468</b> |
| - financial assets held for trading  | 2,902,784,814          | 1,170,198,002          |
| - financial assets designated at fair value through profit and loss  | -2,786,821             | -10,254,187            |
| - financial assets available for sale  | -9,453,451,950         | 946,719,372            |
| - due from banks: repayable on demand  | -663,349,000           | 1,735,230,000          |
| - due from banks: other  | -3,932,544,474         | -6,590,394,203         |
| - loans to customers   | -17,976,116,947        | -18,759,182,185        |
| - other assets   | 325,824,513            | 1,732,181,733          |
| <b>3. Cash flow from / used in financial liabilities</b>   | <b>24,378,841,999</b>  | <b>18,930,473,612</b>  |
| - due to banks: repayable on demand  | 2,358,482,000          | -1,364,931,000         |
| - due to banks: other  | 11,159,951,631         | 20,360,436,793         |
| - due to customers   | 23,119,168,450         | 13,330,191,780         |
| - securities issued  | -14,769,748,765        | -10,476,352,957        |
| - financial liabilities held for trading   | 748,888,164            | -757,314,314           |
| - financial liabilities designated at fair value through profit and loss   | 3,531,752              | 4,435,126              |
| - other liabilities  | 1,758,568,767          | -2,165,991,816         |
| <b>Net cash flow from (used in) operating activities</b>   | <b>-1,792,090,438</b>  | <b>512,298,991</b>     |
| <b>B. INVESTING ACTIVITIES</b>   |                        |                        |
| <b>1. Cash flow from</b>   | <b>3,587,241,607</b>   | <b>4,683,308,157</b>   |
| - sales of equity investments  | 1,460,503,240          | 1,655,403,169          |
| - dividends collected on equity investments  | 1,749,807,251          | 2,954,408,578          |
| - sales of investments held to maturity  | -35,962,884            | 681,717                |
| - sales of property and equipment  | 412,889,000            | 72,814,693             |
| - sales of intangible assets   | 5,000                  | -                      |
| - sales of subsidiaries and business branches  | -                      | -                      |
| <b>2. Cash flow used in</b>  | <b>-1,856,177,881</b>  | <b>-1,793,333,828</b>  |
| - purchases of equity investments  | -1,714,700,366         | -1,423,305,377         |
| - purchases of investments held to maturity  | -                      | -245,786               |
| - purchases of property and equipment  | -103,120,710           | -364,040,000           |
| - purchases of intangibles assets  | -38,356,805            | -5,742,665             |
| - purchases of subsidiaries and business branches  | -                      | -                      |
| <b>Net cash flow from (used in) investing activities</b>   | <b>1,731,063,726</b>   | <b>2,889,974,329</b>   |
| <b>C. FINANCING ACTIVITIES</b>   |                        |                        |
| - issues / purchases of treasury shares  | -2,585,213             | 7,286,636              |
| - issues / purchases of equity instruments   | 1,157,067,501          | 877,201,768            |
| - dividend distribution and other  | -2,360,446,307         | -1,194,430,141         |
| <b>Net cash flow from (used in) financing activities</b>   | <b>-1,205,964,019</b>  | <b>-309,941,737</b>    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | <b>-1,266,990,731</b>  | <b>3,092,331,583</b>   |
| <b>RECONCILIATION</b>  |                        |                        |
| <b>Captions</b>  |                        |                        |
| Cash and cash equivalents at beginning of period   | 7,477,547,444          | 4,382,716,255          |
| Net increase (decrease) in cash and cash equivalents   | -1,266,990,731         | 3,092,331,583          |
| Cash and cash equivalents: foreign exchange effect   | 2,505,170              | 2,499,606              |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>  | <b>6,213,061,883</b>   | <b>7,477,547,444</b>   |

LEGEND: (+) from (-) used in





# **Note to the Parent Company's financial statements**



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# Part A – Accounting policies

## A.1 – GENERAL CRITERIA

### SECTION 1 – DECLARATION OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

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

The financial statements as at 31 December 2016 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Art. 43 of Legislative Decree 136/2015<sup>(\*)</sup>, with Regulation of 22 December 2005, which issued Circular 262/05, and with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014 and 15 December 2015.

These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.

The Parent Company's financial statements have been prepared using the International Accounting Standards endorsed and in force as at 31 December 2016 (including the SIC and IFRIC interpretation documents) as listed in the attachments to the consolidated financial statements.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which came into force in 2016.

### IFRS endorsed as at 31.12.2016 in force since 2016

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| Regulation endorsement | Title  | Effective date   |
|------------------------|--|--|
| 28/2015                | Amendments to IFRS 2 Share-based payment<br>Amendments to IFRS 3 Business combinations<br>Amendments to IFRS 8 Operating segments<br>Amendments to IAS 16 Property, plant and equipment<br>Amendments to IAS 24 Related party disclosures<br>Amendments to IAS 38 Intangible assets  | 01/01/2016<br>First financial year starting on or after 01/02/2015 |
| 29/2015                | Amendments to IAS 19 Employee benefits   | 01/01/2016<br>First financial year starting on or after 01/02/2015 |
| 2113/2015              | Amendments to IAS 16 Property, plant and equipment<br>Amendments to IAS 41 Agriculture   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2173/2015              | Amendments to IFRS 11 Joint arrangements   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2231/2015              | Amendments to IAS 16 Property, plant and equipment<br>Amendments to IAS 38 Intangible assets   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2343/2015              | Amendments to IFRS 1 First-time adoption of International Financial Reporting Standard<br>Amendments to IFRS 5 Non current assets held for sale and discontinued operations<br>Amendments to IFRS 7 Financial Instruments: disclosures<br>Amendments to IAS 19 Employee benefits<br>Amendments to IAS 34 Interim financial reporting | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2406/2015              | Amendments to IAS 1 Presentation of financial statements   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 2441/2015              | Amendments to IAS 27 Separate financial statements   | 01/01/2016<br>First financial year starting on or after 01/01/2016 |
| 1703/2016              | Amendments to IFRS 10 Consolidated financial statements<br>Amendments to IFRS 12 Disclosure of interests in other entities<br>Amendments to IAS 28 Investments in associates and joint ventures  | 01/01/2016<br>First financial year starting on or after 01/01/2016 |

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<sup>(\*)</sup>Article 43 of Legislative Decree 136/2015 confirmed the Bank of Italy's powers in relation to the technical formats for financial statements that were previously assigned to the Authority by Legislative Decree 38/2005.

The table below shows the new standards or amendments to existing ones, together with the related EU endorsement regulations, which will become mandatory on 1 January 2018 - for financial statements reflecting the calendar year - or after this date.

#### IFRS endorsed as at 31.12.2016 applicable subsequent to 31.12.2016

| Regulation endorsement | Title   | Effective date   |
|------------------------|---|--|
| 1905/2016              | IFRS 15 Revenue from contracts with customers | 01/01/2018<br>First financial year starting on or after 01/01/2018 |
| 2067/2016              | IFRS 9 Financial instruments                  | 01/01/2018<br>First financial year starting on or after 01/01/2018 |

Regarding the details concerning the contents of IFRS 15 and of IFRS 9 (and the related project for the implementation, which significantly involves also Structures of the Parent Company), refer to the more thorough illustration provided in the consolidated financial statements.

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

#### IFRS not endorsed as at 31.12.2016

| Standard/ Interpretation | Title   | Date of issue |
|--------------------------|---|---------------|
| IFRS 14                  | Regulatory Deferral Accounts  | 30/01/2014    |
| IFRS 16                  | Leases  | 13/01/2016    |
| IFRIC 22                 | Foreign Currency Transactions and Advance Consideration                               | 08/12/2016    |
| Standard/ Interpretation | Amendments  | Date of issue |
| IFRS 10                  | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 11/09/2014    |
| IAS 28                   | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 11/09/2014    |
| IAS 12                   | Recognition of Deferred Tax Assets for Unrealised Losses                              | 19/01/2016    |
| IAS 7                    | Disclosure Initiative   | 29/01/2016    |
| IFRS 15                  | Clarifications to IFRS 15 Revenue from Contracts with Customers                       | 12/04/2016    |
| IFRS 2                   | Classification and Measurement of Share-based payment Transactions                    | 20/06/2016    |
| IFRS 4                   | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts                 | 12/09/2016    |
| IFRS 1                   | First-time Adoption of International Financial Reporting Standards                    | 08/12/2016    |
| IFRS 12                  | Disclosure of Interests in Other Entities   | 08/12/2016    |
| IAS 28                   | Investments in Associates and Joint Ventures  | 08/12/2016    |
| IAS 40                   | Transfers of Investment Property  | 08/12/2016    |

## SECTION 2 – GENERAL PREPARATION PRINCIPLES

The financial statements are made up of the Balance sheet, the Income statement, the Statement of comprehensive income, the Changes in shareholders' equity, the Statement of cash flows, the Notes to the financial statements and the related comparative information; the Report on operations, on the economic results achieved and on Intesa Sanpaolo's balance sheet and financial position has also been included. For information to be included in the Report on operations as required by regulatory provisions, reference should be made to the Consolidated Report on Operations. In compliance with the provisions of Art. 5 of Legislative Decree 38/2005, the financial statements have been drawn up in euro as functional currency.

The amounts indicated in the Parent Company's financial statements are expressed in euro, while figures in the Notes to the Parent Company's financial statements as well as those in the Report on operations are expressed in millions of euro, unless otherwise specified.

The financial statements are prepared with the application of the general principles set out by IAS 1 and the specific accounting principles endorsed by the European Commission and illustrated in Part A.2 of these Notes to the Parent Company's financial statements, as well as in compliance with the general assumptions set forth by the Framework for the Preparation and Presentation of Financial Statements issued by IASB.

No exceptions to the application of IAS/IFRS have been made.

The Report on operations and the Notes to the Parent Company's financial statements contain all information required by

international accounting standards, by current regulations, by the Bank of Italy and by Consob (Italian Securities and Exchange Commission), in addition to other information which is not compulsory but is nonetheless deemed to be necessary in order to give a true and fair presentation of the Bank's situation.

The financial statement forms and the Notes to the financial statements show, in addition to the figures for the reference period, the comparative figures as at 31 December 2015.

The Attachments include the reconciliation statements to the balance sheet and income statement originally published in the 2015 financial statements, together with specific reconciliations between the 2015 financial statements and the reclassified statements included in the Report on operations accompanying these financial statements.

## **Contents of financial statement forms**

### ***Balance sheet and income statement***

The compulsory forms of the balance sheet and income statement are made up of captions, subcaptions and further detailed information (specified as the "of which" items in the captions and subcaptions). For the purposes of completeness with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for 2016 and for 2015 are in any case included. In the income statement revenues are indicated without sign, whereas costs are preceded by the minus sign.

### ***Statement of comprehensive income***

The Statement of comprehensive income shows, starting from the income/(loss) for the year, the income components recognised as a balancing entry in valuation reserves, net of the tax effect, in compliance with international accounting standards. Comprehensive income is represented by providing separate recognition of the income components that will not be reversed to the income statement in the future and those which, conversely, could later be reclassified to income (loss) for the year under specific conditions. Similarly, to the balance sheet and the income statement, with respect to the compulsory forms defined by the Bank of Italy, captions which do not present amounts for the reference year and the previous year are in any case included. Negative amounts are preceded by the minus sign.

### ***Changes in shareholders' equity***

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

### ***Statement of cash flows***

The statement of cash flows registered in the reference year and in the previous year is prepared using the indirect method, on the basis of which cash flows from operating activities are represented by net income adjusted for the effects of non-cash transactions.

Cash flows are broken down into flows from operating activities, from investing activities and from financing activities.

In the form, cash flows generated in the year are indicated without sign, whereas cash flows absorbed are preceded by the minus sign.

## **Contents of the Notes to the financial statements**

The Notes to the Parent Company's financial statements include the information provided for by International Financial Reporting Standards and Circular 262 issued by the Bank of Italy on 22 December 2005 and subsequently amended.

### **SECTION 3 – SIGNIFICANT EVENTS SUBSEQUENT TO FINANCIAL STATEMENT DATE**

No significant subsequent events occurred other than the events described in the consolidated financial statements.

### **SECTION 4 - OTHER ASPECTS**

#### **Option for the national fiscal consolidation provisions**

Intesa Sanpaolo and the Group's Italian companies have adopted the "national fiscal consolidation", set forth by Articles 117-129 of the Combined Tax Regulations, introduced by Legislative Decree 344/2003. It provides an option, based on which the total net income or fiscal loss of every controlled subsidiary taking part in the fiscal consolidation procedure – together with withholding tax, tax deductions and tax credits – is transferred to the parent company, which determines a single taxable income or loss carried forward (that is the result of the sum of its own income/loss and of the income/loss of the participating subsidiaries) and, consequently, a sole tax debit/credit. Based on this option, Group companies that opted for the "national fiscal consolidation" determine the tax charge pertaining to them and the corresponding taxable income is transferred to the Parent Company.

#### **Certification pursuant to Article 154 bis of the Consolidated Law on Finance and non-EU subsidiaries**

Please refer to Part E of the Notes to the consolidated financial statements for information on the disclosure about the Certification pursuant to Article 154 bis of the Consolidated Law on Finance and subsidiaries based in non-European countries that are considered significant on the basis of the Consob regulations.

#### **Other aspects**

KPMG S.p.A. audited Intesa Sanpaolo's financial statements, in execution of the resolution of the Shareholders' Meeting of 10 May 2011, which appointed the company as independent auditor for the years from 2012 to 2020, included.

## A.2 – MAIN FINANCIAL STATEMENT CAPTIONS

### 1. Financial assets held for trading

#### **Classification criteria**

This category includes financial assets held for trading, essentially represented by debt securities and equities and the positive value of derivative contracts held for trading. Derivative contracts also include those embedded in combined financial instruments which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- embedded instruments, even though separate, fully meet the definition of derivative;
- combined instruments are not measured at fair value with changes in fair value recognised through profit and loss.

Derivatives are stated as assets if their fair value is positive and as liabilities if their fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.

The reclassifications to other categories of financial assets are not permitted unless there is an event that is unusual and highly unlikely to recur in the near term.

In such cases debt securities and equities not held for trading may be reclassified into other categories established by IAS 39 if the conditions for their recognition apply (Investments held to maturity, Financial assets available for sale, Loans). The transfer value is the fair value at the time of the reclassification. On reclassification, the presence of any embedded derivative contracts, that have to be separated, is assessed.

#### **Recognition criteria**

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

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

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

#### **Measurement criteria**

After initial recognition financial assets held for trading are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc. Equities, quotas of UCI and derivative instruments which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value according to the guidelines listed above, are maintained at cost.

#### **Derecognition criteria**

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

### 2. Financial assets available for sale

#### **Classification criteria**

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

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

### **Recognition criteria**

Initial recognition of the financial asset occurs at settlement date for debt securities and equities and at disbursement date for loans.

On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

If, in the cases provided for by the accounting standards, recognition occurs following the reclassification from Investments held to maturity or, in rare circumstances, from Financial assets held for trading, the recognition value is the fair value as at the time of transfer.

### **Measurement criteria**

After initial recognition, Financial assets available for sale are measured at fair value, through the registration in the income statement of the value corresponding to amortised cost, while gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the total or partial sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement.

Fair value is determined on the basis of the criteria already illustrated for financial assets held for trading.

Equities included in this category and quotas of UCI which have equities as underlying assets, which are not quoted on an active market, for which it is not possible to determine a reliable fair value, are maintained at cost.

Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.

If such evidence exists, the loss is measured as the difference between the carrying value of the asset and its fair value.

Should the reasons for impairment cease to exist, following an event occurred after the registration of the impairment, value recoveries are posted through the income statement in the case of loans or debt securities, and through shareholders' equity in the case of equities. The size of the recovery must not lead the carrying amount of the financial asset to exceed the amortised cost had no impairment losses been recognised in previous periods.

### **Derecognition criteria**

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

## **3. Investments held to maturity**

### **Classification criteria**

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

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

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

### **Recognition criteria**

Initial recognition of financial assets occurs at settlement date.

On initial recognition, financial assets classified in this category are recorded at fair value, inclusive of any costs and revenues directly attributable to the asset.

If inclusion in this category occurs following reclassification from Financial assets available for sale or, in rare circumstances, from Financial assets held for trading, the fair value of the asset as at the date of reclassification is used as the new amortised cost of the asset.

### **Measurement criteria**

After the initial recognition, Investments held to maturity are valued at amortised cost, using the effective interest method.

Profits or losses referred to investments held to maturity are recorded in the income statement when assets are derecognised or impaired, and through the amortisation process of the difference between book value and the value reimbursable at maturity.

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

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

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



**Derecognition criteria**

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

**4. Loans****Classification criteria**

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

The caption Loans also includes commercial loans, repurchase agreements with the obligation to resell at a later date, and securities underwritten at issue or via private placements, with determined or determinable payments, not quoted in active markets.

Reclassifications to the other categories of financial assets established in IAS 39 are not permitted.

**Recognition criteria**

Initial recognition of a loan occurs at the date of subscription of the contract that usually coincides with the disbursement date. Should this not be the case, a commitment to disburse funds is made along the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised based on its fair value, equal to the amount disbursed or subscription price, inclusive of the costs/revenues directly attributable to the single loan and determinable from inception, even if settled at a later date. Costs that, even with the aforementioned characteristics, are reimbursed by the borrower or are classifiable as normal internal administrative costs are excluded.

If, in rare circumstances, the inclusion in this category occurs following reclassification from Financial assets available for sale or from Financial assets held for trading, the fair value of the asset as at the date of reclassification is used as the new amortised cost of the asset.

**Measurement criteria**

After initial recognition, loans are measured at amortised cost, equal to initial value increased/decreased by principal repayments, adjustments/recoveries and amortisation – calculated applying the effective interest method – of the difference between amount disbursed and amount to be reimbursed at maturity, typically attributable to the costs/revenues directly connected to the single loan. The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

The amortised cost method is not used for loans whose short maturity implies that the application of the discounting approach leads to immaterial effects. Such loans are recorded at historical cost. An analogous measurement criterion is applied to loans with unspecified maturity or with notice period.

Loans are reassessed for the purpose of identifying those which, due to events occurred after initial recognition, show objective evidence of possible impairment. These include bad loans, unlikely to pay or past due loans according to the rules issued by the Bank of Italy, consistent with IAS/IFRS and EU supervisory regulations.

There are three different categories of restructured credit exposures:

- renegotiations for "commercial" reasons/practices;
- forbore exposures (as defined in Bank of Italy Circular 272);
- the discharge of debt through substitution of the debtor or debt-for-equity swap.

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

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

Non-performing forbore exposures are those for which there are objective indications of impairment, in addition to forbearance measures.

As an alternative to the scenarios outlined above (renegotiations due to difficulty of the debtor and renegotiations for commercial reasons/practices), the bank and debtor may agree on the discharge of the original debt through:

- novation or assumption by another debtor (assignment with release);

– substantial modification of the nature of the contract involving a debt-equity swap.

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

Non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure.

The original effective rate of each loan remains unchanged over time even though the relationship has been restructured with a variation of the contractual interest rate and even though the relationship, in practice, no longer bears contractual interest.

The adjustment is recorded in the income statement.

The original value of loans is reinstated in subsequent periods to the extent that the reasons which had led to the impairment cease to exist, provided that such valuation is objectively attributed to an event which occurred subsequent to the impairment. The recovery is recorded in the income statement and must not lead the carrying amount of the loan to exceed the amortised cost had no impairment losses been recognised in previous periods.

Recoveries on impairment include time value effects.

Loans for which no objective evidence of loss has emerged from individual measurement are subject to measurement of a collective adjustment. Such measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series and other objective elements observable at measurement date, which enable the latent loss to be estimated for each loan category. Measurement also considers the risk connected to the borrower's country of residence.

Collective adjustments are recorded in the income statement.

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

Loans sold are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the loans. Conversely, if a significant part of the risks and rewards relative to the sold loans is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the loans are derecognised where no control over the loans has been maintained. If this is not the case, when control, even partial, is maintained, then the loans continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of loans sold and to variations in the relevant cash flows.

Lastly, loans sold are derecognised if the entity retains the contractual rights to receive the cash flows of the loan, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

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

#### ***Classification criteria***

IAS/IFRS endorsed by the European Commission enable the classification as financial instruments designated at fair value through profit and loss of any financial asset thus defined at the moment of acquisition, in compliance with the cases contemplated in the reference regulations.

Reclassifications to the other categories of financial assets are not permitted.

The Group has only classified in this category investments with respect to insurance policies and certain debt securities with incorporated derivatives or hedged debt securities and equity investments held, directly or through funds, in companies involved in the venture capital business.

#### ***Recognition criteria***

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

#### ***Measurement criteria***

After initial recognition, the financial instruments in question are measured at fair value. The effects of the application of this measurement criterion are recorded in the income statement.

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

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

## 6. Hedging transactions

### **Classification criteria: type of hedge**

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.

The following types of hedging transactions are used:

- fair value hedge: which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including "core deposits", as permitted by IAS 39 endorsed by the European Commission; Fair value macro hedges are aimed at reducing fluctuations in the fair value, as a result of interest rate risk, of a sum of money flowing from a portfolio of financial assets and liabilities. Net amounts resulting from mismatches between assets and liabilities cannot be subject to macro hedges;
- cash flow hedge: which has the objective of covering exposure to variability in future cash flows attributable to particular risks associated with balance sheet captions. This type of hedge is essentially used to stabilise the interest flow on floating rate funding to the extent that the latter finances fixed rate investments. In certain circumstances, similar transactions are carried out with respect to some types of floating rate investments;
- hedges of net investments in foreign currency, which refer to the coverage of the risks of net investments in foreign operations expressed in their original currency.

Only hedging transactions which involve counterparties outside the Group may qualify for hedge accounting.

### **Recognition criteria**

Hedging derivative instruments, like all derivatives, are initially recognised and subsequently measured at fair value.

### **Measurement criteria**

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedges, the change in the fair value of the hedged item is offset by the change in fair value of the hedging instrument. Offsetting is recognised via the registration in the income statement of the gains and losses referred to both the hedged item (as concerns the variations produced by the underlying risk factor), and the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect. In case of fair value macro hedges, fair value changes related to the hedged risk of assets and liabilities in hedged portfolios are allocated to the balance sheet under caption 90. "Fair value change of financial assets in hedged portfolios" or under caption 70. "Fair value change of financial liabilities in hedged portfolios";
- in the case of cash flow hedges, changes in fair value of the derivative are recorded in equity, for the effective portion of the hedge, and these are registered in the income statement only when, with reference to the hedged item, there is a variation in the flows to be offset or if the hedge is ineffective;
- hedges of net investments in foreign currency are treated in the same way as cash flow hedges.

Derivatives are designated as hedging instruments if there is formal designation and documentation of the hedging relationship between the hedged item and the hedging instrument and if this is effective at inception and prospectively over the entire period of the hedge.

The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged item or the relating expected cash flows are offset by those of the hedging instrument. Therefore, effectiveness is appraised by comparing the aforementioned changes, considering the intent pursued by the entity at the time in which it entered the hedging transaction.

A hedge is effective when the variations in fair value (or cash flows) of the hedging financial instrument almost completely neutralise, that is within the 80-125% range, the changes in the fair value of the hedged item, for the type of risk being hedged.

Effectiveness is assessed at every close of annual or interim financial statements using:

- prospective tests, which justify the application of hedge accounting, since these prove the expected effectiveness of the hedge;
- retrospective tests, which demonstrate the effectiveness of the hedge for the reference period, or measures how much the effective results diverge from perfect coverage.

If such assessments do not confirm hedge effectiveness, from that moment hedge accounting is discontinued, the derivative is reclassified in instruments held for trading and the hedged item is measured on the basis of its classification in the balance sheet. When a fair value macro-hedging relationship is discontinued, the cumulative revaluations/impairment losses carried under caption 90 "Fair value change of financial assets in hedged portfolios" or caption 70. "Fair value change of financial liabilities in hedged portfolios" are transferred to the income statement among interest income or expense over the residual life of the original hedging relationships, without prejudice to verification that the requirements have been met.

## 7. Investments in associates and companies subject to joint control

### **Classification criteria**

The caption includes investments in subsidiaries, companies subject to joint control and associates.

Entities are considered subsidiaries where Intesa Sanpaolo is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entities in question.

Entities are considered to be companies subject to joint control (joint ventures), if control is contractually shared by Intesa Sanpaolo with one or more other parties external to the Group, or where the decisions about the relevant activities require the unanimous consent of all the parties sharing control.

Companies are considered subject to significant influence (associates), when Intesa Sanpaolo holds 20% or more of the voting rights (including "potential" voting rights) or if it – with a lower equity stake – has the power of participating in the determination of financial and management policies of the company based on specific juridical relations, such as the participation in voting

syndicates. Certain companies in which Intesa Sanpaolo holds a stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the safeguarding of its economic interests.

#### **Recognition criteria**

Equity investments are recognised at settlement date. On initial recognition equity investments are recorded at cost.

#### **Measurement criteria**

Equity investments are measured at cost, which may be adjusted if impairment losses are deemed to have occurred. If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.

If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

#### **Derecognition criteria**

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

## **8. Property and equipment**

#### **Classification criteria**

Property and equipment include land, buildings used in operations, investment property, 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.

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, including investment property, are measured at cost, net of depreciation and impairment losses.

Property and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount is the cost of the goods since the residual value at the end of the depreciation period is not deemed to be 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.

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;
  - works of art, since the useful life of a work of art cannot be estimated and its value is normally destined to increase over time.
- If there is some evidence that an asset may have been impaired, the carrying value of the asset and its recoverable amount are compared. Any impairment losses are recorded in the income statement.

If the reasons for impairment cease to exist, a value recovery is recorded and may not exceed the value that the asset would have had, net of depreciation, determined in the absence of previous impairment losses.

#### **Derecognition criteria**

Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

## **9. Intangible assets**

#### **Classification criteria**

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Intangible assets include goodwill, which represents the positive difference between purchase price and fair value of assets and liabilities pertaining to the acquired company.

#### **Recognition and measurement criteria**

Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.

For assets with finite useful life, the cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected from the asset. Assets with indefinite useful life are not subject to systematic amortisation, but are periodically subjected to impairment testing.

If there is any indication that an asset may have suffered impairment losses, the asset's recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.

In particular, intangible assets include:

- technology related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years;
- customer related intangibles represented, in business combinations, by asset management relations and insurance portfolios. Such assets, with a finite life, are originally measured by the discounting, using a rate representing the time value of money and the asset's specific risks, of the income margins on the ongoing relations at the time of the business combination over a period which expresses their residual, contractual or estimated life. 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 or in decreasing portions corresponding to the duration of the contract in case of relations with predetermined expiry. More specifically, asset management relations are amortised over a period of 7-10 years and relations from insurance contracts in decreasing portions corresponding to the residual maturity of the policies;
- marketing related intangibles represented by the measurement of the brand name which is also recorded at the time of business combinations. This asset is considered as having indefinite life since it is deemed to contribute for an indefinite period of time to the formation of income flows.

Lastly, intangible assets include goodwill.

With respect to business combinations, goodwill may be recorded when the positive difference between fair value of shareholders' equity acquired and the purchase price of the equity investment is representative of the future income-generation potential of the equity investment.

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

Once a year (or every time that there is evidence of impairment losses), an impairment test is carried out for goodwill. This requires the identification of the cash-generating unit to which goodwill is allocated. The Cash-generating units of the Intesa Sanpaolo Group correspond to the operating divisions presented in segment reporting. The business operations carried out directly by the Parent Company falls under the Cash-generating units corresponding to Banca dei Territori and Corporate and Investment Banking. Therefore, goodwill is allocated to such divisions.

#### **Derecognition criteria**

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

#### **10. Other assets**

Apart from items awaiting classification and items not attributable to other captions of the balance sheet, other assets include property and other assets deriving from credit collection through the enforcement of guarantees or purchases at auction, in the event the property was acquired during normal operations of the credit business, with the intention to sell in the near future without carrying out any significant refurbishment works.

These assets, pursuant to IAS 2, are measured at the lesser of cost and net realisable value, without prejudice to the comparison between the asset's carrying value and its recoverable amount where there is an indication that the asset may have been impaired. Any impairment losses are recorded in the income statement.

#### **11. Non-current assets held for sale and discontinued operations and related liabilities**

Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. Such assets/liabilities are measured at the lower between the carrying amount and their fair value less costs to sell.

The income and charges (net of tax) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate caption.

#### **12. Current and deferred tax**

Income tax, calculated according to domestic tax regulations, is accounted for as a cost in compliance with the accruals concept, in line with the method followed to include, in the financial statements, the costs and income that generated it. Therefore, it represents the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the tax balances of the Bank due to the relevant Italian and foreign tax authorities. More specifically, these captions include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes borne or tax credits of previous years that the Bank claimed against taxes payable in future years.

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

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

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

taxable income in future years while “deductible temporary differences” are those which will give rise to deductible amounts in future years.

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

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

Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders' equity without affecting earnings (such as adjustments on IAS/IFRS first-time adoption, evaluations of financial assets available for sale or of cash flow hedge derivative contracts), the balancing entry is made in shareholders' equity, under specific reserves where so provided (e.g. valuation reserves).

No provision is made for reserves subject to taxation only in the event of distribution, since the size of the available reserves which have already been taxed, leads to the belief that the Bank will not undertake any transactions which may cause taxation of the untaxed reserves.

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

### 13. Allowances for risks and charges

#### *Post-employment benefits*

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

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

#### *Other allowances*

Other allowances for risks and charges record provisions related to legal obligations or connected to labour relationships or to litigations, also of a fiscal nature, originating from a past event for which a disbursement will probably arise to settle the obligations, provided that the amount of the disbursement may be estimated reliably.

Consequently, a provision is recognised when, and only when:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reference date of the financial statements and take into account the risks and uncertainties that inevitably surround many events and circumstances. Where time value is significant, provisions are discounted using current market rates. Provisions and increases due to time value are recorded in the income statement.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation or when the obligation is settled, the provision should be reversed.

The caption also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial profits and losses are all immediately recognised in the income statement.

### 14. Payables and securities issued

#### *Classification criteria*

Amounts Due to banks, Due to customers and Securities issued include various forms of funding on the interbank market and with customers, repurchase agreements with commitment to repurchase and funding via certificates of deposit, bonds issued and other funding instruments in circulation, net of any amounts repurchased.

It also includes the payables recorded by the bank in the capacity of lessee in financial lease transactions.

#### *Recognition criteria*

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

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

**Measurement criteria**

After initial recognition, financial liabilities are measured at amortised cost with the effective interest method. An exception is made for short-term liabilities, where time value is immaterial, which are stated at collected amount.

**Derecognition criteria**

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

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

**15. Financial liabilities held for trading****Recognition criteria**

These financial instruments are recognised at the subscription or issue date at cost, which reflects the fair value of the instrument, without taking into account directly attributable transaction costs or revenues.

This liability category includes, specifically, the negative value of trading derivatives as well as the negative value of embedded derivatives in combined contracts but which are not closely correlated to the latter. It also includes liabilities determined by short selling generated by securities trading activities.

**Measurement criteria**

All financial liabilities held for trading are designated at fair value through profit and loss.

**Derecognition criteria**

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is sold with the substantial transfer of all the risks and rewards connected to it.

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

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

**Recognition criteria**

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

**Measurement criteria**

These liabilities are measured at fair value through profit and loss.

**Derecognition criteria**

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

**17. Foreign currency transactions****Initial recognition**

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

**Subsequent measurement**

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

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

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

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

## 18. Other information

### **Own shares**

Any treasury shares held are directly deducted from equity. Similarly, their original cost and the profits or losses deriving from their subsequent sale are recorded in equity.

### **Accruals, prepayments and deferrals**

Accruals, prepayments and deferrals for the year that include income and charges for the year, accrued on assets and liabilities, are shown in the financial statements as an increase or decrease of the assets and liabilities to which they are related.

### **Leasehold improvements**

The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. These costs, recorded in Other assets as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract.

### **Employee termination indemnities**

Employee termination indemnities qualify as a "post-employment benefit" classified as:

- a "defined contribution plan" to the extent of the portions accruing from 1 January 2007 (the date the reform of the supplementary pension schemes came into force pursuant to Legislative Decree 252 of 5 December 2005) when the employee opted for the complementary pension scheme or decided to allocate such portions to the INPS (the Italian Social Security Institute) Treasury fund. Therefore, the amounts, recorded under personnel expenses, are determined on the basis of amounts due without the application of actuarial calculation;
- a "defined benefit plan", therefore recognised in the financial statements on the basis of the actuarial value determined using the "Projected Unit Credit Method" to the extent of the portions accrued until 31 December 2006.

These amounts are recognised at their actuarial value determined using the "Projected Unit Credit Method", without applying the pro-rata of the service rendered. Indeed, the current service cost of employee termination indemnities is almost entirely accrued and its revaluation in the years to come is not expected to generate significant benefits for employees.

For the purposes of discounting, the rate used is the market yield of high-quality corporate bonds taking into account the average remaining life of the liability, weighted based on the percentage amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the expiry of the entire obligation.

The plan's costs are recorded under personnel expenses, while actuarial profits and losses are recognised in the statement of comprehensive income.

### **Provisions for guarantees and commitments**

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

### **Share-based payments**

Share-based payments are recorded in the income statement, with a corresponding increase in shareholders' equity, on the basis of the fair value of financial instruments attributed at assignment date, dividing the charge over the period set forth by the plan.

In the case of options, the fair value is calculated using a model which considers, in addition to information such as strike price and expiry date of the option, spot price of the shares and their expected volatility, expected dividends and the risk-free interest rate, as well as the specific characteristics of the plan. The pricing model values the option and the probability of realisation of the condition on the basis of which the options have been assigned.

The combination of the two values supplies the fair value of the assigned instrument.

Any decrease in the number of financial instruments granted is accounted for as a cancellation of such instruments.

### **Recognition of revenues and costs**

Revenues are recognised when they are collected or:

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

In particular:

- interest is recognised on accrual on the basis of the contractual interest rate or the effective interest rate in the case of application of amortised cost. Interest income (or interest expense) includes differentials and positive (or negative) margins accrued until the reference date of the financial statements, relating to financial derivatives:
  - a) hedging interest-generating assets and liabilities;
  - b) classified in the balance sheet in the trading book, though related to financial assets and/or liabilities designated at fair value through profit and loss (fair value option) in management terms;
  - c) related in management terms to assets and/or liabilities classified in the trading book and providing for the settlement of differentials or margins with different maturities;
- overdue interest, which may be provided for by the relevant contracts is recorded in the income statement solely at the time of collection;
- dividends are posted in the income statement in the financial year when their distribution is approved;
- commission income from services is recorded, on the basis of the existence of contractual agreements, in the period in which the services have been rendered. Commission income included in the amortised cost for the purposes of determining the effective interest rate are recognised under interest;



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

Costs are recorded in the income statement for the periods to which their income relates. If matching can only be attributed generally or indirectly, then the costs are allocated to more than one accounting period according to rational procedures and on a systematic basis.

Those costs that cannot be matched with the related revenues are immediately charged to the income statement.

#### ***Use of estimates and assumptions in preparing financial reports***

The preparation of financial reports requires the use of estimates and assumptions that may have a significant effect on the amounts stated in the balance sheet and income statement, and on the potential assets and liabilities reported in the financial statements. Estimates are based on available information and subjective evaluations, often founded on past experience, which are used to formulate reasonable assumptions to be made in measuring operating events. Given their nature, the estimates and assumptions used may vary from year to year, and hence it cannot be excluded that current amounts carried in the financial statements may differ significantly in future financial years as a result of changes in the subjective evaluations made.

The main cases for which subjective evaluations are required to be made by corporate management include:

- the measurement of impairment losses on loans, investments, and, generally, other financial assets;
- the use of measurement models for determining the fair value of financial instruments not listed on active markets;
- the evaluation of the appropriateness of amounts stated for goodwill and other intangible assets;
- the measurement of personnel funds and provisions for risks and charges;
- the estimates and assumptions on the collectability of deferred tax assets;
- the demographic (linked to the estimated mortality of insured people) and financial (deriving from the possible trend in financial markets) suppositions used to structure insurance products and define the basis for calculating integrative reserves.

For some of the types listed above, the main factors subject to estimates by Intesa Sanpaolo and which determine the carrying value of assets and liabilities in the financial statements can be identified. The following are noted, by way of example:

- to determine the fair value of financial instruments not listed on active markets, if the use of parameters that cannot be obtained from the market is necessary, the main estimates regard, on one hand, development of future cash flows (or even income flows, in the case of equities), possibly conditional on future events and, on the other, the level of specific input parameters not listed on active markets;
- to determine the future cash flow estimates from non-performing loans, a number of items are considered: the expected recovery times, the presumed realisable value of guarantees and the costs to be sustained for the recovery of credit exposure. To determine the future cash flow estimates from loans for which no objective evidence of loss has emerged (collective measurement), past time-series and other objective elements observable at the measurement date are used, which enable the latent loss to be estimated for each loan category;
- to determine the value in use of intangible assets with an indefinite life (brand name and goodwill) with regard to the Cash-Generating Units (CGU) comprising Intesa Sanpaolo, the future cash flows in the forecasting period of the analysis and the flows used to determine the terminal value, generated by the CGU, are subject to estimate, separately and appropriately discounted. The cost of capital is among the items subject to estimate;
- to determine the value in use of intangible assets with a finite life (asset management and insurance portfolios) with regard to the CGUs comprising Intesa Sanpaolo, the useful life is subject to estimate, on the one hand, as well as the future cash flows arising from the asset, on the other. The cost of capital is subject to estimate in the case of intangible assets with a finite life as well;
- to measure post-employment benefits, the present value of the obligations is subject to estimate, taking into account the flows, appropriately discounted, arising from past time-series analyses and the demographic curve;
- to measure provisions for risks and charges, the amount of outflows necessary to fulfil the obligations is estimated, where possible, taking into account the effective probability of having to utilise resources;
- to determine the value of deferred tax items, the likelihood of an effective future tax burden is estimated (taxable temporary differences) and the level of reasonable certainty – if it exists – of future taxable amounts at the time when the tax deductibility occurs (deductible temporary differences).

#### ***Amortised cost measurement***

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions recur (for example review of market interest rates).

After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of

the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on the fact that financial assets/liabilities have fixed or variable rates and – in this last case – if the volatility of the rate is known or not beforehand. For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or variable) over the life of the loan. For financial assets/liabilities with a variable rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate the amortisation plan and the effective interest rate for the entire life of the investment, that is, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.

Loans, investments held to maturity and financial assets available for sale, payables and securities issued are measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument which are not debited to the customer. These commissions, which must be directly attributable to the single financial asset or liability, modify the original effective interest rate, thereby the effective interest rate associated to the transaction differs from contractual interest rate. Transaction costs do not include costs/income referred to more than one transaction and the components related to events which may occur during the life of the financial instrument, but which are not certain at the time of the initial agreement, such as for example: commissions for retrocession, for non-use, for advance termination. Furthermore, amortised cost does not include costs which would be sustained independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of the financing (e.g. activities related to the loan granting process), as well as commissions for services received following structured finance activities which would in any case have been received independently from the subsequent financing of the transaction (e.g. facility and arrangement fees).

With reference to loans, the following costs are considered directly attributable to the financial instrument: fees paid to distribution networks, fees paid for the origination and/or the participation in syndicated loans and lastly, up-front fees correlated to loans disbursed at rates exceeding market rates. Income considered in the calculation of amortised cost includes: up-front fees correlated to loans disbursed at rates below market rates, income for the participation of syndicated loans and brokerage commissions received.

For securities not classified as held for trading, the following are considered transaction costs: commissions on contracts with brokers operating on the Italian stock exchange, commissions paid to dealers operating on the Italian and foreign stock and bond markets defined on the basis of the commission tables. Stamp duty is not considered in amortised cost since immaterial.

Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, amounts paid to Exchanges and remuneration paid to Independent auditors for the activities performed for each single issue, while amortised cost does not consider commissions paid to rating agencies, legal and advisory/review expenses for the annual update of prospectuses, the costs for the use of indexes and commissions which originate during the life of the bond issue.

Amortised cost is also applied for the measurement of loss incurred by the financial instruments listed above as well as for the measurement of instruments issued or purchased at a value other than fair value. The latter are measured at fair value, instead of the amount collected or paid, by discounting expected future cash flows at a rate equal to the effective interest rate of similar instruments (in terms of credit rating, contractual expiry, currency, etc.), with the simultaneous registration in the income statement of a financial charge or income; after initial recognition, these are measured at amortised cost with the registration of higher or lower effective interest with respect to nominal interest. Lastly, also structured assets and liabilities which are not measured at fair value through profit and loss for which the embedded derivative has been separated from the financial instrument are measured at amortised cost.

The amortised cost measurement criterion is not applied to hedged financial assets/liabilities for which fair value changes related to the risk hedged are recorded through profit and loss. The financial instrument is again measured at amortised cost in the case of hedge termination; from that moment the fair value changes recorded before are amortised, calculating a new effective interest rate which considers the value of the loan adjusted by the fair value of the hedged part, until the natural expiry of the hedge. Furthermore, as already mentioned in the paragraph relative to measurement criteria of due to and from banks and customers and securities issued, measurement at amortised cost is not applied to short-term assets/liabilities for which the time value is deemed to be immaterial and to loans without a definite maturity or revocable loans.

## **Impairment of assets**

### **Impairment of financial assets**

At every balance sheet date the financial assets not classified under Financial assets held for trading or Financial assets designated at fair value through profit and loss are subject to an impairment test to assess whether there is objective evidence to consider that the carrying value of these assets is not fully recoverable.

A permanent loss occurs if there is objective evidence of a reduction in future cash flows with respect to those originally estimated, following specific events; the loss must be quantified in a reliable way and must be incurred and not merely expected.

The measurement of impairment is carried out on an individual basis for financial assets which present specific evidence of losses and collectively for financial assets for which individual measurement is not required or which do not lead to adjustments. Collective measurement is based on the identification of portfolios of financial assets with the same risk characteristics with respect to the borrower/issuer, the economic sector, the geographical area, the presence of any guarantees and other relevant factors.

With reference to loans to customers and due from banks, positions attributed the status of bad loan, unlikely to pay or past due loan according to the definitions of the Bank of Italy, consistent with IAS/IFRS, are subject to individual measurement.

These non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the

difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure. Cash flows relative to loans which are deemed to be recovered in the short term are not discounted, since the time value is immaterial.

Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series, founded on observable elements at measurement date, that enable to estimate the value of the latent loss in each loan category. Measurement also considers the risk connected to the borrower's country of residence.

The determination of provisions on performing loans is carried out by identifying the highest possible synergies (as permitted by the various legislations) with the supervisory approach contained in the regulations known as "Basel 3". In particular, the parameters of the calculation model set out in the supervisory provisions, namely Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards. This time period is reduced to six months for counterparties who are natural persons. This reduction is based on a statistically significant sample of mortgages that showed an average period of six months between the first missed payment and the classification as default. The time period of a year is decreased by 30% for the factoring segment, in order to take into account certain specific characteristics related to the activity of acquiring short-term trade receivables.

The amount of the provision also reflects the phase of the economic cycle through an appropriate corrective factor: an annually updated adjusting coefficient, estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient is determined by regulatory segment and is equal to the ratio of the default rates estimated for the following 12 months on the basis of the scenario available in the fourth quarter (used in ICAAP) and actual PD. Cyclical coefficients are updated annually and submitted to the Chief Risk Officer for approval.

With reference to assets available for sale, the process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down.

The impairment indicators are essentially divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equities - external quantitative indicators deriving from the market values of the company.

Within the first category, the following indicators are considered significant: the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating. With respect to the second category, a significant or prolonged reduction in fair value below the initial recognition value is particularly important. Specifically, in relation to the latter amount, a fair value reduction of over 30% is considered significant, and a reduction of over 24 months is considered a "prolonged" continuous reduction. If one of these thresholds is exceeded, impairment of the security is carried out. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

The amount of the impairment is calculated with reference to the fair value of the financial asset.

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

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

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

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

Qualitative indicators include:

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

Quantitative indicators include:

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

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

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

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

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

Value in use is determined by discounting future cash flows.

For controlling investments in subsidiaries, the single investments are not individually significant for the purposes of the impairment test in the Parent Company's financial statements, instead they are included in the impairment test of the Cash-Generating Units (CGU) conducted at consolidated level. The CGUs identified are represented in some cases (Banca dei Territori and Corporate and Investment Banking) by operations conducted directly by the Parent Company and some subsidiaries, in other cases (International Subsidiary Banks) by combinations of subsidiaries, and in other cases (Private Banking and Asset Management) they correspond to the associated legal entity. When an investment does not produce cash flows that are largely independent of the cash flows from other assets the impairment tests are conducted at CGU level, rather than at the individual investment level. Consequently, when the assets attributable to a subsidiary are included in a CGU that is broader than the investment itself, as described in more detail in the following chapter, the impairment test can only be conducted at this level and not at the level of individual subsidiary for which the accurate estimation of a value in use is not possible.

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

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

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

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

Intangible assets recognised following a business combination and in application of IFRS 3 are subject to an impairment test at each balance sheet date to assess whether there is objective evidence of an impairment loss.

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

Intangible assets with an indefinite life, represented by the valuation of the brand name and goodwill, do not have independent cash flows and therefore annually undergo an assessment of the adequacy of the value recorded under the assets with reference to the Cash-Generating Unit (CGU) to which the values are attributed at the time of the business combinations. As CGU identification requires an analysis of the management characteristics and reporting methods used by management, and as the logic for strategic decision-making by management of the Parent Company is that of the Group as a whole and not only that of the Parent Company as an individual entity, the CGUs are identified in the consolidated financial statements.

The CGUs identified are represented in some cases (Banca dei Territori and Corporate and Investment Banking) by operations conducted directly by the Parent Company and some subsidiaries, in other cases (International Subsidiary Banks) by combinations of subsidiaries, and in other cases (Private Banking and Asset Management) they correspond to the associated legal entity. As stated, as these are the same CGUs identified at consolidated level, the assessment of the retention of goodwill and other assets with an indefinite life recorded in the Intesa Sanpaolo Group's financial statements is also valid with reference to the values recorded in the Parent Company's financial statements. Therefore, the assessment conducted at consolidated level with reference to the individual CGUs is used, after comparing the book value of the assets in the Parent Company's financial statements, without conducting, if the result is positive, a new test in the Parent Company's financial statements.

If, at consolidated financial statement level, an impairment loss needs to be recognised for a particular CGU, this write-down must be assigned to the assets that make up the CGU starting with goodwill. If the need to record an adjustment relates to a CGU that does not coincide with the associated legal entity, the write-down is assigned to the banking subsidiaries, after the elimination of the goodwill pertaining to the CGU recorded in the Parent Company's financial statements under a specific caption, on the basis of the respective fair values.

For a description of the criteria for the determination of the recoverable amount of the CGUs see the contents of Part A - Accounting policies, of the consolidated financial statements.

#### **Business combinations**

Business combinations are governed by IFRS 3.

The transfer of control over a company (or over a group of assets managed together as a single business) is considered a business combination.

To this end, control is deemed to have transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns by exercising its power over the investee.

IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as for example in the case of exchange of equity investments, the identification of the acquirer must occur considering other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash

consideration, the entity which issues new shares.

The acquisition, and therefore the initial consolidation of the acquired entity, must be recognised in the books on the date in which the acquirer effectively obtains control over the acquired company or businesses. When the combination occurs via an exchange of voting ordinary equity instruments, the date of the exchange usually coincides with the date of the acquisition. However, it is always necessary to verify that there are no agreements which may lead to transfer of control prior to the date of the exchange.

The consideration transferred as part of a business combination is equal to the sum of the fair value, at the exchange date, of the transferred assets, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.

In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the purchase price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. For the determination of fair value of financial instruments, see the chapter A.4. - Information on fair value and note that, in the case of shares quoted on active markets, fair value is represented by stock exchange price at acquisition date or, should that not be available, the last price available.

Purchase price at acquisition date includes any adjustments to the cost contingent on future events, if provided for by the combination agreement and only if the adjustment is probable, can be measured reliably and realised within the twelve months subsequent to the date of acquisition of control. Instead, any restoration related to any loss in the value of the assets used as consideration is not included in purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.

Acquisition costs refer to the charges incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for legal opinions and audit of accounts, preparation of information documents required by the law, as well as advisory fees sustained to identify potential acquisition targets if the contract provides for the payment of success fees as well as debt securities' or equities' registration and issue costs. Acquisition costs must be recognised as charges when incurred and when the related services are provided, except for the costs relating to the issue of debt securities or equities which must be recognised in accordance with IAS 32 and IAS 39.

Business combinations must be accounted for using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquired company) or liabilities assumed (including contingent liabilities) are recognised at their fair value at acquisition date.

Moreover, for each business combination, any minority interest in the acquired company can be recognised at fair value (therefore increasing the consideration transferred) or in proportion to the minority investment in the net identifiable assets of the acquired companies.

If control is achieved in stages, the acquirer recalculates its previous interest in the acquired company at the acquisition date fair value. Any difference with respect to the previous carrying amount is taken to income statement.

Excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased, where present, by minority interests (determined as above) as well as the fair value of the stakes already held by the acquirer, and the fair value of acquired assets and liabilities should be recognised as goodwill. Conversely, such difference is taken to the income statement when the latter exceed the sum of the consideration, minority interests and the fair value of the stakes already held.

The accounting for business combination can be determined provisionally by the end of the year in which the combination is realised and must be completed within twelve months of the acquisition date.

The following are outside the scope of business combinations: transactions aimed at acquiring control over one or more entities which are not part of the company's business or transactions conducted for organisational purposes, therefore between two or more companies or businesses which are already part of the Intesa Sanpaolo Group, and which do not entail changes in control, independently of the extent of minority interests in each of the combining entities before and after the transactions (business combinations involving entities under common control). These transactions are considered immaterial. Therefore, since there are no specific provisions in IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.

Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities.

Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:

- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

### A.3 – INFORMATION ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

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

The following table shows financial instrument reclassifications mainly carried out in 2008. No reclassifications were made in 2016.

| Type of financial instrument | Previous portfolio                  | New portfolio | Book value at 31.12.2016 | Fair value at 31.12.2016 | Income components in case of no transfer (before tax) |           | Annual income components (before tax) |           |
|------------------------------|-------------------------------------|---------------|--------------------------|--------------------------|---|-----------|---------------------------------------|-----------|
|                              |                                     |               |                          |                          | Valuation   | Other     | Valuation                             | Other     |
|                              |                                     |               |                          |                          |   |           |                                       |           |
| Debt securities              | Financial assets held for trading   | Loans         | 276                      | 244                      | -8  | 3         | -                                     | 6         |
| Debt securities              | Financial assets available for sale | Loans         | 3,409                    | 2,777                    | -115  | 73        | -15                                   | 68        |
| <b>Total</b>                 |                                     |               | <b>3,685</b>             | <b>3,021</b>             | <b>-123</b>   | <b>76</b> | <b>-15</b>                            | <b>74</b> |

The income components related to net decreases attributable to the risk profile being hedged of reclassified assets amount to 12 million euro.

Had the Bank not reclassified the above financial assets, negative income components would have been recognised for an amount of 123 million euro (before tax), instead of negative income components of 15 million euro, generating a negative effect of 108 million euro (before tax), broken down as follows:

- write-off of the negative income components recognised during the year following the 15 million euro transfer. Of this amount, 3 million euro relates to adjustments and 12 million euro to fair value decreases following hedges;
- reversal of the negative income components which would have been recognised had no transfer taken place, totalling 123 million euro. Of this amount, 8 million euro refers to adjustments, 12 million euro to fair value decreases due to hedges and 103 million euro to the decrease in Valuation reserves.

Moreover, had no reclassification taken place, other positive income components amounting to 2 million euro would have not been recognised. Indeed, this amount is mainly related to the amortised cost of the reclassified securities.

Overall, starting from the respective reclassification dates, reclassified assets as at 31 December 2016 would have been written down by 657 million euro, of which 23 million to be recognised in the income statement (negative components for 2008: 373 million euro, positive components for 2009: 13 million euro, positive components for 2010: 57 million euro, positive components for 2011: 10 million euro, positive components for 2012: 139 million euro, positive components for 2013: 78 million euro, positive components for 2014: 48 million euro, positive components for 2015: 11 million euro and negative components for 2016: 6 million euro) and 634 million euro to be recognised in the Valuation reserve in Shareholders' equity (against 532 million euro as at 31 December 2015 with a negative net variation of 102 million euro had no transfer occurred).

As at 31 December 2016, the reclassifications performed by the Bank to reflect the amendments to IAS 39 in October 2008 with respect to financial instrument reclassification, amount to a nominal 3,263 million euro. Of this amount:

- 2,662 million euro was reclassified by 1 November 2008 and therefore taking as reference the value of these assets as at 1 July 2008 if already present as at that date in the portfolio, or with reference to the purchase price if this took place after 1 July 2008;
- 601 million euro was reclassified after 1 November 2008 and therefore on the basis of fair value as at the date of reclassification; the latter figure refers to reclassifications carried out in 2009 concerning unfunded trading instruments (derivatives) transformed into funded instruments (securities), while maintaining the same risk profile to which the Bank is exposed.

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

No disclosure is required since, as already indicated, no portfolio transfers were carried out in 2016.

#### A.3.3 Transfer of financial assets held for trading

The financial crisis which marked 2008 was classed by the IASB as a rare circumstance. Consequently, Intesa Sanpaolo has identified certain securities - mainly consisting of bonds not quoted on active markets originally classified under trading assets which due to present and prospective market conditions could no longer be managed actively. These assets were kept in portfolio and reclassified to the loan category. From the time of the reclassification they are measured at amortised cost. With respect to the trading book, the reclassifications mainly involved structured credit products.

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

The effective interest rate attributable to the reclassified securities portfolio is equal to 2.75% and estimated cash flows at the date financial assets were reclassified amount to 3,263 million euro.

## A.4 – INFORMATION ON FAIR VALUE

### General principles

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.

A bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:

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

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

A Bank considers a market to be active when transactions in an asset or liability occur with sufficient frequency and volume to provide useful information for determining price on an ongoing basis. An instrument is considered listed on an active market if prices reflecting normal market transactions are promptly and regularly available from stock exchanges, brokers, intermediaries, principal-to-principal markets, listing services or authorised entities and such prices are representative of effective, regular market transactions.

In specific cases regulated by internal policies and despite being quoted on regulated markets, adequate research is carried out in order to verify the significance of official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, widening or increase of the bid-ask spread, reduction or total lack of market for new issuances, limited publicly-available information), analyses of the transactions or of the quoted prices must be carried out. A reduction in the volume or the level of activity alone may not indicate that the price of a transaction or the quoted price does not represent fair value or that the transaction in that market is not ordinary. If an entity determines that a transaction price or quoted price does not represent fair value (e.g., non-ordinary transactions) an adjustment to the transaction prices or listed prices is required if the entity uses those prices as the basis for fair value measurement and that adjustment may be significant with respect to the fair value as a whole.

### The fair value of financial instruments

The presence of official quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of the financial assets and liabilities contained in the trading book.

If there is no active market, the fair value is determined using measurement techniques aimed, ultimately, at establishing the price the product would have had, at the measurement date, in an arm's length exchange motivated by normal business considerations. An entity must use measurement techniques that are appropriate for the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and reducing the use of unobservable inputs to a minimum. Such techniques include:

- reference to market values indirectly connected to the instrument to be valued and deduced from products with the same risk profile;
- valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the valuator.

The choice of the above methods is not optional, because they must be applied in hierarchical order: the availability of a price stated in an active market prevents the use of one of the other measurement approaches.

### Inputs of the measurement techniques

The inputs are defined as the assumptions that market operators would have used to determine the price of the asset or the liability, including assumptions regarding risk, such as, for example, the risk relating to a particular measurement technique used to measure fair value or the risk relating to the inputs of the measurement technique. The inputs may be observable or unobservable.

Observable inputs are those produced using market data, such as publicly available information on operations or actual events, which reflects the assumptions that market operators would use in determining the price of the asset or the liability.

Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

### Fair value hierarchy

- IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). In particular:
  - Fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date.
  - Fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs (the comparable approach).
  - Fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the measurement techniques rather than the measurement techniques themselves.

The document "Fair Value Hierarchy Rules" defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For **level 1** financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.

For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.

The following are considered as level 1 financial instruments: contributed bonds (i.e. quoted on the EuroMTS circuit, or for which at least three bid and ask prices can be continuously derived from the main price contribution international platforms), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds, spot exchange rates, and derivatives for which quotations are available on an active market (for example, futures and exchange traded options)<sup>16</sup> and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and the checklist does not identify any critical issues in terms of liquidity risk or counterparty risk.

Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.

Such techniques include:

- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);
- valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).

In case of **level 2** inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretionary parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final valuation.

The following are measured using level 2 input models:

- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- ABS for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters which may be presumed from the market;
- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers;
- loans measured through the discounting of future cash flows.

<sup>16</sup> Bonds valued using official closing prices and/or fixing provided by local authorities (central bank, monetary authority or local stock exchange) may be classified as level 1, but only for foreign branches and international banks and pursuant to local regulatory requirements, where the decentralised Risk Management units confirm that there is an active market, and when the Risk Management Department expressly authorises it.



In case of instruments classified as *level 3*, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

- debt securities and complex credit derivatives (CDOs) included among structured credit products and credit derivatives on index tranches;
- hedge funds not included in level 1;
- funds, shareholding and other equities measured using models based on discounted cash flows;
- some loans, of a smaller amount, classified in the available-for-sale portfolio;
- some transactions in derivatives or structured bonds, measured using level 3 inputs.

### Identification, certification and treatment of market data and the sources for measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Market Data Reference Guide – a document prepared and updated by the Financial and Market Risks Department on the basis of the Group's Internal Regulations approved by the Management bodies of the Parent Company and Group Companies – has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate for the valuation of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in valuations carried out for third parties under Service Level Agreements, entered into in advance. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources. For each market parameter category the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price.

The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Financial and Market Risks Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

### Valuation of financial instruments and Model Risk Management

The valuation of financial instruments entails the following phases:

- identification of the measurement sources: for each asset class, the Fair Value Policy and Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- validation and processing of market data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means;
- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement. The validation process is particularly important when a new financial instrument is introduced to the operations, or when it is considered necessary to update the pricing models for already managed products. In both cases, the validation consists of adapting an existing pricing model or developing new pricing models. In all cases, the models used for the pricing are subject to an internal certification process that involves the various competent structures or independent companies, in highly complex or particularly critical cases;
- periodic monitoring of the consistency of the valuation models over time: the monitoring consists in checking the adherence to the market of the valuation model in order to promptly discover any gaps and start the necessary verifications and interventions.

In general, Model Risk is represented by the possibility that the price of a financial instrument is materially influenced by the valuation approach chosen. In the case of complex financial instruments, for which there is no standard valuation method in the market, or during periods when new valuation methods are being established in the market, it is possible that different methods may consistently value the elementary instruments of reference, but provide differing valuations for exotic instruments. The model risk is monitored through a series of analyses and checks carried out at different stages, aimed at certifying the various valuation methods used by the Parent Company (so-called "Model Validation"), at regularly monitoring the performance of the models in operation to promptly identify any deviation from the market ("Model Risk Monitoring") and at identifying any adjustments to be made to the valuations ("Model Risk Adjustment", see the section below "Adjustments adopted to reflect model risk and other uncertainties related to the valuation").

### Model Validation

In general, all the valuation models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). The internal certification process is activated when a new financial instrument that requires an adjustment to the existing valuation methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the valuation of existing contracts. The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:

- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model's ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Financial and Market Risks Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official valuations. If the analysis identifies a significant "Model Risk", which, however, is within the limits of the approach's ability to correctly manage the related contracts, the Risk Management Department selects a supplementary approach to determine the appropriate adjustments to be made to the mark to market, and validates the supplemented approach.

### Model Risk Monitoring

The performance of the valuation models in operation is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:

- repricing of contributed elementary instruments: verifying the model's ability to replicate the market prices of all the quoted instruments considered to be relevant and sufficiently liquid. For interest rate derivatives, an automatic repricing system for elementary financial instruments is used in the Bank's Front Office systems, which enables the systematic verification of any deviations between the model and the market. Where significant deviations are found, especially outside the market bid-ask quotes, the impact on the respective trading portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified;
- comparison with benchmarks: the monitoring method described above is further enhanced by the extensive use of data supplied by qualified external providers (e.g. Markit), which provide consensus valuations from leading market counterparties for interest rate instruments (swaps, basis swaps, cap/floor, European and Bermuda swaptions, CMS, CMS spread options), equity instruments (options on indexes and on single stocks), credit instruments (CDS) and commodity instruments (options on commodity indexes). Such information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. Any significant gap between the model and benchmark data is quantified with respect to the average bid-ask spread supplied by the outside provider and therefore treated as in the previous case. The possibility of extending the comparison with benchmarks to other instruments or underlying assets is constantly monitored;
- comparison with market prices: verification against prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

### Adjustments adopted to reflect model risk and other uncertainties related to the valuation

If problems are found by the Model Validation process or the Model Risk Monitoring process in the calculation of the fair value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.

In addition to the adjustments relating to the above mentioned factors, also other types of adjustments ("Mark-to-Market Adjustment") relating to other factors that may influence the valuation are included. These factors essentially involve:

- high and/or complex risk profile;
- illiquidity of the positions determined by temporary or structural market conditions or in relation to the amount of assets held (in case of excessive concentration);
- valuation difficulties due to the lack of liquid and observable market parameters.

For illiquid products an adjustment is made to the fair value. This adjustment is generally not very relevant for instruments for which the measurement is supplied directly by an active market (level 1). Specifically, highly liquid quoted securities<sup>17</sup> are valued directly at mid-price, whereas for quoted securities with low liquidity the bid price is used for long positions and the ask price for short positions. Bonds that are not quoted are valued according to credit spreads that differ based on the position of the security (long or short).

<sup>17</sup> Securities are considered liquid if they have a maturity of more than 6 months, and at least five contributors of bid and ask prices can be identified that meet the conditions established in the Fair Value Policy, with a bid-ask spread within a set limit.

Conversely, for derivatives for which fair value is determined with a valuation technique (levels 2 and 3), the adjustment may be calculated with different means according to the availability on the market of bid and ask prices and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.

Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, to be discussed in further detail below) and for which the respective adjustments have been calculated, are connected to risks on Commodities, on Dividends and Variance Swaps, FOI (Consumer price index for blue and white-collar worker households) inflation and options on inflation, on specific indexes such as Rendistato, volatility of 12-month cap indexes, correlations between swap rates and "quanto" correlation (connected to pay offs and index-linking expressed in different currencies).

The management process of the Mark-to-Market Adjustment is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Risk Management Department. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.

For new products, the decision to apply Mark-to-Market Adjustment processes is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.

#### **A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used**

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds), on the valuation models used.

##### ***I. Valuation model for non-contributed securities***

The valuation of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:

- o contributed and liquid securities of the same issuer;
- o credit default swaps on the same reference entity;
- o contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case the different seniority of the security to be priced is considered relatively to the issuer's debt structure.

In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.

Similarly, with respect to financial liabilities designated at fair value through profit and loss, the credit spread of the Intesa Sanpaolo Group is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market prices and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level.

Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the "fair" credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.

If there is also an embedded option, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and the illiquidity of the underlying assets. This component is calculated on the basis of the type of option and its maturity.

##### ***II. Valuation models for interest rate, foreign exchange, equity, inflation, commodity and credit derivatives***

Following the crisis of 2007, the market progressively introduced a series of adjustments linked to the credit and liquidity risk, with impacts on both the income statement and the capital, collectively shown as XVA.

The Bank introduced the Credit and Debt Value Adjustment (CVA/DVA) in the past, and has implemented the Funding Value Adjustment (FVA) with effect from 31 March 2016. Accordingly, the fair value of an OTC derivative instrument is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether or not the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the liquidity and counterparty risk.

- a. For CSA transactions with characteristics that reduce counterparty and liquidity risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and considering the rate of remuneration for the collateral as the discount rate for the future cash flows. Given that the rate of remuneration for the collateral is generally an overnight rate, and the corresponding discount curve is constructed based on the market prices of Overnight Indexed Swap (OIS) instruments, this approach is called "OIS discounting".
- b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and liquidity risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument (see point above), and several additional valuation components related to the counterparty and liquidity risk premium, referred to jointly as XVA:
  1. an initial valuation component, called Bilateral Credit Value Adjustment (bCVA), takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value

Adjustment (CVA) and the Debit Value Adjustment (DVA), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty, and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The bCVA depends on the probability of default and the Loss Given Default depends on the total exposure of the two counterparties. The latter must be calculated taking into account any counterparty risk mitigation agreements, particularly netting and collateralisation agreements;

2. a second assessment component, the so-called Funding Value Adjustment (FVA), takes into consideration the liquidity risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

For derivatives measurement, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.

Interest rate, foreign exchange, equity, inflation, commodity and credit derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific valuation models, fed by input parameters (such as, for example, yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.

The table below illustrates the main models used to measure OTC derivatives on the basis of the category of underlying asset.

| Underlying class      | Valuation models   | Market data and input parameters  |
|-----------------------|--|---|
| Interest rate         | Net Present Value, Black, SABR, Libor Market Model, 1- and 2-factor Hull-White, Mixture of 1- and 2-factor Hull-White, Bivariate lognormal, Rendistato. Haan replication | Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates.                      |
| Foreign exchange rate | Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV)  | Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations   |
| Equity                | Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Jump Diffusion   | Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations       |
| Inflation             | Bifactorial Inflation  | Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates                     |
| Commodity             | Net present Value Commodity, Generalised Black-Scholes, Independent Forward  | Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets. "quanto" volatility and correlations |
| Loans                 | Net present Value, Black Model   | Probability of default, Recovery rate.  |

As envisaged by IFRS 13, in determining fair value, the Bank also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer's own credit risk.

### III. Valuation model for structured credit products

Regarding ABSs, if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs) or, where parameters cannot be observed, estimated parameters (level 3 inputs, where significant).

In this case, the cash flows are obtained from info providers or specialised platforms; the spreads are gathered from prices available on the market/consensus platforms, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures. The results of these analyses are subject to backtesting with actual sales prices.

In the case of securitised high-yield loans to European corporate borrowers (CLO HY loans), valuation techniques call for calculation of the net present value of the expected cash flows, determined through specialised platforms, discounted using market spreads. When modelling expected future flows, account is taken of all contractual aspects of the CLO HY loans that

may influence the waterfall. For this asset class, the process of determining fair value also involves stress of the main unobservable variables and a credit analysis aimed at identifying any weaknesses of the individual assets securing the CLOs that results in a revision of the input parameters.

With regard to debt securities and complex credit derivatives (funded and unfunded CDOs) the fair value is determined based on a quantitative model which estimates joint losses on collateral with a simulation of the relevant cash flows which uses copula functions.

The most significant factors considered in the simulation – for each collateral – are the risk-neutral probability of default derived from market spreads, recovery rates, the correlation between the value of collateral present in the structure and the expected residual life of the contract.

For spreads, the valuation process incorporates, as promptly as possible, all the market inputs (including synthetic indexes such as LCDX, Levx and CMBX) considered to be significant: consensus parameters calculated by multi-contribution platforms and market spread estimates made available by major dealers are used.

The Market Data Reference Guide, which sets out credit spread contribution sources, was moreover integrated with specific policies for the other inputs such as correlations and recovery rates.

For specific types of collateral, such as trust preferred securities, the probability of default is estimated using the Expected Default Frequency from Moody's - KMV.

In order to incorporate high market dislocation and intense market illiquidity phenomena in valuations, a series of corrections have been prepared for valuations referred to the main input parameters; in particular:

- o stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (50% for REITS underlying securities);
- o stress of asset value correlation: inter and intra correlations have been increased and decreased by 15% or 25% depending on the type of product;
- o stress of spreads: the spreads, used to determine the marginal distributions of defaults, have been increased by 25%;
- o stress of expected residual lives: the latter have been increased by 1 year.

Each of these modules contributes to the definition of a sensitivity grid of the value to the single parameter; results are then aggregated assuming independence between the single elements.

After this valuation, credit analyses on underlying assets were fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the ABS/CDO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point. The results of this analysis are condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.) which are summarised in an indicator representing credit quality. On the basis of the value of this synthetic indicator, specific thresholds have been identified which correspond to a number of downgrades, so as to proceed to a consistent adjustment in the valuation. Lastly, for this class of products, an additional adjustment may be applied, subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

With respect to credit derivatives on index tranches, off-the-run series are valued at level 3 when no reliable and verifiable quotes are available from the Financial and Market Risks Department. Fair value is determined based on the quotes of series being issued, adjusted to reflect the different underlying.

#### **IV. Valuation of equities with relative and absolute models**

Financial instruments for which fair value is determined using level 2 inputs also include equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers. Multipliers are used under the comparable companies' or comparable transactions' approach. In the former case, reference is made to a sample of comparable listed companies, therefore the stock prices from which the multiples to measure the investment are deducted. In the latter case, reference is made to the trading prices of the market related to comparable companies registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions. Equities to which the above "relative" models are not applied are valued using "absolute" valuation models. In particular, these models are based on flows which substantially anticipate the measurement of the stock value by estimating the cash flows it can generate over time, discounted using a rate that is in line with the risk level of the instrument, equity models or equity-income models.

**V. The valuation model for hedge funds**

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to funds managed through the use of a Management Account Fund infrastructure, which ensures full daily transparency of the assets underlying the funds, and funds not managed according to such a platform.

For funds managed in the Managed Account platform, the Net Asset Value (NAV) provided by the Fund Administrator is considered as the fund's fair value. It is not deemed necessary to apply the two prudential adjustments described below to the NAV, since:

- o the adjustment for counterparty risk is not necessary because the Managed Account platform is subject to limited recourse clauses and non-petition provisions, through which each Managed Account Fund achieves contractual separation/segregation of assets and manager. Intesa Sanpaolo effectively holds 100% of the quotas of the MAF;
- o the adjustment for illiquidity risk is not necessary because there is a delivery in kind clause, according to which the fund's assets may be transferred to Intesa Sanpaolo's books and liquidated, where necessary.

Moreover, a due diligence confirmed that the valuation model used by the Fund Administrator is consistent with the Intesa Sanpaolo's Fair Value Policy.

If the daily full transparency analysis were to bring to light additional elements of risk, mark-to-market adjustments would be applied in accordance with Intesa Sanpaolo's Fair Value Policy.

The platform's characteristics make it possible to perform an analysis of the financial instruments underlying the funds and to assign the fair value hierarchy level based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

For funds not managed in the Managed Account platform, the operating NAV (Net Asset Value) provided by the Fund Administrator is used. However, this value may be prudentially adjusted by the Risk Management Department, during the valuation of inventories for accounting purposes, on the basis of an individual valuation process aimed at verifying specific idiosyncratic risks, mainly identified as follows:

- o counterparty risk
- o illiquidity risk.

Specifically, the first risk driver – counterparty risk - relates to the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, which is a potential source of risk in case of default. The resulting prudential adjustment to the operational NAV differs according to whether this activity is concentrated in a single name or is diversified across several service providers.

With regard to the illiquidity drivers, these relate to the risk intrinsic to the valuation of the fund assets, therefore, the prudential adjustment is applied based on the availability of prices or certain weaknesses in the valuation policies used by the fund.

The application of the foregoing prudential adjustments (counterparty risk and illiquidity risk) is subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

**VI. Other level 2 and 3 valuation models**

Loans are included among financial instruments whose fair value is determined on a recurring basis through level 2 inputs. In particular, for medium- and long-term assets and liabilities measurement is carried out by discounting future cash flows. This is based on the discount rate adjustment approach, in which the risk factors connected to the granting of loans are taken into consideration in the rate used to discount future cash flows.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

| Financial assets/ liabilities  | Valuation technique    | Main non-observable input   | Minimum value of range of changes | Maximum value of range of changes | Unit            | (thousands of euro)      |                            |
|--|------------------------|---|-----------------------------------|-----------------------------------|-----------------|--------------------------|----------------------------|
|  |                        |   |                                   |                                   |                 | Favourable changes in FV | Unfavourable changes in FV |
| ABS  | Discounting Cash Flows | Recovery rate   | -25                               | 10                                | %               | 605                      | -1,512                     |
| OTC derivatives subject to FV adjustment for CVA/DVA - Non-performing counterparties | bCVA                   | Loss Given Default Rate (LGD)                                       | 0                                 | 100                               | %               | 8,464                    | -4,680                     |
| OTC derivatives subject to FV adjustment for CVA/DVA - Performing counterparties     | bCVA                   | Probability of default (PD) based on counterparty's internal rating | CCC                               | BBB                               | Internal rating | 21                       | -27                        |
| OTC Derivatives - Equity Option  | Black - Scholes model  | Historical volatility Euro Class S.p.A.                             | 35.70                             | 75.51                             | %               | 391                      | -368                       |

**A.4.2 Valuation processes and sensitivity**

For a description of the valuation processes used by Intesa Sanpaolo for instruments measured at level 3 in a recurring and non-recurring manner, see paragraphs A.4.1 and A.4.5 respectively.

As required by IFRS 13, for the financial assets and liabilities measured at level 3 fair value the following table lists the effects of a change in one or more non-observable parameters used in the valuation techniques adopted to determine the fair value.

| (thousands of Euro)                                |  |                                       |   |
|--|--|---------------------------------------|---|
| Financial assets/liabilities                       | Non-observable parameters                          | Sensitivity<br>(thousands of<br>euro) | Change in non-<br>observable<br>parameter |
| Held for trading and available for sale securities | Recovery rate                                      | -60                                   | -1%                                       |
| OTC Derivatives - Equity                           | Historical volatility underlying Euro Class S.p.a. | -191                                  | 10%                                       |

Moreover, the sensitivity analysis performed on level 3 structured credit products highlights a negative change in fair value, referring to complex credit derivatives, for an amount not material when the following parameters change:

- risk-neutral probability of default derived from market spreads (10%);
- recovery rate (from 5% to 25%, based on the type of risk of the underlying product);
- correlation between the value of collaterals present in the structure (from 25% to 80%, based on the type of risk of the underlying product);
- expected residual life of the contract (one-year increase over the expected term).

#### A.4.3. Fair value hierarchy

With regard to financial assets and liabilities measured at fair value on a recurring basis, Intesa Sanpaolo carried out level changes based on the following guidelines.

For **debt securities**, the transition from level 3 to level 2 occurs if the significant parameters used as inputs in the valuation technique are, as at the reference date, observable on the market. The transition from level 3 to level 1 occurs when, as at the reference date, it has been determined that an active market exists, as defined in IFRS 13. The transition from level 2 to level 3 occurs when, as at the reference date, some of the significant parameters used in determining fair value are not directly observable on the market.

For **OTC derivatives**, the initial choice of the level of fair value hierarchy depends on the degree of significance and observability of the parameters used to determine the risk free component. Calculation of the component linked to the risk of insolvency of the counterparty/issuer, with unobservable parameters, may involve reclassification to level 3. In particular, this occurs when:

- the counterparty has a non-performing credit status and positive current exposure;
- with regard to the netting set, the ratio of the bilateral Credit Value Adjustment (bCVA) component and the total fair value is higher than a significant threshold and there is significant sensitivity to downgrading.

For **equity instruments** recognised among assets available for sale, change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, Intesa Sanpaolo reclassifies from level 3 to level 2;
- when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable). In this case, Intesa Sanpaolo uses valuation techniques that use unobservable inputs.

#### A.4.4. Other information

For information regarding the highest and best use as required by IFRS 13, refer to the description at the bottom of Table A.4.5.4 with regard to non-financial assets.

Intesa Sanpaolo does not exercise the exception envisaged under paragraph 48 of IFRS 13 (fair value based on net exposure) regarding financial assets and liabilities with positions that offset one another with regard to market risk and counterparty risk.

## Quantitative information

### A.4.5. Fair value hierarchy

#### A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by level

| Assets / liabilities at fair value                                       | 31.12.2016    |               |              | 31.12.2015    |               |              |
|--|---------------|---------------|--------------|---------------|---------------|--------------|
|  | Level 1       | Level 2       | Level 3      | Level 1       | Level 2       | Level 3      |
| 1. Financial assets held for trading                                     | 3,478         | 15,733        | 366          | 7,101         | 15,331        | 540          |
| of which: equity   | -             | -             | -            | -             | -             | -            |
| of which: UCIs   | 150           | 82            | 120          | 416           | 134           | 209          |
| 2. Financial assets designated at fair value through profit or loss      | -             | 201           | 170          | -             | 194           | 162          |
| of which: equity   | -             | -             | -            | -             | -             | -            |
| of which: UCIs   | -             | -             | 107          | -             | -             | 101          |
| 3. Financial assets available for sale                                   | 35,180        | 2,377         | 1,426        | 26,489        | 2,342         | 963          |
| of which: equity   | 189           | 1,850         | 566          | 66            | 2,111         | 521          |
| of which: UCIs   | 12            | -             | 849          | 12            | -             | 415          |
| 4. Hedging derivatives   | -             | 5,700         | 20           | -             | 6,367         | 20           |
| 5. Property and equipment  | -             | -             | -            | -             | -             | -            |
| 6. Intangible assets   | -             | -             | -            | -             | -             | -            |
| <b>Total</b>   | <b>38,658</b> | <b>24,011</b> | <b>1,982</b> | <b>33,590</b> | <b>24,234</b> | <b>1,685</b> |
| 1. Financial liabilities held for trading                                | 657           | 15,879        | 134          | 755           | 15,020        | 146          |
| 2. Financial liabilities designated at fair value through profit or loss | -             | 8             | -            | -             | 4             | -            |
| 3. Hedging derivatives   | -             | 6,513         | 4            | -             | 5,954         | 6            |
| <b>Total</b>   | <b>657</b>    | <b>22,400</b> | <b>138</b>   | <b>755</b>    | <b>20,978</b> | <b>152</b>   |

During 2016, 228 million euro of financial assets held for trading was transferred from level 1 to level 2 (book values as at 31 December 2016), and 40 million euro of financial assets held for trading was transferred from level 2 to level 1.

The transfers relate to quotas of UCI and debt securities. In the case of the former the cause was the lack of an active market on 31 December 2016 as defined by IFRS 13, and in the latter case, the cause was the existence of an active market as defined by IFRS 13.

As at 31 December 2016, the impact of non-performance risk (Credit Value Adjustment and Debt Value Adjustment) in the determination of the fair value of financial and credit derivative contracts, amounted to a reduction of 181 million euro in positive fair value and a reduction of 21 million euro in negative fair value.

#### A.4.5.2. Annual changes in assets measured at fair value on a recurring basis (level 3)

|                                 | Financial assets held for trading | Financial assets designated at fair value through profit or loss | Financial assets available for sale | Hedging derivatives | Property and equipment | Intangible assets |
|---------------------------------|-----------------------------------|--|-------------------------------------|---------------------|------------------------|-------------------|
| <b>1. Initial amount</b>        | <b>540</b>                        | <b>162</b>   | <b>963</b>                          | <b>20</b>           | -                      | -                 |
| <b>2. Increases</b>             | <b>112</b>                        | <b>9</b>   | <b>1,253</b>                        | <b>3</b>            | -                      | -                 |
| 2.1 Purchases                   | 3                                 | -  | 939                                 | -                   | -                      | -                 |
| 2.2 Gains recognised in:        | 36                                | 9  | 258                                 | 3                   | -                      | -                 |
| 2.2.1 Income statement          | 36                                | 9  | 9                                   | 3                   | -                      | -                 |
| of which capital gains          | 33                                | 9  | 3                                   | 3                   | -                      | -                 |
| 2.2.2 Shareholders' equity      | X                                 | X  | 249                                 | -                   | -                      | -                 |
| 2.3 Transfers from other levels | 68                                | -  | -                                   | -                   | -                      | -                 |
| 2.4 Other increases             | 5                                 | -  | 56                                  | -                   | -                      | -                 |
| <b>3. Decreases</b>             | <b>-286</b>                       | <b>-1</b>  | <b>-790</b>                         | <b>-3</b>           | -                      | -                 |
| 3.1 Sales                       | -134                              | -  | -344                                | -                   | -                      | -                 |
| 3.2 Reimbursements              | -7                                | -  | -2                                  | -                   | -                      | -                 |
| 3.3 Losses recognised in:       | -87                               | -  | -435                                | -3                  | -                      | -                 |
| 3.3.1 Income statement          | -87                               | -  | -224                                | -3                  | -                      | -                 |
| of which capital losses         | -78                               | -  | -224                                | -3                  | -                      | -                 |
| 3.3.2 Shareholders' equity      | X                                 | X  | -211                                | -                   | -                      | -                 |
| 3.4 Transfers to other levels   | -58                               | -1   | -                                   | -                   | -                      | -                 |
| 3.5 Other decreases             | -                                 | -  | -9                                  | -                   | -                      | -                 |
| <b>4. Final amount</b>          | <b>366</b>                        | <b>170</b>   | <b>1,426</b>                        | <b>20</b>           | -                      | -                 |

"Transfers to other levels" of "Financial assets held for trading" are mainly due to derivative contracts with a positive fair value. For derivative contracts, transfers between levels are mainly due to the variation in the counterparty risk, considering that derivatives with deteriorated counterparties and positive fair value are classified in level 3 of the fair value hierarchy, and to the



presence of contracts measured through parameters which cannot be observed on the market, in compliance with the guidelines described in paragraph A.4.3 – Fair value hierarchy.

“Transfers to other levels” of “Financial assets available for sale” are mainly due to reclassification from level 3 to level 2 of the fair value of debt securities measured through parameters which can be observed on the market, in compliance with the guidelines described in paragraph A.4.3 – Fair value hierarchy.

#### A.4.5.3 Annual changes in financial liabilities measured at fair value on a recurring basis (level 3)

(millions of euro)

|                                 | Financial liabilities held for trading | Financial liabilities designated at fair value through profit or loss | Hedging derivatives |
|---------------------------------|--|---|---------------------|
| <b>1. Initial amount</b>        | <b>146</b>                             | -   | <b>6</b>            |
| <b>2. Increases</b>             | <b>10</b>                              | -   | -                   |
| 2.1 Issues                      | -                                      | -   | -                   |
| 2.2 Losses recognised in:       | 6                                      | -   | -                   |
| 2.2.1 Income statement          | 6                                      | -   | -                   |
| - of which capital losses       | 6                                      | -   | -                   |
| 2.2.2 Shareholders' equity      | X                                      | X   | -                   |
| 2.3 Transfers from other levels | -                                      | -   | -                   |
| 2.4 Other increases             | 4                                      | -   | -                   |
| <b>3. Decreases</b>             | <b>-22</b>                             | -   | <b>-2</b>           |
| 3.1 Reimbursements              | -                                      | -   | -                   |
| 3.2 Repurchases                 | -                                      | -   | -                   |
| 3.3 Gains recognised in:        | -22                                    | -   | -2                  |
| 3.3.1 Income statement          | -22                                    | -   | -2                  |
| - of which capital gains        | -21                                    | -   | -2                  |
| 3.3.2 Shareholders' equity      | X                                      | X   | -                   |
| 3.4 Transfers to other levels   | -                                      | -   | -                   |
| 3.5 Other decreases             | -                                      | -   | -                   |
| <b>4. Final amount</b>          | <b>134</b>                             | -   | <b>4</b>            |

“Financial liabilities held for trading” refer to derivative contracts with a negative fair value.

#### A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: fair value by level

(millions of euro)

| Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis | Book value     | 31.12.2016    |                |               | 31.12.2015     |               |                |                |
|--|----------------|---------------|----------------|---------------|----------------|---------------|----------------|----------------|
|  |                | Level 1       | Level 2        | Level 3       | Book value     | Level 1       | Level 2        | Level 3        |
| 1. Investments held to maturity  | 335            | 46            | 268            | -             | 299            | -             | 274            | -              |
| 2. Due from banks  | 126,634        | -             | 113,193        | 13,483        | 122,044        | 58            | 81,448         | 40,618         |
| 3. Loans to customers  | 200,549        | 1,383         | 150,654        | 53,957        | 186,427        | 975           | 121,151        | 69,382         |
| 4. Investment property   | 3              | -             | -              | 9             | 3              | -             | -              | 14             |
| 5. Non-current assets held for sale and discontinued operations                                  | 1              | -             | -              | 4             | 1              | -             | -              | 4              |
| <b>Total</b>   | <b>327,522</b> | <b>1,429</b>  | <b>264,115</b> | <b>67,453</b> | <b>308,774</b> | <b>1,033</b>  | <b>202,873</b> | <b>110,018</b> |
| 1. Due to banks  | 139,036        | -             | 84,846         | 54,517        | 125,517        | -             | 68,397         | 57,518         |
| 2. Due to customers  | 147,364        | -             | 138,049        | 9,431         | 124,245        | -             | 113,843        | 10,553         |
| 3. Securities issued   | 84,824         | 42,404        | 43,760         | 14            | 99,445         | 49,920        | 51,477         | 63             |
| 4. Liabilities associated with non-current assets  | -              | -             | -              | -             | -              | -             | -              | -              |
| <b>Total</b>   | <b>371,224</b> | <b>42,404</b> | <b>266,655</b> | <b>63,962</b> | <b>349,207</b> | <b>49,920</b> | <b>233,717</b> | <b>68,134</b>  |

### *Financial assets and liabilities*

For assets and liabilities not measured at fair value (securities held to maturity, loans and loans represented by securities, amounts due to customers and securities issued), the Bank measures fair value by calculating the present value of future cash flows at a rate that incorporates the estimate of the main risks and uncertainties associated with the financial instrument to be measured (discount rate adjustment approach).

In particular, the interest rate used to discount the future cash flows is determined by taking into account the following risk factors:

- interest rate risk, which represents the rate offered by the market for each unit of capital provided to risk-free counterparties;
- credit risk, which is the premium for having provided capital to counterparties with insolvency risk;
- the cost of liquidity connected to credit.

For fixed rate instruments, the cash flows are those envisaged by the contracts. For floating rate instruments, the future cash flows are determined based on forward rates, implicit in the zero-coupon interest rate curves observed at the various fixing dates and differentiated by indexation type.

The value of the risk premium (credit spread) is determined per individual position, through acquisition of the risk class (LGD) and rating (PD). These amounts, together with the average residual financial life, constitute the guideline for acquisition of the credit spread. The spread curve is determined based on the same rules for securities issued by Intesa Sanpaolo as well.

The following assumptions were used in determining the fair values indicated in table A.4.5.4:

- for debt securities classified under held to maturity and for loans represented by securities, the same rules envisaged for the fair value measurement of other categories of securities are used;
- for securities issued, the rules used are the same as those applied to securities under assets;
- the book value is calculated as the reasonable approximation of fair value for:
  - o demand financial items (assets and liabilities) or financial items with an original maturity equal to or less than 18 months and residual maturity equal to or less than 12 months which, in the table, are presented in the column corresponding to level 2 of the fair value hierarchy except for demand loans presented in the column corresponding to level 3 of the fair value hierarchy;
  - o non-performing assets, which in the table are included in the column corresponding to level 3 of the fair value hierarchy.

### *Non-financial assets*

Regarding investment property, for which the fair value is calculated only for the purposes of information to be provided in the Notes to the financial statements, reference is made to values determined, mainly via independent expert opinions, considering transactions at current prices in an active market for similar real estate properties, in the same location and conditions as well as subject to similar conditions in terms of rentals and other contracts.

## **A.5 – INFORMATION ON “DAY ONE PROFIT/LOSS”**

Under IAS 39, financial instruments shall be initially recognised at fair value. The fair value of a financial instrument on initial recognition is normally the “transaction price”, i.e. the fair value of the consideration given or received in relation to, respectively, financial assets and liabilities.

The fact that, upon initial recognition, the fair value of a financial instrument coincides with the transaction price is always intuitively verifiable in the case of transactions falling under level 1 of the fair value hierarchy. Also in the case of level 2, which is based on quotes that can be derived indirectly from the market (Comparable Approach), the fair value and the price often coincide upon initial recognition. Any differences between the price and the fair value are usually allocated to the so-called commercial margins, which are taken to the income statement when the financial instrument is initially measured.

Conversely, with respect to level 3 instruments, which have more discretion in fair value measurement, no definite reference benchmark is available to compare the transaction price with. For the same reason, the calculation of any commercial margin to be taken to the income statement is also difficult. In this event, the instrument is always initially recognised at the transaction cost. Subsequent measurement shall not include the difference between cost and fair value identified upon initial recognition (also defined as Day-One-Profit - DOP).

This difference shall be recognised in the income statement only when it arises from changes of the factors over which market participants base their valuations when fixing prices (including the time effect). Where the instrument has a definite maturity and no model is available to monitor the changes to the factors over which prices are based, the DOP can be recognised in the income statement systematically over the life of such instrument.

When a level 3 instrument is reclassified to level 2, the residual deferred Day-One-Profits are recognised in the income statement. Similarly, in the event of “on the book” transactions falling under the Bank's activities, the Day-One-Profits earned on level 3 transactions (including in the above “on the book” management) are taken to the income statement when the bank carries out transactions which substantially eliminate the risks of the level 3 instrument which generated the DOP.

The above regulation applies only to those instruments which fall in one of the classes which can be recognised at fair value through profit and loss (Fair Value Option and Trading Book). Indeed, only for the latter, the difference between the transaction price and the fair value would be taken to the income statement upon initial recognition.

In 2016 no significant amounts to be deferred to income statement were identified which are not attributable to risk factors or commercial margins.

# Part B – Information on the Parent Company's balance sheet

## ASSETS

### SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

#### 1.1 Cash and cash equivalents: breakdown

(millions of euro)

|  | 31.12.2016   | 31.12.2015   |
|--|--------------|--------------|
| a) Cash                                  | 1,566        | 1,557        |
| b) On demand deposits with Central Banks | 4,647        | 5,921        |
| <b>TOTAL</b>                             | <b>6,213</b> | <b>7,478</b> |

### SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - CAPTION 20

#### 2.1 Financial assets held for trading: breakdown

(millions of euro)

|                                   | 31.12.2016   |               |            | 31.12.2015   |               |            |
|-----------------------------------|--------------|---------------|------------|--------------|---------------|------------|
|                                   | Level 1      | Level 2       | Level 3    | Level 1      | Level 2       | Level 3    |
| <b>A. Cash assets</b>             |              |               |            |              |               |            |
| 1. Debt securities                | 3,328        | 1,413         | 30         | 6,685        | 1,316         | 83         |
| 1.1 structured securities         | -            | -             | -          | -            | -             | -          |
| 1.2 other debt securities         | 3,328        | 1,413         | 30         | 6,685        | 1,316         | 83         |
| 2. Equities                       | -            | -             | -          | -            | -             | -          |
| 3. Quotas of UCI                  | 150          | 82            | 120        | 416          | 134           | 209        |
| 4. Loans                          | -            | -             | -          | -            | -             | -          |
| 4.1 reverse repurchase agreements | -            | -             | -          | -            | -             | -          |
| 4.2 other                         | -            | -             | -          | -            | -             | -          |
| <b>Total A</b>                    | <b>3,478</b> | <b>1,495</b>  | <b>150</b> | <b>7,101</b> | <b>1,450</b>  | <b>292</b> |
| <b>B. Derivatives</b>             |              |               |            |              |               |            |
| 1. Financial derivatives          | -            | 14,157        | 209        | -            | 13,813        | 246        |
| 1.1 trading                       | -            | 14,149        | 209        | -            | 13,803        | 246        |
| 1.2 fair value option             | -            | -             | -          | -            | -             | -          |
| 1.3 other                         | -            | 8             | -          | -            | 10            | -          |
| 2. Credit derivatives             | -            | 81            | 7          | -            | 68            | 2          |
| 2.1 trading                       | -            | 81            | 7          | -            | 68            | 2          |
| 2.2 fair value option             | -            | -             | -          | -            | -             | -          |
| 2.3 other                         | -            | -             | -          | -            | -             | -          |
| <b>Total B</b>                    | <b>-</b>     | <b>14,238</b> | <b>216</b> | <b>-</b>     | <b>13,881</b> | <b>248</b> |
| <b>TOTAL (A+B)</b>                | <b>3,478</b> | <b>15,733</b> | <b>366</b> | <b>7,101</b> | <b>15,331</b> | <b>540</b> |

Debt securities include the securities connected with securitisation transactions for a total amount of 254 million euro relating to senior issues.

**2.2. Financial assets held for trading: borrower/issuer breakdown**

(millions of euro)

|                                  | 31.12.2016    | 31.12.2015    |
|----------------------------------|---------------|---------------|
| <b>A) CASH ASSETS</b>            |               |               |
| <b>1. Debt securities</b>        | <b>4,771</b>  | <b>8,084</b>  |
| a) Governments and Central Banks | 1,980         | 3,041         |
| b) Other public entities         | 525           | 373           |
| c) Banks                         | 1,443         | 3,029         |
| d) Other issuers                 | 823           | 1,641         |
| <b>2. Equities</b>               | -             | -             |
| a) Banks                         | -             | -             |
| b) Other issuers                 | -             | -             |
| - insurance companies            | -             | -             |
| - financial institutions         | -             | -             |
| - non-financial companies        | -             | -             |
| - other                          | -             | -             |
| <b>3. Quotas of UCI</b>          | <b>352</b>    | <b>759</b>    |
| <b>4. Loans</b>                  | -             | -             |
| a) Governments and Central Banks | -             | -             |
| b) Other public entities         | -             | -             |
| c) Banks                         | -             | -             |
| d) Other counterparties          | -             | -             |
| <b>Total A</b>                   | <b>5,123</b>  | <b>8,843</b>  |
| <b>B) DERIVATIVES</b>            |               |               |
| a) Banks                         | 10,859        | 10,231        |
| b) Customers                     | 3,595         | 3,898         |
| <b>Total B</b>                   | <b>14,454</b> | <b>14,129</b> |
| <b>TOTAL (A+B)</b>               | <b>19,577</b> | <b>22,972</b> |

Amounts referring to "Quotas of UCI" mainly regard hedge fund positions.

**SECTION 3 - FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS - CAPTION 30****3.1 Financial assets designated at fair value through profit and loss: breakdown**

(millions of euro)

|                           | 31.12.2016 |            |            | 31.12.2015 |            |            |
|---------------------------|------------|------------|------------|------------|------------|------------|
|                           | Level 1    | Level 2    | Level 3    | Level 1    | Level 2    | Level 3    |
| 1. Debt securities        | -          | 188        | 63         | -          | 185        | 61         |
| 1.1 structured securities | -          | -          | -          | -          | -          | -          |
| 1.2 other debt securities | -          | 188        | 63         | -          | 185        | 61         |
| 2. Equities               | -          | -          | -          | -          | -          | -          |
| 3. Quotas of UCI          | -          | -          | 107        | -          | -          | 101        |
| 4. Loans                  | -          | 13         | -          | -          | 9          | -          |
| 4.1 structured            | -          | 9          | -          | -          | 8          | -          |
| 4.2 other                 | -          | 4          | -          | -          | 1          | -          |
| <b>Total</b>              | -          | <b>201</b> | <b>170</b> | -          | <b>194</b> | <b>162</b> |
| <b>Cost</b>               | -          | <b>196</b> | <b>158</b> | -          | <b>185</b> | <b>159</b> |

In this category, the Bank has classified debt securities with embedded derivatives, debt securities subject to financial hedging, equity investments held, directly or through funds, in companies involved in the venture capital business and loans connected to the LECOIP for the employment agreements, terminated early, of its employees and those of Group companies, which the Bank manages based on fair value.

On the basis of the loans included in the aggregate, no hedges were arranged and no credit derivatives or similar instruments exist to mitigate the relevant credit risk. The amount of relevant annual and total fair value change attributable to the credit risk changes occurred in the period is immaterial.

### 3.2 Financial assets designated at fair value through profit and loss: borrower/issuer breakdown

|                                  | (millions of euro) |            |
|----------------------------------|--------------------|------------|
|                                  | 31.12.2016         | 31.12.2015 |
| <b>1. Debt securities</b>        | <b>251</b>         | <b>246</b> |
| a) Governments and Central Banks | 1                  | 1          |
| b) Other public entities         | -                  | -          |
| c) Banks                         | 250                | 245        |
| d) Other issuers                 | -                  | -          |
| <b>2. Equities</b>               | <b>-</b>           | <b>-</b>   |
| a) Banks                         | -                  | -          |
| b) Other issuers                 | -                  | -          |
| - insurance companies            | -                  | -          |
| - financial institutions         | -                  | -          |
| - non-financial companies        | -                  | -          |
| - other                          | -                  | -          |
| <b>3. Quotas of UCI</b>          | <b>107</b>         | <b>101</b> |
| <b>4. Loans</b>                  | <b>13</b>          | <b>9</b>   |
| a) Governments and Central Banks | -                  | -          |
| b) Other public entities         | -                  | -          |
| c) Banks                         | 9                  | 8          |
| d) Other counterparties          | 4                  | 1          |
| <b>TOTAL</b>                     | <b>371</b>         | <b>356</b> |

## SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - CAPTION 40

### 4.1 Financial assets available for sale: breakdown

|                            | 31.12.2016    |              |              | 31.12.2015    |              |            |
|----------------------------|---------------|--------------|--------------|---------------|--------------|------------|
|                            | Level 1       | Level 2      | Level 3      | Level 1       | Level 2      | Level 3    |
| 1. Debt securities         | 34,979        | 507          | 8            | 26,411        | 190          | 24         |
| 1.1 Structured securities  | -             | -            | -            | -             | -            | -          |
| 1.2 Other debt securities  | 34,979        | 507          | 8            | 26,411        | 190          | 24         |
| 2. Equities                | 189           | 1,850        | 566          | 66            | 2,111        | 521        |
| 2.1 Measured at fair value | 189           | 1,850        | 560          | 66            | 2,111        | 515        |
| 2.2 Measured at cost       | -             | -            | 6            | -             | -            | 6          |
| 3. Quotas of UCI           | 12            | -            | 849          | 12            | -            | 415        |
| 4. Loans                   | -             | 20           | 3            | -             | 41           | 3          |
| <b>TOTAL</b>               | <b>35,180</b> | <b>2,377</b> | <b>1,426</b> | <b>26,489</b> | <b>2,342</b> | <b>963</b> |

Loans, as illustrated in Part A – Accounting policies, predominantly refer to portions of syndicated loans underwritten and destined to be subsequently sold.

Financial assets available for sale (subcaption 2.1 - level 2) include 1,677 million euro referring to the stake issued by the Bank of Italy in application of Law Decree 133 of 30 November 2013, converted into Law 5 of 29 January 2014, following amendments to the Statute approved by the Meeting of Bank of Italy's Shareholders on 23 December 2013, effective 31 December 2013.

The stake in the Bank of Italy was reclassified to fair value level 2, as the recognition was based on the direct transaction method.

For the valuation of the above-mentioned stake, the related checks made and further information, reference is made to the contents of Section 4 – Part B of the Notes to the consolidated financial statements.

Debt securities include the junior securities connected with securitisation transactions for a total amount of 6 million euro.

With reference to the equities measured at cost, investments mainly refer to non-financial companies featuring individual immaterial amounts.

#### 4.2 Financial assets available for sale: borrower/issuer breakdown

(millions of euro)

|                                  | 31.12.2016    | 31.12.2015    |
|----------------------------------|---------------|---------------|
| <b>1. Debt securities</b>        | <b>35,494</b> | <b>26,625</b> |
| a) Governments and Central Banks | 33,977        | 26,135        |
| b) Other public entities         | 94            | 29            |
| c) Banks                         | 836           | 201           |
| d) Other issuers                 | 587           | 260           |
| <b>2. Equities</b>               | <b>2,605</b>  | <b>2,698</b>  |
| a) Banks                         | 1,740         | 1,990         |
| b) Other issuers                 | 865           | 708           |
| - insurance companies            | 6             | -             |
| - financial institutions         | 168           | 122           |
| - non-financial companies        | 691           | 586           |
| - other                          | -             | -             |
| <b>3. Quotas of UCI</b>          | <b>861</b>    | <b>427</b>    |
| <b>4. Loans</b>                  | <b>23</b>     | <b>44</b>     |
| a) Governments and Central Banks | -             | -             |
| b) Other public entities         | -             | -             |
| c) Banks                         | 2             | 3             |
| d) Other counterparties          | 21            | 41            |
| <b>TOTAL</b>                     | <b>38,983</b> | <b>29,794</b> |

The aggregate includes positions resulting from the conversion of loans for 162 million euro, including equities issued by non-financial companies and quotas of UCI for 4 million euro.

Equities include instruments issued by borrowers classified as bad or unlikely to pay with a total carrying amount of 18 million euro; such positions were subject to cumulated write downs for 3 million euro, essentially in previous years.

#### 4.3 Financial assets available for sale: assets with specific hedges

(millions of euro)

|  | 31.12.2016    | 31.12.2015    |
|--|---------------|---------------|
| <b>1. Financial assets with specific fair value hedges</b> | <b>23,018</b> | <b>20,869</b> |
| a) Interest rate risk                                      | 22,967        | 20,811        |
| b) Price risk  | -             | -             |
| c) Foreign exchange risk                                   | -             | -             |
| d) Credit risk   | -             | -             |
| e) Various risks   | 51            | 58            |
| <b>2. Financial assets with specific cash flow hedges</b>  | <b>-</b>      | <b>-</b>      |
| a) Interest rate risk                                      | -             | -             |
| b) Foreign exchange risk                                   | -             | -             |
| c) Other   | -             | -             |
| <b>TOTAL</b>   | <b>23,018</b> | <b>20,869</b> |

#### Impairment tests for financial assets available for sale

As required under IAS/IFRS, financial assets available for sale are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down.

For further details on the criteria for impairment testing of financial assets available for sale, reference should be made to Part A - Accounting policies of the Notes to the consolidated and Parent Company's financial statements and to Part B – Information on the consolidated balance sheet – Assets of the Notes to the consolidated financial statements.

**SECTION 5 - INVESTMENTS HELD TO MATURITY - CAPTION 50****5.1 Investments held to maturity: breakdown**

(millions of euro)

|                           | Book value | 31.12.2016 |            |          | Book value | 31.12.2015 |            |          |
|---------------------------|------------|------------|------------|----------|------------|------------|------------|----------|
|                           |            | Fair value |            |          |            | Fair value |            |          |
|                           |            | Level 1    | Level 2    | Level 3  |            | Level 1    | Level 2    | Level 3  |
| 1. Debt securities        | 335        | 46         | 268        | -        | 299        | -          | 274        | -        |
| 1.1 Structured securities | -          | -          | -          | -        | -          | -          | -          | -        |
| 1.2 Other debt securities | 335        | 46         | 268        | -        | 299        | -          | 274        | -        |
| 2. Loans                  | -          | -          | -          | -        | -          | -          | -          | -        |
| <b>TOTAL</b>              | <b>335</b> | <b>46</b>  | <b>268</b> | <b>-</b> | <b>299</b> | <b>-</b>   | <b>274</b> | <b>-</b> |

**5.2 Investments held to maturity: borrowers/issuers**

(millions of euro)

|                                  | 31.12.2016 | 31.12.2015 |
|----------------------------------|------------|------------|
| <b>1. Debt securities</b>        | <b>335</b> | <b>299</b> |
| a) Governments and Central Banks | 335        | 299        |
| b) Other public entities         | -          | -          |
| c) Banks                         | -          | -          |
| d) Other issuers                 | -          | -          |
| <b>2. Loans</b>                  | <b>-</b>   | <b>-</b>   |
| a) Governments and Central Banks | -          | -          |
| b) Other public entities         | -          | -          |
| c) Banks                         | -          | -          |
| d) Other counterparties          | -          | -          |
| <b>TOTAL</b>                     | <b>335</b> | <b>299</b> |
| <b>TOTAL FAIR VALUE</b>          | <b>-</b>   | <b>-</b>   |

**5.3 Investments held to maturity with specific hedges**

As at 31 December 2016, no investments held to maturity with specific hedges were recorded.



## SECTION 6 – DUE FROM BANKS – CAPTION 60

## 6.1 Due from banks: breakdown

(millions of euro)

|                                   | Book value     | 31.12.2016 |                       |               | 31.12.2015     |                       |               | Level 3       |
|-----------------------------------|----------------|------------|-----------------------|---------------|----------------|-----------------------|---------------|---------------|
|                                   |                | Level 1    | Fair value<br>Level 2 | Level 3       | Book value     | Fair value<br>Level 1 | Level 2       |               |
| <b>A. Due from Central Banks</b>  | <b>22,890</b>  | -          | <b>22,890</b>         | -             | <b>3,413</b>   | -                     | <b>181</b>    | <b>3,232</b>  |
| 1. Time deposits                  | -              |            |                       |               | -              |                       |               |               |
| 2. Compulsory reserve             | 22,890         |            |                       |               | 3,413          |                       |               |               |
| 3. Repurchase agreements          | -              |            |                       |               | -              |                       |               |               |
| 4. Other                          | -              |            |                       |               | -              |                       |               |               |
| <b>B. Due from banks</b>          | <b>103,744</b> | -          | <b>90,303</b>         | <b>13,483</b> | <b>118,631</b> | <b>58</b>             | <b>81,267</b> | <b>37,386</b> |
| 1. Loans                          | 101,096        | -          | 87,949                | 13,232        | 114,837        | -                     | 77,962        | 37,017        |
| 1.1 Current accounts and deposits | 7,568          |            |                       |               | 7,143          |                       |               |               |
| 1.2 Time deposits                 | 62,354         |            |                       |               | 75,458         |                       |               |               |
| 1.3 Other loans                   | 31,174         |            |                       |               | 32,236         |                       |               |               |
| - Reverse repurchase agreements   | 3,278          |            |                       |               | 4,682          |                       |               |               |
| - Financial leases                | -              |            |                       |               | -              |                       |               |               |
| - Other                           | 27,896         |            |                       |               | 27,554         |                       |               |               |
| 2. Debt securities                | 2,648          | -          | 2,354                 | 251           | 3,794          | 58                    | 3,305         | 369           |
| 2.1 Structured                    | -              |            |                       |               | -              |                       |               |               |
| 2.2 Other                         | 2,648          |            |                       |               | 3,794          |                       |               |               |
| <b>TOTAL</b>                      | <b>126,634</b> | -          | <b>113,193</b>        | <b>13,483</b> | <b>122,044</b> | <b>58</b>             | <b>81,448</b> | <b>40,618</b> |

The fair value is indicated only where required by specific instructions from the Bank of Italy.

## 6.2 Due from banks with specific hedges

(millions of euro)

|  | 31.12.2016 | 31.12.2015 |
|--|------------|------------|
| <b>1. Due from banks with specific fair value hedges</b> | <b>348</b> | <b>365</b> |
| a) Interest rate risk                                    | 306        | 326        |
| b) Foreign exchange risk                                 | -          | -          |
| c) Credit risk   | -          | -          |
| d) Various risks   | 42         | 39         |
| <b>2. Due from banks with specific cash flow hedges</b>  | <b>-</b>   | <b>-</b>   |
| a) Interest rate risk                                    | -          | -          |
| b) Foreign exchange risk                                 | -          | -          |
| c) Other   | -          | -          |
| <b>TOTAL</b>   | <b>348</b> | <b>365</b> |

## 6.3 Financial leases

Intesa Sanpaolo has no financial leases with banks.

## SECTION 7 – LOANS TO CUSTOMERS – CAPTION 70

## 7.1 Loans to customers: breakdown

(millions of euro)

|  | 31.12.2016     |                |               |              |                |               | 31.12.2015     |                |               |            |                |               |
|--|----------------|----------------|---------------|--------------|----------------|---------------|----------------|----------------|---------------|------------|----------------|---------------|
|  | Book value     |                |               | Fair value   |                |               | Book value     |                |               | Fair value |                |               |
|  | Performing     | Non-performing |               | Level 1      | Level 2        | Level 3       | Performing     | Non-performing |               | Level 1    | Level 2        | Level 3       |
|  |                | purchased      | other         |              |                |               |                | purchased      | other         |            |                |               |
| <b>Loans</b>   | <b>171,462</b> | <b>403</b>     | <b>14,928</b> | -            | <b>142,003</b> | <b>51,817</b> | <b>158,270</b> | <b>523</b>     | <b>14,808</b> | -          | <b>112,304</b> | <b>67,681</b> |
| 1. Current accounts  | 8,770          | 10             | 2,153         |              |                |               | 9,969          | 14             | 2,177         |            |                |               |
| 2. Reverse repurchase agreements   | 17,241         | -              | -             |              |                |               | 12,367         | -              | -             |            |                |               |
| 3. Mortgages   | 90,488         | 392            | 10,271        |              |                |               | 81,400         | 506            | 9,844         |            |                |               |
| 4. Credit card loans, personal loans and transfer of one fifth of salaries | 8,305          | -              | 197           |              |                |               | 6,946          | -              | 233           |            |                |               |
| 5. Finance leases  | -              | -              | -             |              |                |               | -              | -              | -             |            |                |               |
| 6. Factoring   | 48             | -              | -             |              |                |               | -              | -              | -             |            |                |               |
| 7. Other loans   | 46,610         | 1              | 2,307         |              |                |               | 47,588         | 3              | 2,554         |            |                |               |
| <b>Debt securities</b>   | <b>13,715</b>  | -              | <b>41</b>     | <b>1,383</b> | <b>8,651</b>   | <b>2,140</b>  | <b>12,775</b>  | -              | <b>51</b>     | <b>975</b> | <b>8,847</b>   | <b>1,701</b>  |
| 8. Structured securities   | 7              | -              | -             |              |                |               | 6              | -              | 10            |            |                |               |
| 9. Other debt securities   | 13,708         | -              | 41            |              |                |               | 12,769         | -              | 41            |            |                |               |
| <b>TOTAL</b>   | <b>185,177</b> | <b>403</b>     | <b>14,969</b> | <b>1,383</b> | <b>150,654</b> | <b>53,957</b> | <b>171,045</b> | <b>523</b>     | <b>14,859</b> | <b>975</b> | <b>121,151</b> | <b>69,382</b> |

The fair value is indicated only where required by specific instructions from the Bank of Italy.

Loans to customers include loans disbursed on public funds under administration for which the Bank holds the risk in the amount of 18 million euro.

Debt securities include the securities connected with securitisation transactions for a total amount of approximately 5,332 million euro, of which 5,250 million euro is senior, 74 million euro is mezzanine and 8 million euro is junior.

## 7.2 Loans to customers: borrower/issuer breakdown

(millions of euro)

|                           | 31.12.2016     |                |               | 31.12.2015     |                |               |
|---------------------------|----------------|----------------|---------------|----------------|----------------|---------------|
|                           | Performing     | Non-performing |               | Performing     | Non-performing |               |
|                           |                | purchased      | other         |                | purchased      | other         |
| <b>1. Debt securities</b> | <b>13,715</b>  | -              | <b>41</b>     | <b>12,775</b>  | -              | <b>51</b>     |
| a) Governments            | 2,025          | -              | -             | 2,121          | -              | -             |
| b) Other public entities  | 4,610          | -              | 27            | 4,788          | -              | 28            |
| c) Other issuers          | 7,080          | -              | 14            | 5,866          | -              | 23            |
| - non-financial companies | 1,099          | -              | 13            | 1,189          | -              | 23            |
| - financial institutions  | 5,930          | -              | 1             | 4,626          | -              | -             |
| - insurance companies     | 51             | -              | -             | 51             | -              | -             |
| - other                   | -              | -              | -             | -              | -              | -             |
| <b>2. Loans</b>           | <b>171,462</b> | <b>403</b>     | <b>14,928</b> | <b>158,270</b> | <b>523</b>     | <b>14,808</b> |
| a) Governments            | 4,603          | -              | 7             | 5,370          | -              | 7             |
| b) Other public entities  | 7,589          | -              | 213           | 8,013          | -              | 208           |
| c) Other counterparties   | 159,270        | 403            | 14,708        | 144,887        | 523            | 14,593        |
| - non-financial companies | 73,398         | 399            | 12,237        | 68,138         | 515            | 12,096        |
| - financial institutions  | 35,525         | 2              | 334           | 33,646         | 5              | 362           |
| - insurance companies     | 920            | -              | -             | 968            | -              | -             |
| - other                   | 49,427         | 2              | 2,137         | 42,135         | 3              | 2,135         |
| <b>TOTAL</b>              | <b>185,177</b> | <b>403</b>     | <b>14,969</b> | <b>171,045</b> | <b>523</b>     | <b>14,859</b> |

**7.3 Loans to customers with specific hedges**

(millions of euro)

|  | 31.12.2016    | 31.12.2015    |
|--|---------------|---------------|
| <b>1. Loans to customers with specific fair value hedges</b> | <b>13,434</b> | <b>15,031</b> |
| a) Interest rate risk  | 12,832        | 14,418        |
| b) Foreign exchange risk                                     | -             | -             |
| c) Credit risk   | -             | -             |
| d) Various risks   | 602           | 613           |
| <b>2. Loans to customers with specific cash flow hedges</b>  | -             | -             |
| a) Interest rate risk  | -             | -             |
| b) Foreign exchange risk                                     | -             | -             |
| c) Other   | -             | -             |
| <b>TOTAL</b>   | <b>13,434</b> | <b>15,031</b> |

As illustrated in Part A – Accounting policies and Part E – Information on risks and relative hedging policies, loans to customers are hedged via specific fair value hedges of the interest rate risk as well as via the stabilisation of the interest flows (cash flow hedges) of floating rate funding, to the extent that this is used to finance fixed rate loans, and via macro fair value hedges.

**7.4 Financial leases**

Intesa Sanpaolo has no financial leases with customers.

**SECTION 8 - HEDGING DERIVATIVES – CAPTION 80**

Concerning the objectives and the strategies underlying hedging transactions see the information provided in Part E – Information on risks and relative hedging policies, Section 2 – Market risks.

Only derivatives traded on regulated markets are considered quoted derivatives.

**8.1 Hedging derivatives: breakdown by type of hedge and level**

(millions of euro)

|                                 | Fair value 31.12.2016 |         |         | Notional<br>value<br>31.12.2016 | Fair value 31.12.2015 |         |         | Notional<br>value<br>31.12.2015 |
|---------------------------------|-----------------------|---------|---------|---------------------------------|-----------------------|---------|---------|---------------------------------|
|                                 | Level 1               | Level 2 | Level 3 |                                 | Level 1               | Level 2 | Level 3 |                                 |
| <b>A) Financial derivatives</b> | -                     | 5,700   | 20      | 126,131                         | -                     | 6,367   | 20      | 120,643                         |
| 1) fair value                   | -                     | 5,700   | 20      | 125,931                         | -                     | 6,358   | 20      | 117,293                         |
| 2) cash flows                   | -                     | -       | -       | 200                             | -                     | 9       | -       | 3,350                           |
| 3) foreign investments          | -                     | -       | -       | -                               | -                     | -       | -       | -                               |
| <b>B) Credit derivatives</b>    | -                     | -       | -       | -                               | -                     | -       | -       | -                               |
| 1) fair value                   | -                     | -       | -       | -                               | -                     | -       | -       | -                               |
| 2) cash flows                   | -                     | -       | -       | -                               | -                     | -       | -       | -                               |
| <b>Total</b>                    | -                     | 5,700   | 20      | 126,131                         | -                     | 6,367   | 20      | 120,643                         |

**8.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge**

(millions of euro)

| Operations/Type of hedge                      | FAIR VALUE         |                       |             |            |               | Generic    | CASH FLOWS |          | FOREIGN INVESTM. |
|---|--------------------|-----------------------|-------------|------------|---------------|------------|------------|----------|------------------|
|   | Specific           |                       |             | price risk | various risks |            | Specific   | Generic  |                  |
|   | interest rate risk | foreign exchange risk | credit risk |            |               |            |            |          |                  |
| 1. Financial assets available for sale        | 126                | -                     | -           | -          | -             | X          | -          | X        | X                |
| 2. Loans                                      | 52                 | -                     | -           | X          | -             | X          | -          | X        | X                |
| 3. Investments held to maturity               | X                  | -                     | -           | X          | -             | X          | -          | X        | X                |
| 4. Portfolio                                  | X                  | X                     | X           | X          | X             | 72         | X          | -        | X                |
| 5. Other transactions                         | -                  | -                     | -           | -          | -             | X          | -          | X        | -                |
| <b>Total assets</b>                           | <b>178</b>         | <b>-</b>              | <b>-</b>    | <b>-</b>   | <b>-</b>      | <b>72</b>  | <b>-</b>   | <b>-</b> | <b>-</b>         |
| 1. Financial liabilities                      | 4,613              | -                     | -           | X          | 495           | X          | -          | X        | X                |
| 2. Portfolio                                  | X                  | X                     | X           | X          | X             | 362        | X          | -        | X                |
| <b>Total liabilities</b>                      | <b>4,613</b>       | <b>-</b>              | <b>-</b>    | <b>-</b>   | <b>495</b>    | <b>362</b> | <b>-</b>   | <b>-</b> | <b>-</b>         |
| 1. Forecast transactions                      | X                  | X                     | X           | X          | X             | X          | -          | X        | X                |
| 2. Financial assets and liabilities portfolio | X                  | X                     | X           | X          | X             | -          | X          | -        | -                |

The table indicates positive fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.

These mainly refer to specific fair value hedges of liabilities issued, as well as generic fair value hedges of demand positions under liabilities (core deposits).

**SECTION 9 – FAIR VALUE CHANGE OF FINANCIAL ASSETS IN HEDGED PORTFOLIOS – CAPTION 90****9.1 Fair value change of financial assets in hedged portfolios: breakdown by hedged portfolios**

(millions of euro)

|                                      | 31.12.2016 | 31.12.2015 |
|--------------------------------------|------------|------------|
| <b>1. Positive fair value change</b> | <b>160</b> | <b>66</b>  |
| 1.1. of specific portfolios          | 160        | 66         |
| a) loans                             | 160        | 66         |
| b) assets available for sale         | -          | -          |
| 1.2. overall                         | -          | -          |
| <b>2. Negative fair value change</b> | <b>-</b>   | <b>-</b>   |
| 2.1. of specific portfolios          | -          | -          |
| a) loans                             | -          | -          |
| b) assets available for sale         | -          | -          |
| 2.2. overall                         | -          | -          |
| <b>TOTAL</b>                         | <b>160</b> | <b>66</b>  |

The balance of the changes in value of assets subject to macrohedging (MCH) against interest rate risk is recorded in this caption. For the above macrohedging, the Bank took advantage of the option emerged after the definition of the IAS 39 carve out.

**9.2 Assets hedged by macrohedging of interest rate risk**

|                              | (millions of euro) |                   |
|------------------------------|--------------------|-------------------|
| <b>Hedged assets</b>         | <b>31.12.2016</b>  | <b>31.12.2015</b> |
| 1. Loans                     | 27,362             | 15,409            |
| 2. Assets available for sale | -                  | -                 |
| 3. Portfolio                 | -                  | -                 |
| <b>TOTAL</b>                 | <b>27,362</b>      | <b>15,409</b>     |

The table shows assets hedged by macrohedging of interest rate risk.

The increase may be attributed to a further extension of the activation of macro-hedges of interest-rate risk on loans undertaken in 2015.

Additional information on fair value hedging is available in Part E – Information on risks and relative hedging policies of the Notes to the consolidated financial statements.

## SECTION 10 – EQUITY INVESTMENTS – CAPTION 100

## 10.1 Equity investments: information on equity interests

|                                     | Registered office   | Place of business     | % held     | Votes available % |        |
|-------------------------------------|---|-----------------------|------------|-------------------|--------|
| <b>A. WHOLLY-OWNED SUBSIDIARIES</b> |   |                       |            |                   |        |
| 1                                   | 08 GENNAIO S.r.l.   | Milano                | Milano     | 100.00            | 100.00 |
| 2                                   | ACCEDO S.p.A.   | Bologna               | Bologna    | 100.00            | 100.00 |
| 3                                   | BANCA IMI S.p.A.  | Milano                | Milano     | 100.00            | 100.00 |
| 4                                   | BANCA INTESA JOINT-STOCK COMPANY (a)                                | Moscow                | Moscow     | 46.98             | 46.98  |
| 5                                   | BANCA ITB S.p.A.  | Milano                | Milano     | 100.00            | 100.00 |
| 6                                   | BANCA PROSSIMA S.p.A. (b)   | Milano                | Milano     | 80.16             | 80.16  |
| 7                                   | BANCO DI NAPOLI S.p.A.  | Napoli                | Napoli     | 100.00            | 100.00 |
| 8                                   | BANK OF ALEXANDRIA S.A.E. (c)                                       | Cairo                 | Cairo      | 80.00             | 70.25  |
| 9                                   | BANKA KOPER D.D. (d)  | Koper                 | Koper      | 98.92             | 98.92  |
| 10                                  | CASSA DEI RISPARMI DI FORLÌ E DELLA ROMAGNA S.p.A. - CARIROMAGNA    | Forlì                 | Forlì      | 83.48             | 83.48  |
| 11                                  | CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA S.p.A. - CariFVG       | Gorizia               | Udine      | 100.00            | 100.00 |
| 12                                  | CASSA DI RISPARMIO DEL VENETO S.p.A.                                | Padova                | Padova     | 100.00            | 100.00 |
| 13                                  | CASSA DI RISPARMIO DI FIRENZE S.p.A.                                | Firenze               | Firenze    | 100.00            | 100.00 |
| 14                                  | CASSA DI RISPARMIO DI PISTOIA E DELLA LUCCHESIA S.P.A. (a)          | Pistoia               | Pistoia    | 8.11              | 8.11   |
| 15                                  | CASSA DI RISPARMIO IN BOLOGNA S.p.A.                                | Bologna               | Bologna    | 100.00            | 100.00 |
| 16                                  | CIB BANK LTD. (a)   | Budapest              | Budapest   | 100.00            | 100.00 |
| 17                                  | CONSORZIO STUDI E RICERCHE FISCALI - GRUPPO INTESA SANPAOLO         | Roma                  | Roma       | 60.00             | 60.00  |
| 18                                  | EURIZON CAPITAL SGR S.p.A.  | Milano                | Milano     | 100.00            | 100.00 |
| 19                                  | FIDEURAM - Intesa Sanpaolo Private Banking S.p.A.                   | Torino                | Roma       | 100.00            | 100.00 |
| 20                                  | FIDEURAM VITA S.p.A.  | Roma                  | Roma       | 80.01             | 80.01  |
| 21                                  | FONDO DI RIGENERAZIONE URBANA SICILIA S.R.L.                        | Torino                | Torino     | 100.00            | 100.00 |
| 22                                  | FONDO SARDEGNA ENERGIA S.r.l.                                       | Cagliari              | Cagliari   | 100.00            | 100.00 |
| 23                                  | IMI INVESTIMENTI S.p.A.   | Bologna               | Bologna    | 100.00            | 100.00 |
| 24                                  | IMMIT - IMMOBILI ITALIANI S.R.L.                                    | Torino                | Torino     | 100.00            | 100.00 |
| 25                                  | IN.FRA - INVESTIRE NELLE INFRASTRUTTURE S.p.A.                      | Milano                | Milano     | 100.00            | 100.00 |
| 26                                  | INFOGROUP S.c.p.A. (a)  | Firenze               | Firenze    | 31.77             | 31.77  |
| 27                                  | INTESA FUNDING LLC  | Wilmington - Delaware | New York   | 100.00            | 100.00 |
| 28                                  | INTESA SANPAOLO BANK ALBANIA SH.A.                                  | Tirana                | Tirana     | 100.00            | 100.00 |
| 29                                  | INTESA SANPAOLO BANK IRELAND PLC                                    | Dublin                | Dublin     | 100.00            | 100.00 |
| 30                                  | INTESA SANPAOLO BANK LUXEMBOURG S.A. (a)                            | Luxembourg            | Luxembourg | 0.43              | 0.43   |
| 31                                  | INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO                        | Sao Paulo             | Sao Paulo  | 99.90             | 99.90  |
| 32                                  | INTESA SANPAOLO CASA S.p.A.   | Milano                | Milano     | 100.00            | 100.00 |
| 33                                  | INTESA SANPAOLO EXPO Institutional Contact S.r.l.                   | Milano                | Milano     | 100.00            | 100.00 |
| 34                                  | INTESA SANPAOLO FORMAZIONE Società Consortile per Azioni            | Napoli                | Napoli     | 67.01             | 67.01  |
| 35                                  | INTESA SANPAOLO FORVALUE S.p.A.                                     |                       |            | 100.00            | 100.00 |
| 36                                  | INTESA SANPAOLO GROUP SERVICES S.c.p.A.                             | Torino                | Torino     | 99.91             | 99.91  |
| 37                                  | INTESA SANPAOLO HIGHLINE S.r.l.                                     | Torino                | Torino     | 100.00            | 100.00 |
| 38                                  | INTESA SANPAOLO HOLDING INTERNATIONAL S.A.                          | Luxembourg            | Luxembourg | 100.00            | 100.00 |
| 39                                  | INTESA SANPAOLO PROVIS S.p.A.                                       | Milano                | Milano     | 100.00            | 100.00 |
| 40                                  | INTESA SANPAOLO RE.O.CO. S.P.A.                                     | Milano                | Milano     | 100.00            | 100.00 |
| 41                                  | INTESA SANPAOLO REAL ESTATE HUNGARY ZRT. - in voluntary liquidation | Budapest              | Budapest   | 100.00            | 100.00 |
| 42                                  | INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK                        | Bucharest             | Bucharest  | 91.47             | 91.47  |
| 43                                  | INTESA SANPAOLO SEC S.A.  | Luxembourg            | Luxembourg | 100.00            | 100.00 |
| 44                                  | INTESA SANPAOLO SECURITISATION VEHICLE S.r.l.                       | Milano                | Milano     | 100.00            | 100.00 |
| 45                                  | INTESA SANPAOLO SERVICOS E EMPREENDIMENTOS LTDA                     | Sao Paulo             | Sao Paulo  | 99.93             | 99.93  |
| 46                                  | INTESA SANPAOLO VITA S.p.A.   | Torino                | Milano     | 99.99             | 99.99  |
| 47                                  | INTESA SEC. 3 S.r.l.  | Milano                | Milano     | 60.00             | 60.00  |
| 48                                  | INTESA SEC. NPL S.p.A.  | Milano                | Milano     | 60.00             | 60.00  |
| 49                                  | INTESA SEC. S.p.A.  | Milano                | Milano     | 100.00            | 100.00 |
| 50                                  | ISP CB IPOTECARIO S.r.l.  | Milano                | Milano     | 60.00             | 60.00  |
| 51                                  | ISP CB PUBBLICO S.r.l.  | Milano                | Milano     | 60.00             | 60.00  |
| 52                                  | ISP OBG S.r.l.  | Milano                | Milano     | 60.00             | 60.00  |
| 53                                  | MEDIOCREDITO ITALIANO S.p.A.  | Milano                | Milano     | 100.00            | 100.00 |
| 54                                  | NEVA FINVENTURES S.p.A.   | Torino                | Torino     | 100.00            | 100.00 |
| 55                                  | OOO INTESA REALTY RUSSIA  | Moscow                | Moscow     | 100.00            | 100.00 |
| 56                                  | OTTOBRE 2008 S.r.l. in liquidation                                  | Milano                | Milano     | 100.00            | 100.00 |

|  | Registered office   | Place of business | % held              | Votes available % |        |
|--|---|-------------------|---------------------|-------------------|--------|
| 57   | PRAVEX BANK Public Joint-Stock Company Commercial Bank        | Kiev              | Kiev                | 100.00            | 100.00 |
| 58   | PRIVATE EQUITY INTERNATIONAL S.A.                             | Luxembourg        | Luxembourg          | 85.80             | 90.90  |
| 59   | QINGDAO YICAI WEALTH MANAGEMENT CO. LTD                       | Qingdao           | Qingdao             | 55.00             | 55.00  |
| 60   | RISANAMENTO S.p.A. (e)  | Milano            | Milano              | 48.88             | 48.88  |
| 61   | STUDI E RICERCHE PER IL MEZZOGIORNO (a)                       | Napoli            | Napoli              | 33.33             | 33.33  |
| <b>B. COMPANIES SUBJECT TO JOINT CONTROL</b>             |   |                   |                     |                   |        |
| 1  | AUGUSTO S.r.l.  | Milano            | Milano              | 5.00              | 5.00   |
| 2  | COLOMBO S.r.l.  | Milano            | Milano              | 5.00              | 5.00   |
| 3  | DIOCLEZIANO S.r.l.  | Milano            | Milano              | 5.00              | 5.00   |
| 4  | MANUCOR S.p.A.  | Milano            | Sessa Aurunca       | 72.75             | 45.50  |
| 5  | TANGENZIALE ESTERNA S.p.A.                                    | Milano            | Milano              | 2.58              | 2.58   |
| 6  | TANGENZIALI ESTERNE DI MILANO S.p.A.                          | Milano            | Milano              | 17.53             | 17.53  |
| <b>C. COMPANIES SUBJECT TO SIGNIFICANT INFLUENCE (*)</b> |   |                   |                     |                   |        |
| 1  | ADRIANO LEASE SEC. S.r.l.                                     | Conegliano        | Conegliano          | 5.00              | 5.00   |
| 2  | AMBIENTA Società di Gestione del Risparmio S.p.A.             | Milano            | Milano              | 20.00             | 20.00  |
| 3  | AUTOSTRADA PEDEMONTANA LOMBARDA S.p.A.                        | Assago            | Assago              | 17.37             | 17.37  |
| 4  | AUTOSTRADE LOMBARDE S.p.A.                                    | Brescia           | Brescia             | 42.45             | 42.45  |
| 5  | BANK OF QINGDAO CO. LTD.                                      | Qingdao           | Qingdao             | 15.33             | 15.33  |
| 6  | CARGOITALIA S.p.A. in liquidation                             | Milano            | Milano              | 33.33             | 33.33  |
| 7  | CASSA DI RISPARMIO DI FERMO S.p.A.                            | Fermo             | Fermo               | 33.33             | 33.33  |
| 8  | CLASS DIGITAL SERVICE S.r.l.                                  | Milano            | Milano              | 31.25             | 31.25  |
| 9  | COMPAGNIA AEREA ITALIANA S.p.A.                               | Fiumicino         | Fiumicino           | 32.21             | 32.21  |
| 10   | CONSORZIO BANCARIO SIR S.p.A. in liquidation                  | Roma              | Roma                | 38.49             | 38.49  |
| 11   | DESTINATION ITALIA S.p.A.                                     | Milano            | Milano              | 38.00             | 38.00  |
| 12   | EQUITER S.p.A.  | Torino            | Torino              | 38.27             | 38.27  |
| 13   | EUROMILANO S.p.A.   | Milano            | Milano              | 43.43             | 43.43  |
| 14   | EUROPROGETTI E FINANZA In Liquidazione S.p.A.                 | Roma              | Roma                | 15.97             | 15.97  |
| 15   | FENICE S.r.l.   | Milano            | Milano              | 9.08              | 9.08   |
| 16   | FOCUS INVESTMENTS S.p.A.                                      | Milano            | Milano              | 8.33              | 25.00  |
| 17   | IMPIANTI S.r.l. in liquidation                                | Milano            | Milano              | 27.95             | 27.95  |
| 18   | ITALCONSULT S.p.A.  | Roma              | Roma                | 20.00             | 20.00  |
| 19   | LEONARDO TECHNOLOGY S.r.l.                                    | Milano            | Milano              | 26.60             | 26.60  |
| 20   | MARKETWALL S.r.l.   | Milano            | Milano              | 33.00             | 33.00  |
| 21   | NUOVO TRASPORTO VIAGGIATORI S.p.A.                            | Roma              | Roma                | 24.46             | 24.46  |
| 22   | PIETRA S.r.l.   | Milano            | Milano              | 22.22             | 22.22  |
| 23   | PORTOCITTA' S.r.l.  | Trieste           | Pozzuolo del Friuli | 12.50             | 12.50  |
| 24   | R.C.N. FINANZIARIA S.p.A.                                     | Mantova           | Mantova             | 23.96             | 23.96  |
| 25   | SICILY INVESTMENTS S.A.R.L.                                   | Luxembourg        | Luxembourg          | 25.20             | 25.20  |
| 26   | SMIA S.p.A.   | Roma              | Roma                | 38.57             | 38.57  |
| 27   | SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO S.p.A. | Brescia           | Brescia             | 0.05              | 0.05   |
| 28   | SOLAR EXPRESS S.r.l.  | Firenze           | Firenze             | 40.00             | 40.00  |
| 29   | TRINACRIA CAPITAL S.A.R.L.                                    | Luxembourg        | Luxembourg          | 25.20             | 25.20  |
| 30   | UMBRIA EXPORT SOCIETA' CONSORTILE A R.L.                      | Perugia           | Perugia             | 33.87             | 33.87  |
| 31   | VARESE INVESTIMENTI S.p.A.                                    | Varese            | Varese              | 40.00             | 40.00  |

(a) Company included among significant equity investments as, in total, the Group holds a controlling share.

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

(c) In March 2009, 9.75% of the share capital of Bank of Alexandria (BOA) was sold to International Finance Corporation (IFC) with the concurrent signing by the parties of a Put&Call Agreement covering the portion sold by Intesa Sanpaolo. It should be noted that, based on the contractual clauses underlying the transaction and failing to meet IFRS derecognition criteria, the percentage of equity investment includes the portion sold, while voting rights were transferred to the buyer.

(d) Minority shareholders are subject to a legal commitment to purchase the remaining 1.08% of share capital.

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

(\*) Intesa Sanpaolo holds 5% of the shares of Adriano Lease Sec. S.r.l., a vehicle used for securitisation transactions within the Group.

The illustration of the reasons determining whether a company is subject to joint control or significant influence is contained in Part A – Accounting policies, to which reference should be made.

Equity investments include relations with borrowers classified as bad or unlikely to pay, with a total carrying amount of 110 million euro; such positions were subject to cumulated write downs for 339 million euro, of which 53 million euro recognized during the year.

## 10.2 Individually material equity investments: book value, fair value and dividends received

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

**10.3 Individually material equity investments: financial information**

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

**10.4 Individually immaterial equity investments: financial information**

For the information relating to this paragraph, not required by the instructions provided by the Bank of Italy concerning the financial statements, reference should be made to the relevant section of the Notes to the consolidated financial statements.

**10.5 Equity investments: annual changes**

|                                       | (millions of euro) |                |
|---------------------------------------|--------------------|----------------|
|                                       | 31.12.2016         | 31.12.2015     |
| <b>A. Initial amount</b>              | <b>28,582</b>      | <b>28,940</b>  |
| <b>B. Increases</b>                   | <b>4,052</b>       | <b>2,031</b>   |
| B.1 purchases                         | 1,610              | 1,173          |
| <i>of which business combinations</i> | 217                | 653            |
| B.2 write-backs                       | -                  | 80             |
| B.3 revaluations                      | -                  | -              |
| B.4 other changes                     | 2,442              | 778            |
| <b>C. Decreases</b>                   | <b>-2,045</b>      | <b>-2,389</b>  |
| C.1 sales                             | -425               | -263           |
| C.2 impairment losses                 | -316               | -217           |
| C.3 other changes                     | -1,304             | -1,909         |
| <b>D. Final amount</b>                | <b>30,589</b>      | <b>28,582</b>  |
| <b>E. Total revaluations</b>          | <b>26</b>          | <b>26</b>      |
| <b>F. Total impairment losses</b>     | <b>-13,164</b>     | <b>-12,972</b> |

Subcaption B.1 "Purchases" primarily includes the following transactions:

- subscription to additional Tier 1 equity instruments issued by Banca Imi S.p.A. for 1 billion euro;
- acquisition by third parties of 90% of the share capital of Banca ITB for 153 million euro;
- subscription to a share capital increase of Intesa Sanpaolo Provis S.p.A., for 120 million euro;
- subscription to a share capital increase of CIB Bank Ltd. for 29 million euro;
- subscription to a share capital increase of Intesa Sanpaolo RE.O.CO S.p.A. for 20 million euro;
- subscription to a share capital increase of Compagnia Aerea Italiana S.p.A. for a total of 17 million euro;
- subscription to a share capital increase of Intesa Sanpaolo Holding International S.A. for 12 million euro;
- subscription to a share capital increase of Qingdao Yicai Wealth Management Co. Ltd. for 11 million euro;
- subscription to a share capital increase of Neva Finventures S.p.A., for 10 million euro;

Subcaption B.4 "Other changes" essentially refers to the following transactions:

- increase in the value of the investment in Intesa Sanpaolo Holding International S.A. for 2.15 billion euro as a consequence of the transfer from the premium reserve on "preferred shares with mandatory redemption", considered receivables when applying the international accounting standards, to free equity reserves;
- partial demerger of Oldequiter S.p.A. in favour of Equiter S.p.A. for 90 million euro;
- price difference relating to Banca Intesa A.D. – Beograd between the sale value and the carrying amount, recognised to reserves, for 11 million euro;
- reclassification of the 10% stake in Banca ITB already held and entered among assets available for sale for a value of 4 million euro.

Subcaption C.1 "Purchases" primarily includes the following transactions:

- business combination of Oldequiter S.p.A. for a value of 266 million euro;
- sale of Banca Intesa A.D. – Beograd for a value of 148 million euro.

Subcaption C.3 "Other changes" essentially includes the following transactions:

- merger by incorporation of Banca dell'Adriatico S.p.A. for 550 million euro;
- merger by incorporation of Casse di Risparmio dell'Umbria S.p.A. for 398 million euro;
- reduction for the CIB Bank Ltd demerger in favour of Engenia SA – Luxembourg for 181 million euro;
- netting deriving from the sale of the quotas package of Telco Is S.r.l. for 80 million euro;
- reclassification of Oldequiter S.p.A. among financial assets available for sale for 66 million euro;
- reclassification of Setefi Services S.p.A. among financial assets available for sale for 23 million euro.



**10.6 Commitments referred to investments in companies subject to joint control**

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

**10.7 Commitments referred to investments in companies subject to significant influence**

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

**10.8 Significant restrictions**

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

**10.9 Other information**

For the information relating to this paragraph, reference should be made to the relevant section of the Notes to the consolidated financial statements.

**Impairment tests of investments**

As required under IAS/IFRS, equity investments are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.

With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating; quantitative indicators, represented by a reduction in fair value of over 30% below the carrying value or for a period of over 24 months, by market capitalisation lower than the company's net book value, in the case of securities listed on active markets or by a carrying value of the investment in the Parent Company's financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill or by distribution by the latter of a dividend that is higher than its total income. If impairment indicators are detected the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.

With regard to investments in associates or companies subject to joint control, impairment testing led to the need to adjust the values of certain companies. The main write-downs concerned the investments in Autostrade Lombarde (14 million euro), Tangenziali Esterne di Milano (15 million euro) and Compagnia Aerea Italiana (former Alitalia) (17 million euro); the latter adjustment is attributable to the write-down of the tranches of the capital increase approved by Compagnia Aerea Italiana in 2014 and paid by Intesa Sanpaolo in 2016, for which an allocation had already been made to the provision for risks and charges that was released concurrently with the above write-down, thus effectively resulting in no impact on the net result for 2016.

Individual investments in subsidiaries, while material as individual assets from an accounting standpoint, do not present independent cash flow generation and governance capacity, given the organisational model, which calls for CGUs larger than the individual legal entities. Accordingly, controlling interests are not individually material for the purposes of conducting impairment tests in the financial statements of the Parent Company, but rather are aggregated (along with the operating activities conducted directly by the Parent Company) into CGUs consistent with those identified at the level of the consolidated financial statements. This approach is tied to the organisational model applied by the Group. According to that model, individual investments belonging to a given CGU are not capable of generating cash flows independently from the other investments. Therefore, their recoverable amounts cannot be calculated individually, as required by IAS 36.

In view of the consistency that must be preserved between the impairment tests conducted in the consolidated financial statements and the financial statements of the Parent Company, in addition to the homogeneity of the composition of CGUs, the correlation between the items tested in the two sets of financial statements must be carefully considered: the goodwill attributed to the various CGUs in the consolidated financial statements and the financial statements of the Parent Company partly reflects the goodwill associated solely with the Parent Company and partly the carrying amounts of investments in subsidiaries. The goodwill associated with the latter is implicit in the carrying amounts of the investments in the financial statements of the Parent Company and emerges in the consolidated financial statements following the consolidation process on the basis of the values determined during the purchase process pursuant to IFRS 3.

If a need to recognise an impairment loss on goodwill attributable to a given CGU is identified at the level of the consolidated financial statements, in the Parent Company's financial statements that impairment loss is attributed to the assets pertaining to the same CGU not subject to testing individually, namely goodwill, the brand name and investments in subsidiaries. As described in Part B – Information on the consolidated balance sheet - Assets, impairment tests on Cash Generating Units did not lead to the need to recognise in the consolidated financial statements impairment of goodwill, accordingly no impairment losses were recognised in relation to investments in subsidiaries.

Companies that did not present goodwill values in the consolidated financial statements but that closed 2016 with a loss were treated differently. For such companies, it was prudentially verified that the latter result was due to contingent and non-structural factors; from this analysis, the need emerged to make some write-downs, aligning the carrying amount of the investment to the proportional share of equity of the subsidiaries. The main write-downs refer to Intesa Sanpaolo Provis for 127 million euro, to Accedo for 50 million euro, to Risanamento for 34 million euro and to Pravex Bank for 26 million euro.

**SECTION 11 – PROPERTY AND EQUIPMENT – CAPTION 110****11.1 Property and equipment used in operations: breakdown of assets measured at cost**

(millions of euro)

|   | 31.12.2016   | 31.12.2015   |
|---|--------------|--------------|
| <b>1. Property and equipment owned</b>                        | <b>2,746</b> | <b>2,855</b> |
| a) land   | 1,037        | 1,083        |
| b) buildings  | 1,490        | 1,543        |
| c) furniture  | 164          | 171          |
| d) electronic equipment                                       | 51           | 54           |
| e) other  | 4            | 4            |
| <b>2. Property and equipment acquired under finance lease</b> | <b>9</b>     | <b>9</b>     |
| a) land   | 4            | 4            |
| b) buildings  | 5            | 5            |
| c) furniture  | -            | -            |
| d) electronic equipment                                       | -            | -            |
| e) other  | -            | -            |
| <b>Total</b>  | <b>2,755</b> | <b>2,864</b> |

**11.2 Investment property: breakdown of assets measured at cost**

(millions of euro)

|   | 31.12.2016 |            |         |          | 31.12.2015 |            |         |           |
|---|------------|------------|---------|----------|------------|------------|---------|-----------|
|   | Book value | Fair value |         |          | Book value | Fair value |         |           |
|   |            | Level 1    | Level 2 | Level 3  |            | Level 1    | Level 2 | Level 3   |
| <b>1. Property and equipment owned</b>                        | <b>3</b>   | -          | -       | <b>9</b> | <b>3</b>   | -          | -       | <b>14</b> |
| a) land   | 1          | -          | -       | 4        | 1          | -          | -       | 7         |
| b) buildings  | 2          | -          | -       | 5        | 2          | -          | -       | 7         |
| <b>2. Property and equipment acquired under finance lease</b> | -          | -          | -       | -        | -          | -          | -       | -         |
| a) land   | -          | -          | -       | -        | -          | -          | -       | -         |
| b) buildings  | -          | -          | -       | -        | -          | -          | -       | -         |
| <b>TOTAL</b>  | <b>3</b>   | -          | -       | <b>9</b> | <b>3</b>   | -          | -       | <b>14</b> |

**11.3 Property and equipment used in operations: breakdown of revalued assets**

As at the reporting date there were no assets used in operations measured at fair value or revalued.

**11.4 Investment property: breakdown of assets measured at fair value**

As at the reporting date there was no investment property measured at fair value.

## 11.5 Property and equipment used in operations: annual changes

(millions of euro)

|  | Land         | Buildings    | Furniture    | Electronic equipment | Other     | Total        |
|--|--------------|--------------|--------------|----------------------|-----------|--------------|
| <b>A. Gross initial carrying amount</b>                                | <b>1,109</b> | <b>2,632</b> | <b>1,025</b> | <b>1,284</b>         | <b>34</b> | <b>6,084</b> |
| A.1 Total net adjustments  | -21          | -1,084       | -854         | -1,231               | -30       | -3,220       |
| <b>A.2 Net initial carrying amount</b>                                 | <b>1,088</b> | <b>1,548</b> | <b>171</b>   | <b>53</b>            | <b>4</b>  | <b>2,864</b> |
| <b>B. Increases</b>  | <b>216</b>   | <b>179</b>   | <b>18</b>    | <b>20</b>            | <b>1</b>  | <b>434</b>   |
| B.1 Purchases  | 6            | 18           | 18           | 20                   | 1         | 63           |
| <i>of which business combinations</i>                                  | 6            | 18           | 5            | 3                    | -         | 32           |
| B.2 Capitalised improvement costs                                      | -            | 40           | -            | -                    | -         | 40           |
| B.3 Write-backs  | -            | -            | -            | -                    | -         | -            |
| B.4 Positive fair value differences recognised in                      | -            | -            | -            | -                    | -         | -            |
| <i>a) shareholders' equity</i>   | -            | -            | -            | -                    | -         | -            |
| <i>b) income statement</i>   | -            | -            | -            | -                    | -         | -            |
| B.5 Positive foreign exchange differences                              | -            | -            | -            | -                    | -         | -            |
| B.6 Transfer from investment property                                  | -            | -            | -            | -                    | -         | -            |
| B.7 Other changes  | 210          | 121          | -            | -                    | -         | 331          |
| <b>C. Decreases</b>  | <b>-263</b>  | <b>-232</b>  | <b>-25</b>   | <b>-22</b>           | <b>-1</b> | <b>-543</b>  |
| C.1 Sales  | -260         | -156         | -            | -                    | -         | -416         |
| <i>of which business combinations</i>                                  | -            | -            | -            | -                    | -         | -            |
| C.2 Depreciation   | -            | -73          | -25          | -22                  | -1        | -121         |
| C.3 Impairment losses recognised in                                    | -            | -3           | -            | -                    | -         | -3           |
| <i>a) shareholders' equity</i>   | -            | -            | -            | -                    | -         | -            |
| <i>b) income statement</i>   | -            | -3           | -            | -                    | -         | -3           |
| C.4 Negative fair value differences recognised in                      | -            | -            | -            | -                    | -         | -            |
| <i>a) shareholders' equity</i>   | -            | -            | -            | -                    | -         | -            |
| <i>b) income statement</i>   | -            | -            | -            | -                    | -         | -            |
| C.5 Negative foreign exchange differences                              | -            | -            | -            | -                    | -         | -            |
| C.6 Transfers to   | -            | -            | -            | -                    | -         | -            |
| <i>a) investment property</i>  | -            | -            | -            | -                    | -         | -            |
| <i>b) non-current assets held for sale and discontinued operations</i> | -            | -            | -            | -                    | -         | -            |
| C.7 Other changes  | -3           | -            | -            | -                    | -         | -3           |
| <b>D. Net final carrying amount</b>                                    | <b>1,041</b> | <b>1,495</b> | <b>164</b>   | <b>51</b>            | <b>4</b>  | <b>2,755</b> |
| D.1 Total net adjustments  | 21           | 1,139        | 900          | 1,298                | 29        | 3,387        |
| <b>D.2 Gross final carrying amount</b>                                 | <b>1,062</b> | <b>2,634</b> | <b>1,064</b> | <b>1,349</b>         | <b>33</b> | <b>6,142</b> |
| <b>E. Measurement at cost</b>  | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>             | <b>-</b>  | <b>-</b>     |

Total net adjustments (A1 and D1) include the amounts relating to depreciation and to adjustments recorded for the purpose of aligning the book value of an asset to its recoverable amount.

Subcaption E - Measurement at cost does not present any value since, as per instructions issued by the Bank of Italy, it must be completed only for property and equipment measured at fair value.

**11.6 Investment property: annual changes**

(millions of euro)

|  | TOTAL    |           |
|--|----------|-----------|
|  | Land     | Buildings |
| <b>A. Gross initial carrying amount</b>                                | <b>1</b> | <b>6</b>  |
| A.1 Total net adjustments  | -        | -4        |
| <b>A.2 Net initial carrying amount</b>                                 | <b>1</b> | <b>2</b>  |
| <b>B. Increases</b>  | -        | -         |
| B.1 Purchases  | -        | -         |
| <i>of which business combinations</i>                                  | -        | -         |
| B.2 Capitalised improvement costs                                      | -        | -         |
| B.3 Positive fair value differences                                    | -        | -         |
| B.4 Write-backs  | -        | -         |
| B.5 Positive foreign exchange differences                              | -        | -         |
| B.6 Transfer from property used in operations                          | -        | -         |
| B.7 Other changes  | -        | -         |
| <b>C. Decreases</b>  | -        | -         |
| C.1 Sales  | -        | -         |
| <i>of which business combinations</i>                                  | -        | -         |
| C.2 Depreciation   | -        | -         |
| C.3 Negative fair value differences                                    | -        | -         |
| C.4 Impairment losses  | -        | -         |
| C.5 Negative foreign exchange differences                              | -        | -         |
| C.6 Transfer to other assets   | -        | -         |
| a) <i>property used in operations</i>                                  | -        | -         |
| b) <i>non-current assets held for sale and discontinued operations</i> | -        | -         |
| C.7 Other changes  | -        | -         |
| <b>D. Final carrying amount</b>  | <b>1</b> | <b>2</b>  |
| D.1 Total net adjustments  | -        | 4         |
| <b>D.2 Gross final carrying amount</b>                                 | <b>1</b> | <b>6</b>  |
| <b>E. Fair value measurement</b>                                       | <b>4</b> | <b>5</b>  |

**11.7 Commitments to purchase property and equipment**

Commitments to purchase property and equipment in existence as at 31 December 2016 amounted to 1 million euro.

**SECTION 12 – INTANGIBLE ASSETS - CAPTION 120****12.1 Intangible assets: breakdown by type of asset**

(millions of euro)

|  | 31.12.2016            |                           | 31.12.2015            |                           |
|--|-----------------------|---------------------------|-----------------------|---------------------------|
|  | Finite<br>useful life | Indefinite<br>useful life | Finite<br>useful life | Indefinite<br>useful life |
| <b>A.1 Goodwill</b>                              | <b>X</b>              | <b>859</b>                | <b>X</b>              | <b>820</b>                |
| <b>A.2 Other intangible assets</b>               | <b>13</b>             | <b>1,507</b>              | <b>16</b>             | <b>1,507</b>              |
| A.2.1 Assets measured at cost                    | 13                    | 1,507                     | 16                    | 1,507                     |
| a) <i>Internally generated intangible assets</i> | -                     | -                         | -                     | -                         |
| b) <i>Other assets</i>                           | 13                    | 1,507                     | 16                    | 1,507                     |
| A.2.2 Assets measured at fair value              | -                     | -                         | -                     | -                         |
| a) <i>Internally generated intangible assets</i> | -                     | -                         | -                     | -                         |
| b) <i>Other assets</i>                           | -                     | -                         | -                     | -                         |
| <b>Total</b>                                     | <b>13</b>             | <b>2,366</b>              | <b>16</b>             | <b>2,327</b>              |

Other intangible assets and goodwill essentially reflect components from the purchase price allocation process, as per IFRS 3, as part of the merger by incorporation of Sanpaolo IMI into Banca Intesa.

## 12.2 Intangible assets: annual changes

(millions of euro)

|  | Goodwill     | Other intangible assets:<br>internally generated |                           | Other intangible assets:<br>other |                           | TOTAL        |
|--|--------------|--|---------------------------|-----------------------------------|---------------------------|--------------|
|  |              | Finite<br>useful life                            | Indefinite<br>useful life | Finite<br>useful life             | Indefinite<br>useful life |              |
| <b>A. Gross initial carrying amount</b>                                      | <b>6,051</b> | <b>9</b>   | -                         | <b>1,484</b>                      | <b>2,009</b>              | <b>9,553</b> |
| A.1 Total net adjustments  | -5,231       | -9   | -                         | -1,468                            | -502                      | -7,210       |
| <b>A.2 Net initial carrying amount</b>                                       | <b>820</b>   | -  | -                         | <b>16</b>                         | <b>1,507</b>              | <b>2,343</b> |
| <b>B. Increases</b>  | <b>39</b>    | -  | -                         | -                                 | -                         | <b>39</b>    |
| B.1 Purchases  | 39           | -  | -                         | -                                 | -                         | 39           |
| <i>of which business combinations</i>  | 39           | -  | -                         | -                                 | -                         | 39           |
| B.2 Increases of internally generated intangible assets                      | X            | -  | -                         | -                                 | -                         | -            |
| B.3 Write-backs  | X            | -  | -                         | -                                 | -                         | -            |
| B.4 Positive fair value differences recognised in                            | -            | -  | -                         | -                                 | -                         | -            |
| - shareholders' equity   | X            | -  | -                         | -                                 | -                         | -            |
| - income statement   | X            | -  | -                         | -                                 | -                         | -            |
| B.5 Positive foreign exchange differences                                    | -            | -  | -                         | -                                 | -                         | -            |
| B.6 Other changes  | -            | -  | -                         | -                                 | -                         | -            |
| <b>C. Decreases</b>  | -            | -  | -                         | <b>-3</b>                         | -                         | <b>-3</b>    |
| C.1 Sales  | -            | -  | -                         | -                                 | -                         | -            |
| <i>of which business combinations</i>  | -            | -  | -                         | -                                 | -                         | -            |
| C.2 Impairment losses  | -            | -  | -                         | -3                                | -                         | -3           |
| - Amortisation   | X            | -  | -                         | -3                                | -                         | -3           |
| - Write-downs recognised in  | -            | -  | -                         | -                                 | -                         | -            |
| <i>shareholders' equity</i>  | X            | -  | -                         | -                                 | -                         | -            |
| <i>income statement</i>  | -            | -  | -                         | -                                 | -                         | -            |
| C.3 Negative fair value differences recognised in                            | -            | -  | -                         | -                                 | -                         | -            |
| - shareholders' equity   | X            | -  | -                         | -                                 | -                         | -            |
| - income statement   | X            | -  | -                         | -                                 | -                         | -            |
| C.4 Transfer to non-current assets held for sale and discontinued operations | -            | -  | -                         | -                                 | -                         | -            |
| C.5 Negative foreign exchange differences                                    | -            | -  | -                         | -                                 | -                         | -            |
| C.6 Other changes  | -            | -  | -                         | -                                 | -                         | -            |
| <b>D. Net final carrying amount</b>  | <b>859</b>   | -  | -                         | <b>13</b>                         | <b>1,507</b>              | <b>2,379</b> |
| D.1 Total net adjustments  | 5,344        | 8  | -                         | 1,474                             | 502                       | 7,328        |
| <b>E. Gross final carrying amount</b>  | <b>6,203</b> | <b>8</b>   | -                         | <b>1,487</b>                      | <b>2,009</b>              | <b>9,707</b> |
| <b>F. Measurement at cost</b>  | -            | -  | -                         | -                                 | -                         | -            |

## 12.3 Intangible assets: other information

There were no commitments to purchase intangible assets as at 31 December 2016.

**Information on intangible assets and goodwill**

Intangible assets and goodwill recognised to the Intesa Sanpaolo balance sheet derive mainly from the merger between Banca Intesa and Sanpaolo IMI completed on 1 January 2007.

Reference should be made to Part B – Information on the consolidated balance sheet – Assets of the consolidated financial statements for further details of the various components and measurement criteria.

The following table summarises the different values recorded for changes occurring during 2016.

|  | Financial<br>statements as at<br>31.12.2015 | Other<br>changes<br>(a) | Amortisation | Financial<br>statements<br>as at 31.12.2016 |
|--|---|-------------------------|--------------|---|
| (millions of euro)                           |   |                         |              |   |
| <b>BANCA DEI TERRITORI</b>                   |   |                         |              |   |
| - Intangible asset management - distribution | -   | -                       | -            | -   |
| - Intangible assets insurance - distribution | 16  | -                       | -2           | 14  |
| - Intangible core deposits                   | -   | -                       | -            | -   |
| - Intangible brand name                      | 1,507                                       | -                       | -            | 1,507                                       |
| - Goodwill                                   | 820   | 39                      | -            | 859   |
| <b>CORPORATE AND INVESTMENT BANKING</b>      |   |                         |              |   |
| - Intangible brand name                      | -   | -                       | -            | -   |
| - Goodwill                                   | -   | -                       | -            | -   |
| <b>TOTAL</b>                                 | <b>2,343</b>                                | <b>39</b>               | <b>-2</b>    | <b>2,380</b>                                |
| - Intangible asset management - distribution | -   | -                       | -            | -   |
| - Intangible assets insurance - distribution | 16  | -                       | -2           | 14  |
| - Intangible core deposits                   | -   | -                       | -            | -   |
| - Intangible brand name                      | 1,507                                       | -                       | -            | 1,507                                       |
| - Goodwill                                   | 820   | 39                      | -            | 859   |

(a) The values include the effects of the merger by incorporation of Banca dell'Adriatico and Casse di Risparmio dell'Umbria into Intesa Sanpaolo.

Intangible assets recognised include intangible assets related to customers, represented by the residual value of the insurance portfolio (for the value component attributable to distribution).

The intangible assets with a finite life are originally measured by discounting the income margin cash flows over a period representing the residual life, contractual and estimated, of relationships existing at the time of the business combination. The brand name, an intangible asset linked to marketing, was also measured. This asset is considered to have an indefinite life since it is expected to contribute for an indefinite period of time to the formation of income flows.

For the intangible assets with a finite useful life, the amortisation for the year was recognised to the income statement (under 180. Net adjustments to/recoveries on intangible assets) for a total of 2 million euro.

Based on IAS 36, both intangible assets with an indefinite useful life and goodwill are submitted to impairment testing on an annual basis to verify recoverability of their value. For intangible assets with a finite useful life, impairment must be calculated each time there is evidence of impairment indicators. The recoverable amount consists of the higher of the fair value less costs to sell and the value in use.

Lastly, it should be mentioned that IAS 36, for the purpose of calculating the Value in use of intangibles subject to impairment testing, states that reference must be made to cash flows for the intangible asset in its current condition (as at the impairment test date), with no distinction between cash flows arising from the asset initially recognised according to IFRS 3 and those deriving from later changes, improvements or developments since its acquisition. This because it would be difficult, especially with regard to extraordinary transactions between businesses or changes in the asset following significant turnover in volumes, customers, contracts, etc., to separate flows relating to the original asset from others. This concept can also be applied in impairment testing of goodwill to calculate the Value in use of the CGUs, for which the cash flows have to be considered with regard to all assets and liabilities of that CGU and not only the assets and liabilities for which goodwill was recognised on application of IFRS 3. As in previous financial statements, given the instability of the financial markets and the available market values for calculation of the recoverable amount, which generally remain depressed, values in use were used in the impairment tests for the 2016 financial statements.

Furthermore, the methods and assumptions of the impairment test procedures for intangible assets and goodwill defined by management were approved by the Board of Directors prior to approval of the draft financial statements for 2016.

## Impairment testing of intangibles

### Insurance portfolio

For the 2016 financial statements, the amortisation of the asset for the year was recognised to the income statement.

The amortisation for the year, which for the insurance portfolio is calculated on a variable basis corresponding to the residual lives of the policies was equal to 2 million euro gross of the tax effect, slightly above 10% of the value of the asset recognised at the end of 2015.

The analyses conducted during the year on the main impairment indicators were updated and extended for this type of intangible as well. However, a thorough recalculation of value of the intangible asset was not performed since in 2016 the performance of the insurance business did not present any particular critical issues or indicators of impairment deriving from the performances of the various variables subject to constant monitoring on a periodic basis.

### Brand name

IFRS 3 considers the "brand name" a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process for business combinations.

For this purpose, please note that the term "brand" is used in accounting standards with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.

The value recorded in the Intesa Sanpaolo financial statements refers to the Sanpaolo IMI brand recognised at the time of the Banca Intesa-Sanpaolo IMI merger.

As this intangible asset has no independent cash flows, for impairment testing purposes for the 2016 financial statements, similarly to previous financial statements, it was included in the verification of the retention of goodwill for the various CGUs. No need for impairment was identified on the basis of the verification conducted.

## Impairment testing of CGUs and goodwill

For impairment testing purposes, the estimation of the value in use relating to intangible assets with an indefinite life (including goodwill) that do not generate cash flows unless jointly with other business, as per IAS 36, requires the preliminary assignment of such intangible assets to relatively independent business units, able to generate cash flows strongly independent of those produced in other business areas, but interdependent within the business unit generating them. In IAS/IFRS terminology such business units are known as Cash-Generating Units (CGUs).

Specifically, the allocation of goodwill as at the date of the business combination takes into account the benefits produced by the synergies expected from the combination.

In the Intesa Sanpaolo Group, the CGUs which in the long-term benefit from the synergies of the business combinations performed and which to various extents have recognised goodwill values are:

- Banca dei Territori;
- Corporate and Investment Banking;
- Insurance;
- Asset Management;
- Private Banking;
- International Subsidiary Banks;
- Bank of Alexandria;
- Pravex Bank.

For a description of the criteria relating to the definition of the Group's CGUs reference is made to Part B - Information on the Consolidated financial statements – Assets.

More specifically, goodwill recognised to Intesa Sanpaolo financial statements has been entirely allocated to the Banca dei Territori CGU.

As CGU identification requires an analysis of the management characteristics and reporting methods used by management, and as the logic for strategic decision-making by management of the Parent Company is that of the Group as a whole and not only that of the Parent Company as an individual entity, the CGUs are identified in the consolidated financial statements.

Furthermore, as illustrated in the Accounting Policies, controlling investments are not treated, for impairment test purposes, as single assets to be individually subjected to testing. Considering the organisational model adopted by Intesa Sanpaolo, CGUs are defined without regard to the structure of legal entities, inasmuch as investments are aggregated, along with the operating activities performed directly by the Parent Company, into CGUs of greater size or different structure. Accordingly, the impairment test performed at the consolidated level is also relevant at the Parent Company's financial statements level.

For an illustration of impairment tests for this caption, reference should be made to Part B - Information on the consolidated balance sheet - Assets of the consolidated financial statements.

If a need to recognise an impairment loss on goodwill attributable to a given CGU is identified at the level of the consolidated financial statements, in the Parent Company's financial statements that impairment loss is attributed to the assets pertaining to the same CGU not subject to testing individually, namely goodwill, the brand name and investments in subsidiaries. As described in Part B – Information on the consolidated balance sheet - Assets, no value adjustments were identified at the CGU level in the consolidated financial statements. Therefore, on the basis of the results of the impairment test conducted at the level of the consolidated financial statements, there was no need for adjustments recognised in the Parent Company's financial statements.

## SECTION 13 – TAX ASSETS AND LIABILITIES – CAPTION 130 OF ASSETS AND CAPTION 80 OF LIABILITIES

## 13.1 Deferred tax assets: breakdown

(millions of euro)

| Corresponding caption in income statement                           | 31.12.2016          |                     | 31.12.2015          |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | IRES (27.5%)        | IRAP (5.56%)        | IRES (27.5%)        | IRAP (5.56%)        |
| <b>A. Temporary deductible differences</b>                          |                     |                     |                     |                     |
| Adjustment to/Impairment of loans deductible in future years        | 1,688               | 186                 | 1,599               | 179                 |
| <i>of which pertaining to countries of foreign branches</i>         | 9                   | -                   | 8                   | -                   |
| Provisions for future charges                                       | 355                 | 51                  | 321                 | 41                  |
| Higher tax value of equity investments, securities and other assets | 111                 | 20                  | 101                 | 10                  |
| <i>of which pertaining to countries of foreign branches</i>         | -                   | -                   | -                   | -                   |
| Extraordinary charges for incentive-driven exit plans               | 32                  | 6                   | 23                  | 4                   |
| Goodwill, trademarks and other intangible assets                    | 4,050               | 844                 | 4,128               | 831                 |
| Other   | 50                  | 10                  | 25                  | 3                   |
| <b>B. Taxable temporary differences</b>                             |                     |                     |                     |                     |
| Costs deducted off balance sheet                                    | -                   | -                   | -                   | -                   |
| Capital gains in instalments  | -                   | -                   | -                   | -                   |
| Lower tax value of equity investments, securities and other assets  | 94                  | 17                  | 95                  | 21                  |
| Other   | 41                  | 3                   | 41                  | -                   |
| <b>TOTAL</b>  | <b>6,151</b>        | <b>1,097</b>        | <b>6,061</b>        | <b>1,047</b>        |
| <b>Corresponding caption in Shareholders' equity</b>                | <b>IRES (27.5%)</b> | <b>IRAP (5.56%)</b> | <b>IRES (27.5%)</b> | <b>IRAP (5.56%)</b> |
| Cash flow hedge   | 442                 | 89                  | 437                 | 89                  |
| Recognition of actuarial gains/losses                               | 170                 | -                   | 226                 | 46                  |
| Assets available for sale   | 68                  | 9                   | 50                  | 5                   |
| Other reserves  | -                   | -                   | -                   | -                   |
| <b>TOTAL</b>  | <b>680</b>          | <b>98</b>           | <b>713</b>          | <b>140</b>          |
| <b>Total deferred tax assets</b>                                    | <b>6,831</b>        | <b>1,195</b>        | <b>6,774</b>        | <b>1,187</b>        |

## 13.2 Deferred tax liabilities: breakdown

(millions of euro)

| Corresponding caption in income statement                    | 31.12.2016          |                     | 31.12.2015          |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | IRES (27,5%)        | IRAP (5,56%)        | IRES (27,5%)        | IRAP (5,56%)        |
| <b>A. Taxable temporary differences</b>                      |                     |                     |                     |                     |
| Costs deducted off balance sheet                             | 275                 | 50                  | 210                 | 40                  |
| Lower tax value of securities and other assets               | 214                 | 24                  | 225                 | 22                  |
| <i>of which pertaining to countries of foreign branches</i>  | -                   | -                   | 1                   | -                   |
| Other  | 2                   | -                   | 2                   | -                   |
| <b>B. Temporary deductible differences</b>                   |                     |                     |                     |                     |
| Adjustment to/Impairment of loans deductible in future years | -                   | -                   | -                   | -                   |
| Higher tax value of securities and other assets              | -                   | -                   | -                   | -                   |
| Other  | -                   | -                   | -                   | -                   |
| <b>TOTAL</b>   | <b>491</b>          | <b>74</b>           | <b>437</b>          | <b>62</b>           |
| <b>Corresponding caption in Shareholders' equity</b>         | <b>IRES (27.5%)</b> | <b>IRAP (5.56%)</b> | <b>IRES (27.5%)</b> | <b>IRAP (5.56%)</b> |
| Cash flow hedge  | -                   | -                   | -                   | -                   |
| Recognition of actuarial gains/losses                        | -                   | -                   | 102                 | 21                  |
| Assets available for sale                                    | 38                  | 18                  | 33                  | 4                   |
| <b>TOTAL</b>   | <b>38</b>           | <b>18</b>           | <b>135</b>          | <b>25</b>           |
| <b>Total deferred tax liabilities</b>                        | <b>529</b>          | <b>92</b>           | <b>572</b>          | <b>87</b>           |



**13.3 Changes in deferred tax assets (through profit and loss)**

(millions of euro)

|   | <b>31.12.2016</b> | <b>31.12.2015</b> |
|---|-------------------|-------------------|
| <b>1. Initial amount</b>  | <b>7,108</b>      | <b>6,937</b>      |
| <b>2. Increases</b>   | <b>620</b>        | <b>665</b>        |
| 2.1 Deferred tax assets recognised in the period                | 225               | 194               |
| a) <i>related to previous years</i>                             | 18                | 50                |
| b) <i>due to changes in accounting criteria</i>                 | -                 | -                 |
| c) <i>writebacks</i>  | -                 | -                 |
| d) <i>other</i>   | 207               | 144               |
| 2.2 New taxes or tax rate increases                             | -                 | -                 |
| 2.3 Other increases   | 174               | 204               |
| 2.4 Business combinations                                       | 221               | 267               |
| <b>3. Decreases</b>   | <b>-480</b>       | <b>-494</b>       |
| 3.1 Deferred tax assets eliminated in the period                | -323              | -141              |
| a) <i>reversals</i>   | -315              | -138              |
| b) <i>write-offs due to expired recoverability</i>              | -                 | -                 |
| c) <i>changes in accounting criteria</i>                        | -                 | -                 |
| d) <i>other</i>   | -8                | -3                |
| 3.2 Tax rate reductions   | -                 | -                 |
| 3.3 Other decreases   | -157              | -353              |
| a) <i>changes into tax credits pursuant to Law no. 214/2011</i> | -                 | -                 |
| b) <i>other</i>   | -157              | -353              |
| 3.4 Business combinations                                       | -                 | -                 |
| <b>4. Final amount</b>  | <b>7,248</b>      | <b>7,108</b>      |

Other increases refer to write-off of netting against deferred tax liabilities, applied as at 31 December 2015, amounting to 157 million euro.

"Other decreases – other" as at 31 December 2016 include 155 million euro attributable to the netting against deferred tax liabilities for the year.

**13.3.1 Changes in deferred tax assets eligible for transformation into tax credits (through profit and loss) (Law 214/2011)**

(millions of euro)

|                                    | <b>31.12.2016</b> | <b>31.12.2015</b> |
|------------------------------------|-------------------|-------------------|
| <b>1. Initial amount</b>           | <b>6,729</b>      | <b>6,623</b>      |
| <b>2. Increases</b>                | <b>245</b>        | <b>320</b>        |
| <b>3. Decreases</b>                | <b>-216</b>       | <b>-214</b>       |
| 3.1 Reversals                      | -216              | -19               |
| 3.2 Changes into tax credits       | -                 | -                 |
| a) <i>from losses for the year</i> | -                 | -                 |
| b) <i>from fiscal losses</i>       | -                 | -                 |
| 3.3 Other decreases                | -                 | -195              |
| <b>4. Final amount</b>             | <b>6,758</b>      | <b>6,729</b>      |

**13.4 Changes in deferred tax liabilities (through profit and loss)**

(millions of euro)

|   | 31.12.2016  | 31.12.2015  |
|---|-------------|-------------|
| <b>1. Initial amount</b>                              | <b>499</b>  | <b>418</b>  |
| <b>2. Increases</b>                                   | <b>244</b>  | <b>290</b>  |
| 2.1 Deferred tax liabilities recognised in the period | 86          | 74          |
| a) <i>related to previous years</i>                   | -           | -           |
| b) <i>due to changes in accounting criteria</i>       | -           | -           |
| c) <i>other</i>                                       | 86          | 74          |
| 2.2 New taxes or tax rate increases                   | -           | -           |
| 2.3 Other increases                                   | 157         | 196         |
| 2.4 Business combinations                             | 1           | 20          |
| <b>3. Decreases</b>                                   | <b>-178</b> | <b>-209</b> |
| 3.1 Deferred tax liabilities eliminated in the period | -23         | -26         |
| a) <i>reversals</i>                                   | -7          | -9          |
| b) <i>due to changes in accounting criteria</i>       | -           | -           |
| c) <i>other</i>                                       | -16         | -17         |
| 3.2 Tax rate reductions                               | -           | -           |
| 3.3 Other decreases                                   | -155        | -183        |
| 3.4 Business combinations                             | -           | -           |
| <b>4. Final amount</b>                                | <b>565</b>  | <b>499</b>  |

Other increases refer to write-off of netting against deferred tax assets performed as at 31 December 2015, amounting to 157 million euro.

Other decreases as at 31 December 2016 include 155 million euro attributable to the netting against deferred tax assets for the year.

**13.5 Changes in deferred tax assets (recorded in equity)**

(millions of euro)

|  | 31.12.2016  | 31.12.2015  |
|--|-------------|-------------|
| <b>1. Initial amount</b>                         | <b>853</b>  | <b>874</b>  |
| <b>2. Increases</b>                              | <b>209</b>  | <b>212</b>  |
| 2.1 Deferred tax assets recognised in the period | 167         | 90          |
| a) <i>related to previous years</i>              | -           | 33          |
| b) <i>due to changes in accounting criteria</i>  | -           | -           |
| c) <i>other</i>                                  | 167         | 57          |
| 2.2 New taxes or tax rate increases              | -           | -           |
| 2.3 Other increases                              | 42          | 122         |
| 2.4 Business combinations                        | -           | -           |
| <b>3. Decreases</b>                              | <b>-284</b> | <b>-233</b> |
| 3.1 Deferred tax assets eliminated in the period | -104        | -226        |
| a) <i>reversals</i>                              | -102        | -226        |
| b) <i>write-offs</i>                             | -           | -           |
| c) <i>due to changes in accounting criteria</i>  | -           | -           |
| d) <i>other</i>                                  | -2          | -           |
| 3.2 Tax rate reductions                          | -           | -           |
| 3.3 Other decreases                              | -180        | -7          |
| 3.4 Business combinations                        | -           | -           |
| <b>4. Final amount</b>                           | <b>778</b>  | <b>853</b>  |

**13.6 Changes in deferred tax liabilities (recorded in equity)**

(millions of euro)

|   | 31.12.2016  | 31.12.2015  |
|---|-------------|-------------|
| <b>1. Initial amount</b>                              | <b>160</b>  | <b>96</b>   |
| <b>2. Increases</b>                                   | <b>56</b>   | <b>245</b>  |
| 2.1 Deferred tax liabilities recognised in the period | 47          | 130         |
| <i>a) related to previous years</i>                   | -           | -           |
| <i>b) due to changes in accounting criteria</i>       | -           | -           |
| <i>c) other</i>                                       | 47          | 130         |
| 2.2 New taxes or tax rate increases                   | -           | -           |
| 2.3 Other increases                                   | 9           | 115         |
| 2.4 Business combinations                             | -           | -           |
| <b>3. Decreases</b>                                   | <b>-160</b> | <b>-181</b> |
| 3.1 Deferred tax liabilities eliminated in the period | -35         | -130        |
| <i>a) reversals</i>                                   | -35         | -130        |
| <i>b) due to changes in accounting criteria</i>       | -           | -           |
| <i>c) other</i>                                       | -           | -           |
| 3.2 Tax rate reductions                               | -           | -           |
| 3.3 Other decreases                                   | -125        | -51         |
| 3.4 Business combinations                             | -           | -           |
| <b>4. Final amount</b>                                | <b>56</b>   | <b>160</b>  |

***Probability test on deferred taxation***

For information concerning the probability test on deferred taxation, refer to the contents of Part B – Assets of the Notes to the consolidated financial statements.

The test performed showed a taxable base that was more than sufficient and adequate to allow recovery of the deferred taxes carried in the financial statements as at 31 December 2016.

**13.7 Other information**

There is no other information to be provided in addition to that already contained in this Section.

**SECTION 14 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES -  
CAPTION 140 OF ASSETS AND CAPTION 90 OF LIABILITIES**

**14.1 Non-current assets held for sale and discontinued operations: breakdown by type of asset**

In 2016 a book value of 1 million euro relative to property and equipment deriving from business combinations was reclassified to Non-current assets held for sale and discontinued operations; the fair value (level 3) of these assets as at 31 December 2016 amounts to 4 million euro.

**14.2 Other information**

There is no other information to be provided.

**14.3 Information on companies subject to significant influence not carried at shareholders' equity**

This caption is not present.

**SECTION 15 – OTHER ASSETS – CAPTION 150**

**15.1 Other assets: breakdown**

(millions of euro)

|   | <b>TOTAL</b> |
|---|--------------|
| Amounts to be credited and items under processing             | 425          |
| Amounts to be debited - deriving from securities transactions | 1            |
| Bank cheques drawn on third parties to be settled             | 125          |
| Transit items   | 21           |
| Checks and other instruments held                             | 33           |
| Leasehold improvements  | 40           |
| Due from Group companies on fiscal consolidation              | 248          |
| Other   | 1,941        |
| <b>TOTAL 31.12.2016</b>                                       | <b>2,834</b> |
| <b>TOTAL 31.12.2015</b>                                       | <b>2,361</b> |

## LIABILITIES

### SECTION 1 – DUE TO BANKS – CAPTION 10

#### 1.1 Due to banks: breakdown

|   | (millions of euro) |                |
|---|--------------------|----------------|
|   | 31.12.2016         | 31.12.2015     |
| <b>1. Due to Central Banks</b>                                    | <b>45,574</b>      | <b>31,265</b>  |
| <b>2. Due to banks</b>  | <b>93,462</b>      | <b>94,252</b>  |
| 2.1 Current accounts and deposits                                 | 18,187             | 15,683         |
| 2.2 Time deposits   | 68,132             | 71,727         |
| 2.3 Loans   | 6,065              | 6,782          |
| 2.3.1 Repurchase agreements                                       | 2,008              | 2,336          |
| 2.3.2 Other   | 4,057              | 4,446          |
| 2.4 Debts for commitments to repurchase<br>own equity instruments | -                  | -              |
| 2.5 Other debts   | 1,078              | 60             |
| <b>TOTAL (book value)</b>   | <b>139,036</b>     | <b>125,517</b> |
| Fair value - Level 1  | -                  | -              |
| Fair value - Level 2  | 84,846             | 68,397         |
| Fair value - Level 3  | 54,517             | 57,518         |
| <b>TOTAL (Fair value)</b>   | <b>139,363</b>     | <b>125,915</b> |

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies. Repurchase agreements related to financial assets sold not derecognised are detailed in Part E – Section C.2. With regard to long term repurchase agreements, reference should be made to the information reported under Table 1.1 of Section 1 - Liabilities of the Notes to the consolidated financial statements.

#### 1.2 Breakdown of caption 10 Due to banks: subordinated debts

As at 31 December 2016 Intesa Sanpaolo had no subordinated debts to banks.

#### 1.3 Breakdown of caption 10 Due to banks: structured debts

As at 31 December 2016 Intesa Sanpaolo has structured debts totalling 238 million euro.

#### 1.4 Due to banks with specific hedges

|  | (millions of euro) |               |
|--|--------------------|---------------|
|  | 31.12.2016         | 31.12.2015    |
| <b>1. Due to banks with specific fair value hedges</b> | <b>38,482</b>      | <b>26,013</b> |
| a) Interest rate risk                                  | 38,275             | 25,861        |
| b) Foreign exchange risk                               | -                  | -             |
| c) Various risks                                       | 207                | 152           |
| <b>2. Due to banks with specific cash flow hedges</b>  | <b>-</b>           | <b>-</b>      |
| a) Interest rate risk                                  | -                  | -             |
| b) Foreign exchange risk                               | -                  | -             |
| c) Other   | -                  | -             |
| <b>TOTAL</b>   | <b>38,482</b>      | <b>26,013</b> |

**1.5 Financial lease payables***1.5.1 Financial lease payables: breakdown by time interval*

(millions of euro)

|                               | <b>31.12.2016</b> | <b>31.12.2015</b> |
|-------------------------------|-------------------|-------------------|
| <b>Finance lease payables</b> |                   |                   |
| a) within 1 year              | 3                 | 1                 |
| b) between 1 and 5 years      | 3                 | 5                 |
| c) over 5 years               | -                 | 1                 |
| <b>TOTAL</b>                  | <b>6</b>          | <b>7</b>          |

**SECTION 2 – DUE TO CUSTOMERS – CAPTION 20****2.1 Due to customers: breakdown**

(millions of euro)

|   | <b>31.12.2016</b> | <b>31.12.2015</b> |
|---|-------------------|-------------------|
| 1. Current accounts and deposits                              | 122,824           | 95,686            |
| 2. Time deposits  | 12,147            | 16,806            |
| 3. Loans  | 10,079            | 9,711             |
| 3.1 Repurchase agreements                                     | 7,028             | 6,324             |
| 3.2 Other   | 3,051             | 3,387             |
| 4. Debts for commitments to repurchase own equity instruments | -                 | -                 |
| 5. Other debts  | 2,314             | 2,042             |
| <b>TOTAL (book value)</b>                                     | <b>147,364</b>    | <b>124,245</b>    |
| Fair value - Livello 1  | -                 | -                 |
| Fair value - Livello 2  | 138,049           | 113,843           |
| Fair value - Livello 3  | 9,431             | 10,553            |
| <b>TOTAL (Fair value)</b>                                     | <b>147,480</b>    | <b>124,396</b>    |

Repurchase agreements related to assets sold not derecognised are detailed in Part E - Section E.

Loans - Other includes 340 million euro regarding the exposure on the sale of loans related to the Sec 3 securitisation and 4 million euro regarding the K-Equity securitisation. For additional details, see Part E - Section C of the Notes.

**2.2 Breakdown of caption 20 Due to customers: subordinated debts**

As at 31 December 2016 Intesa Sanpaolo had no subordinated debts to customers.

**2.3 Breakdown of caption 20 Due to customers: structured debts**

As at 31 December 2016 Intesa Sanpaolo had no structured debts to customers.

**2.4 Due to customers with specific hedges**

As at 31 December 2016 Intesa Sanpaolo had no debts to customers with specific hedges.

**2.5 Financial lease payables***2.5.1 Financial lease payables: breakdown by time interval*

As at 31 December 2016 Intesa Sanpaolo has no financial leases with customers.

## SECTION 3 – SECURITIES ISSUED - CAPTION 30

## 3.1 Securities issued: breakdown

(millions of euro)

|                      | Book value    | 31.12.2016    |               |           | 31.12.2015    |               |               |           |
|----------------------|---------------|---------------|---------------|-----------|---------------|---------------|---------------|-----------|
|                      |               | Fair value    |               |           | Fair value    |               |               |           |
|                      |               | Level 1       | Level 2       | Level 3   | Level 1       | Level 2       | Level 3       |           |
| <b>A. Securities</b> |               |               |               |           |               |               |               |           |
| 1. bonds             | 83,243        | 42,404        | 42,179        | 14        | 94,899        | 49,920        | 46,937        | 56        |
| 1.1 structured       | 1,018         | -             | 974           | 14        | 1,195         | -             | 1,231         | 15        |
| 1.2 other            | 82,225        | 42,404        | 41,205        | -         | 93,704        | 49,920        | 45,706        | 41        |
| 2. other             | 1,581         | -             | 1,581         | -         | 4,546         | -             | 4,540         | 7         |
| 2.1 structured       | -             | -             | -             | -         | -             | -             | -             | -         |
| 2.2 other            | 1,581         | -             | 1,581         | -         | 4,546         | -             | 4,540         | 7         |
| <b>TOTAL</b>         | <b>84,824</b> | <b>42,404</b> | <b>43,760</b> | <b>14</b> | <b>99,445</b> | <b>49,920</b> | <b>51,477</b> | <b>63</b> |

Embedded derivatives that, as at their issue date, have satisfied the conditions set forth by IAS 39 for separation from the host contract as at 31 December 2016, have a net negative fair value of 159 million euro, compared to a net negative fair value as at 31 December 2015 amounting to 230 million euro.

The illustration of the criteria used to determine the fair value is contained in Part A – Accounting policies.

## 3.2 Breakdown of caption 30 Securities issued: subordinated securities

Securities issued includes subordinated securities amounting to 13,987 million euro.

## 3.3 Breakdown of caption 30 Securities issued: securities with specific hedges

(millions of euro)

|  | 31.12.2016    | 31.12.2015    |
|--|---------------|---------------|
| <b>1. Securities with specific fair value hedges</b> | <b>59,077</b> | <b>69,935</b> |
| a) Interest rate risk                                | 58,219        | 67,990        |
| b) Foreign exchange risk                             | -             | -             |
| c) Various risks                                     | 858           | 1,945         |
| <b>2. Securities with specific cash flow hedges</b>  | <b>54</b>     | <b>54</b>     |
| a) Interest rate risk                                | 54            | 54            |
| b) Foreign exchange risk                             | -             | -             |
| c) Other   | -             | -             |
| <b>TOTAL</b>   | <b>59,131</b> | <b>69,989</b> |

**SECTION 4 – FINANCIAL LIABILITIES HELD FOR TRADING – CAPTION 40****4.1 Financial liabilities held for trading: breakdown**

(millions of euro)

|                                 | Nominal<br>or notional<br>value | 31.12.2016 |               |            | Fair<br>value <sup>(*)</sup> | Nominal<br>or notional<br>value | 31.12.2015 |               |            | Fair<br>value <sup>(*)</sup> |
|---------------------------------|---------------------------------|------------|---------------|------------|------------------------------|---------------------------------|------------|---------------|------------|------------------------------|
|                                 |                                 | Level 1    | Level 2       | Level 3    |                              |                                 | Level 1    | Level 2       | Level 3    |                              |
| <b>A. CASH LIABILITIES</b>      |                                 |            |               |            |                              |                                 |            |               |            |                              |
| <b>1. Due to banks</b>          | <b>666</b>                      | <b>657</b> | -             | -          | <b>657</b>                   | <b>215</b>                      | <b>213</b> | -             | -          | <b>213</b>                   |
| <b>2. Due to customers</b>      | -                               | -          | -             | -          | -                            | <b>545</b>                      | <b>542</b> | -             | -          | <b>542</b>                   |
| <b>3. Debt securities</b>       | -                               | -          | -             | -          | <b>X</b>                     | -                               | -          | -             | -          | <b>X</b>                     |
| 3.1 Bonds                       | -                               | -          | -             | -          | X                            | -                               | -          | -             | -          | X                            |
| 3.1.1 structured                | -                               | -          | -             | -          | X                            | -                               | -          | -             | -          | X                            |
| 3.1.2 other bonds               | -                               | -          | -             | -          | X                            | -                               | -          | -             | -          | X                            |
| 3.2 Other                       | -                               | -          | -             | -          | X                            | -                               | -          | -             | -          | X                            |
| 3.2.1 structured                | -                               | -          | -             | -          | X                            | -                               | -          | -             | -          | X                            |
| 3.2.2 other                     | -                               | -          | -             | -          | X                            | -                               | -          | -             | -          | X                            |
| <b>Total A</b>                  | <b>666</b>                      | <b>657</b> | -             | -          | <b>657</b>                   | <b>760</b>                      | <b>755</b> | -             | -          | <b>755</b>                   |
| <b>B. DERIVATIVES</b>           |                                 |            |               |            |                              |                                 |            |               |            |                              |
| <b>1. Financial derivatives</b> | <b>X</b>                        | -          | <b>15,778</b> | <b>114</b> | <b>X</b>                     | <b>X</b>                        | -          | <b>14,945</b> | <b>128</b> | <b>X</b>                     |
| 1.1 Trading                     | X                               | -          | 15,597        | -          | X                            | X                               | -          | 14,699        | -          | X                            |
| 1.2 Fair value option           | X                               | -          | 37            | -          | X                            | X                               | -          | 37            | -          | X                            |
| 1.3 Other                       | X                               | -          | 144           | 114        | X                            | X                               | -          | 209           | 128        | X                            |
| <b>2. Credit derivatives</b>    | <b>X</b>                        | -          | <b>101</b>    | <b>20</b>  | <b>X</b>                     | <b>X</b>                        | -          | <b>75</b>     | <b>18</b>  | <b>X</b>                     |
| 2.1 Trading                     | X                               | -          | 101           | 20         | X                            | X                               | -          | 75            | 18         | X                            |
| 2.2 Fair value option           | X                               | -          | -             | -          | X                            | X                               | -          | -             | -          | X                            |
| 2.3 Other                       | X                               | -          | -             | -          | X                            | X                               | -          | -             | -          | X                            |
| <b>Total B</b>                  | <b>X</b>                        | -          | <b>15,879</b> | <b>134</b> | <b>X</b>                     | <b>X</b>                        | -          | <b>15,020</b> | <b>146</b> | <b>X</b>                     |
| <b>TOTAL (A+B)</b>              | <b>X</b>                        | <b>657</b> | <b>15,879</b> | <b>134</b> | <b>X</b>                     | <b>X</b>                        | <b>755</b> | <b>15,020</b> | <b>146</b> | <b>X</b>                     |

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.

A.1 Due to banks and A.2 Due to customers consist entirely of short selling.

**4.2 Breakdown of caption 40 Financial liabilities held for trading: subordinated liabilities**

Intesa Sanpaolo has no subordinated liabilities classified under Financial liabilities held for trading.

**4.3 Breakdown of caption 40 Financial liabilities held for trading: structured debts**

Intesa Sanpaolo has no structured debts classified under Financial liabilities held for trading.

**SECTION 5 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS – CAPTION 50****5.1 Financial liabilities designated at fair value: breakdown**

(millions of euro)

|                     | Nominal<br>value | 31.12.2016 |          |         | Fair<br>value <sup>(*)</sup> | Nominal<br>value | 31.12.2015 |          |         | Fair<br>value <sup>(*)</sup> |
|---------------------|------------------|------------|----------|---------|------------------------------|------------------|------------|----------|---------|------------------------------|
|                     |                  | Level 1    | Level 2  | Level 3 |                              |                  | Level 1    | Level 2  | Level 3 |                              |
| 1. Due to banks     | 5                | -          | 3        | -       | 3                            | 3                | -          | 3        | -       | 3                            |
| 1.1 structured      | 5                | -          | 3        | -       | X                            | 3                | -          | 3        | -       | X                            |
| 1.2 other           | -                | -          | -        | -       | X                            | -                | -          | -        | -       | X                            |
| 2. Due to customers | 6                | -          | 5        | -       | 5                            | 2                | -          | 1        | -       | 1                            |
| 2.1 structured      | 6                | -          | 5        | -       | X                            | 2                | -          | 1        | -       | X                            |
| 2.2 other           | -                | -          | -        | -       | X                            | -                | -          | -        | -       | X                            |
| 3. Debt securities  | -                | -          | -        | -       | -                            | -                | -          | -        | -       | -                            |
| 3.1 structured      | -                | -          | -        | -       | X                            | -                | -          | -        | -       | X                            |
| 3.2 other           | -                | -          | -        | -       | X                            | -                | -          | -        | -       | X                            |
| <b>TOTAL</b>        | <b>11</b>        | -          | <b>8</b> | -       | <b>8</b>                     | <b>5</b>         | -          | <b>4</b> | -       | <b>4</b>                     |

(\*) Fair value calculated excluding changes in creditworthiness of the issuer after issue date.



The Bank has classified in this category debts connected to the LECOIP for the employment agreements, terminated early, of employees of Group companies and life policies connected to social initiatives, managed by the Bank based on fair value. The amount of relevant annual and total fair value change attributable to the changes in its own credit rating occurred in the year is immaterial.

## 5.2 Breakdown of caption 50 Financial liabilities designated at fair value: subordinated liabilities

Intesa Sanpaolo has no subordinated liabilities classified under Financial liabilities designated at fair value.

## SECTION 6 - HEDGING DERIVATIVES – CAPTION 60

### 6.1. Hedging derivatives: breakdown by type of hedge and hierarchical level

(millions of euro)

|                                 | Fair value 31.12.2016 |              |          | Notional value | Fair value 31.12.2015 |              |          | Notional value |
|---------------------------------|-----------------------|--------------|----------|----------------|-----------------------|--------------|----------|----------------|
|                                 | Level 1               | Level 2      | Level 3  |                | Level 1               | Level 2      | Level 3  |                |
| <b>A. Financial derivatives</b> | -                     | <b>6,513</b> | <b>4</b> | <b>89,110</b>  | -                     | <b>5,954</b> | <b>6</b> | <b>60,137</b>  |
| 1. Fair value                   | -                     | 4,579        | 4        | 81,999         | -                     | 4,022        | 6        | 53,350         |
| 2. Cash flows                   | -                     | 1,934        | -        | 7,111          | -                     | 1,932        | -        | 6,787          |
| 3. Foreign investments          | -                     | -            | -        | -              | -                     | -            | -        | -              |
| <b>B. Credit derivatives</b>    | -                     | -            | -        | -              | -                     | -            | -        | -              |
| 1. Fair value                   | -                     | -            | -        | -              | -                     | -            | -        | -              |
| 2. Cash flows                   | -                     | -            | -        | -              | -                     | -            | -        | -              |
| <b>Total</b>                    | -                     | <b>6,513</b> | <b>4</b> | <b>89,110</b>  | -                     | <b>5,954</b> | <b>6</b> | <b>60,137</b>  |

### 6.2. Hedging derivatives: breakdown by hedged portfolio and type of hedge

(millions of euro)

| Operations/Type of hedge                      | FAIR VALUE         |                       |             |            |               | Generic    | CASH FLOWS |              | FOREIGN INVESTM. |
|---|--------------------|-----------------------|-------------|------------|---------------|------------|------------|--------------|------------------|
|   | Specific           |                       |             |            |               |            | Specific   | Generic      |                  |
|   | interest rate risk | foreign exchange risk | credit risk | price risk | various risks |            |            |              |                  |
| 1. Financial assets available for sale        | 390                | -                     | -           | -          | 8             | X          | -          | X            | X                |
| 2. Loans                                      | 2,990              | -                     | -           | X          | 294           | X          | -          | X            | X                |
| 3. Investments held to maturity               | X                  | -                     | -           | X          | -             | X          | -          | X            | X                |
| 4. Portfolio                                  | X                  | X                     | X           | X          | X             | 482        | X          | 3            | X                |
| 5. Other transactions                         | -                  | -                     | -           | -          | -             | X          | -          | X            | -                |
| <b>Total assets</b>                           | <b>3,380</b>       | -                     | -           | -          | <b>302</b>    | <b>482</b> | -          | <b>3</b>     | -                |
| 1. Financial liabilities                      | 351                | -                     | -           | X          | 67            | X          | 8          | X            | X                |
| 2. Portfolio                                  | X                  | X                     | X           | X          | X             | 2          | X          | 1,923        | X                |
| <b>Total liabilities</b>                      | <b>351</b>         | -                     | -           | -          | <b>67</b>     | <b>2</b>   | <b>8</b>   | <b>1,923</b> | -                |
| 1. Forecast transactions                      | X                  | X                     | X           | X          | X             | X          | -          | X            | X                |
| 2. Financial assets and liabilities portfolio | X                  | X                     | X           | X          | X             | X          | X          | -            | -                |

The table indicates negative fair values of hedging derivatives, broken down in relation to asset or liability hedged and type of hedge.

These mainly refer to specific fair value hedges of loans disbursed and generic cash flow hedge derivatives of portfolios of liabilities. These cash flow hedges refer to floating rate securities used to fund fixed rate investments.

There are also specific fair value hedges of financial liabilities and financial assets available for sale and generic fair value hedges of loans.

**SECTION 7 - FAIR VALUE CHANGE OF FINANCIAL LIABILITIES IN HEDGED PORTFOLIOS - CAPTION 70****7.1. Fair value change of financial liabilities in hedged portfolios: breakdown by hedged portfolios**

(millions of euro)

| <b>Fair value change of financial liabilities in hedged portfolios / Values</b> | <b>31.12.2016</b> | <b>31.12.2015</b> |
|---|-------------------|-------------------|
| 1. Positive fair value change of financial liabilities                          | 528               | 683               |
| 2. Negative fair value change of financial liabilities                          | -                 | -3                |
| <b>TOTAL</b>  | <b>528</b>        | <b>680</b>        |

The balance of the changes in value of liabilities subject to macrohedging (MCH) against interest rate risk is recorded in this caption. For the above macrohedging, the Bank took advantage of the option emerged after the definition of the IAS 39 carve out.

**7.2. Financial liabilities hedged by macrohedging of interest rate risk: breakdown**

(millions of euro)

|              | <b>31.12.2016</b> | <b>31.12.2015</b> |
|--------------|-------------------|-------------------|
| 1. Debts     | -                 | -                 |
| 2. Portfolio | 5,132             | 9,600             |
| <b>TOTAL</b> | <b>5,132</b>      | <b>9,600</b>      |

The table shows liabilities hedged by macrohedging of interest risk; the Bank adopted macrohedging only for the hedging of core deposits.

**SECTION 8 – TAX LIABILITIES – CAPTION 80**

For information on this section, see Section 13 of Assets.

**SECTION 9 - LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS – CAPTION 90**

There are no liabilities associated with non-current assets held for sale and discontinued operations as at the reference date.

**SECTION 10 – OTHER LIABILITIES – CAPTION 100****10.1 Other liabilities: breakdown**

|   | (millions of euro) |
|---|--------------------|
|   | <b>31.12.2016</b>  |
| Due to suppliers                                  | 352                |
| Amounts due to third parties                      | 98                 |
| Transit items                                     | 11                 |
| Adjustments for portfolio items to be settled     | -                  |
| Amounts to be credited and items under processing | 2,353              |
| Personnel charges                                 | 80                 |
| Due to social security entities                   | 91                 |
| Guarantees given and commitments                  | 259                |
| Due to Group companies on fiscal consolidation    | 331                |
| Due to tax authorities                            | 307                |
| Other   | 1,880              |
| <b>TOTAL 31.12.2016</b>                           | <b>5,762</b>       |
| <b>TOTAL 31.12.2015</b>                           | <b>4,135</b>       |

**SECTION 11 – EMPLOYEE TERMINATION INDEMNITIES – CAPTION 110****11.1 Employee termination indemnities: annual changes**

|                                       | (millions of euro) |            |
|---------------------------------------|--------------------|------------|
|                                       | 31.12.2016         | 31.12.2015 |
| <b>A. Initial amount</b>              | <b>645</b>         | <b>660</b> |
| <b>B. Increases</b>                   | <b>228</b>         | <b>68</b>  |
| B.1 Provisions in the year            | 14                 | 9          |
| B.2 Other                             | 214                | 59         |
| <i>of which business combinations</i> | -                  | -          |
| <b>C. Decreases</b>                   | <b>-137</b>        | <b>-83</b> |
| C.1 Benefits paid                     | -23                | -27        |
| C.2 Other                             | -114               | -56        |
| <i>of which business combinations</i> | -                  | -1         |
| <b>D. Final amount</b>                | <b>736</b>         | <b>645</b> |

C.1 refers to benefits paid as at 31 December 2016.

**11.2 Other information**

There is no information further to that already provided in the previous sections.

## SECTION 12 – ALLOWANCES FOR RISKS AND CHARGES – CAPTION 120

## 12.1 Allowances for risks and charges: breakdown

(millions of euro)

|  | 31.12.2016   | 31.12.2015   |
|--|--------------|--------------|
| <b>1. Post employment benefits</b>               | <b>836</b>   | <b>700</b>   |
| <b>2. Other allowances for risks and charges</b> | <b>1,112</b> | <b>1,166</b> |
| 2.1 Legal disputes                               | 362          | 402          |
| 2.2 Personnel charges                            | 316          | 257          |
| 2.3 Other  | 434          | 507          |
| <b>TOTAL</b>                                     | <b>1,948</b> | <b>1,866</b> |

The contents of 2. Other allowances for risks and charges are illustrated in point 12.4 below.

## 12.2 Allowances for risks and charges: annual changes

(millions of euro)

|   | Post<br>employment<br>benefits | Other<br>allowances | Total        |
|---|--------------------------------|---------------------|--------------|
| <b>A. Initial amount</b>                    | <b>700</b>                     | <b>1,166</b>        | <b>1,866</b> |
| <b>B. Increases</b>                         | <b>378</b>                     | <b>431</b>          | <b>809</b>   |
| B.1 Provisions in the year                  | 23                             | 367                 | 390          |
| B.2 Time value changes                      | 18                             | 3                   | 21           |
| B.3 Changes due to discount rate variations | -                              | -                   | -            |
| B.4 Other                                   | 337                            | 61                  | 398          |
| <i>of which business combinations</i>       | -                              | -                   | -            |
| <b>C. Decreases</b>                         | <b>-242</b>                    | <b>-485</b>         | <b>-727</b>  |
| C.1 Uses in the year                        | -15                            | -406                | -421         |
| C.2 Changes due to discount rate variations | -                              | -                   | -            |
| C.3 Other                                   | -227                           | -79                 | -306         |
| <i>of which business combinations</i>       | -                              | -                   | -            |
| <b>D. Final amount</b>                      | <b>836</b>                     | <b>1,112</b>        | <b>1,948</b> |

Other allowances include net provisions of 108 million euro to caption 160 of the income statement and net provisions to other income statement captions.

### 12.3 Post employment defined benefit plans

#### 1. Illustration of the characteristics of the funds and related risks

As already illustrated in Part A – Accounting policies, for defined benefit plans, the liability of the Bank, according to IAS 19 “Employee Benefits”, is determined via the “projected unit credit method” by an independent actuary.

The defined benefit plans, in which Intesa Sanpaolo S.p.A. is jointly responsible, can be distinguished in:

- internal supplementary pension funds;
- external supplementary pension funds.

Internal funds include:

- Three defined benefit plans in force for the London branch, relating to the former Cariplo, Banca Commerciale Italiana and Banco Ambrosiano Veneto branches. The private pension funds have been set up by the UK employers to integrate the levels of the local state pension, which has always been very low. The London branches of Banca Commerciale Italiana, Cariplo and Banco Ambrosiano Veneto set up defined benefit plans for their employees at the time of their opening, under the form of Trusts incorporated under English law and managed by Boards of Trustees, appointed partly by the employers and partly by beneficiaries. Such funds are operational for employees hired until the end of 1999 for Banco Ambrosiano Veneto and Cariplo and until the end of 2000 for Banca Commerciale Italiana. In general, all funds guarantee a pension payable when the beneficiary turns 65 and the benefit is determined, with different rules for the various funds, on the basis of the annual gross wage received in the last year of service.

External funds include:

- Supplementary pension fund for employees of Istituto Bancario San Paolo di Torino “Cassa di Previdenza Integrativa per il Personale dell’Istituto Bancario San Paolo di Torino”, a fund with legal status, full economic independence and independent asset management;
- Supplementary pension fund for the Employees of Banco di Napoli “Fondo di Previdenza Complementare per il Personale del Banco di Napoli – Sezione A”, an entity with legal status and independent asset management. The Fund includes several separate management assets and Intesa Sanpaolo is jointly responsible for: employees enrolled in the plan and other beneficiaries from former Banco di Napoli; retired employees receiving Supplementary Pension Cheques, formerly the SANPAOLO IMI internal fund; current and retired employees of the Cassa di Risparmio di Bologna, formerly enrolled in the Complementary pension fund for the Employees of said Cassa, transferred to the Complementary pension fund for the employees of the Banco di Napoli in 2004; current and retired employees of the Banca Popolare dell’Adriatico, formerly enrolled in the Company pension fund for the employees of the former Banca Popolare dell’Adriatico, transferred to the Fund in question on 30 June 2006; retired employees of the former Carive internal Fund, transferred to that fund on 1 January 2008; retired tax-collection personnel of the Supplementary pension fund for tax-collection personnel formerly employed by Cariplo; retired employees formerly enrolled in the supplementary pension fund for employees of Mediocredito Lombardo S.p.A.; retired employees formerly enrolled in the Pension Fund for key Managers, former Key Managers and entitled parties of former Comit; retired employees formerly enrolled in the “Casse del Centro” Pension Funds, in particular those enrolled in the Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Città di Castello, Supplementary INPS benefits fund for the compulsory insurance for invalidity, old-age and survivors for personnel of Cassa di Risparmio di Foligno, Company supplementary pension AGO fund for employees of Cassa di Risparmio di Spoleto, Supplementary/complementary pension fund for the mandatory pension for employees of Cassa di Risparmio di Rieti, Pension fund for the Employees of Cassa di Risparmio della Provincia di Viterbo and Company supplementary pension fund for employees of Cassa di Risparmio di Ascoli Piceno, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Company Supplementary pension of INPS benefits for employees of Cassa di Risparmio di Civitavecchia, transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the supplementary fund of SIL – Società Italiana Leasing S.p.A., transferred to the Fund in question on 1 January 2015; retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of Banca Monte Parma, transferred to the Fund in question on 1 January 2016; employees and retired employees formerly enrolled in the Supplementary Pension Fund for the personnel of the former Crediop hired before 30 September 1989, transferred to the Fund in question on 1 January 2016. It is necessary to specify that if the Fund, after approval of the financial statements, shows a technical imbalance according to the statutory method, the Articles of Association envisage immediate settlement by the Banks jointly responsible;
- Pension fund for the employees of Cariplo, a fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment in addition to AGO cheques to former Cariplo employees already retired on 30 June 1998;
- A defined benefit plan at the New York branch: the fund was established in 1977 by the branch of Banca Commerciale Italiana and guarantees a pension treatment to all the employees resident in the United States who have been in service at the Bank for at least 5 years. The benefit is considered to be matured even if the employment relationship ceases in advance. The benefit is calculated based on the highest average wage considering three consecutive years out of the last 10 years of service, or, if the employment relationship ceases before, based on the average wage in the last three years of service. The fund is no longer managed by the New York branch, but has been fully transferred to the Prudential Fund (a defined benefit plan that manages the positions of members);
- Pension fund of Cassa di Risparmio di Firenze: fund with legal status and full economic independence, whose aim is to guarantee supplementary pension treatment to Cassa employees in service as at 31 December 1990 and already enrolled in the former “contracted-out” fund.

With regard to the investment and integrated risk management policies, the Funds verify the level of coverage and the possible outcomes under various scenarios. For this purpose, various investment configurations and portfolio mixes and allocations are defined, in order to satisfy the pension and profitability objectives as adequately as possible.

## 2. Changes in the year of net liabilities (assets) with defined benefits and redemption rights

(millions of euro)

| Pension plan liabilities<br>defined benefit obligations     | 31.12.2016                             |                   |                   | 31.12.2015                             |                   |                   |
|---|--|-------------------|-------------------|--|-------------------|-------------------|
|   | Employee<br>termination<br>indemnities | Internal<br>plans | External<br>plans | Employee<br>termination<br>indemnities | Internal<br>plans | External<br>plans |
| <b>Initial amount</b>                                       | <b>645</b>                             | <b>137</b>        | <b>3,366</b>      | <b>660</b>                             | <b>204</b>        | <b>3,265</b>      |
| Current service costs                                       | 2                                      | 1                 | 32                | 2                                      | 2                 | 28                |
| Recognised past service costs                               | -                                      | -                 | -                 | -                                      | -                 | -                 |
| Interest expense  | 11                                     | 5                 | 73                | 7                                      | 5                 | 55                |
| Actuarial losses due to changes in financial assumptions    | 48                                     | 31                | 300               | -                                      | -                 | -                 |
| Actuarial losses due to changes in demographic assumptions  | -                                      | -                 | 36                | 6                                      | -                 | 24                |
| Actuarial losses based on past experience                   | -                                      | -                 | -                 | -                                      | -                 | 132               |
| Positive exchange differences                               | -                                      | -                 | 1                 | -                                      | 8                 | 3                 |
| Increases - business combinations                           | 65                                     | -                 | -                 | 38                                     | -                 | -                 |
| Participants' contributions                                 | X                                      | -                 | -                 | X                                      | -                 | -                 |
| Actuarial profits due to changes in financial assumptions   | -                                      | -                 | -                 | -41                                    | -8                | -348              |
| Actuarial profits due to changes in demographic assumptions | -1                                     | -                 | -20               | -                                      | -                 | -55               |
| Actuarial profits based on past experience                  | -11                                    | -                 | -147              | -5                                     | -                 | -63               |
| Negative exchange differences                               | -                                      | -20               | -                 | -                                      | -                 | -                 |
| Benefits paid   | -23                                    | -2                | -191              | -27                                    | -2                | -213              |
| Decreases - business combinations                           | -                                      | -                 | -                 | -1                                     | -                 | -                 |
| Curtailments of the fund                                    | X                                      | -                 | -                 | X                                      | -                 | -                 |
| Settlements of the fund                                     | X                                      | -                 | -33               | X                                      | -72               | -                 |
| Other increases   | 8                                      | -                 | 35                | 15                                     | -                 | 538               |
| Other decreases   | -8                                     | -                 | -                 | -9                                     | -                 | -                 |
| <b>Final amount</b>   | <b>736</b>                             | <b>152</b>        | <b>3,452</b>      | <b>645</b>                             | <b>137</b>        | <b>3,366</b>      |

| Liabilities of the defined benefit obligations<br>pension plan | 31.12.2016                             |                   |                   | 31.12.2015                             |                   |                   |
|--|--|-------------------|-------------------|--|-------------------|-------------------|
|  | Employee<br>termination<br>indemnities | Internal<br>plans | External<br>plans | Employee<br>termination<br>indemnities | Internal<br>plans | External<br>plans |
| Unfunded plans   | 736                                    | -                 | -                 | 645                                    | -                 | -                 |
| Partly funded plans  | -                                      | -                 | -                 | -                                      | -                 | -                 |
| Wholly funded plans  | -                                      | 152               | 3,452             | -                                      | 137               | 3,366             |

The actuarial losses recorded for variations in financial assumptions are due to the rate performance. The trend of the Eur Composite AA curve used for calculating the current value of defined benefit obligations, showed, compared to the previous year, an average decline ranging between 0.4% and 0.6% for the various deadlines, resulting in an increase in liabilities.

On the basis of actuarial calculations, the present value of the defined benefit obligations, excluding Employee termination indemnities, was as follows.

Internal plans:

- 152 million euro referred to defined benefit plans at the London branch, entirely contributed by Intesa Sanpaolo S.p.A..

External plans:

- 1,801 million euro referred to the Pension fund "Cassa di Previdenza" for employees of Istituto Bancario San Paolo di Torino (1,482 million euro pertaining to Intesa Sanpaolo S.p.A.);
- 608 million euro referred to the Supplementary Pension Fund for the Employees of Banco di Napoli "Fondo di Previdenza Complementare per il Personale del Banco di Napoli - Sezione A" (496 million euro pertaining to Intesa Sanpaolo S.p.A.);
- 676 million euro referred to the Pension fund for employees of Cariplo, entirely contributed by Intesa Sanpaolo S.p.A.;
- 27 million euro referred to defined benefit plans at the New York branch, entirely contributed by Intesa Sanpaolo S.p.A.;
- 340 million euro referred to the Pension Fund of Cassa di Risparmio di Firenze (7 million euro pertaining to Intesa Sanpaolo).

## 3. Information on the fair value of plan assets

(millions of euro)

| Plan assets                       | 31.12.2016     |                | 31.12.2015     |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | Internal plans | External plans | Internal plans | External plans |
| <b>Initial amount</b>             | <b>112</b>     | <b>2,697</b>   | <b>128</b>     | <b>2,257</b>   |
| Return on assets net of interest  | 10             | 42             | -1             | 54             |
| Interest income                   | 4              | 56             | 4              | 38             |
| Positive exchange differences     | -              | 1              | 6              | 2              |
| Increases - business combinations | -              | -              | -              | -              |
| Employer contributions            | 2              | -              | 3              | -              |
| Participants' contributions       | -              | -              | -              | -              |
| Negative exchange differences     | -16            | -              | -              | -              |
| Decreases - business combinations | -              | -              | -              | -              |
| Benefits paid                     | -2             | -191           | -3             | -213           |
| Curtailments of the fund          | -              | -              | -              | -              |
| Settlements of the fund           | -              | -33            | -25            | -              |
| Other changes                     | -              | 40             | -              | 559            |
| <b>Final amount</b>               | <b>110</b>     | <b>2,612</b>   | <b>112</b>     | <b>2,697</b>   |

The final amount of internal plans refer to defined benefit plans at the London branch.

The final amount of external plans was broken down as follows:

- 1,002 million euro referred to the Pension Fund for employees of the Istituto Bancario San Paolo di Torino;
- 497 million euro referred to the Supplementary Pension Fund for the employees of Banco di Napoli – Section A;
- 639 million euro referred to the Pension fund for employees of Cariplo;
- 22 million euro referred to defined benefit plans at the New York branch;
- 452 million euro referred to the Pension fund of Cassa di Risparmio di Firenze.

(millions of euro)

|  | 31.12.2016     |              |                |              | 31.12.2015     |              |                |              |
|--|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
|  | Internal plans | %            | External plans | %            | Internal plans | %            | External plans | %            |
| <b>Equities</b>  | <b>55</b>      | <b>50.0</b>  | <b>388</b>     | <b>15.0</b>  | <b>57</b>      | <b>51.0</b>  | <b>402</b>     | <b>15.0</b>  |
| - of which level-1 fair value                                      | 55             |              | 388            |              | 57             |              | 402            |              |
| <b>Mutual funds</b>  | <b>-</b>       | <b>-</b>     | <b>225</b>     | <b>9.0</b>   | <b>-</b>       | <b>-</b>     | <b>197</b>     | <b>7.0</b>   |
| - of which level-1 fair value                                      | -              |              | 225            |              | -              |              | 196            |              |
| <b>Debt securities</b>   | <b>46</b>      | <b>42.0</b>  | <b>1,264</b>   | <b>48.0</b>  | <b>44</b>      | <b>39.0</b>  | <b>1,337</b>   | <b>50.0</b>  |
| - of which level-1 fair value                                      | 46             |              | 969            |              | 44             |              | 1,323          |              |
| <b>Real estate assets and investments in real estate companies</b> | <b>7</b>       | <b>6.0</b>   | <b>545</b>     | <b>21.0</b>  | <b>8</b>       | <b>7.0</b>   | <b>605</b>     | <b>22.0</b>  |
| - of which level-1 fair value                                      | -              |              | -              |              | -              |              | -              |              |
| <b>Insurance business</b>  | <b>2</b>       | <b>2.0</b>   | <b>-</b>       | <b>-</b>     | <b>2</b>       | <b>2.0</b>   | <b>-</b>       | <b>-</b>     |
| - of which level-1 fair value                                      | -              |              | -              |              | 2              |              | -              |              |
| <b>Other assets</b>  | <b>-</b>       | <b>-</b>     | <b>190</b>     | <b>7.0</b>   | <b>1</b>       | <b>1.0</b>   | <b>156</b>     | <b>6.0</b>   |
| - of which level-1 fair value                                      | -              |              | -              |              | -              |              | -              |              |
| <b>TOTAL</b>   | <b>110</b>     | <b>100.0</b> | <b>2,612</b>   | <b>100.0</b> | <b>112</b>     | <b>100.0</b> | <b>2,697</b>   | <b>100.0</b> |

(millions of euro)

|  | 31.12.2016     |              |                |              | 31.12.2015     |              |                |              |
|--|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
|  | Internal plans | %            | External plans | %            | Internal plans | %            | External plans | %            |
| <b>Equities</b>  | <b>55</b>      | <b>50.0</b>  | <b>388</b>     | <b>15.0</b>  | <b>57</b>      | <b>51.0</b>  | <b>402</b>     | <b>15.0</b>  |
| - of which financial companies                           | 55             |              | 55             |              | 57             |              | 75             |              |
| - of which non financial companies                       | -              |              | 333            |              | -              |              | 327            |              |
| <b>Mutual funds</b>                                      | <b>-</b>       | <b>-</b>     | <b>225</b>     | <b>9.0</b>   | <b>-</b>       | <b>-</b>     | <b>197</b>     | <b>7.0</b>   |
| <b>Debt securities</b>                                   | <b>46</b>      | <b>42.0</b>  | <b>1,264</b>   | <b>48.0</b>  | <b>44</b>      | <b>39.0</b>  | <b>1,337</b>   | <b>50.0</b>  |
| Government bonds   | 46             |              | 920            |              | 44             |              | 1,049          |              |
| - of which investment grade                              | 46             |              | 912            |              | 44             |              | 1,042          |              |
| - of which speculative grade                             | -              |              | 8              |              | -              |              | 7              |              |
| Financial companies                                      | -              |              | 147            |              | -              |              | 157            |              |
| - of which investment grade                              | -              |              | 132            |              | -              |              | 141            |              |
| - of which speculative grade                             | -              |              | 15             |              | -              |              | 16             |              |
| Non Financial companies                                  | -              |              | 197            |              | -              |              | 131            |              |
| - of which investment grade                              | -              |              | 148            |              | -              |              | 111            |              |
| - of which speculative grade                             | -              |              | 49             |              | -              |              | 20             |              |
| <b>Real estate assets and investments in real estate</b> | <b>7</b>       | <b>6.0</b>   | <b>545</b>     | <b>21.0</b>  | <b>8</b>       | <b>7.0</b>   | <b>605</b>     | <b>22.0</b>  |
| <b>Insurance business</b>                                | <b>2</b>       | <b>2.0</b>   | <b>-</b>       | <b>-</b>     | <b>2</b>       | <b>2.0</b>   | <b>-</b>       | <b>-</b>     |
| <b>Other assets</b>                                      | <b>-</b>       | <b>-</b>     | <b>190</b>     | <b>7.0</b>   | <b>1</b>       | <b>1.0</b>   | <b>156</b>     | <b>6.0</b>   |
| <b>TOTAL ASSETS</b>                                      | <b>110</b>     | <b>100.0</b> | <b>2,612</b>   | <b>100.0</b> | <b>112</b>     | <b>100.0</b> | <b>2,697</b>   | <b>100.0</b> |

The difference between net defined benefit liabilities (Table 12.3.2) and the plan assets (Table 12.3.3) is recognised in the post-employment plans.

#### 4. Description of the main actuarial assumptions

| Actuarial assumptions                   | 31.12.2016    |                      |                                      |                       | 31.12.2015    |                      |                               |                       |
|---|---------------|----------------------|--------------------------------------|-----------------------|---------------|----------------------|-------------------------------|-----------------------|
|   | Discount rate | Expected yield rates | Expected increase in salaries<br>(a) | Annual inflation rate | Discount rate | Expected yield rates | Expected increase in salaries | Annual inflation rate |
| <b>EMPLOYEE TERMINATION INDEMNITIES</b> | 1.0%          | X                    | 2.7%                                 | 1.5%                  | 1.6%          | X                    | 2.7%                          | 1.5%                  |
| <b>INTERNAL PLANS</b>                   | 2.9%          | 0.0%                 | 2.4%                                 | 2.4%                  | 2.9%          | 3.7%                 | 2.2%                          | 1.9%                  |
| <b>EXTERNAL PLANS</b>                   | 2.0%          | 3.0%                 | 2.7%                                 | 1.4%                  | 2.2%          | 2.9%                 | 2.6%                          | 1.5%                  |

(a) Net of career developments.

Starting from 2013, the Intesa Sanpaolo Group primarily uses the Eur Composite AA rate as its discounting rate, weighted by the ratio of payments and advances referring to each maturity, on the one hand, and the total amount of payments and advances to be made for the final fulfilment of the entire obligation, on the other. In the case of defined-benefit plans in particular, the rate used is the average rate that reflects the market parameters covered by the plan. The Eur Composite AA curve is obtained daily from Bloomberg's information provider and refers to a basket of securities issued by investment-grade corporate issuers included in the AA rating class, residing in the Eurozone and belonging to various sectors.

#### 5. Information on amount, timing and uncertainty of cash flows

| Sensitivity analysis | 31.12.2016                       |         |                |         |                |         |
|----------------------|----------------------------------|---------|----------------|---------|----------------|---------|
|                      | EMPLOYEE TERMINATION INDEMNITIES |         | INTERNAL PLANS |         | EXTERNAL PLANS |         |
|                      | +50 bps                          | -50 bps | +50 bps        | -50 bps | +50 bps        | -50 bps |
| Discount rate        | 701                              | 771     | 149            | 156     | 3,227          | 3,703   |
| Rate of wage rises   | 735                              | 735     | 154            | 150     | 3,545          | 3,365   |
| Inflation rate       | 756                              | 713     | 153            | 151     | 3,657          | 3,263   |

The sensitivity analysis is not conducted on the expected rate of return as it has no effect on the calculation of the liabilities.

The sensitivity analysis was carried out on the net defined benefit liabilities pursuant to Table 12.3.2. The absolute values of the data presented indicate the possible amount of net defined benefit liabilities in the event of a change in rate of +/- 50 bps.



The average duration of the defined benefit obligation is 15.32 years for pension funds and 10 years for employee termination indemnities.

Any outflows to be carried out over the next year (settlement of the technical imbalance envisaged by the Articles of Association of the former Banco di Napoli Fund) shall be determined upon preparation of the financial statements of said Fund, which will take place in the upcoming months of May/June.

#### 6. Plans regarding more than one employer

The group has a defined benefit plan regarding more than one employer. This is the Pension Fund for the employees of the former Crediop hired before 30 September 1989, which on 1 January 2016 was transferred to Section A of the Complementary Pension Fund for the employees of Banco di Napoli.

The commitments of Crediop S.p.A. (now Dexia – Crediop) and the former Sanpaolo IMI S.p.A. (now Intesa Sanpaolo) with regard to the Fund are governed by the agreement entered into between the parties on 28 May 1999. Its transfer to Section A of the Complementary Pension Fund for the employees of Banco di Napoli did not modify the guarantees and commitments undertaken by the parties in the past.

#### 7. Defined benefit plans that share risks among entities under joint control

The Supplementary Pension Fund for Employees of Istituto Bancario San Paolo di Torino, the Complementary Pension Fund for Employees of the former Banco di Napoli – Section A and the Pension fund of Cassa di Risparmio di Firenze are defined benefit plans that share the risks among the various Group Companies. These Companies issue a joint guarantee for their registered employees and pensioners with respect to the subject pension entities.

The liabilities of each jointly responsible Company are determined by an Independent Actuary through the “projected unit credit method” and are recorded in the financial statements net of the plan assets. Similarly, the current service cost, which represents the average present value at the measurement date of the benefits accrued by workers in service during the year, is calculated for each Company by said Actuary.

Each jointly responsible company reports in this section, for each table, the total liabilities/assets of the Funds for which it is jointly responsible, highlighting at the bottom of said tables the liability/asset amount under their responsibility.

### 12.4 Allowances for risks and charges – Other allowances

(millions of euro)

|                                    | 31.12.2016   | 31.12.2015   |
|------------------------------------|--------------|--------------|
| <b>2. Other allowances</b>         |              |              |
| 2.1 legal disputes                 | 362          | 402          |
| 2.2 personnel charges              | 316          | 257          |
| <i>incentive-driven exit plans</i> | 118          | 83           |
| <i>employee seniority bonuses</i>  | 69           | 70           |
| <i>other personnel expenses</i>    | 129          | 104          |
| 2.3 other risks and charges        | 434          | 507          |
| <b>TOTAL</b>                       | <b>1,112</b> | <b>1,166</b> |

Other allowances refers to:

- legal disputes: the allowance was set up mainly to cover expected outlay for litigation and other revocatory action;
- personnel charges: the allowance includes charges for employee seniority bonuses, calculated on the basis of actuarial assumptions, provisions for annual bonuses, charges for voluntary incentive-driven exit plans and other charges;
- other risks and charges: these refer to provisions to cover tax litigations, frauds and other litigation charges.

### SECTION 13 – REDEEMABLE SHARES – CAPTION 140

Not applicable to Intesa Sanpaolo.

**SECTION 14 – PARENT COMPANY'S SHAREHOLDERS' EQUITY – CAPTIONS 130, 150, 160, 170, 180, 190 AND 200****14.1 Share capital and Treasury shares: breakdown**

As at 31 December 2016 the Bank's portfolio amounts to 8,587,277 ordinary shares fully liberated.  
For information on share capital, see point 14.3 below.

**14.2 Share capital – Parent Company's number of shares: annual changes**

|   | (millions of euro)    |                    |
|---|-----------------------|--------------------|
|   | Ordinary              | Other              |
| <b>A. Initial number of shares</b>            | <b>15,859,575,782</b> | <b>932,490,561</b> |
| - fully paid-in                               | 15,859,575,782        | 932,490,561        |
| - not fully paid-in                           | -                     | -                  |
| <b>A.1 Treasury shares (-)</b>                | <b>-7,097,593</b>     | -                  |
| <b>A.2 Shares outstanding: initial number</b> | <b>15,852,478,189</b> | <b>932,490,561</b> |
| <b>B. Increases</b>                           | <b>2,309,116</b>      | -                  |
| B.1 New issues                                | 210,803               | -                  |
| - for consideration                           | 210,803               | -                  |
| <i>business combinations</i>                  | <i>210,803</i>        | -                  |
| <i>conversion of bonds</i>                    | -                     | -                  |
| <i>exercise of warrants</i>                   | -                     | -                  |
| <i>other</i>                                  | -                     | -                  |
| - for free                                    | -                     | -                  |
| <i>in favour of employees</i>                 | -                     | -                  |
| <i>in favour of directors</i>                 | -                     | -                  |
| <i>other</i>                                  | -                     | -                  |
| B.2 Sale of treasury shares                   | -                     | -                  |
| B.3 Other                                     | 2,098,313             | -                  |
| <b>C. Decreases</b>                           | <b>-3,587,997</b>     | -                  |
| C.1 Annulment                                 | -                     | -                  |
| C.2 Purchase of treasury shares               | -3,582,633            | -                  |
| C.3 Disposal of companies                     | -                     | -                  |
| C.4 Other                                     | -5,364                | -                  |
| <b>D. Shares outstanding: final number</b>    | <b>15,851,199,308</b> | <b>932,490,561</b> |
| D.1 Treasury shares (+)                       | 8,587,277             | -                  |
| D.2 Final number of shares                    | 15,859,786,585        | 932,490,561        |
| - fully paid-in                               | 15,859,786,585        | 932,490,561        |
| - not paid-in                                 | -                     | -                  |

**14.3 Share capital: other information**

The share capital of the Bank as at 31 December 2016 amounted to 8,732 million euro, divided into 15,859,786,585 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro per share. Each ordinary share gives the right to one vote in the Shareholders' Meeting.

Savings shares, which may be in bearer form, entitle the holder to attend and vote at the Special Meeting of savings shareholders.

Savings shares must be attributed a preferred dividend up to 5% of the nominal value of the share. If in one year the dividend is less than 5% of the nominal value of the non-convertible savings shares, the difference will be added to the preferred dividend paid in the following two accounting periods. Furthermore, retained earnings made available for distribution by the Shareholders' Meeting, net of the above dividend, will be allocated to all shares so that the dividend per non-convertible savings share will be 2% of nominal value higher than for ordinary shares.

In case of distribution of reserves the savings shares have the same rights as other shares. In the case of liquidation of the Company, savings shares shall have pre-emptive rights with regard to the reimbursement of the entire nominal value of the shares.

At the date of this document, the share capital was fully paid-in and liberated.

Entries made in accordance with IFRS 3 regarding the merger between Banca Intesa and SANPAOLO IMI generated a reserve of 27,144 million euro as at 31 December 2016, equal to the difference between the acquisition cost of the Sanpaolo IMI Group and the nominal value of the shares issued to service the exchange.

In the 2007 financial statements it was reported under share premium reserve, based on the opinions expressed by legal experts.

This reserve will be reported differently should the Law or Supervisory Authorities indicate a different solution.

**14.4 Reserves from retained earnings: other information**

Reserves amounted to 3,817 million euro and included: legal reserve, extraordinary reserve, concentration reserves (Law 218 of 30 July 1990, Art. 7, par. 3, and Law 218 of 30 July 1990, Art. 7) and other reserves.

The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated through mandatory allocation of at least one twentieth of net income for the year.

Concentration reserves ex Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law.

Other reserves included reserves pertaining to branches abroad and other reserves set up in the past following specific legal provisions.

Valuation reserves amounted to -425 million euro and included valuation reserves of financial assets available for sale, cash flow hedge derivatives, and revaluations of net defined benefit liabilities (assets), as well as legally-required revaluations.

|  | Amount as at<br>31.12.2016 | Principal     | Portion<br>of net<br>income | Portion of<br>net income<br>subject to<br>a suspended<br>tax regime<br>(a) | Portion<br>available<br>(b) | Uses in the<br>past three<br>years |
|--|----------------------------|---------------|-----------------------------|--|-----------------------------|------------------------------------|
| (millions of euro)   |                            |               |                             |  |                             |                                    |
| <b>Shareholders' equity</b>                                    |                            |               |                             |  |                             |                                    |
| – Share capital  | 8,732                      | 6,211         | 1,305                       | 1,216  | -                           | -                                  |
| – Equity instruments   | 2,117                      | 2,134         | -17                         | -  | -                           | -                                  |
| – Share premium reserve (c)                                    | 27,508                     | 11,689        | 15,372                      | 447  | A, B, C                     | 3,913                              |
| – Legal reserve  | 2,065                      | 520           | 1,545                       | -  | A(1), B                     | -                                  |
| – Extraordinary reserve  | 1,130                      | 58            | 1,072                       | -  | A, B, C                     | 822                                |
| – Concentration reserve (Law 218 of 30/7/1990, art. 7, par. 3) | 232                        | -             | -                           | 232  | A, B(2), C(3)               | -                                  |
| – Concentration reserve (Law 218 of 30/7/1990, art. 7)         | 302                        | -             | -                           | 302  | A, B(2), C(3)               | -                                  |
| – Legal Reserve Branches abroad                                | 16                         | -             | 16                          | -  | A, B, C                     | -                                  |
| – Reserve for stock option plans                               | 13                         | -             | 13                          | -  | A                           | -                                  |
| – Oper. reserve under common control                           | 64                         | -             | 64                          | -  | A, B, C                     | -                                  |
| – FTA tax rate revision reserve on property                    | 25                         | -             | 25                          | -  | A, B, C                     | -                                  |
| – Lecoip contribution reserve                                  | 195                        | -             | 195                         | -  | A                           | -                                  |
| – Other reserves   | -226                       | -             | -229                        | 3  | A, B, C                     | -                                  |
| <b>Valuation reserves</b>                                      |                            |               |                             |  |                             |                                    |
| – Revaluation reserve (Law 576 of 2/12/1975)                   | 4                          | -             | -                           | 4  | A, B(2), C(3)               | -                                  |
| – Revaluation reserve (Law 72 of 19/3/1983)                    | 146                        | -             | -                           | 146  | A, B(2), C(3)               | -                                  |
| – Revaluation reserve (Law 408 of 29/12/1990)                  | 8                          | -             | -                           | 8  | A, B(2), C(3)               | -                                  |
| – Revaluation reserve (Law 413 of 30/12/1991)                  | 380                        | -             | -                           | 380  | A, B(2), C(3)               | -                                  |
| – Revaluation reserve (Law 342 of 22/11/2000)                  | 457                        | -             | -                           | 457  | A, B(2), C(3)               | -                                  |
| – AFS valuation reserve  | 104                        | -             | 104                         | -  | (4)                         | -                                  |
| – CFH valuation reserve  | -1,075                     | -             | -1,075                      | -  | (4)                         | -                                  |
| – Defined benefit plans valuation reserve                      | -449                       | -             | -449                        | -  | (4)                         | -                                  |
| – Treasury shares  | -20                        | -20           | -                           | -  | -                           | -                                  |
| <b>Total Capital and Reserves</b>                              | <b>41,728</b>              | <b>20,592</b> | <b>17,941</b>               | <b>3,195</b>   | (5)                         | -                                  |
| Non-distributable portion (d)                                  | 6,183                      | -             | -                           | -  | -                           | -                                  |

(a) Restricted reserves for tax purposes pursuant to art. 109, par. 4 of the Combined Tax Regulations as amended by Legislative Decree no. 247/2005 amount to 7 million euro.

(b) A = capital increase; B = loss coverage; C = distribution to shareholders.

(c) The reserve for 27,144 million euro derives from the merger between Banca Intesa and Sanpaolo IMI, as a result of the application of IFRS 3 relating to business combinations. Pending the issue of legal measures concerning the qualification of the reserve posted in application of said accounting standard, the reserve is considered unavailable up to the amount of goodwill and intangible assets recognised in the financial statements.

(d) In accordance with art. 16, par. 1 of Legislative Decree no. 87/92, the non-distributable portion refers to revaluation reserves, share premium reserve for 2,379 million euro and valuation reserves, which can be decreased only in compliance with the provisions of art. 2445 of the Italian Civil Code, as well as a share of net income for 2 million euro corresponding to capital gains recognised in the income statement of the previous year, net of the related tax charge, arising from application of the fair value criterion, pursuant to art. 6, par. 1, letter a) of Legislative Decree no. 38/2005 and to a share of reserves under letter (a).

(1) May be used to increase capital (A) for the portion exceeding one fifth of the share capital.

(2) In case of use of the reserve to cover losses, net income may not be distributed unless the reserve is integrated or correspondingly reduced.

(3) The reserve, if it is not recorded under shareholders' equity, may be reduced only in compliance with the provisions of par. 2 and 3 of art. 2445 of the Italian Civil Code. If it is distributed to shareholders, it is recorded in the Company's taxable income.

(4) The reserve is unavailable pursuant to art. 6 of Legislative Decree no. 38/2005.

(5) Pursuant to art. 47, par. 1 of the Combined Tax Regulations, the portion of net income includes retained earnings reserves for 4,208 million euro classified for tax purposes as capital reserves.

The valuation reserves have been included under retained earnings reserves given that these are either reserves destined to be reversed to the income statement at the time of sale or discharge of the corresponding assets or liabilities, i.e. reserves essentially similar to retained earnings reserves.

**14.5 Equity instruments: breakdown and annual changes**

In 2016, Intesa Sanpaolo launched an Additional Tier 1 issue of 1.25 billion euro, targeted at the international markets. The standalone instrument has characteristics in line with CRD IV provisions.

In addition to this instrument, a U.S.\$1 billion Additional Tier 1 issue targeted at the US and Canadian markets and with characteristics in line with CRD IV provisions was launched.

For more information please refer to Part F – Information on capital.

**14.6 Other information**

There is no other information to be provided in addition to that already contained in this Section.

**OTHER INFORMATION****1. Guarantees and commitments**

|  | (millions of euro) |                |
|--|--------------------|----------------|
|  | 31.12.2016         | 31.12.2015     |
| <b>1) Financial guarantees given</b>                                     | <b>24,979</b>      | <b>31,094</b>  |
| a) Banks   | 16,440             | 17,649         |
| b) Customers   | 8,539              | 13,445         |
| <b>2) Commercial guarantees given</b>                                    | <b>31,080</b>      | <b>27,954</b>  |
| a) Banks   | 7,383              | 6,913          |
| b) Customers   | 23,697             | 21,041         |
| <b>3) Irrevocable commitments to lend funds</b>                          | <b>51,893</b>      | <b>42,592</b>  |
| a) Banks   | 6,181              | 1,624          |
| - of certain use   | 5,499              | 797            |
| - of uncertain use   | 682                | 827            |
| b) Customers   | 45,712             | 40,968         |
| - of certain use   | 6,296              | 1,016          |
| - of uncertain use   | 39,416             | 39,952         |
| <b>4) Underlying commitments on credit derivatives: protection sales</b> | <b>1,456</b>       | <b>632</b>     |
| <b>5) Assets pledged as collateral of third party commitments</b>        | <b>81</b>          | <b>80</b>      |
| <b>6) Other commitments</b>  | <b>189</b>         | <b>105</b>     |
| <b>TOTAL</b>   | <b>109,678</b>     | <b>102,457</b> |

**2. Assets pledged as collateral of liabilities and commitments**

|  | (millions of euro) |               |
|--|--------------------|---------------|
|  | 31.12.2016         | 31.12.2015    |
| 1. Financial assets held for trading                                 | 410                | 1,038         |
| 2. Financial assets designated at fair value through profit and loss | -                  | -             |
| 3. Financial assets available for sale                               | 20,629             | 10,663        |
| 4. Investments held to maturity                                      | 299                | 214           |
| 5. Due from banks  | 5,208              | 2,788         |
| 6. Loans to customers  | 59,774             | 54,886        |
| 7. Property and equipment  | -                  | -             |
| <b>TOTAL</b>   | <b>86,320</b>      | <b>69,589</b> |

**3. Information on operating leases**

As at 31 December 2016, there are no longer any operating leases.

**4. Management and dealing on behalf of third parties**

(millions of euro)

|   | 31.12.2016    | 31.12.2015    |
|---|---------------|---------------|
| <b>1. Trading on behalf of customers</b>  |               |               |
| a) Purchases  | 441           | 307           |
| 1. settled  | 441           | 307           |
| 2. to be settled  | -             | -             |
| b) Sales  | 203           | 418           |
| 1. settled  | 203           | 418           |
| 2. to be settled  | -             | -             |
| <b>2. Portfolio management</b>  |               |               |
| a) individual   | 330,174       | -             |
| b) collective   | 325,428       | -             |
| <b>3. Custody and administration of securities</b>  |               |               |
| a) third party securities held in deposit: related to depositary bank activities (excluding portfolio management) | -             | -             |
| 1. securities issued by the reporting bank  | -             | -             |
| 2. other securities   | -             | -             |
| b) third party securities held in deposit (excluding portfolio management): other                                 | 296,676       | 311,338       |
| 1. securities issued by the reporting bank  | 17,733        | 23,167        |
| 2. other securities   | 278,943       | 288,171       |
| c) third party securities deposited with third parties  | 291,970       | 304,061       |
| d) portfolio securities deposited with third parties  | 54,470        | 44,679        |
| <b>4. Other</b>   | <b>25,164</b> | <b>34,424</b> |

**Note regarding financial payables**

For details, reference should be made to the relevant section of the Notes to the Consolidated Financial Statements.

**5. Financial assets subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements**

(millions of euro)

| Types                    | Gross amount of financial assets (a) | Amount of financial liabilities offset in statement of financial position (b) | Net amount of financial assets presented in statement of financial position (c = a-b) | Amounts available to be offset but not offset in the statement of financial position |                     | Net amount 31.12.2016 (f = c-d-e) | Net amount 31.12.2015 |
|--------------------------|--------------------------------------|---|---|--|---------------------|-----------------------------------|-----------------------|
|                          |                                      |   |   | Financial instruments (d)  | Cash collateral (e) |                                   |                       |
| 1. Derivatives           | 16,792                               | -   | 16,792  | 15,137   | 1,009               | 646                               | 827                   |
| 2. Repurchase agreements | 19,865                               | -   | 19,865  | 19,431   | -                   | 434                               | 145                   |
| 3. Securities lending    | -                                    | -   | -   | -  | -                   | -                                 | -                     |
| 4. Other                 | -                                    | -   | -   | -  | -                   | -                                 | -                     |
| <b>TOTAL 31.12.2016</b>  | <b>36,657</b>                        | <b>-</b>  | <b>36,657</b>   | <b>34,568</b>  | <b>1,009</b>        | <b>1,080</b>                      | <b>X</b>              |
| <b>TOTAL 31.12.2015</b>  | <b>33,090</b>                        | <b>-</b>  | <b>33,090</b>   | <b>30,962</b>  | <b>1,156</b>        | <b>X</b>                          | <b>972</b>            |

**6. Financial liabilities subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements**

| Types                    | Gross amount of financial liabilities (a) | Amount of financial assets offset in statement of financial position (b) | Net amount of financial liabilities presented in statement of financial position (c = a-b) | Amounts available to be offset but not offset in the statement of financial position |   | (millions of euro)                |                       |
|--------------------------|---|--|--|--|---|-----------------------------------|-----------------------|
|                          |   |  |  | Financial instruments (d)  | Cash deposits pledged as collateral (e) | Net amount 31.12.2016 (f = c-d-e) | Net amount 31.12.2015 |
| 1. Derivatives           | 20,462                                    | -  | 20,462   | 15,125   | 4,404                                   | 933                               | 1,070                 |
| 2. Repurchase agreements | 8,822                                     | -  | 8,822  | 8,800  | 22                                      | -                                 | 17                    |
| 3. Securities lending    | -   | -  | -  | -  | -                                       | -                                 | -                     |
| 4. Other                 | -   | -  | -  | -  | -                                       | -                                 | -                     |
| <b>TOTAL 31.12.2016</b>  | <b>29,284</b>                             | <b>-</b>   | <b>29,284</b>  | <b>23,925</b>  | <b>4,426</b>                            | <b>933</b>                        | <b>X</b>              |
| <b>TOTAL 31.12.2015</b>  | <b>26,810</b>                             | <b>-</b>   | <b>26,810</b>  | <b>23,271</b>  | <b>2,452</b>                            | <b>X</b>                          | <b>1,087</b>          |

IFRS 7, amended in 2013, requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by "netting framework arrangements or similar" that do not respect all of the criteria set forth by IAS 32, paragraph 42.

In this respect, Intesa Sanpaolo does not have any netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements.

In terms of instruments that may be potentially offset upon occurrence of such events and to be presented in Tables 5 and 6, it is noted that Intesa Sanpaolo uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMRA's (for repurchase agreements).

With regard to securities lending transactions, only those transactions that require the payment of a cash guarantee fully available to the lender must be reported in tables 5 and 6, as this is the only type of transaction recognised in the Balance Sheet. Intesa Sanpaolo did not have any such transactions as at 31 December 2016.

For the purposes of preparing the tables and in compliance with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:

- the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) "Financial instruments", together with the fair value of financial collateral consisting of securities;
- the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) "Cash deposits received/provided as collateral";
- repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value.
- Derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount".

**7. Securities lending transactions**

The banking service accessory securities lending, offered by Intesa Sanpaolo to customers (natural persons, legal entities and commercial entities), is worth mentioning. The contract envisages transfer of the ownership exclusively of government securities, with the obligation for Intesa Sanpaolo to return them, paying a consideration amount as remuneration for their availability. The transaction has no speculative purposes. As at 31 December 2016, the collateral of transactions amounted to 98 billion euro.

**8. Disclosure on joint-control assets**

Intesa Sanpaolo has no joint-control assets.

# Part C – Information on the Parent Company's income statement

## SECTION 1 – INTEREST – CAPTIONS 10 AND 20

### 1.1 Interest and similar income: breakdown

|  | (millions of euro) |              |                    |              |              |
|--|--------------------|--------------|--------------------|--------------|--------------|
|  | Debt securities    | Loans        | Other transactions | 2016         | 2015         |
| 1. Financial assets held for trading                                 | 84                 | -            | -                  | 84           | 103          |
| 2. Financial assets designated at fair value through profit and loss | 5                  | -            | -                  | 5            | 5            |
| 3. Financial assets available for sale                               | 206                | 2            | 2                  | 210          | 263          |
| 4. Investments held to maturity                                      | 2                  | -            | -                  | 2            | 1            |
| 5. Due from banks  | 33                 | 675          | -                  | 708          | 859          |
| 6. Loans to customers  | 173                | 4,608        | 1                  | 4,782        | 4,686        |
| 7. Hedging derivatives   | X                  | X            | 591                | 591          | 825          |
| 8. Other assets  | X                  | X            | 199                | 199          | 30           |
| <b>TOTAL</b>   | <b>503</b>         | <b>5,285</b> | <b>793</b>         | <b>6,581</b> | <b>6,772</b> |

Interest and similar income also includes interest income on securities relating to repurchase agreements.

Loans to customers include interest of 152 million euro on bad loans, 332 million euro on exposures included in the unlikely to pay category and 5 million euro on past due non-performing loans.

Other assets include interest on transactions with negative rates.

### 1.2. Interest and similar income: differentials on hedging transactions

|   | (millions of euro) |            |
|---|--------------------|------------|
|   | 2016               | 2015       |
| A. Positive differentials on hedging transactions | 3,144              | 3,944      |
| B. Negative differentials on hedging transactions | -2,553             | -3,119     |
| <b>BALANCE (A - B)</b>                            | <b>591</b>         | <b>825</b> |

### 1.3 Interest and similar income: other information

#### 1.3.1 Interest income on foreign currency financial assets

As at 31 December 2016, interest income on foreign currency financial assets amounted to 1,279 million euro.

#### 1.3.2 Interest income on financial lease receivables

This caption is not present.

**1.4 Interest and similar expense: breakdown**

|   | (millions of euro) |              |                    |              |              |
|---|--------------------|--------------|--------------------|--------------|--------------|
|   | Debts              | Securities   | Other transactions | 2016         | 2015         |
| 1. Due to Central Banks   | 31                 | X            | -                  | 31           | 47           |
| 2. Due to banks   | 757                | X            | -                  | 757          | 885          |
| 3. Due to customers   | 111                | X            | -                  | 111          | 165          |
| 4. Securities issued  | X                  | 3,015        | -                  | 3,015        | 3,524        |
| 5. Financial liabilities held for trading                                 | -                  | -            | 9                  | 9            | 6            |
| 6. Financial liabilities designated at fair value through profit and loss | -                  | -            | -                  | -            | -            |
| 7. Other liabilities and allowances                                       | X                  | X            | 144                | 144          | 13           |
| 8. Hedging derivatives  | X                  | X            | -                  | -            | -            |
| <b>TOTAL</b>  | <b>899</b>         | <b>3,015</b> | <b>153</b>         | <b>4,067</b> | <b>4,640</b> |

The captions "2 Due to banks" and "3. Due to customers" include interest expense on repurchase agreements, even if the transaction referred to securities recorded under assets.  
Other liabilities and reserves include interest on transactions with negative rates.

**1.5 Interest and similar expense: differentials on hedging transactions**

Information on differentials on hedging transactions is illustrated in table 1.2, since the balance is included under interest income.

**1.6 Interest and similar expense: other information****1.6.1 Interest expense on foreign currency financial liabilities**

Interest and similar expense as at 31 December 2016 included 728 million euro relative to financial liabilities in foreign currency.

**1.6.2 Interest expense on financial lease payables**

The amount of interest expense on financial lease payables as at 31 December 2016 was immaterial.



## SECTION 2 – NET FEE AND COMMISSION INCOME - CAPTIONS 40 AND 50

## 2.1 Fee and commission income: breakdown

(millions of euro)

|   | 2016         | 2015         |
|---|--------------|--------------|
| <b>A) Guarantees given</b>                              | <b>300</b>   | <b>299</b>   |
| <b>B) Credit derivatives</b>                            | <b>26</b>    | <b>26</b>    |
| <b>C) Management, dealing and consultancy services</b>  | <b>1,385</b> | <b>1,456</b> |
| 1. trading in financial instruments                     | 1            | 1            |
| 2. currency dealing                                     | 24           | 24           |
| 3. portfolio management                                 | -            | -            |
| 3.1. individual   | -            | -            |
| 3.2. collective   | -            | -            |
| 4. custody and administration of securities             | 41           | 43           |
| 5. depositary bank                                      | 6            | 5            |
| 6. placement of securities                              | 585          | 648          |
| 7. reception and transmission of orders                 | 54           | 73           |
| 8. consultancy services                                 | -            | 1            |
| 8.1. on investments                                     | -            | 1            |
| 8.2. on financial structure                             | -            | -            |
| 9. distribution of third party services                 | 674          | 661          |
| 9.1. portfolio management                               | 119          | 154          |
| 9.1.1. individual                                       | 114          | 148          |
| 9.1.2. collective                                       | 5            | 6            |
| 9.2. insurance products                                 | 543          | 460          |
| 9.3. other products                                     | 12           | 47           |
| <b>D) Collection and payment services</b>               | <b>190</b>   | <b>180</b>   |
| <b>E) Servicing related to securitisations</b>          | <b>-</b>     | <b>-</b>     |
| <b>F) Services related to factoring</b>                 | <b>-</b>     | <b>-</b>     |
| <b>G) Tax collection services</b>                       | <b>-</b>     | <b>-</b>     |
| <b>H) Management of multilateral trading facilities</b> | <b>-</b>     | <b>-</b>     |
| <b>I) Management of current accounts</b>                | <b>541</b>   | <b>499</b>   |
| <b>J) Other services</b>                                | <b>1,040</b> | <b>707</b>   |
| <b>TOTAL</b>  | <b>3,482</b> | <b>3,167</b> |

J) Other services recorded fees on credit and debit cards of 539 million euro, commissions on medium-/long-term loans of 357 million euro, commissions on short-term loans of 53 million euro and commissions on sundry services rendered to customers and banks of 91 million euro.

**2.2 Fee and commission income: distribution channels of products and services**

(millions of euro)

|                                       | 2016         | 2015         |
|---------------------------------------|--------------|--------------|
| <b>A) Group branches</b>              | <b>1,259</b> | <b>1,309</b> |
| 1. portfolio management               | -            | -            |
| 2. placement of securities            | 585          | 648          |
| 3. third party services and products  | 674          | 661          |
| <b>B) "Door-to-door" sales</b>        | <b>-</b>     | <b>-</b>     |
| 1. portfolio management               | -            | -            |
| 2. placement of securities            | -            | -            |
| 3. third party services and products  | -            | -            |
| <b>C) Other distribution channels</b> | <b>-</b>     | <b>-</b>     |
| 1. portfolio management               | -            | -            |
| 2. placement of securities            | -            | -            |
| 3. third party services and products  | -            | -            |

**2.3 Fee and commission expense: breakdown**

(millions of euro)

|  | 2016       | 2015       |
|--|------------|------------|
| <b>A) Guarantees received</b>  | <b>39</b>  | <b>32</b>  |
| <b>B) Credit derivatives</b>   | <b>12</b>  | <b>15</b>  |
| <b>C) Management, dealing and consultancy services</b>                 | <b>30</b>  | <b>30</b>  |
| 1. trading in financial instruments                                    | 1          | 2          |
| 2. currency dealing  | 2          | 2          |
| 3. portfolio management:   | -          | -          |
| 3.1 own portfolio  | -          | -          |
| 3.2 third party portfolio  | -          | -          |
| 4. custody and administration of securities                            | 27         | 26         |
| 5. placement of financial instruments                                  | -          | -          |
| 6. "door-to-door" sale of financial instruments, products and services | -          | -          |
| <b>D) Collection and payment services</b>                              | <b>44</b>  | <b>40</b>  |
| <b>E) Other services</b>   | <b>529</b> | <b>374</b> |
| <b>TOTAL</b>   | <b>654</b> | <b>491</b> |

E) Other services includes 41 million euro fees on credit and debit cards, 298 million euro fees on credit cards and use of international circuits, 4 million euro securities lending operations, 6 million euro services rendered by banks and 180 million euro intermediation on other banking operations.

**SECTION 3 – DIVIDEND AND SIMILAR INCOME - CAPTION 70****3.1 Dividend and similar income: breakdown**

(millions of euro)

|  | 2016         |                           | 2015         |                           |
|--|--------------|---------------------------|--------------|---------------------------|
|  | Dividends    | Income from quotas of UCI | Dividends    | Income from quotas of UCI |
| A. Financial assets held for trading                                 | -            | -                         | -            | -                         |
| B. Financial assets available for sale                               | 93           | 2                         | 124          | 1                         |
| C. Financial assets designated at fair value through profit and loss | -            | -                         | -            | -                         |
| D. Equity investments  | 1,750        | X                         | 2,954        | X                         |
| <b>TOTAL</b>   | <b>1,843</b> | <b>2</b>                  | <b>3,078</b> | <b>1</b>                  |

D – Equity investments includes the dividends distributed by:

- Fideuram – Intesa Sanpaolo Private Banking S.p.A. for 660 million euro;
- Intesa Sanpaolo Vita S.p.A. for 504 million euro;
- Banca IMI S.p.A. for 213 million euro;
- Mediocredito for 75 million euro;
- Intesa Sanpaolo Bank Ireland Plc. for 70 million euro;
- Banco di Napoli S.p.A. for 66 million euro;
- Bank of Alexandria S.A.E. for 39 million euro;
- Eurizon Capital SGR S.p.A. for 31 million euro;
- Accedo S.p.A. for 21 million euro;
- Intesa Sanpaolo Holding International S.A. for 20 million euro;
- Bank of Qingdao Co. Ltd. for 17 million euro;
- Intesa Sanpaolo Bank of Albania for 16 million euro;
- BanKa Koper for 11 million euro;
- other equity investments for 7 million euro.

## SECTION 4 – PROFITS (LOSSES) ON TRADING - CAPTION 80

### 4.1 Profits (Losses) on trading: breakdown

|  | Revaluations       | Profits on trading | Write-downs   | Losses on trading | Net result  |
|--|--------------------|--------------------|---------------|-------------------|-------------|
|  | (millions of euro) |                    |               |                   |             |
| <b>1. Financial assets held for trading</b>                              | <b>15</b>          | <b>92</b>          | <b>-49</b>    | <b>-82</b>        | <b>-24</b>  |
| 1.1 Debt securities  | 6                  | 92                 | -36           | -49               | 13          |
| 1.2 Equities   | -                  | -                  | -             | -                 | -           |
| 1.3 Quotas of UCI  | 9                  | -                  | -13           | -33               | -37         |
| 1.4 Loans  | -                  | -                  | -             | -                 | -           |
| 1.5 Other  | -                  | -                  | -             | -                 | -           |
| <b>2. Financial liabilities held for trading</b>                         | <b>7</b>           | <b>-</b>           | <b>-1</b>     | <b>-</b>          | <b>6</b>    |
| 2.1 Debt securities  | -                  | -                  | -             | -                 | -           |
| 2.2 Payables   | -                  | -                  | -             | -                 | -           |
| 2.3 Other  | 7                  | -                  | -1            | -                 | 6           |
| <b>3. Financial assets and liabilities: foreign exchange differences</b> | <b>X</b>           | <b>X</b>           | <b>X</b>      | <b>X</b>          | <b>267</b>  |
| <b>4. Derivatives</b>  | <b>3,554</b>       | <b>3,819</b>       | <b>-4,017</b> | <b>-3,248</b>     | <b>-355</b> |
| 4.1 Financial derivatives :  | 3,532              | 3,774              | -3,985        | -3,228            | -370        |
| - on debt securities and interest rates                                  | 3,124              | 2,392              | -3,575        | -1,849            | 92          |
| - on equities and stock indexes  | 9                  | 35                 | -11           | -35               | -2          |
| - on currencies and gold   | X                  | X                  | X             | X                 | -463        |
| - other  | 399                | 1,347              | -399          | -1,344            | 3           |
| 4.2 Credit derivatives   | 22                 | 45                 | -32           | -20               | 15          |
| <b>TOTAL</b>   | <b>3,576</b>       | <b>3,911</b>       | <b>-4,067</b> | <b>-3,330</b>     | <b>-106</b> |

Net result includes profits, losses, revaluations and write-downs on currency transactions and currency and gold derivatives.

## SECTION 5 – FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING - CAPTION 90

## 5.1 Fair value adjustments in hedge accounting: breakdown

|  | (millions of euro) |               |
|--|--------------------|---------------|
|  | 2016               | 2015          |
| <b>A. Income from:</b>                                       |                    |               |
| A.1 fair value hedge derivatives                             | 240                | 791           |
| A.2 financial assets hedged (fair value)                     | 1,733              | 797           |
| A.3 financial liabilities hedged (fair value)                | 591                | 1,518         |
| A.4 cash flow hedge: derivatives                             | -                  | -             |
| A.5 currency assets and liabilities                          | -                  | -             |
| <b>Total income from hedging (A)</b>                         | <b>2,564</b>       | <b>3,106</b>  |
| <b>B. Expenses for:</b>                                      |                    |               |
| B.1 fair value hedge derivatives                             | -1,677             | -1,269        |
| B.2 financial assets hedged (fair value)                     | -910               | -1,527        |
| B.3 financial liabilities hedged (fair value)                | -2                 | -320          |
| B.4 cash flow hedge: derivatives                             | -                  | -             |
| B.5 currency assets and liabilities                          | -                  | -             |
| <b>Total expense from hedging (B)</b>                        | <b>-2,589</b>      | <b>-3,116</b> |
| <b>C. Fair value adjustments in hedge accounting (A - B)</b> | <b>-25</b>         | <b>-10</b>    |

## SECTION 6 – PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE - CAPTION 100

## 6.1 Profits (Losses) on disposal or repurchase: breakdown

|  | (millions of euro) |            |            |            |            |            |
|--|--------------------|------------|------------|------------|------------|------------|
|  | 2016               |            |            | 2015       |            |            |
|  | Profits            | Losses     | Net result | Profits    | Losses     | Net result |
| <b>Financial assets</b>                |                    |            |            |            |            |            |
| 1. Due from banks                      | 1                  | -17        | -16        | -          | -          | -          |
| 2. Loans to customers                  | 20                 | -56        | -36        | 40         | -32        | 8          |
| 3. Financial assets available for sale | 227                | -18        | 209        | 390        | -17        | 373        |
| 3.1 Debt securities                    | 184                | -18        | 166        | 371        | -9         | 362        |
| 3.2 Equities                           | 43                 | -          | 43         | 19         | -8         | 11         |
| 3.3 Quotas of UCI                      | -                  | -          | -          | -          | -          | -          |
| 3.4 Loans                              | -                  | -          | -          | -          | -          | -          |
| 4. Investments held to maturity        | -                  | -          | -          | -          | -          | -          |
| <b>Total assets</b>                    | <b>248</b>         | <b>-91</b> | <b>157</b> | <b>430</b> | <b>-49</b> | <b>381</b> |
| <b>Financial liabilities</b>           |                    |            |            |            |            |            |
| 1. Due to banks                        | 18                 | -29        | -11        | 15         | -36        | -21        |
| 2. Due to customers                    | -                  | -          | -          | -          | -          | -          |
| 3. Securities issued                   | 13                 | -29        | -16        | -          | -38        | -38        |
| <b>Total liabilities</b>               | <b>31</b>          | <b>-58</b> | <b>-27</b> | <b>15</b>  | <b>-74</b> | <b>-59</b> |

**SECTION 7 – PROFITS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE  
– CAPTION 110**
**7.1 Profits (losses) on financial assets/liabilities designated at fair value: breakdown**

(millions of euro)

|   | Revaluations | Profits on trading | Write-downs | Losses on trading | Net result |
|---|--------------|--------------------|-------------|-------------------|------------|
| <b>1. Financial assets</b>  | <b>10</b>    | -                  | -2          | -                 | <b>8</b>   |
| 1.1 Debt securities   | 3            | -                  | -           | -                 | 3          |
| 1.2 Equities  | -            | -                  | -           | -                 | -          |
| 1.3 Quotas of UCI   | 7            | -                  | -           | -                 | 7          |
| 1.4 Loans   | -            | -                  | -2          | -                 | -2         |
| <b>2. Financial liabilities</b>   | <b>1</b>     | -                  | -           | -                 | <b>1</b>   |
| 2.1 Debt securities   | -            | -                  | -           | -                 | -          |
| 2.2 Due to banks  | 1            | -                  | -           | -                 | 1          |
| 2.3 Due to customers  | -            | -                  | -           | -                 | -          |
| <b>3. Foreign currency financial assets and liabilities:<br/>foreign exchange differences</b> | <b>X</b>     | <b>X</b>           | <b>X</b>    | <b>X</b>          | <b>-</b>   |
| <b>4. Credit and financial derivatives</b>  | <b>4</b>     | -                  | -           | -                 | <b>4</b>   |
| <b>TOTAL</b>  | <b>15</b>    | <b>-</b>           | <b>-2</b>   | <b>-</b>          | <b>13</b>  |

**SECTION 8 – NET LOSSES/RECOVERIES ON IMPAIRMENT – CAPTION 130**
**8.1 Net impairment losses on loans: breakdown**

(millions of euro)

|                                | IMPAIRMENT LOSSES |               |            | RECOVERIES  |            |             |            | 2016          | 2015        |
|--------------------------------|-------------------|---------------|------------|-------------|------------|-------------|------------|---------------|-------------|
|                                | Individual        |               | Collective | Individual  |            | Collective  |            |               |             |
|                                | write-offs        | other         |            | of interest | other      | of interest | other      |               |             |
| <b>A. Due from banks</b>       | -                 | -             | <b>-11</b> | -           | <b>2</b>   | -           | <b>2</b>   | <b>-7</b>     | <b>-12</b>  |
| - Loans                        | -                 | -             | -2         | -           | 2          | -           | 2          | 2             | -9          |
| - Debt securities              | -                 | -             | -9         | -           | -          | -           | -          | -9            | -3          |
| <b>B. Loans to customers</b>   | <b>-234</b>       | <b>-2,377</b> | <b>-9</b>  | <b>352</b>  | <b>544</b> | -           | <b>144</b> | <b>-1,580</b> | <b>-844</b> |
| Non-performing loans purchased | -                 | -88           | -          | 15          | 17         | -           | -          | -56           | -34         |
| - Loans                        | -                 | -88           | X          | 15          | 17         | X           | X          | -56           | -34         |
| - Debt securities              | -                 | -             | X          | -           | -          | X           | X          | -             | -           |
| Other                          | -234              | -2,289        | -9         | 337         | 527        | -           | 144        | -1,524        | -810        |
| - Loans                        | -234              | -2,279        | -3         | 337         | 527        | -           | 130        | -1,522        | -821        |
| - Debt securities              | -                 | -10           | -6         | -           | -          | -           | 14         | -2            | 11          |
| <b>C. Total</b>                | <b>-234</b>       | <b>-2,377</b> | <b>-20</b> | <b>352</b>  | <b>546</b> | <b>-</b>    | <b>146</b> | <b>-1,587</b> | <b>-856</b> |

The financial effects due to release of time value on discounted non-performing loans, recognised under "Recoveries - Individual - of interest", amount to a total of 352 million euro. Of this amount, 258 million euro relates to bad loans and 94 million euro to exposures included in the unlikely to pay category.

**8.2 Net impairment losses on financial assets available for sale: breakdown**

(millions of euro)

|                       | IMPAIRMENT LOSSES |             | RECOVERIES  |          | 2016        | 2015       |
|-----------------------|-------------------|-------------|-------------|----------|-------------|------------|
|                       | Individual        |             | Individual  |          |             |            |
|                       | write-offs        | other       | of interest | other    |             |            |
| A. Debt securities    | -                 | -           | -           | 3        | 3           | 2          |
| B. Equities           | -                 | -58         | X           | X        | -58         | -69        |
| C. Quotas of UCI      | -                 | -176        | X           | -        | -176        | -3         |
| D. Due from banks     | -1                | -           | -           | -        | -1          | -1         |
| E. Loans to customers | -                 | -           | -           | -        | -           | -          |
| <b>F. Total</b>       | <b>-1</b>         | <b>-234</b> | <b>-</b>    | <b>3</b> | <b>-232</b> | <b>-71</b> |

**8.3 Net impairment losses on investments held to maturity: breakdown**

As at 31 December 2016, Intesa Sanpaolo recorded net impairment losses on investments held to maturity of immaterial amounts.

**8.4 Net impairment losses on other financial activities: breakdown**

(millions of euro)

|                              | IMPAIRMENT LOSSES |           |            | RECOVERIES  |           |             |          | 2016      | 2015       |
|------------------------------|-------------------|-----------|------------|-------------|-----------|-------------|----------|-----------|------------|
|                              | Individual        |           | Collective | Individual  |           | Collective  |          |           |            |
|                              | write-offs        | other     |            | of interest | other     | of interest | other    |           |            |
| A. Guarantees given          | -                 | -1        | -8         | -           | 31        | -           | 9        | 31        | 113        |
| B. Credit derivatives        | -                 | -         | -          | -           | -         | -           | -        | -         | -          |
| C. Commitments to lend funds | -                 | -         | -          | -           | -         | -           | -        | -         | -          |
| D. Other operations          | -                 | -         | -          | -           | -         | -           | -        | -         | -          |
| <b>E. Total</b>              | <b>-</b>          | <b>-1</b> | <b>-8</b>  | <b>-</b>    | <b>31</b> | <b>-</b>    | <b>9</b> | <b>31</b> | <b>113</b> |

**SECTION 9 - ADMINISTRATIVE EXPENSES - CAPTION 150****9.1 Personnel expenses: breakdown**

(millions of euro)

|  | 2016         | 2015         |
|--|--------------|--------------|
| <b>1) Personnel employed</b>   | <b>2,550</b> | <b>2,259</b> |
| a) wages and salaries  | 1,665        | 1,489        |
| b) social security charges   | 442          | 397          |
| c) termination indemnities   | 25           | 22           |
| d) supplementary benefits  | -            | -            |
| e) provisions for termination indemnities  | 14           | 9            |
| f) provisions for post employment benefits:  | 41           | 35           |
| - defined contribution plans   | -            | -            |
| - defined benefit plans  | 41           | 35           |
| g) payments to external pension funds:   | 139          | 126          |
| - defined contribution plans   | 139          | 126          |
| - defined benefit plans  | -            | -            |
| h) costs from share-based payments   | 82           | 72           |
| i) other benefits in favour of employees   | 142          | 109          |
| <b>2) Other non-retired personnel</b>  | <b>3</b>     | <b>3</b>     |
| <b>3) Directors and statutory auditors</b>   | <b>6</b>     | <b>8</b>     |
| <b>4) Early retirement costs</b>   | <b>-</b>     | <b>-</b>     |
| <b>5) Recovery of expenses for employees of the Bank seconded to other entities</b>      | <b>-55</b>   | <b>-59</b>   |
| <b>6) Reimbursement of expenses for employees of other entities seconded to the Bank</b> | <b>73</b>    | <b>78</b>    |
| <b>TOTAL</b>   | <b>2,577</b> | <b>2,289</b> |

Provisions to employee termination indemnities determined on the basis of Art. 2120 of the Italian Civil Code amounted to 10 million euro.

**9.2 Average number of employees by categories**

|                           | 2016          | 2015          |
|---------------------------|---------------|---------------|
| <b>Personnel employed</b> | <b>30,567</b> | <b>27,917</b> |
| a) managers               | 487           | 487           |
| b) total officers         | 13,589        | 12,328        |
| c) other employees        | 16,491        | 15,102        |
| <b>Other personnel</b>    | <b>36</b>     | <b>21</b>     |
| <b>TOTAL</b>              | <b>30,603</b> | <b>27,938</b> |

**9.3 Post employment defined benefit plans: costs and revenues**

(millions of euro)

|                                  | 2016                             |                |                | 2015                             |                |                |
|----------------------------------|----------------------------------|----------------|----------------|----------------------------------|----------------|----------------|
|                                  | Employee Termination Indemnities | Internal plans | External plans | Employee Termination Indemnities | Internal plans | External plans |
| Current service cost             | -2                               | -1             | -32            | -2                               | -2             | -28            |
| Interest expense                 | -11                              | -5             | -73            | -7                               | -5             | -55            |
| Interest income                  | -                                | 4              | 56             | -                                | 4              | 38             |
| Reimbursement from third parties | -                                | -              | -              | -                                | -              | -              |
| Past service cost                | -                                | -              | -              | -                                | -              | -              |
| Curtailment of the fund          | X                                | -              | -              | X                                | -              | -              |
| Settlement of the fund           | X                                | -              | -              | X                                | -              | -              |

**9.4 Other benefits in favour of employees**

The balance as at 31 December 2016 amounted to 142 million euro, of which 59 million euro referred to charges for incentive-driven exit plans. The residual 83 million euro essentially referred to contributions for health assistance, lunch vouchers and provisions for seniority bonuses.

**9.5 Other administrative expenses: breakdown**

(millions of euro)

|   | 2016         | 2015         |
|---|--------------|--------------|
| Expenses for maintenance of information technology and electronic equipment | 30           | 33           |
| Telephonic, teletransmission and transmission expenses                      | 3            | 4            |
| <b>Information technology expenses</b>                                      | <b>33</b>    | <b>37</b>    |
| Rentals and service charges - real estate                                   | 103          | 111          |
| Security services   | 15           | 16           |
| Cleaning of premises  | 20           | 21           |
| Expenses for maintenance of real estate assets, furniture and equipment     | 35           | 38           |
| Energy costs  | 48           | 45           |
| Property costs  | 5            | 6            |
| <b>Management of real estate assets</b>                                     | <b>226</b>   | <b>237</b>   |
| Printing, stationery and consumables expenses                               | 17           | 18           |
| Transport and related services expenses (including counting of valuables)   | 51           | 56           |
| Information expenses  | 22           | 18           |
| Postal and telegraphic expenses   | 35           | 33           |
| Other rental charges  | -            | -            |
| <b>General structure costs</b>  | <b>125</b>   | <b>125</b>   |
| Expenses for consultancy fees   | 157          | 165          |
| Legal and judiciary expenses  | 88           | 82           |
| Insurance premiums - banks and customers                                    | 25           | 26           |
| <b>Professional and legal expenses</b>                                      | <b>270</b>   | <b>273</b>   |
| <b>Advertising and promotional expenses</b>                                 | <b>79</b>    | <b>82</b>    |
| <b>Services rendered by third parties</b>                                   | <b>96</b>    | <b>92</b>    |
| <b>Indirect personnel costs</b>   | <b>31</b>    | <b>33</b>    |
| <b>Costs reimbursed to Group companies</b>                                  | <b>988</b>   | <b>912</b>   |
| <b>Other costs</b>  | <b>351</b>   | <b>317</b>   |
| <b>Indirect taxes and duties</b>  | <b>389</b>   | <b>367</b>   |
| <b>Recovery of other expenses</b>   | <b>-49</b>   | <b>-39</b>   |
| <b>TOTAL</b>  | <b>2,539</b> | <b>2,436</b> |

Other expenses include 308 million euro concerning contributions to the Single Resolution Fund for Banking Crisis and the Deposit Guarantee Fund gross of the tax effect, allocated to the caption "Levies and other charges concerning the banking industry" for the purpose of the reclassified income statement.

Administrative expenses for 2016, included in tables 9.1 "Personnel expenses: breakdown" and 9.5 "Other administrative expenses: breakdown", include respectively 59 million euro of charges for personnel exit incentives and 61 million euro of other administrative expenses connected to integration activities, both gross of the tax effect, as detailed below.



*Charges for integration and exit incentives: breakdown*

|   | (millions of euro) |           |
|---|--------------------|-----------|
|   | 2016               | 2015      |
| <b>Personnel expenses</b>                     | <b>59</b>          | <b>30</b> |
| - charges for integration and exit incentives | 59                 | 30        |
| <b>Other administrative expenses</b>          | <b>61</b>          | <b>58</b> |
| - information technology expenses             | 25                 | 28        |
| - management of real estate assets            | -                  | -         |
| - professional and legal expenses             | 28                 | 28        |
| - advertising and promotional expenses        | -                  | -         |
| - indirect personnel costs                    | -                  | -         |
| - other costs                                 | 8                  | 2         |
| <b>TOTAL</b>                                  | <b>120</b>         | <b>88</b> |

**SECTION 10 - NET PROVISIONS FOR RISKS AND CHARGES - CAPTION 160****10.1 Net provisions for risks and charges: breakdown**

|  | (millions of euro) |               |             |
|--|--------------------|---------------|-------------|
|  | Provisions         | Reallocations | 2016        |
| Net provisions for legal disputes          | -63                | 41            | -22         |
| Net provisions for other personnel charges | -                  | -             | -           |
| Net provisions for risks and charges       | -121               | 35            | -86         |
| <b>TOTAL</b>                               | <b>-184</b>        | <b>76</b>     | <b>-108</b> |

"Net provisions for risks and charges", which amounted to 108 million euro, recorded the provisions attributable to the year relating to:

- litigation, including revocatory actions and other disputes;
- guarantees issued for the sale of equity investments and other loan transactions.

The above provisions include the interest expense due to time value (1 million euro).

**SECTION 11 – NET ADJUSTMENTS TO/RECOVERIES ON PROPERTY AND EQUIPMENT – CAPTION 170****11.1 Net adjustments to property and equipment: breakdown**

|                                  | (millions of euro) |                   |            |             |
|----------------------------------|--------------------|-------------------|------------|-------------|
|                                  | Depreciation       | Impairment losses | Recoveries | Net result  |
| <b>A. Property and equipment</b> |                    |                   |            |             |
| A.1 Owned                        | -121               | -3                | -          | -124        |
| - used in operations             | -121               | -3                | -          | -124        |
| - investment                     | -                  | -                 | -          | -           |
| A.2 Acquired under finance lease | -                  | -                 | -          | -           |
| - used in operations             | -                  | -                 | -          | -           |
| - investment                     | -                  | -                 | -          | -           |
| <b>TOTAL</b>                     | <b>-121</b>        | <b>-3</b>         | <b>-</b>   | <b>-124</b> |

For the determination of impairment losses, see the illustration provided in Part A – Accounting policies.

**SECTION 12 – NET ADJUSTMENTS TO/RECOVERIES ON INTANGIBLE ASSETS - CAPTION 180****12.1 Net adjustments to intangible assets: breakdown**

(millions of euro)

|                                  | Amortisation | Impairment losses | Recoveries | Net result |
|----------------------------------|--------------|-------------------|------------|------------|
| <b>A. Intangible assets</b>      |              |                   |            |            |
| A.1 Owned                        | -3           | -                 | -          | -3         |
| - internally generated           | -            | -                 | -          | -          |
| - other                          | -3           | -                 | -          | -3         |
| A.2 Acquired under finance lease | -            | -                 | -          | -          |
| <b>TOTAL</b>                     | <b>-3</b>    | <b>-</b>          | <b>-</b>   | <b>-3</b>  |

**SECTION 13 – OTHER OPERATING EXPENSES (INCOME) - CAPTION 190****13.1 Other operating expenses: breakdown**

(millions of euro)

|  | 2016       | 2015      |
|--|------------|-----------|
| Charges for litigations and provisions for customer restorations | 5          | 5         |
| Burglaries and robberies   | -          | -         |
| Amortisation of leasehold improvements                           | 18         | 17        |
| Other non-recurring expenses                                     | 257        | 30        |
| Other  | 3          | 5         |
| <b>TOTAL</b>   | <b>283</b> | <b>57</b> |

Other non-recurring expenses included 225 million euro relating to the settlement of the US lawsuit with the supervisory body for the State of New York.

**13.2 Other operating income: breakdown**

(millions of euro)

|  | 2016       | 2015       |
|--|------------|------------|
| Income on securitisations                        | -          | -          |
| Recovery of insurance costs                      | 2          | 1          |
| Recovery of other expenses                       | 8          | 17         |
| Recovery of taxes and interest of previous years | -          | -          |
| Cheques prescribed                               | -          | -          |
| Recovery of rents paid                           | 56         | 75         |
| Recovery of services rendered to Group companies | 105        | 108        |
| Recovery of services rendered to third parties   | 2          | 1          |
| Recovery of taxes and duties                     | 318        | 303        |
| Other  | 39         | 251        |
| <b>Total</b>                                     | <b>530</b> | <b>756</b> |

**SECTION 14 – PROFITS (LOSSES) ON EQUITY INVESTMENTS – CAPTION 210****14.1 Profits (Losses) on equity investments: breakdown**

|                        | (millions of euro) |             |
|------------------------|--------------------|-------------|
|                        | 2016               | 2015        |
| A. Revenues            | 1                  | 107         |
| 1. Revaluations        | -                  | -           |
| 2. Profits on disposal | 1                  | 27          |
| 3. Write-backs         | -                  | 80          |
| 4. Other               | -                  | -           |
| B. Charges             | -316               | -222        |
| 1. Write-downs         | -                  | -           |
| 2. Impairment losses   | -316               | -217        |
| 3. Losses on disposal  | -                  | -5          |
| 4. Other               | -                  | -           |
| <b>Net result</b>      | <b>-315</b>        | <b>-115</b> |

Impairment losses refer to: Intesa Sanpaolo Provis S.r.l for 127 million euro, Accedo S.p.A. for 51 million euro, Risanamento S.p.A. for 34 million euro, Pravex Bank Public Joint-Stock Company Commercial Bank for 26 million euro, Compagnia Aerea Italiana S.p.A. for 17 million euro, Tangenziali Esterne di Milano S.p.A. for 15 million euro, Autostrade Lombarde S.p.A. for 14 million euro, INFRA. – Investire nelle Infrastrutture S.p.A. for 7 million euro, Autostrada Pedemontana Lombarda S.p.A. for 6 million euro, Fenice S.r.l. for 5 million euro, Oldequiter S.p.A. for 4 million euro, Tangenziale Esterna S.p.A. for 4 million euro, Focus Investments S.p.A. for 2 million euro and other minor companies for 4 million euro.

**SECTION 15 - VALUATION DIFFERENCES ON PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS MEASURED AT FAIR VALUE – CAPTION 220**

Not applicable to Intesa Sanpaolo.

**SECTION 16 – GOODWILL IMPAIRMENT - CAPTION 230****16.1 Goodwill impairment: breakdown**

During the year, no impairment of goodwill was recognised.

For a description of the impairment testing methods for goodwill, reference should be made to Part B – Section 13 – Intangible Assets in the Notes to the consolidated financial statements.

**SECTION 17 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - CAPTION 240****17.1 Profits (Losses) on disposal of investments: breakdown**

|                       | (millions of euro) |           |
|-----------------------|--------------------|-----------|
|                       | 2016               | 2015      |
| A. Real estate assets | 325                | 66        |
| - profits on disposal | 325                | 66        |
| - losses on disposal  | -                  | -         |
| B. Other assets       | -                  | -         |
| - profits on disposal | -                  | -         |
| - losses on disposal  | -                  | -         |
| <b>Net result</b>     | <b>325</b>         | <b>66</b> |

**SECTION 18 - TAXES ON INCOME FROM CONTINUING OPERATIONS - CAPTION 260****18.1 Taxes on income from continuing operations: breakdown**

|   | (millions of euro) |             |
|---|--------------------|-------------|
|   | <b>2016</b>        | <b>2015</b> |
| 1. Current taxes (-)  | 499                | -84         |
| 2. Changes in current taxes of previous years (+/-)   | 30                 | 54          |
| 3. Reduction in current taxes of the year (+)   | -                  | -           |
| 3bis. Reduction in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+) | -                  | -           |
| 4. Changes in deferred tax assets (+/-)   | -98                | 53          |
| 5. Changes in deferred tax liabilities (+/-)  | -63                | -48         |
| <b>6. Taxes on income for the year (-) (-1+/-2+3+3bis+/-4+/-5)</b>                            | <b>368</b>         | <b>-25</b>  |

**18.2 Reconciliation of theoretical tax charge to total income tax expense for the period**

|  | (millions of euro) |              |
|--|--------------------|--------------|
|  | <b>2016</b>        | <b>2015</b>  |
| Income before tax from continuing operations   | 317                | 2,661        |
| Income before tax from discontinued operations | 1,090              | 141          |
| <b>Theoretical taxable income</b>              | <b>1,407</b>       | <b>2,802</b> |

|   | (millions of euro) |               |
|---|--------------------|---------------|
|   |                    | %             |
| <b>Income taxes - theoretical tax charge</b>  | <b>442</b>         | <b>31.4</b>   |
| <b>Increases of taxes</b>   | <b>269</b>         | <b>19.1</b>   |
| Greater actual IRAP rate  | 1                  | 0.1           |
| Non-deductible interest expense   | 44                 | 3.2           |
| Other non-deductible costs (losses on equity investments, municipal property tax (IMU), etc.) | 192                | 13.6          |
| Other   | 32                 | 2.2           |
| <b>Decreases of taxes</b>   | <b>-1,064</b>      | <b>-75.6</b>  |
| Lower IRAP taxable income   | -40                | -2.8          |
| Non-taxed capital gains on equity investments   | -263               | -18.7         |
| Capital gains on equity investments subject to substitute tax                                 | -36                | -2.5          |
| Tax-exempt portion of dividends   | -549               | -39.1         |
| ACE Benefit - Aid for Economic Growth <sup>(a)</sup>  | -59                | -4.2          |
| Other   | -117               | -8.3          |
| <b>Total change in taxes</b>  | <b>-795</b>        | <b>-56.5</b>  |
| <b>Total income tax expense for the period</b>  | <b>-353</b>        | <b>-25.1</b>  |
| <b>of which: - total income tax expense from continuing operations</b>                        | <b>-368</b>        | <b>-116.3</b> |
| <b>- total income tax expense from discontinued operations</b>                                | <b>15</b>          | <b>1.4</b>    |

<sup>(a)</sup> As at 31 December 2015 the ACE benefit amounted to 52 million euro.

**SECTION 19 – INCOME (LOSS) AFTER TAX FROM DISCONTINUED OPERATIONS - CAPTION 280****19.1 Income (Loss) after tax from discontinued operations: breakdown**

|   | (millions of euro) |             |
|---|--------------------|-------------|
|   | <b>2016</b>        | <b>2015</b> |
| 1. Income   | 134                | 141         |
| 2. Charges  | -                  | -           |
| 3. Valuation differences on discontinued operations and related liabilities | -                  | -           |
| 4. Profits (Losses) on disposal   | 956                | -           |
| 5. Taxes and duties   | -15                | -2          |
| <b>Income (Loss)</b>  | <b>1,075</b>       | <b>139</b>  |

**19.2 Breakdown of taxes on discontinued operations**

|  | (millions of euro) |             |
|--|--------------------|-------------|
|  | <b>2016</b>        | <b>2015</b> |
| 1. Current taxes (-)                         | -15                | -2          |
| 2. Changes in deferred tax assets (+/-)      | -                  | -           |
| 3. Changes in deferred tax liabilities (-/+) | -                  | -           |
| <b>4. Income taxes (-1 +/-2 +/-3)</b>        | <b>-15</b>         | <b>-2</b>   |

**SECTION 20 – OTHER INFORMATION**

There is no information further to that already provided in the previous sections.

**SECTION 21 – EARNINGS PER SHARE****Earnings per share**

For details, reference should be made to the relevant section of the Notes to the consolidated financial statements.

## Part D - Comprehensive income

### DETAILED STATEMENT OF COMPREHENSIVE INCOME

|   | (millions of euro) |               |               |
|---|--------------------|---------------|---------------|
|   | Gross<br>amount    | Income<br>tax | Net<br>amount |
| <b>10. NET INCOME (LOSS)</b>  | <b>X</b>           | <b>X</b>      | <b>1,760</b>  |
| <b>Other comprehensive income that may not be reclassified to the income statement:</b> | <b>-152</b>        | <b>21</b>     | <b>-131</b>   |
| 20. Property and equipment  | -                  | -             | -             |
| 30. Intangible assets   | -                  | -             | -             |
| 40. Defined benefit plans   | -152               | 21            | -131          |
| 50. Non current assets held for sale  | -                  | -             | -             |
| 60. Share of valuation reserves connected with investments carried at equity            | -                  | -             | -             |
| <b>Other comprehensive income that may be reclassified to the income statement:</b>     | <b>-47</b>         | <b>9</b>      | <b>-38</b>    |
| 70. Hedges of foreign investments:  | -                  | -             | -             |
| a) fair value changes   | -                  | -             | -             |
| b) reclassification to the income statement   | -                  | -             | -             |
| c) other changes  | -                  | -             | -             |
| 80. Foreign exchange differences:   | -                  | -             | -             |
| a) fair value changes   | -                  | -             | -             |
| b) reclassification to the income statement   | -                  | -             | -             |
| c) other changes  | -                  | -             | -             |
| 90. Cash flow hedges:   | -17                | 6             | -11           |
| a) fair value changes   | 260                | -86           | 174           |
| b) reclassification to the income statement   | -277               | 92            | -185          |
| c) other changes  | -                  | -             | -             |
| 100. Property and equipment   | -30                | 3             | -27           |
| a) fair value changes   | 107                | -41           | 66            |
| b) reclassification to the income statement   | -137               | 44            | -93           |
| - impairment losses   | 39                 | -10           | 29            |
| - gains/losses from disposals   | -176               | 54            | -122          |
| c) other changes  | -                  | -             | -             |
| 110. Non current assets held for sale   | -                  | -             | -             |
| a) fair value changes   | -                  | -             | -             |
| b) reclassification to the income statement   | -                  | -             | -             |
| c) other changes  | -                  | -             | -             |
| 120. Share of valuation reserves connected with investments carried at equity:          | -                  | -             | -             |
| a) fair value changes   | -                  | -             | -             |
| b) reclassification to the income statement   | -                  | -             | -             |
| - impairment losses   | -                  | -             | -             |
| - gains/losses from disposals   | -                  | -             | -             |
| c) other changes  | -                  | -             | -             |
| <b>130. Total other comprehensive income</b>  | <b>-199</b>        | <b>30</b>     | <b>-169</b>   |
| <b>140. TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 +130)</b>                               | <b>X</b>           | <b>X</b>      | <b>1,591</b>  |

# Part E – Information on risks and relative hedging policies

## INTRODUCTION

This part of the Notes to the Parent Company's financial statements provides the quantitative information on risks relative to the Parent Company, Intesa Sanpaolo. For qualitative information regarding the methods whereby risks are managed and monitored, the organisation of the Bank's risk governance, the associated processes and key functions, the culture of risk-awareness at the Bank and the methods whereby it is ensured that this culture is spread, the main risks associated with the Bank's business model, the risk appetite and the methods whereby such risks are managed and the use of stress tests within risk governance strategies, refer to Part E of the Notes to the consolidated financial statements.

## SECTION 1 – CREDIT RISK

### QUALITATIVE INFORMATION

Qualitative information on Intesa Sanpaolo's credit quality is contained in Part E of the Notes to the consolidated financial statements.

### QUANTITATIVE INFORMATION

#### A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI, whereas "exposures" includes these items. The only exception is table A.2.1 related to credit exposures by external rating classes, which includes quotas of UCI.

#### A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

In the tables in this section, the information related to country risk is not presented separately in compliance with the methodological decision for collective measurement of performing loans based on parameters that include "country risk".

##### A.1.1. Breakdown of credit exposures by portfolio classification and credit quality (book values)

| Portfolio/quality  | Bad loans    | Unlikely to pay | Non performing past due exposures | Performing past due exposures | Other performing exposures | TOTAL          |
|--|--------------|-----------------|-----------------------------------|-------------------------------|----------------------------|----------------|
| 1. Financial assets available for sale                               | -            | -               | -                                 | -                             | 35,517                     | 35,517         |
| 2. Investments held to maturity                                      | -            | -               | -                                 | -                             | 335                        | 335            |
| 3. Due from banks  | -            | -               | -                                 | -                             | 126,634                    | 126,634        |
| 4. Loans to customers  | 7,584        | 7,580           | 207                               | 2,479                         | 182,698                    | 200,548        |
| 5. Financial assets designated at fair value through profit and loss | -            | -               | -                                 | -                             | 264                        | 264            |
| 6. Financial assets under disposal                                   | -            | -               | -                                 | -                             | -                          | -              |
| <b>Total 31.12.2016</b>  | <b>7,584</b> | <b>7,580</b>    | <b>207</b>                        | <b>2,479</b>                  | <b>345,448</b>             | <b>363,298</b> |
| <b>Total 31.12.2015</b>  | <b>7,072</b> | <b>7,937</b>    | <b>376</b>                        | <b>3,097</b>                  | <b>317,212</b>             | <b>335,694</b> |

The "Loans to customers" portfolio includes forbore exposures amounting to 366 million euro amongst bad loans, 3,340 million euro amongst loans classified as unlikely to pay, 33 million euro amongst non-performing past due exposures, 143 million euro amongst performing past due exposures and 3,125 million amongst other performing exposures.

**A.1.2. Breakdown of credit exposures by portfolio classification and credit quality  
(gross and net values)**

(millions of euro)

| Portfolio/quality  | NON-PERFORMING ASSETS |                        |               | PERFORMING ASSETS |                        |                | TOTAL<br>(net exposure) |
|--|-----------------------|------------------------|---------------|-------------------|------------------------|----------------|-------------------------|
|  | Gross exposure        | Individual adjustments | Net exposure  | Gross exposure    | Collective adjustments | Net exposure   |                         |
| <b>A. Banking group</b>  |                       |                        |               |                   |                        |                |                         |
| 1. Financial assets available for sale                               | 32                    | -32                    | -             | 35,517            | -                      | 35,517         | 35,517                  |
| 2. Investments held to maturity                                      | -                     | -                      | -             | 335               | -                      | 335            | 335                     |
| 3. Due from banks  | 5                     | -5                     | -             | 126,681           | -47                    | 126,634        | 126,634                 |
| 4. Loans to customers  | 29,618                | -14,247                | 15,371        | 185,885           | -708                   | 185,177        | 200,548                 |
| 5. Financial assets designated at fair value through profit and loss | -                     | -                      | -             | X                 | X                      | 264            | 264                     |
| 6. Financial assets under disposal                                   | -                     | -                      | -             | -                 | -                      | -              | -                       |
| <b>Total 31.12.2016</b>  | <b>29,655</b>         | <b>-14,284</b>         | <b>15,371</b> | <b>348,418</b>    | <b>-755</b>            | <b>347,927</b> | <b>363,298</b>          |
| <b>Total 31.12.2015</b>  | <b>28,858</b>         | <b>-13,473</b>         | <b>15,385</b> | <b>320,896</b>    | <b>-842</b>            | <b>320,309</b> | <b>335,694</b>          |

| Portfolio/quality                    | ASSETS OF EVIDENTLY LOW CREDIT QUALITY |              | OTHER ASSETS<br>Net exposure |
|--------------------------------------|--|--------------|------------------------------|
|                                      | Cumulated capital losses               | Net exposure |                              |
| 1. Financial assets held for trading | 37                                     | 93           | 14,617                       |
| 2. Hedging derivatives               | -                                      | -            | 5,701                        |
| <b>Total 31.12.2016</b>              | <b>37</b>                              | <b>93</b>    | <b>20,318</b>                |
| <b>Total 31.12.2015</b>              | <b>51</b>                              | <b>112</b>   | <b>28,488</b>                |

Partial derecognition of Loans to customers came to 2,330 million euro for bad loans, 1,187 million euro for loans classified as unlikely to pay and 2 million euro for past due loans.

Performing financial assets may be broken down by portfolio and past due bracket as follows.

(millions of euro)

| Credit exposures   | Past due up to 3 months | Past due from 3 months up to 6 months | Past due from over 6 months up to 1 year | Past due by over 1 year | Total        |
|--|-------------------------|---------------------------------------|--|-------------------------|--------------|
|  |                         |                                       |  |                         |              |
| 1. Financial assets available for sale                               | -                       | -                                     | -  | -                       | -            |
| 2. Investments held to maturity                                      | -                       | -                                     | -  | -                       | -            |
| 3. Due from banks  | -                       | -                                     | -  | -                       | -            |
| 4. Loans to customers  | 1,624                   | 233                                   | 315                                      | 307                     | 2,479        |
| 5. Financial assets designated at fair value through profit and loss | -                       | -                                     | -  | -                       | -            |
| 6. Financial assets under disposal                                   | -                       | -                                     | -  | -                       | -            |
| <b>Total performing exposures (net exposure)</b>                     | <b>1,624</b>            | <b>233</b>                            | <b>315</b>                               | <b>307</b>              | <b>2,479</b> |

Past due loans shown in the tables include 1,019 million euro in assets past due by up to three months, 75 million euro in assets past due by over three months up to six months, 99 million euro in assets past due by over six months up to one year and 122 million euro in assets past due by over one year, as well as the share of the debt not yet past due, which amounted to 606 million euro, 158 million euro, 216 million euro and 186 million euro, respectively.



**A.1.3. On- and off-balance sheet credit exposures to banks: gross and net values and past-due brackets**

(millions of euro)

| Type of exposure/value                | GROSS EXPOSURE        |                |                        |                             | Performing assets | INDIVIDUAL ADJUSTMENTS | COLLECTIVE ADJUSTMENTS | NET EXPOSURE |
|---------------------------------------|-----------------------|----------------|------------------------|-----------------------------|-------------------|------------------------|------------------------|--------------|
|                                       | Non-performing assets | Up to 3 months | Between 3 and 6 months | Between 6 months and 1 year |                   |                        |                        |              |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>  |                       |                |                        |                             |                   |                        |                        |              |
| a) Bad loans                          | -                     | -              | -                      | 1                           | X                 | -1                     | X                      | -            |
| Of which: forborne exposures          | -                     | -              | -                      | -                           | X                 | -                      | X                      | -            |
| b) Unlikely to pay                    | -                     | -              | -                      | 4                           | X                 | -4                     | X                      | -            |
| Of which: forborne exposures          | -                     | -              | -                      | -                           | X                 | -                      | X                      | -            |
| c) Non-performing past due exposures  | -                     | -              | -                      | -                           | X                 | -                      | X                      | -            |
| Of which: forborne exposures          | -                     | -              | -                      | -                           | X                 | -                      | X                      | -            |
| d) Performing past due exposures      | X                     | X              | X                      | X                           | -                 | X                      | -                      | -            |
| Of which: forborne exposures          | X                     | X              | X                      | X                           | -                 | X                      | -                      | -            |
| e) Other performing exposures         | X                     | X              | X                      | X                           | 129,342           | X                      | -47                    | 129,295      |
| Of which: forborne exposures          | X                     | X              | X                      | X                           | -                 | X                      | -                      | -            |
| <b>TOTAL A</b>                        | -                     | -              | -                      | 5                           | 129,342           | -5                     | -47                    | 129,295      |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b> |                       |                |                        |                             |                   |                        |                        |              |
| a) Non-performing                     | -                     | -              | -                      | -                           | X                 | -                      | X                      | -            |
| b) Performing                         | X                     | X              | X                      | X                           | 33,015            | X                      | -27                    | 32,988       |
| <b>TOTAL B</b>                        | -                     | -              | -                      | -                           | 33,015            | -                      | -27                    | 32,988       |
| <b>TOTAL (A + B)</b>                  | -                     | -              | -                      | 5                           | 162,357           | -5                     | -74                    | 162,283      |

On-balance sheet exposures include all on-balance sheet financial assets claimed from banks, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.

Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with securities lending operations, repurchase agreements and lending transactions with margins within the notion of SFTs (Securities Financing Transactions) defined in prudential regulations.

**A.1.4. On-balance sheet credit exposures to banks: changes in gross non-performing exposures**

(millions of euro)

| Reason/Categories   | Bad loans | Unlikely to pay | Non performing past due |
|---|-----------|-----------------|-------------------------|
| <b>A. Initial gross exposure</b>                            | <b>5</b>  | <b>9</b>        | -                       |
| - of which exposures sold not derecognised                  | -         | -               | -                       |
| <b>B. Increases</b>   | -         | -               | -                       |
| B.1 inflows from performing exposures                       | -         | -               | -                       |
| B.2 transfers from other non-performing exposure categories | -         | -               | -                       |
| B.3 other increases   | -         | -               | -                       |
| B.4 business combinations                                   | -         | -               | -                       |
| <b>C. Decreases</b>   | <b>-4</b> | <b>-5</b>       | -                       |
| C.1 outflows to performing exposures                        | -         | -               | -                       |
| C.2 write-offs  | -4        | -               | -                       |
| C.3 repayments  | -         | -5              | -                       |
| C.4 credit disposals  | -         | -               | -                       |
| C.5 losses from disposals                                   | -         | -               | -                       |
| C.6 transfers to other non-performing exposure categories   | -         | -               | -                       |
| C.7 other decreases   | -         | -               | -                       |
| C.8 business combinations                                   | -         | -               | -                       |
| <b>D. Final gross exposure</b>                              | <b>1</b>  | <b>4</b>        | -                       |
| - of which exposures sold not derecognised                  | -         | -               | -                       |

#### A.1.4.bis On-balance sheet credit exposures to banks: changes in gross forbore exposures broken down by credit quality

This caption for 2016 is not present

#### A.1.5. On-balance sheet non-performing credit exposures to banks: changes in total adjustments

(millions of euro)

| Reason/Categories   | Bad loans |                             | Unlikely to pay |                             | Non performing |                             |
|---|-----------|-----------------------------|-----------------|-----------------------------|----------------|-----------------------------|
|   |           | Of which: forbore exposures |                 | Of which: forbore exposures |                | Of which: forbore exposures |
| <b>A. Initial total adjustments</b>                         | <b>5</b>  | -                           | <b>6</b>        | -                           | -              | -                           |
| - of which exposures sold not derecognised                  | -         | -                           | -               | -                           | -              | -                           |
| <b>B. Increases</b>   | -         | -                           | -               | -                           | -              | -                           |
| B.1 impairment losses                                       | -         | -                           | -               | -                           | -              | -                           |
| B.2 losses on disposal                                      | -         | -                           | -               | -                           | -              | -                           |
| B.3 transfers from other non-performing exposure categories | -         | -                           | -               | -                           | -              | -                           |
| B.4 other increases   | -         | -                           | -               | -                           | -              | -                           |
| B.5 business combinations                                   | -         | -                           | -               | -                           | -              | -                           |
| <b>C. Decreases</b>   | <b>-4</b> | -                           | <b>-2</b>       | -                           | -              | -                           |
| C.1 recoveries on impairment losses                         | -         | -                           | -2              | -                           | -              | -                           |
| C.2 recoveries on repayments                                | -         | -                           | -               | -                           | -              | -                           |
| C.3 profits on disposal                                     | -         | -                           | -               | -                           | -              | -                           |
| C.4 write-offs  | -4        | -                           | -               | -                           | -              | -                           |
| C.5 transfers to other non-performing exposure categories   | -         | -                           | -               | -                           | -              | -                           |
| C.6 other decreases   | -         | -                           | -               | -                           | -              | -                           |
| C.7 business combinations                                   | -         | -                           | -               | -                           | -              | -                           |
| <b>D. Final total adjustments</b>                           | <b>1</b>  | -                           | <b>4</b>        | -                           | -              | -                           |
| - of which exposures sold not derecognised                  | -         | -                           | -               | -                           | -              | -                           |

#### A.1.6. On- and off-balance sheet credit exposures to customers: gross and net values and past-due brackets

(millions of euro)

| Type of exposure/value                | GROSS EXPOSURE        |                        |                             |               | Performing assets | INDIVIDUAL ADJUSTMENTS | COLLECTIVE ADJUSTMENTS | NET EXPOSURE   |
|---------------------------------------|-----------------------|------------------------|-----------------------------|---------------|-------------------|------------------------|------------------------|----------------|
|                                       | Non-performing assets |                        |                             |               |                   |                        |                        |                |
|                                       | Up to 3 months        | Between 3 and 6 months | Between 6 months and 1 year | Over 1 year   |                   |                        |                        |                |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>  |                       |                        |                             |               |                   |                        |                        |                |
| a) Bad loans                          | 21                    | 8                      | 26                          | 19,433        | X                 | -11,903                | X                      | 7,585          |
| Of which: forbore exposures           | 8                     | 6                      | 4                           | 842           | X                 | -494                   | X                      | 366            |
| b) Unlikely to pay                    | 4,488                 | 241                    | 810                         | 4,367         | X                 | -2,326                 | X                      | 7,580          |
| Of which: forbore exposures           | 2,739                 | 116                    | 306                         | 1,042         | X                 | -863                   | X                      | 3,340          |
| c) Non-performing past due exposures  | 59                    | 68                     | 107                         | 21            | X                 | -48                    | X                      | 207            |
| Of which: forbore exposures           | 25                    | 4                      | 9                           | 2             | X                 | -7                     | X                      | 33             |
| d) Performing past due exposures      | X                     | X                      | X                           | X             | 2,522             | X                      | -43                    | 2,479          |
| Of which: forbore exposures           | X                     | X                      | X                           | X             | 146               | X                      | -3                     | 143            |
| e) Other performing exposures         | X                     | X                      | X                           | X             | 221,591           | X                      | -666                   | 220,925        |
| Of which: forbore exposures           | X                     | X                      | X                           | X             | 3,190             | X                      | -64                    | 3,126          |
| <b>TOTAL A</b>                        | <b>4,568</b>          | <b>317</b>             | <b>943</b>                  | <b>23,821</b> | <b>224,113</b>    | <b>-14,277</b>         | <b>-709</b>            | <b>238,776</b> |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b> |                       |                        |                             |               |                   |                        |                        |                |
| a) Non-performing                     | 850                   | -                      | -                           | -             | X                 | -109                   | X                      | 741            |
| b) Other                              | X                     | X                      | X                           | X             | 94,416            | X                      | -123                   | 94,293         |
| <b>TOTAL B</b>                        | <b>850</b>            | <b>-</b>               | <b>-</b>                    | <b>-</b>      | <b>94,416</b>     | <b>-109</b>            | <b>-123</b>            | <b>95,034</b>  |
| <b>TOTAL (A + B)</b>                  | <b>5,418</b>          | <b>317</b>             | <b>943</b>                  | <b>23,821</b> | <b>318,529</b>    | <b>-14,386</b>         | <b>-832</b>            | <b>333,810</b> |

On-balance sheet exposures include all on-balance sheet financial assets claimed from customers, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.

Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with securities lending operations, repurchase agreements and lending transactions with margins within the notion of SFTs (Securities Financing Transactions) defined in prudential regulations.

Non-performing exposures with forbearance measures in the past-due bracket by "up to three months" include 2,454 million euro that do not present past-due amounts during the "cure period".

**A.1.7. On-balance sheet credit exposures to customers: changes in gross non-performing exposures**

(millions of euro)

| Reason/Categories   | Bad loans     | Unlikely to pay | Non performing past due exposures |
|---|---------------|-----------------|-----------------------------------|
| <b>A. Initial gross exposure</b>                            | <b>18,230</b> | <b>10,157</b>   | <b>458</b>                        |
| - of which exposures sold not derecognised                  | 23            | 144             | 3                                 |
| <b>B. Increases</b>   | <b>4,739</b>  | <b>4,252</b>    | <b>1,304</b>                      |
| B.1 inflows from performing exposures                       | 36            | 1,360           | 1,187                             |
| B.2 transfers from other non-performing exposure categories | 2,018         | 1,092           | 44                                |
| B.3 other increases   | 788           | 986             | 38                                |
| B.4 business combinations                                   | 1,897         | 814             | 35                                |
| <b>C. Decreases</b>   | <b>-3,481</b> | <b>-4,503</b>   | <b>-1,507</b>                     |
| C.1 outflows to performing exposures                        | -20           | -543            | -330                              |
| C.2 write-offs  | -2,420        | -269            | -2                                |
| C.3 repayments  | -773          | -1,606          | -84                               |
| C.4 credit disposals  | -81           | -1              | -                                 |
| C.5. losses from disposals                                  | -26           | -               | -                                 |
| C.6 transfers to other non-performing exposure categories   | -63           | -2,004          | -1,087                            |
| C.7 other decreases   | -98           | -80             | -4                                |
| C.8 business combinations                                   | -             | -               | -                                 |
| <b>D. Final gross exposure</b>                              | <b>19,488</b> | <b>9,906</b>    | <b>255</b>                        |
| - of which exposures sold not derecognised                  | 25            | 175             | 2                                 |

For the non-performing forbore exposures, the "Other increases" mainly include the transfers from non-forborne exposures to forbore exposures, within each risk status.

**A.1.7bis On-balance sheet credit exposures to customers: changes in gross forbore exposures broken down by credit quality**

(millions of euro)

| Reason/Categories                                      | Forborne exposures: non-performing | Forborne exposures: performing |
|--|------------------------------------|--------------------------------|
| <b>A. Initial gross exposure</b>                       | <b>4,468</b>                       | <b>3,251</b>                   |
| - of which exposures sold not derecognised             | -                                  | -                              |
| <b>B. Increases</b>                                    | <b>1,962</b>                       | <b>2,241</b>                   |
| B.1 inflows from non-forborne performing exposures     | 20                                 | 1,363                          |
| B.2 inflows from forbore performing exposures          | 361                                | X                              |
| B.3 inflows from non-performing forbore exposures      | X                                  | 352                            |
| B.4 other increases                                    | 1,339                              | 322                            |
| B.5 business combinations                              | 242                                | 204                            |
| <b>C. Decreases</b>                                    | <b>-1,327</b>                      | <b>-2,156</b>                  |
| C.1 outflows towards non-forborne performing exposures | X                                  | -828                           |
| C.2 outflows towards forbore performing exposures      | -304                               | X                              |
| C.3 outflows towards non-performing forbore exposures  | X                                  | -361                           |
| C.4 write-offs   | -157                               | -                              |
| C.5 collections  | -837                               | -845                           |
| C.6 gains on disposal                                  | -4                                 | -                              |
| C.7 losses on disposal                                 | -                                  | -                              |
| C.8 other decreases                                    | -25                                | -122                           |
| C.9 business combinations                              | -                                  | -                              |
| <b>D. Final gross exposure</b>                         | <b>5,103</b>                       | <b>3,336</b>                   |
| - of which exposures sold not derecognised             | -                                  | -                              |

For the non-performing forbore exposures, the “Other increases” mainly include the transfers from non-forborne exposures to forbore exposures, within each risk status.

### A.1.8. On-balance sheet non-performing credit exposures to customers: changes in total adjustments

| Reason/Categories   | Bad loans     |                             | Unlikely to pay |                             | Non performing |                             |
|---|---------------|-----------------------------|-----------------|-----------------------------|----------------|-----------------------------|
|   |               | Of which: forbore exposures |                 | Of which: forbore exposures |                | Of which: forbore exposures |
| <b>A. Initial total adjustments</b>                         | <b>11,158</b> | <b>242</b>                  | <b>2,223</b>    | <b>845</b>                  | <b>82</b>      | <b>4</b>                    |
| - of which exposures sold not derecognised                  | 8             | -                           | 22              | -                           | -              | -                           |
| <b>B. Increases</b>   | <b>3,766</b>  | <b>280</b>                  | <b>1,372</b>    | <b>402</b>                  | <b>183</b>     | <b>30</b>                   |
| B.1 impairment losses                                       | 1,540         | 128                         | 922             | 248                         | 149            | 20                          |
| B.2. losses on disposal                                     | 26            | -                           | -               | -                           | -              | -                           |
| B.3 transfers from other non-performing exposure categories | 598           | 92                          | 196             | 30                          | 16             | 1                           |
| B.4 other increases   | 397           | 40                          | 74              | 90                          | 14             | 8                           |
| B.5 business combinations                                   | 1,205         | 20                          | 180             | 34                          | 4              | 1                           |
| <b>C. Decreases</b>   | <b>-3,021</b> | <b>-28</b>                  | <b>-1,269</b>   | <b>-384</b>                 | <b>-217</b>    | <b>-27</b>                  |
| C.1 recoveries on impairment losses                         | -425          | -15                         | -313            | -164                        | -17            | -1                          |
| C.2 recoveries on repayments                                | -80           | -1                          | -63             | -27                         | -1             | -                           |
| C.3 profits on disposal                                     | -5            | -                           | -               | -                           | -              | -                           |
| C.4 write-offs  | -2,420        | -6                          | -269            | -85                         | -2             | -                           |
| C.5 transfers to other non-performing exposure categories   | -29           | -5                          | -594            | -92                         | -187           | -26                         |
| C.6 other decreases   | -62           | -1                          | -30             | -16                         | -10            | -                           |
| C.7 business combinations                                   | -             | -                           | -               | -                           | -              | -                           |
| <b>D. Final total adjustments</b>                           | <b>11,903</b> | <b>494</b>                  | <b>2,326</b>    | <b>863</b>                  | <b>48</b>      | <b>7</b>                    |
| - of which exposures sold not derecognised                  | 9             | -                           | 20              | -                           | -              | -                           |

The “other increases” mainly include the application of penalty interest and the increases in funds in foreign currency following changes in the exchange rate.

For the non-performing forbore exposures, the “Other increases” mainly include the transfers from non-forborne exposures to forbore exposures, within each risk status.

### Conversion of loans into equity instruments

During the year, loans were converted into equity instruments as part of restructuring agreements for non-performing positions. Gross loans converted into equity instruments, shares and units of mutual funds amounted to 70 million euro. The adjustments directly attributable to the conversion process amounted to 67 million euro, essentially provisions during the current year. Equity instruments were recognised at their fair value of 3 million euro at the execution date among assets available for sale.

## A.2. Classification of exposures based on external and internal ratings

### A.2.1. Breakdown of on- and off-balance sheet credit exposures by external rating classes

Intesa Sanpaolo uses the ratings supplied by the following external rating agencies for portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Ratings.

Where two ratings are available for a single customer, the more conservative is adopted; where three ratings are available, the middle rating is adopted.

The Class 6 rating column includes non-performing loans.

For the mapping of the risk classes and agency ratings employed, see the corresponding section of the Notes to the consolidated financial statements.

|                                      | EXTERNAL RATING CLASSES |               |                |               |              |               | UNRATED        | TOTAL          |
|--------------------------------------|-------------------------|---------------|----------------|---------------|--------------|---------------|----------------|----------------|
|                                      | Class 1                 | Class 2       | Class 3        | Class 4       | Class 5      | Class 6       |                |                |
| <b>A. On-balance sheet exposures</b> | <b>17,008</b>           | <b>7,134</b>  | <b>189,157</b> | <b>9,942</b>  | <b>1,020</b> | <b>15,572</b> | <b>129,557</b> | <b>369,390</b> |
| <b>B. Derivatives</b>                | <b>1,287</b>            | <b>654</b>    | <b>712</b>     | <b>343</b>    | <b>79</b>    | -             | <b>1,974</b>   | <b>5,049</b>   |
| B.1. Financial derivatives           | 1,287                   | 654           | 712            | 275           | 79           | -             | 1,967          | 4,974          |
| B.2. Credit derivatives              | -                       | -             | -              | 68            | -            | -             | 7              | 75             |
| <b>C. Guarantees given</b>           | <b>668</b>              | <b>1,673</b>  | <b>21,280</b>  | <b>5,336</b>  | <b>1,489</b> | <b>442</b>    | <b>25,173</b>  | <b>56,061</b>  |
| <b>D. Commitments to lend funds</b>  | <b>1,438</b>            | <b>7,822</b>  | <b>37,313</b>  | <b>2,338</b>  | <b>320</b>   | <b>325</b>    | <b>17,119</b>  | <b>66,675</b>  |
| <b>E. Other</b>                      | <b>5</b>                | <b>158</b>    | <b>41</b>      | <b>33</b>     | -            | -             | -              | <b>237</b>     |
| <b>Total</b>                         | <b>20,406</b>           | <b>17,441</b> | <b>248,503</b> | <b>17,992</b> | <b>2,908</b> | <b>16,339</b> | <b>173,823</b> | <b>497,412</b> |

It should be noted that the exposures presented in the table also include quotas of UCI of 1,319 million euro.

**A.2.2. Breakdown of on- and off-balance sheet exposures by internal rating classes**

The breakdown of exposures by internal rating class shown in the following table is based on all ratings available in the credit risk management system. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available. Unrated loans essentially refer to customer segments for which a rating model is not yet available (personal loans to individual customers).

|                                      | INTERNAL RATING CLASSES |               |                |               |               |              | Non-performing exposures | UNRATED      | TOTAL          |
|--------------------------------------|-------------------------|---------------|----------------|---------------|---------------|--------------|--------------------------|--------------|----------------|
|                                      | Class 1                 | Class 2       | Class 3        | Class 4       | Class 5       | Class 6      |                          |              |                |
| <b>A. On-balance sheet exposures</b> | <b>19,272</b>           | <b>20,988</b> | <b>246,796</b> | <b>44,208</b> | <b>13,556</b> | <b>1,432</b> | <b>15,372</b>            | <b>6,447</b> | <b>368,071</b> |
| <b>B. Derivatives</b>                | <b>1,323</b>            | <b>596</b>    | <b>1,275</b>   | <b>1,105</b>  | <b>344</b>    | <b>45</b>    | -                        | <b>361</b>   | <b>5,049</b>   |
| B.1. Financial derivatives           | 1,323                   | 596           | 1,275          | 1,037         | 344           | 45           | -                        | 354          | 4,974          |
| B.2. Credit derivatives              | -                       | -             | -              | 68            | -             | -            | -                        | 7            | 75             |
| <b>C. Guarantees given</b>           | <b>3,688</b>            | <b>5,499</b>  | <b>33,528</b>  | <b>9,905</b>  | <b>2,614</b>  | <b>131</b>   | <b>420</b>               | <b>276</b>   | <b>56,061</b>  |
| <b>D. Commitments to lend funds</b>  | <b>1,211</b>            | <b>8,375</b>  | <b>41,158</b>  | <b>12,207</b> | <b>1,261</b>  | <b>376</b>   | <b>321</b>               | <b>1,766</b> | <b>66,675</b>  |
| <b>E. Other</b>                      | <b>-</b>                | <b>-</b>      | <b>-</b>       | <b>-</b>      | <b>-</b>      | <b>-</b>     | <b>-</b>                 | <b>237</b>   | <b>237</b>     |
| <b>Total</b>                         | <b>25,494</b>           | <b>35,458</b> | <b>322,757</b> | <b>67,425</b> | <b>17,775</b> | <b>1,984</b> | <b>16,113</b>            | <b>9,087</b> | <b>496,093</b> |

(millions of euro)

**A.3. Breakdown of guaranteed credit exposures by type of guarantee****A.3.1. Guaranteed credit exposures to banks**

|                                 | GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES  |  | GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES |  | TOTAL        |
|---------------------------------|---|--|---|--|--------------|
|                                 | Totally guaranteed<br>of which non-performing | Partly guaranteed<br>of which non-performing | Totally guaranteed<br>of which non-performing | Partly guaranteed<br>of which non-performing |              |
| <b>NET EXPOSURE</b>             | <b>3,454</b>                                  | <b>-</b>                                     | <b>102</b>                                    | <b>-</b>                                     | <b>5,504</b> |
| <b>COLLATERAL<sup>(1)</sup></b> |   |  |   |  |              |
| Real estate assets              | 2   | -  | -   | -  | 2            |
| Mortgages                       | 2   | -  | -   | -  | 2            |
| Financial leases                | -   | -  | -   | -  | -            |
| Securities                      | 3,209   | -  | -   | -  | 5,144        |
| Other                           | -   | -  | -   | -  | 348          |
|                                 |   |  |   |  | 515          |
| <b>GUARANTEES<sup>(1)</sup></b> |   |  |   |  |              |
| Credit derivatives              |   |  |   |  |              |
| Credit-linked notes             | -   | -  | -   | -  | -            |
| Other derivatives               |   |  |   |  |              |
| - Governments and Central Banks | -   | -  | -   | -  | -            |
| - Other public entities         | -   | -  | -   | -  | -            |
| - Banks                         | -   | -  | -   | -  | -            |
| - Other counterparties          | -   | -  | -   | -  | -            |
| Guarantees given                |   |  |   |  |              |
| Governments and Central Banks   | -   | -  | -   | -  | -            |
| Other public entities           | -   | -  | -   | -  | -            |
| Banks                           | 118   | -  | 61  | -  | 12           |
| Other counterparties            | 56  | -  | 1   | -  | -            |
| <b>TOTAL</b>                    | <b>3,385</b>                                  | <b>-</b>                                     | <b>62</b>                                     | <b>-</b>                                     | <b>5,504</b> |
|                                 |   |  |   |  | <b>515</b>   |
|                                 |   |  |   |  | <b>9,466</b> |

(millions of euro)

<sup>(1)</sup> Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

**A.3.2. Guaranteed credit exposures to customers**

(millions of euro)

|                                 | GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES  |               |  |            | GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES |            |  |           | TOTAL          |
|---------------------------------|---|---------------|--|------------|---|------------|--|-----------|----------------|
|                                 | Totally guaranteed<br>of which non-performing |               | Partly guaranteed<br>of which non-performing |            | Totally guaranteed<br>of which non-performing |            | Partly guaranteed<br>of which non-performing |           |                |
| <b>NET EXPOSURE</b>             | <b>103,837</b>                                | <b>10,869</b> | <b>7,280</b>                                 | <b>908</b> | <b>14,519</b>                                 | <b>282</b> | <b>1,559</b>                                 | <b>43</b> | <b>127,195</b> |
| <b>COLLATERAL<sup>(1)</sup></b> |   |               |  |            |   |            |  |           |                |
| Real estate assets              | 66,283  | 8,560         | 568  | 234        | 1,486   | 144        | 30   | 1         | 68,367         |
| Mortgages                       | 66,283  | 8,560         | 568  | 234        | 1,486   | 144        | 30   | 1         | 68,367         |
| Financial leases                | -   | -             | -  | -          | -   | -          | -  | -         | -              |
| Securities                      | 18,557  | 207           | 604  | 80         | 5,371   | 11         | 54   | 1         | 24,586         |
| Other                           | 2,319   | 167           | 211  | 13         | 329   | 5          | 185  | 11        | 3,044          |
| <b>GUARANTEES<sup>(1)</sup></b> |   |               |  |            |   |            |  |           |                |
| Credit derivatives              |   |               |  |            |   |            |  |           |                |
| Credit-linked notes             | -   | -             | -  | -          | -   | -          | -  | -         | -              |
| Other derivatives               |   |               |  |            |   |            |  |           |                |
| - Governments and Central Banks | -   | -             | -  | -          | -   | -          | -  | -         | -              |
| - Other public entities         | -   | -             | -  | -          | -   | -          | -  | -         | -              |
| - Banks                         | -   | -             | -  | -          | -   | -          | -  | -         | -              |
| - Other counterparties          | -   | -             | -  | -          | -   | -          | -  | -         | -              |
| Guarantees given                |   |               |  |            |   |            |  |           |                |
| Governments and Central Banks   | 1,478   | 79            | 229  | 10         | 579   | -          | 2  | 1         | 2,288          |
| Other public entities           | 226   | 7             | 99   | 2          | -   | -          | -  | -         | 325            |
| Banks                           | 291   | 3             | 5  | 1          | 90  | 2          | 7  | 3         | 393            |
| Other counterparties            | 14,259  | 1,744         | 2,177  | 353        | 6,155   | 40         | 834  | 7         | 23,425         |
| <b>TOTAL</b>                    | <b>103,413</b>                                | <b>10,767</b> | <b>3,893</b>                                 | <b>693</b> | <b>14,010</b>                                 | <b>202</b> | <b>1,112</b>                                 | <b>24</b> | <b>122,428</b> |

<sup>(1)</sup> Fair value of the guarantee or, if difficult to determine, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

**B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES**
**B.1. Breakdown of on- and off-balance sheet credit exposures to customers by sector (book value)**

(millions of euro)

| Exposures/Counterparties               | GOVERNMENTS   |                        |                       | OTHER PUBLIC ENTITIES |                        |                       | FINANCIAL COMPANIES |                        |                       | INSURANCE COMPANIES |                        |                       | NON-FINANCIAL COMPANIES |                        |                       | OTHER ENTITIES |                        |                       |
|--|---------------|------------------------|-----------------------|-----------------------|------------------------|-----------------------|---------------------|------------------------|-----------------------|---------------------|------------------------|-----------------------|-------------------------|------------------------|-----------------------|----------------|------------------------|-----------------------|
|  | Net exposure  | Individual adjustments | Portfolio adjustments | Net exposure          | Individual adjustments | Portfolio adjustments | Net exposure        | Individual adjustments | Portfolio adjustments | Net exposure        | Individual adjustments | Portfolio adjustments | Net exposure            | Individual adjustments | Portfolio adjustments | Net exposure   | Individual adjustments | Portfolio adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |               |                        |                       |                       |                        |                       |                     |                        |                       |                     |                        |                       |                         |                        |                       |                |                        |                       |
| A.1. Bad loans                         | 7             | -3                     | X                     | 175                   | -62                    | X                     | 73                  | -181                   | X                     | -                   | -                      | X                     | 6,057                   | -10,385                | X                     | 1,273          | -1,272                 | X                     |
| - of which forborne exposures          | -             | -                      | X                     | -                     | -                      | X                     | 3                   | -8                     | X                     | -                   | -                      | X                     | 308                     | -462                   | X                     | 55             | -24                    | X                     |
| A.2. Unlikely to pay                   | -             | -                      | X                     | 64                    | -6                     | X                     | 264                 | -67                    | X                     | -                   | -                      | X                     | 6,456                   | -2,075                 | X                     | 796            | -178                   | X                     |
| - of which forborne exposures          | -             | -                      | X                     | 51                    | -2                     | X                     | 199                 | -38                    | X                     | -                   | -                      | X                     | 2,885                   | -801                   | X                     | 205            | -22                    | X                     |
| A.3. Non-performing past due exposures | -             | -                      | X                     | -                     | -                      | X                     | 1                   | -                      | X                     | -                   | -                      | X                     | 135                     | -25                    | X                     | 71             | -23                    | X                     |
| - of which forborne exposures          | -             | -                      | X                     | -                     | -                      | X                     | -                   | -                      | X                     | -                   | -                      | X                     | 28                      | -6                     | X                     | 5              | -1                     | X                     |
| A.4. Performing exposures              | 42,802        | X                      | -6                    | 12,818                | X                      | -10                   | 42,462              | X                      | -93                   | 976                 | X                      | -                     | 74,920                  | X                      | -503                  | 49,426         | X                      | -96                   |
| - of which forborne exposures          | 22            | X                      | -                     | 149                   | X                      | -                     | 266                 | X                      | -10                   | -                   | X                      | -                     | 2,344                   | X                      | -52                   | 488            | X                      | -4                    |
| <b>Total A</b>                         | <b>42,809</b> | <b>-3</b>              | <b>-6</b>             | <b>13,057</b>         | <b>-68</b>             | <b>-10</b>            | <b>42,800</b>       | <b>-248</b>            | <b>-93</b>            | <b>976</b>          | <b>-</b>               | <b>-</b>              | <b>87,568</b>           | <b>-12,485</b>         | <b>-503</b>           | <b>51,566</b>  | <b>-1,473</b>          | <b>-96</b>            |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |               |                        |                       |                       |                        |                       |                     |                        |                       |                     |                        |                       |                         |                        |                       |                |                        |                       |
| B.1. Bad loans                         | -             | -                      | X                     | -                     | -                      | X                     | 1                   | -                      | X                     | -                   | -                      | X                     | 86                      | -29                    | X                     | -              | -                      | X                     |
| B.2. Unlikely to pay                   | -             | -                      | X                     | -                     | -                      | X                     | 2                   | -17                    | X                     | -                   | -                      | X                     | 642                     | -63                    | X                     | 2              | -                      | X                     |
| B.3. Other non-performing assets       | -             | -                      | X                     | -                     | -                      | X                     | -                   | -                      | X                     | -                   | -                      | X                     | 8                       | -                      | X                     | -              | -                      | X                     |
| B.4. Other exposures                   | 13,455        | X                      | -                     | 1,640                 | X                      | -                     | 8,415               | X                      | -4                    | 856                 | X                      | -                     | 69,458                  | X                      | -119                  | 463            | X                      | -                     |
| <b>Total B</b>                         | <b>13,455</b> | <b>-</b>               | <b>-</b>              | <b>1,640</b>          | <b>-</b>               | <b>-</b>              | <b>8,418</b>        | <b>-17</b>             | <b>-4</b>             | <b>856</b>          | <b>-</b>               | <b>-</b>              | <b>70,194</b>           | <b>-92</b>             | <b>-119</b>           | <b>465</b>     | <b>-</b>               | <b>-</b>              |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>56,264</b> | <b>-3</b>              | <b>-6</b>             | <b>14,697</b>         | <b>-68</b>             | <b>-10</b>            | <b>51,218</b>       | <b>-265</b>            | <b>-97</b>            | <b>1,832</b>        | <b>-</b>               | <b>-</b>              | <b>157,762</b>          | <b>-12,577</b>         | <b>-622</b>           | <b>52,031</b>  | <b>-1,473</b>          | <b>-96</b>            |
| <b>TOTAL 31.12.2015</b>                | <b>38,089</b> | <b>-3</b>              | <b>-9</b>             | <b>15,004</b>         | <b>-68</b>             | <b>-12</b>            | <b>48,967</b>       | <b>-371</b>            | <b>-117</b>           | <b>1,895</b>        | <b>-</b>               | <b>-1</b>             | <b>148,985</b>          | <b>-11,421</b>         | <b>-685</b>           | <b>44,558</b>  | <b>-1,739</b>          | <b>-89</b>            |

**B.2. Breakdown of on- and off-balance sheet credit exposures to customers by geographical area (book value)**

(millions of euro)

| Exposures/Geographical areas           | ITALY          |                   | OTHER EUROPEAN COUNTRIES |                   | AMERICA       |                   | ASIA         |                   | REST OF THE WORLD |                   |
|--|----------------|-------------------|--------------------------|-------------------|---------------|-------------------|--------------|-------------------|-------------------|-------------------|
|  | Net exposure   | Total adjustments | Net exposure             | Total adjustments | Net exposure  | Total adjustments | Net exposure | Total adjustments | Net exposure      | Total adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |                |                   |                          |                   |               |                   |              |                   |                   |                   |
| A.1. Bad loans                         | 7,525          | -11,729           | 57                       | -150              | 2             | -18               | 1            | -5                | -                 | -1                |
| A.2. Unlikely to pay                   | 7,074          | -2,143            | 268                      | -103              | 182           | -65               | 51           | -11               | 5                 | -4                |
| A.3. Non-performing past due exposures | 185            | -42               | -                        | -                 | 3             | -1                | 19           | -5                | -                 | -                 |
| A.4. Performing exposures              | 166,688        | -553              | 37,210                   | -77               | 13,932        | -43               | 4,332        | -18               | 1,242             | -16               |
| <b>Total A</b>                         | <b>181,472</b> | <b>-14,467</b>    | <b>37,535</b>            | <b>-330</b>       | <b>14,119</b> | <b>-127</b>       | <b>4,403</b> | <b>-39</b>        | <b>1,247</b>      | <b>-21</b>        |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |                |                   |                          |                   |               |                   |              |                   |                   |                   |
| B.1. Bad loans                         | 88             | -29               | 1                        | -                 | -             | -                 | -            | -                 | -                 | -                 |
| B.2. Unlikely to pay                   | 618            | -79               | 6                        | -1                | 20            | -                 | -            | -                 | -                 | -                 |
| B.3. Other non-performing assets       | 8              | -                 | -                        | -                 | -             | -                 | -            | -                 | -                 | -                 |
| B.4. Performing exposures              | 50,234         | -87               | 29,215                   | -18               | 12,987        | -17               | 1,180        | -1                | 672               | -                 |
| <b>Total B</b>                         | <b>50,948</b>  | <b>-195</b>       | <b>29,222</b>            | <b>-19</b>        | <b>13,007</b> | <b>-17</b>        | <b>1,180</b> | <b>-1</b>         | <b>672</b>        | <b>-</b>          |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>232,420</b> | <b>-14,662</b>    | <b>66,757</b>            | <b>-349</b>       | <b>27,126</b> | <b>-144</b>       | <b>5,583</b> | <b>-40</b>        | <b>1,919</b>      | <b>-21</b>        |
| <b>TOTAL 31.12.2015</b>                | <b>207,813</b> | <b>-13,963</b>    | <b>56,420</b>            | <b>-379</b>       | <b>27,180</b> | <b>-112</b>       | <b>4,256</b> | <b>-43</b>        | <b>1,829</b>      | <b>-18</b>        |

**B.2 Bis Breakdown of relations with customers resident in Italy by geographical area (book value)**

(millions of euro)

| Exposures/Geographical areas           | NORTH-WEST    |                   | NORTH-EAST    |                   | CENTRE        |                   | SOUTH AND ISLANDS |                   |
|--|---------------|-------------------|---------------|-------------------|---------------|-------------------|-------------------|-------------------|
|  | Net exposure  | Total adjustments | Net exposure  | Total adjustments | Net exposure  | Total adjustments | Net exposure      | Total adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |               |                   |               |                   |               |                   |                   |                   |
| A.1. Bad loans                         | 3,553         | -5,930            | 728           | -964              | 1,558         | -2,446            | 1,686             | -2,389            |
| A.2. Unlikely to pay                   | 3,836         | -1,095            | 644           | -194              | 1,572         | -568              | 1,022             | -286              |
| A.3. Non-performing past due exposures | 74            | -12               | 14            | -4                | 53            | -11               | 44                | -15               |
| A.4. Performing exposures              | 69,282        | -312              | 13,002        | -45               | 67,813        | -120              | 16,591            | -76               |
| <b>Total A</b>                         | <b>76,745</b> | <b>-7,349</b>     | <b>14,388</b> | <b>-1,207</b>     | <b>70,996</b> | <b>-3,145</b>     | <b>19,343</b>     | <b>-2,766</b>     |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |               |                   |               |                   |               |                   |                   |                   |
| B.1. Bad loans                         | 36            | -13               | 19            | -3                | 29            | -12               | 4                 | -1                |
| B.2. Unlikely to pay                   | 382           | -45               | 22            | -20               | 180           | -12               | 34                | -2                |
| B.3. Other non-performing assets       | 8             | -                 | -             | -                 | -             | -                 | -                 | -                 |
| B.4. Performing exposures              | 17,701        | -47               | 4,246         | -6                | 26,763        | -31               | 1,524             | -3                |
| <b>Total B</b>                         | <b>18,127</b> | <b>-105</b>       | <b>4,287</b>  | <b>-29</b>        | <b>26,972</b> | <b>-55</b>        | <b>1,562</b>      | <b>-6</b>         |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>94,872</b> | <b>-7,454</b>     | <b>18,675</b> | <b>-1,236</b>     | <b>97,968</b> | <b>-3,200</b>     | <b>20,905</b>     | <b>-2,772</b>     |
| <b>TOTAL 31.12.2015</b>                | <b>95,752</b> | <b>-8,069</b>     | <b>21,255</b> | <b>-1,329</b>     | <b>72,811</b> | <b>-2,244</b>     | <b>17,995</b>     | <b>-2,321</b>     |

**B.3. Breakdown of on- and off-balance sheet credit exposures to banks by geographical area (book value)**

(millions of euro)

| Exposures/Geographical areas           | ITALY          |                   | OTHER EUROPEAN COUNTRIES |                   | AMERICA      |                   | ASIA         |                   | REST OF THE WORLD |                   |
|--|----------------|-------------------|--------------------------|-------------------|--------------|-------------------|--------------|-------------------|-------------------|-------------------|
|  | Net exposure   | Total adjustments | Net exposure             | Total adjustments | Net exposure | Total adjustments | Net exposure | Total adjustments | Net exposure      | Total adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |                |                   |                          |                   |              |                   |              |                   |                   |                   |
| A.1. Bad loans                         | -              | -                 | -                        | -1                | -            | -                 | -            | -                 | -                 | -                 |
| A.2. Unlikely to pay                   | -              | -                 | -                        | -                 | -            | -                 | -            | -4                | -                 | -                 |
| A.3. Non-performing past due exposures | -              | -                 | -                        | -                 | -            | -                 | -            | -                 | -                 | -                 |
| A.4. Performing exposures              | 114,900        | -5                | 8,570                    | -19               | 2,969        | -15               | 2,249        | -4                | 608               | -3                |
| <b>Total A</b>                         | <b>114,900</b> | <b>-5</b>         | <b>8,570</b>             | <b>-20</b>        | <b>2,969</b> | <b>-15</b>        | <b>2,249</b> | <b>-8</b>         | <b>608</b>        | <b>-3</b>         |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |                |                   |                          |                   |              |                   |              |                   |                   |                   |
| B.1. Bad loans                         | -              | -                 | -                        | -                 | -            | -                 | -            | -                 | -                 | -                 |
| B.2. Unlikely to pay                   | -              | -                 | -                        | -                 | -            | -                 | -            | -                 | -                 | -                 |
| B.3. Other non-performing assets       | -              | -                 | -                        | -                 | -            | -                 | -            | -                 | -                 | -                 |
| B.4. Performing exposures              | 8,804          | -1                | 21,207                   | -5                | 502          | -1                | 1,897        | -9                | 346               | -10               |
| <b>Total B</b>                         | <b>8,804</b>   | <b>-1</b>         | <b>21,207</b>            | <b>-5</b>         | <b>502</b>   | <b>-1</b>         | <b>1,897</b> | <b>-9</b>         | <b>346</b>        | <b>-10</b>        |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>123,704</b> | <b>-6</b>         | <b>29,777</b>            | <b>-25</b>        | <b>3,471</b> | <b>-16</b>        | <b>4,146</b> | <b>-17</b>        | <b>954</b>        | <b>-13</b>        |
| <b>TOTAL 31.12.2015</b>                | <b>113,872</b> | <b>-7</b>         | <b>31,264</b>            | <b>-35</b>        | <b>3,102</b> | <b>-14</b>        | <b>4,464</b> | <b>-24</b>        | <b>1,061</b>      | <b>-11</b>        |

**B.3. Bis Breakdown of relations with banks resident in Italy by geographical area (book value)**

(millions of euro)

| Exposures/Geographical areas           | NORTH-WEST    |                   | NORTH-EAST   |                   | CENTRE        |                   | SOUTH AND ISLANDS |                   |
|--|---------------|-------------------|--------------|-------------------|---------------|-------------------|-------------------|-------------------|
|  | Net exposure  | Total adjustments | Net exposure | Total adjustments | Net exposure  | Total adjustments | Net exposure      | Total adjustments |
| <b>A. ON-BALANCE SHEET EXPOSURES</b>   |               |                   |              |                   |               |                   |                   |                   |
| A.1. Bad loans                         | -             | -                 | -            | -                 | -             | -                 | -                 | -                 |
| A.2. Unlikely to pay                   | -             | -                 | -            | -                 | -             | -                 | -                 | -                 |
| A.3. Non-performing past due exposures | -             | -                 | -            | -                 | -             | -                 | -                 | -                 |
| A.4. Performing exposures              | 87,182        | -1                | 3,192        | -3                | 24,070        | -1                | 456               | -                 |
| <b>Total A</b>                         | <b>87,182</b> | <b>-1</b>         | <b>3,192</b> | <b>-3</b>         | <b>24,070</b> | <b>-1</b>         | <b>456</b>        | <b>-</b>          |
| <b>B. OFF-BALANCE SHEET EXPOSURES</b>  |               |                   |              |                   |               |                   |                   |                   |
| B.1. Bad loans                         | -             | -                 | -            | -                 | -             | -                 | -                 | -                 |
| B.2. Unlikely to pay                   | -             | -                 | -            | -                 | -             | -                 | -                 | -                 |
| B.3. Other non-performing assets       | -             | -                 | -            | -                 | -             | -                 | -                 | -                 |
| B.4. Performing exposures              | 2,032         | -                 | 1,304        | -1                | 5,310         | -                 | 158               | -                 |
| <b>Total B</b>                         | <b>2,032</b>  | <b>-</b>          | <b>1,304</b> | <b>-1</b>         | <b>5,310</b>  | <b>-</b>          | <b>158</b>        | <b>-</b>          |
| <b>TOTAL (A+B) 31.12.2016</b>          | <b>89,214</b> | <b>-1</b>         | <b>4,496</b> | <b>-4</b>         | <b>29,380</b> | <b>-1</b>         | <b>614</b>        | <b>-</b>          |
| <b>TOTAL 31.12.2015</b>                | <b>98,513</b> | <b>-4</b>         | <b>5,944</b> | <b>-2</b>         | <b>8,805</b>  | <b>-</b>          | <b>610</b>        | <b>-1</b>         |

**B.4. Large exposures****Large exposures**

|                                      |         |
|--------------------------------------|---------|
| a) Book value (millions of euro)     | 328,000 |
| b) Weighted value (millions of euro) | 6,400   |
| b) Number                            | 8       |

On the basis of regulatory provisions, the number of large exposures indicated in the table was determined by reference to unweighted "exposures", including those to the Group's counterparties, in excess of 10% of eligible capital as defined by EU Regulation no. 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet



transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors.

Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of the entity's eligible capital.

### C. SECURITISATIONS

This section does not include securitisations where the originator is the Bank and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by the Bank. For a description of these types of transactions, see the section on liquidity risk in Part E of the Notes to the Parent Company's financial statements.

#### Qualitative information

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

#### Quantitative information

##### C.1. Breakdown of exposures deriving from the main "originated" securitisations by type of securitised asset and by type of exposure

###### On-balance sheet

(millions of euro)

| Type of securitised asset/ Exposure                   | ON-BALANCE SHEET EXPOSURES |                     |            |                     |            |                     |
|---|----------------------------|---------------------|------------|---------------------|------------|---------------------|
|   | Senior                     |                     | Mezzanine  |                     | Junior     |                     |
|   | Book value                 | Adjust./ recoveries | Book value | Adjust./ recoveries | Book value | Adjust./ recoveries |
| <b>A. Fully derecognised</b>                          | -                          | -                   | -          | -                   | <b>12</b>  | <b>-5</b>           |
| – Residential mortgage loans <sup>(a)</sup>           | -                          | -                   | -          | -                   | 12         | -5                  |
| <b>B. Partly derecognised</b>                         | -                          | -                   | -          | -                   | -          | -                   |
| <b>C. Not derecognised</b>                            | <b>4,026</b>               | -                   | <b>52</b>  | -                   | <b>122</b> | -                   |
| – Residential mortgage loans                          | -                          | -                   | -          | -                   | 49         | -                   |
| – Loans to businesses (including SMEs) <sup>(b)</sup> | 4,026                      | -                   | 52         | -                   | 73         | -                   |
| <b>TOTAL</b>  | <b>4,026</b>               | -                   | <b>52</b>  | -                   | <b>134</b> | <b>-5</b>           |

<sup>(a)</sup> The amount is entirely referred to non-performing financial assets.

<sup>(b)</sup> Senior and Mezzanine exposures include non-performing financial assets equal to 35 million euro and 52 million euro, respectively, in addition to 55 million euro of Junior exposures. "Loans to businesses (including SMEs)" also includes the amounts for GARC synthetic securitisation operations and Tranché Cover Piemonte, referring to performing exposures.

The securitisations in the above table include those for which the Group availed itself of the exemption from compliance to IAS/IFRS permitted on first-time adoption by IFRS 1. Based on this exemption, assets or liabilities sold and derecognised, based on previous accounting principles and deriving from securitisations prior to 1 January 2004, have not been recorded in the financial statements, even if derecognition does not meet the requirements of IAS 39.

###### Off-balance sheet

This type of exposure did not exist as at 31 December 2016.

**C.2. Breakdown of exposures deriving from main "third party" securitisations by type of securitised asset and by type of exposure****On-balance sheet**

(millions of euro)

| Type of underlying assets/Exposures  | ON-BALANCE SHEET EXPOSURES |                     |            |                     |            |                     |
|--------------------------------------|----------------------------|---------------------|------------|---------------------|------------|---------------------|
|                                      | Senior                     |                     | Mezzanine  |                     | Junior     |                     |
|                                      | Book value                 | Adjust./ recoveries | Book value | Adjust./ recoveries | Book value | Adjust./ recoveries |
| Other assets (*)                     | 4,882                      | -                   | -          | -                   | -          | -                   |
| Trade receivables                    | 221                        | -                   | -          | -                   | -          | -                   |
| Residential mortgage loans           | 236                        | 3                   | 53         | -                   | -          | -                   |
| Securitisations                      | 96                         | -4                  | -          | -                   | -          | -                   |
| Consumer credit                      | 55                         | -                   | -          | -                   | -          | -                   |
| Commercial mortgage loans            | 10                         | -                   | 19         | -5                  | 8          | -                   |
| Loans to businesses (including SMEs) | 4                          | -                   | 2          | -                   | -          | -                   |
| <b>TOTAL</b>                         | <b>5,504</b>               | <b>-1</b>           | <b>74</b>  | <b>-5</b>           | <b>8</b>   | <b>-</b>            |

(\*) The amount also includes the 4,764 million euro in Romulus securities held in Intesa Sanpaolo portfolio, generally shown under third-party securitisations. For more details regarding the type of underlying assets, refer to section 3 - Risks of other companies in Part E of the Notes to the consolidated financial statements.

**Off-balance sheet**

(millions of euro)

| Type of underlying assets/Exposures | GUARANTEES GIVEN |                     |              |                     |              |                     | CREDIT LINES |                     |              |                     |              |                     |
|-------------------------------------|------------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|
|                                     | Senior           |                     | Mezzanine    |                     | Junior       |                     | Senior       |                     | Mezzanine    |                     | Junior       |                     |
|                                     | Net exposure     | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries | Net exposure | Adjust./ recoveries |
| Duomo                               |                  |                     |              |                     |              |                     |              |                     |              |                     |              |                     |
| - ABCP Conduit transaction          | -                | -                   | -            | -                   | -            | -                   | 5,012        | -                   | -            | -                   | -            | -                   |
| <b>Total</b>                        | <b>-</b>         | <b>-</b>            | <b>-</b>     | <b>-</b>            | <b>-</b>     | <b>-</b>            | <b>5,012</b> | <b>-</b>            | <b>-</b>     | <b>-</b>            | <b>-</b>     | <b>-</b>            |

**C.3. Securitisation vehicles**

(millions of euro)

| SECURITISATION/<br>SPECIAL PURPOSE VEHICLE         | REGISTERED OFFICE | CONSOLIDATION (a)    | ASSETS |                 |       | LIABILITIES |           |        |
|--|-------------------|----------------------|--------|-----------------|-------|-------------|-----------|--------|
|  |                   |                      | Loans  | Debt securities | Other | Senior      | Mezzanine | Junior |
| Intesa Sanpaolo Securitisation Vehicle Srl (b) (c) | Milano            | Consolidated         | 100    | -               | 15    | 89          | -         | 159    |
| Intesa Sanpaolo Sec SA (b)                         | Luxembourg        | Consolidated         | 61     | -               | 265   | 310         | -         | 16     |
| Intesa Sec 3 Srl                                   | Milano            | Consolidated         | 346    | -               | 138   | -           | 266       | 119    |
| Intesa Sec Npl Spa                                 | Milano            | Consolidated         | 12     | -               | 4     | -           | -         | 155    |
| Augusto Srl (d)                                    | Milano            | Not consolidated (e) | 2      | -               | 2     | 14          | -         | -      |
| Colombo Srl (d)                                    | Milano            | Not consolidated (e) | 23     | -               | 7     | 7           | 20        | 10     |
| Diocleziano Srl (d)                                | Milano            | Not consolidated (e) | 3      | -               | 4     | 58          | -         | -      |
| ISP CB Ipotecario Srl (f)                          | Milano            | Consolidated         | 16,921 | -               | 4,519 | -           | 19,464    | -      |
| ISP CB Pubblico Srl (f)                            | Milano            | Consolidated         | 4,453  | 2,369           | 2,910 | -           | 9,312     | -      |
| ISP OBG S.r.l. (ex ISP Sec 4 srl) (f)              | Milano            | Consolidated         | 22,597 | -               | 3,503 | -           | 25,726    | -      |

(a) Consolidation method referring to the "prudential" scope applied to the Group financial statements.

(b) Self-securitisation vehicle described in Section 3 - Liquidity Risk, Quantitative Information, paragraph 4.

(c) This vehicle (former Intesa Lease Sec S.r.l.) has been used to a transaction - completed at the end of 2014 - which entailed the sale without recourse of a portfolio of loans backed by guarantees and mortgages originated by the subsidiary CIB Hungary, also in currencies other than the euro, for a total of 343 million euro.

(d) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2015).

(e) Not consolidated line by line, but using the equity method.

(f) ISP CB Ipotecario, ISP CB Pubblico and ISP OBG are not traditional securitisation vehicles that issue notes; rather, they are involved in COVERED BOND issues. For information, refer to Section C.3 of Part E of these Notes to the Financial Statements.

**C.4. Unconsolidated securitisation vehicles**

The information set out in this section is not provided by the banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

**C.5. Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle**

| SPECIAL PURPOSE VEHICLES                   | SECURITISED ASSETS<br>(period-end figure)<br>(millions of euro) |            | COLLECTIONS OF LOANS<br>IN THE YEAR<br>(millions of euro) |            | PERCENTAGE OF REIMBURSED SECURITIES<br>(period-end figure) |                  |                      |                  |                      |                  |
|--|---|------------|---|------------|--|------------------|----------------------|------------------|----------------------|------------------|
|  | Non-performing  | Performing | Non-performing  | Performing | Senior   |                  | Mezzanine            |                  | Junior               |                  |
|  |   |            |   |            | Non-performing loans                                       | Performing loans | Non-performing loans | Performing loans | Non-performing loans | Performing loans |
| Intesa Sec 3 Srl                           | 32  | 314        | 8   | 128        | -  | 100%             | -                    | 88%              | -                    | 0%               |
| Intesa Sanpaolo Securitisation Vehicle Srl | 52  | 48         | 2   | 46         | -  | 49%              | -                    | 0%               | -                    | 0%               |
| <b>Total</b>                               | <b>84</b>   | <b>362</b> | <b>10</b>   | <b>174</b> | <b>-</b>   |                  |                      |                  |                      |                  |

**D. INFORMATION ON STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SECURITISATION VEHICLES)**

The qualitative and quantitative information set out in this section is not provided by the banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

**E. SALES****A. Financial assets sold not fully derecognised****Qualitative information**

For a description of the operations shown in tables E.1, E.2 and E.3, refer to the information shown below the relevant tables. Conversely, for operations in debt securities against medium-/long-term repurchase agreements, refer to the information in Part B of the Notes to the consolidated financial statements.

**Quantitative information****E.1. Financial assets sold not derecognised: book value and full value**

| Type / Portfolio  |                 |                         |          |            |             | (millions of euro)  |  |                     |  |
|---|-----------------|-------------------------|----------|------------|-------------|---------------------|--|---------------------|--|
|   | Debt securities | CASH ASSETS<br>Equities | UCI      | Loans      | DERIVATIVES | 31.12.2016<br>Total | of which<br>non-<br>performing<br>assets | 31.12.2015<br>Total | of which<br>non-<br>performing<br>assets |
| <b>FINANCIAL ASSETS HELD FOR TRADING</b>                | <b>362</b>      | -                       | -        | -          | -           | <b>362</b>          | -  | <b>982</b>          | -  |
| - Financial assets sold totally recognised (book value) | 362             | -                       | -        | -          | -           | 362                 | -  | 982                 | -  |
| - Financial assets sold partly recognised (book value)  | -               | -                       | -        | -          | -           | -                   | -  | -                   | -  |
| - Financial assets sold partly recognised (full value)  | -               | -                       | -        | -          | -           | -                   | -  | -                   | -  |
| <b>FINANCIAL ASSETS MEASURED AT FAIR VALUE</b>          | -               | -                       | -        | -          | <b>X</b>    | -                   | -  | -                   | -  |
| - Financial assets sold totally recognised (book value) | -               | -                       | -        | -          | X           | -                   | -  | -                   | -  |
| - Financial assets sold partly recognised (book value)  | -               | -                       | -        | -          | X           | -                   | -  | -                   | -  |
| - Financial assets sold partly recognised (full value)  | -               | -                       | -        | -          | X           | -                   | -  | -                   | -  |
| <b>FINANCIAL ASSETS AVAILABLE FOR SALE</b>              | <b>7,748</b>    | -                       | -        | -          | <b>X</b>    | <b>7,748</b>        | -  | <b>4,605</b>        | -  |
| - Financial assets sold totally recognised (book value) | 7,748           | -                       | -        | -          | X           | 7,748               | -  | 4,605               | -  |
| - Financial assets sold partly recognised (book value)  | -               | -                       | -        | -          | X           | -                   | -  | -                   | -  |
| - Financial assets sold partly recognised (full value)  | -               | -                       | -        | -          | X           | -                   | -  | -                   | -  |
| <b>INVESTMENTS HELD TO MATURITY</b>                     | -               | <b>X</b>                | <b>X</b> | -          | <b>X</b>    | -                   | -  | -                   | -  |
| - Financial assets sold totally recognised (book value) | -               | X                       | X        | -          | X           | -                   | -  | -                   | -  |
| - Financial assets sold partly recognised (book value)  | -               | X                       | X        | -          | X           | -                   | -  | -                   | -  |
| - Financial assets sold partly recognised (full value)  | -               | X                       | X        | -          | X           | -                   | -  | -                   | -  |
| <b>DUE FROM BANKS</b>                                   | -               | <b>X</b>                | <b>X</b> | -          | <b>X</b>    | -                   | -  | -                   | -  |
| - Financial assets sold totally recognised (book value) | -               | X                       | X        | -          | X           | -                   | -  | -                   | -  |
| - Financial assets sold partly recognised (book value)  | -               | X                       | X        | -          | X           | -                   | -  | -                   | -  |
| - Financial assets sold partly recognised (full value)  | -               | X                       | X        | -          | X           | -                   | -  | -                   | -  |
| <b>LOANS TO CUSTOMERS</b>                               | <b>734</b>      | <b>X</b>                | <b>X</b> | <b>485</b> | <b>X</b>    | <b>1,219</b>        | <b>172</b>                               | <b>1,970</b>        | <b>140</b>                               |
| - Financial assets sold totally recognised (book value) | 734             | X                       | X        | 485        | X           | 1,219               | 172                                      | 1,970               | 140                                      |
| - Financial assets sold partly recognised (book value)  | -               | X                       | X        | -          | X           | -                   | -  | -                   | -  |
| - Financial assets sold partly recognised (full value)  | -               | X                       | X        | -          | X           | -                   | -  | -                   | -  |
| <b>Total 31.12.2016</b>                                 | <b>8,844</b>    | -                       | -        | <b>485</b> | -           | <b>9,329</b>        | <b>172</b>                               | <b>X</b>            | <b>X</b>                                 |
| <b>Total 31.12.2015</b>                                 | <b>6,984</b>    | -                       | -        | <b>573</b> | -           | <b>X</b>            | <b>X</b>                                 | <b>7,557</b>        | <b>140</b>                               |

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

Operations mainly refer to the use of securities held for short and medium/long-term repurchase agreements and loans to customers assigned as part of the SEC 3 and K-Equity securitisations.

## E.2. Financial liabilities corresponding to financial assets sold not derecognised: book value

(millions of euro)

|   | DUE TO CUSTOMERS |                   | DUE TO BANKS     |                   | TOTAL        | TOTAL        |
|---|------------------|-------------------|------------------|-------------------|--------------|--------------|
|   | Fully recognised | Partly recognised | Fully recognised | Partly recognised | 31.12.2016   | 31.12.2015   |
| Financial assets held for trading       | 279              | -                 | 72               | -                 | 351          | 962          |
| Financial assets measured at fair value | -                | -                 | -                | -                 | -            | -            |
| Financial assets available for sale     | 6,596            | -                 | 1,037            | -                 | 7,633        | 4,601        |
| Investments held to maturity            | -                | -                 | -                | -                 | -            | -            |
| Due from banks                          | -                | -                 | 186              | -                 | 186          | 181          |
| Loans to customers                      | 344              | -                 | 589              | -                 | 933          | 1,456        |
| <b>TOTAL</b>                            | <b>7,219</b>     | <b>-</b>          | <b>1,884</b>     | <b>-</b>          | <b>9,103</b> | <b>7,200</b> |

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

The financial liabilities associated to financial assets sold not derecognised relate to both securitisations and repurchase agreements for securities recorded under assets. They do not, however, include repurchase agreements relating to securities received under reverse repurchase agreements.

The caption "Due to customers" associated to Loans to customers includes liabilities recorded for SEC securitisation and K-Equity securitisation.

## E.3. Sales with liabilities having recourse exclusively on the assets sold: fair value

(millions of euro)

| Type / Portfolio                 | FINANCIAL ASSETS HELD FOR TRADING |                   | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS |                   | FINANCIAL ASSETS AVAILABLE FOR SALE |                   | INVESTMENTS HELD TO MATURITY (fair value) |                   | DUE FROM BANKS (fair value) |                   | LOANS TO CUSTOMERS (fair value) |                   | TOTAL        | TOTAL        |              |
|----------------------------------|-----------------------------------|-------------------|---|-------------------|-------------------------------------|-------------------|---|-------------------|-----------------------------|-------------------|---------------------------------|-------------------|--------------|--------------|--------------|
|                                  | Financial Assets sold:            |                   | Financial Assets sold:  |                   | Financial Assets sold:              |                   | Financial Assets sold:                    |                   | Financial Assets sold:      |                   | Financial Assets sold:          |                   | 31.12.2016   | 31.12.2015   |              |
|                                  | fully recognised                  | partly recognised | fully recognised  | partly recognised | fully recognised                    | partly recognised | fully recognised                          | partly recognised | fully recognised            | partly recognised | fully recognised                | partly recognised |              |              |              |
| <b>A. Cash assets</b>            | <b>362</b>                        | -                 | -   | -                 | <b>7,747</b>                        | -                 | -   | -                 | -                           | -                 | -                               | <b>1,208</b>      | -            | <b>9,317</b> | <b>7,383</b> |
| 1. Debt securities               | 362                               | -                 | -   | -                 | 7,747                               | -                 | -   | -                 | -                           | -                 | -                               | 711               | -            | 8,820        | 6,791        |
| 2. Equities                      | -                                 | -                 | -   | -                 | -                                   | -                 | X   | X                 | X                           | X                 | X                               | X                 | X            | -            | -            |
| 3. UCI                           | -                                 | -                 | -   | -                 | -                                   | -                 | X   | X                 | X                           | X                 | X                               | X                 | X            | -            | -            |
| 4. Loans                         | -                                 | -                 | -   | -                 | -                                   | -                 | -   | -                 | -                           | -                 | -                               | 497               | -            | 497          | 592          |
| <b>B. Derivatives</b>            | -                                 | -                 | X   | X                 | X                                   | X                 | X   | X                 | X                           | X                 | X                               | X                 | X            | -            | -            |
| <b>Total Assets</b>              | <b>362</b>                        | -                 | -   | -                 | <b>7,747</b>                        | -                 | -   | -                 | -                           | -                 | -                               | <b>1,208</b>      | -            | <b>9,317</b> | <b>7,383</b> |
| <b>C. Associated liabilities</b> | <b>350</b>                        | -                 | -   | -                 | <b>7,633</b>                        | -                 | -   | -                 | <b>186</b>                  | -                 | <b>948</b>                      | -                 | <b>X</b>     | <b>X</b>     |              |
| 1. Due to customers              | 279                               | -                 | -   | -                 | 6,596                               | -                 | -   | -                 | -                           | -                 | 336                             | -                 | X            | X            |              |
| 2. Due to banks                  | 71                                | -                 | -   | -                 | 1,037                               | -                 | -   | -                 | 186                         | -                 | 612                             | -                 | X            | X            |              |
| <b>Total Liabilities</b>         | <b>350</b>                        | -                 | -   | -                 | <b>7,633</b>                        | -                 | -   | -                 | <b>186</b>                  | -                 | <b>948</b>                      | -                 | <b>9,117</b> | <b>7,207</b> |              |
| <b>Net Value 2016</b>            | <b>12</b>                         | -                 | -   | -                 | <b>114</b>                          | -                 | -   | -                 | <b>-186</b>                 | -                 | <b>260</b>                      | -                 | <b>200</b>   | <b>X</b>     |              |
| <b>Net Value 2015</b>            | <b>20</b>                         | -                 | -   | -                 | <b>4</b>                            | -                 | -   | -                 | <b>-181</b>                 | -                 | <b>333</b>                      | -                 | <b>X</b>     | <b>176</b>   |              |

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

## B. Financial assets sold fully derecognised with recognition of continuing involvement

This type of exposure did not exist as at 31 December 2016.

## E.4. Covered bond transactions

Covered bond transactions where the selling Bank and the lending Bank are the same must be reported under this section. Intesa Sanpaolo uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.

Intesa Sanpaolo has arranged three programmes for the issue of Covered Bonds (CB).

The first programme, launched at the end of July 2009, had an amount of 20 billion euro (the original amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. In detail, performing loans and securities to the public sector with a total original nominal value of around 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro) were sold, the last of which (amounting to around 1 billion euro) in April 2013. As at 31 December 2016 loans and securities sold to the vehicle had a book value of 6.6 billion euro.

Against these sales, Covered Bonds were issued over time for a total nominal value of 22.6 billion euro (of which 3 billion euro relating to a covered bond which matured in the fourth quarter of 2011, 12.0 billion euro relating to issues acquired by the Parent Company and cancelled or subject to early redemption and 3.2 billion euro relating to an exchange offer to investors during 2012).

During 2016:

- the early repayment of the eighth series of CB was carried out, for a nominal value of 2.2 billion euro which, as it was fully subscribed by the Parent Company Intesa Sanpaolo, was already cancelled from the accounts;
- the early repayment of the ninth series of CB was carried out, for a nominal value of 1 billion euro which, as it was fully subscribed by the Parent Company Intesa Sanpaolo, was already cancelled from the accounts;
- The eleventh series of Covered Bonds was issued, for a nominal value of 1.1 billion euro. The notes, with floating rate and 2-year maturity, were fully subscribed by the Parent Company. The bonds are listed on the Luxembourg Stock Exchange with Moody's A1 rating, and are eligible for Eurosystem transactions;
- The twelfth series of Covered Bonds was issued, for a nominal value of 1.3 billion euro. The notes, with floating rate and 7-year maturity, were fully subscribed by the Parent Company. The bonds are listed on the Luxembourg Stock Exchange with Moody's A1 rating, and are eligible for Eurosystem transactions;

Therefore, as at 31 December 2016 a total nominal amount of 7.6 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Pubblico was outstanding, of which 7.3 billion repurchased and 0.3 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, government bonds and Adriano Finance S.r.l. bonds originated by Intesa Sanpaolo were transferred with a total original nominal value of 24.8 billion euro (net of retrocessions). During 2016, Intesa Sanpaolo transferred residential mortgage loans to the vehicle in May, for a total original nominal value of approximately 3.7 billion euro.

As at 31 December 2016 loans sold to the vehicle had a book value of 21.2 billion euro.

Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 27.7 billion euro (of which 1 billion euro relating to a covered bond that reached maturity in the fourth quarter of 2015 and 8.2 billion euro subject to early redemption in 2012).

During 2016:

- the second series of CB reached maturity, with a nominal value of 2.5 billion euro;
- in March, series 19 of CB was issued in the form of a fixed-rate bond (0.625%) for a nominal value of 1.25 billion euro, with a 7-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa2 rating. The bond was placed with institutional investors;
- in September, series 20 of CB was issued in the form of a floating-rate bond for a nominal value of 1.25 billion euro, with a 4-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa2 rating. The bond was subscribed by Intesa Sanpaolo for Eurosystem refinancing transactions;
- in November, series 21 of CB was issued in the form of a floating-rate bond for a nominal value of 2.2 billion euro, with a 8-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa2 rating. The bond was subscribed by Intesa Sanpaolo for Eurosystem refinancing transactions.

As at 31 December 2016, a total nominal amount of 16 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Ipotecario was outstanding, of which 12.6 billion placed with third party investors and 3.4 billion subscribed by Intesa Sanpaolo.

In 2012 the new multi-originator CB issue programme was launched, secured by mortgages totalling 30 billion euro. Aimed at retained issues, the programme provides for the issue of unrated securities which thus benefit from the rating of the issuer Intesa Sanpaolo. The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, Banca dell'Adriatico, Cassa di Risparmio in Bologna and, starting from May 2015, Banca CR Firenze. In particular, Intesa Sanpaolo sold mortgages to the vehicle for an original total nominal value of 15.4 billion euro (net of exclusions). A sale was completed in June 2016 totalling 2.4 billion euro.

As at 31 December 2016 the loans sold to the vehicle by Intesa Sanpaolo had a book value of 8.3 billion euro.

The other Group Banks sold assets to the vehicle for a total original nominal value of 17.4 billion euro, of which 2.9 billion euro sold in 2016.

Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 46.9 billion euro (of which 25 billion euro subject to early redemption and reimbursed). During 2016:

- in May, the seventh series of CB reached maturity, with a value of 1.375 billion euro;
- in August, the eighth series of CB reached maturity, with a value of 1.375 billion euro;
- in June, the twentieth series of CB was issued with a nominal value of 1.6 billion euro. This is a 7-year, floating-rate bond.
- in September, the twenty-first series of CB was issued with a nominal value of 1.750 billion euro. This is a 8-year, floating-rate bond.
- in September, the twenty-second series of CB was issued with a nominal value of 1.750 billion euro. This is a 9-year, floating-rate bond.

All securities issued as part of the multi-originator programme are listed on the Luxembourg Stock Exchange and, as noted above, benefit from the rating of the issuer Intesa Sanpaolo. The characteristics of the issues make them eligible for Eurosystem refinancing transactions.

As at 31 December 2016 a total nominal amount of 21.9 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP OBG was outstanding, fully repurchased by Intesa Sanpaolo.

The main features of the issues are shown in the table below.

| VEHICLE           | NAME                           | TYPE OF UNDERLYING ASSET                  | ISSUE      | MATURITY   | RATING | VEHICLE DATA          |  | SUBORDINATED FINANCING (1) | COVERED BOND ISSUED |                      |                    |                |
|-------------------|--------------------------------|---|------------|------------|--------|-----------------------|--|----------------------------|---------------------|----------------------|--------------------|----------------|
|                   |                                |   |            |            |        | Total assets          | Cumulated write-downs to the securitised portfolio |                            | nominal amount (2)  | book value (2)       | IAS classification | Valuation      |
| ISP CB PUBBLICO   |                                |   |            |            |        | 9,731                 | 6  | 9,312                      | 284                 | 314                  |                    |                |
|                   | Intesa Sanpaolo 10/17 - 3.25%  | Bonds and loans to the public sector      | 28/04/2010 | 28/04/2017 | A3     |                       |  |                            | 137                 | 141 <sup>(3)</sup>   | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 11/21 - 5.0%   | Bonds and loans to the public sector      | 27/01/2011 | 27/01/2021 | A3     |                       |  |                            | 147                 | 173 <sup>(3)</sup>   | Securities issued  | Amortised cost |
| ISP CB IPOTECARIO |                                |   |            |            |        | 21,440                | 100  | 19,464                     | 12,576              | 13,651               |                    |                |
|                   | Intesa Sanpaolo 11/26 - 5.25%  | RMBs from self-securitisation - Mortgages | 17/02/2011 | 17/02/2026 | A2     |                       |  |                            | 100                 | 132 <sup>(3)</sup>   | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 11/31 - 5.375% | RMBs from self-securitisation - Mortgages | 17/02/2011 | 17/02/2031 | A2     |                       |  |                            | 300                 | 420 <sup>(3)</sup>   | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 11/27 - 5.25%  | RMBs from self-securitisation - Mortgages | 16/09/2011 | 16/09/2027 | A2     |                       |  |                            | 210                 | 258 <sup>(3)</sup>   | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 12/17 - 3.25%  | RMBs from self-securitisation - Mortgages | 16/07/2012 | 28/04/2017 | A2     |                       |  |                            | 1,863               | 1,922 <sup>(3)</sup> | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 12/21 - 5 %    | Mortgages                                 | 16/07/2012 | 27/01/2021 | A2     |                       |  |                            | 1,353               | 1,589 <sup>(3)</sup> | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 12/19 - 3.75%  | Mortgages                                 | 25/09/2012 | 25/09/2019 | A2     |                       |  |                            | 1,000               | 1,046 <sup>(3)</sup> | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 12/22 - 3.625% | Mortgages                                 | 03/12/2012 | 05/12/2022 | A2     |                       |  |                            | 1,250               | 1,359 <sup>(3)</sup> | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 13/25 - 3.375% | Mortgages                                 | 24/01/2013 | 24/01/2025 | A2     |                       |  |                            | 1,000               | 1,147 <sup>(3)</sup> | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 13/18 - 2.25%  | Mortgages                                 | 24/09/2013 | 24/09/2018 | A2     |                       |  |                            | 750                 | 773 <sup>(3)</sup>   | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 14/26 3.25%    | Mortgages                                 | 10/02/2014 | 10/02/2026 | A2     |                       |  |                            | 1,250               | 1,462 <sup>(3)</sup> | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 15/22 0.625%   | Mortgages                                 | 23/01/2015 | 20/01/2022 | Aa2    |                       |  |                            | 1,000               | 1,018 <sup>(3)</sup> | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 15/25 1.375%   | Mortgages                                 | 18/12/2015 | 18/12/2025 | Aa2    |                       |  |                            | 1,250               | 1,279 <sup>(3)</sup> | Securities issued  | Amortised cost |
|                   | Intesa Sanpaolo 16/23 0.625%   | Mortgages                                 | 23/03/2016 | 23/03/2023 | Aa2    |                       |  |                            | 1,250               | 1,246 <sup>(3)</sup> | Securities issued  | Amortised cost |
| ISP OBG           |                                |   |            |            |        | 26,100 <sup>(4)</sup> | 223 <sup>(5)</sup>                                 | 11,564                     |                     |                      |                    |                |

<sup>(1)</sup> This caption includes the subordinated loan granted by ISP SpA to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

<sup>(2)</sup> The nominal amount and the book value shown in the table are to be considered net of securities repurchased.

<sup>(3)</sup> The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with professional investors and international financial intermediaries, for the entire amount issued.

<sup>(4)</sup> The assets of Intesa Sanpaolo vehicle amount to 11,825 million euro; of the remaining, 6,687 million euro is comprised of Banco Napoli securitised assets, 3,402 million euro is comprised of CR Veneto securitised assets, 2,267 million euro is comprised of CR Firenze securitised assets and 1,919 million euro is comprised of Carisbo securitised assets.

<sup>(5)</sup> The write-downs to Intesa Sanpaolo securitised portfolio amount to 124 million euro; of the remaining, 74 million euro relates to Banco Napoli portfolio, 19 million euro relates to CR Veneto assets, 4 million euro relates to Carisbo assets and 3 million euro relates to CR Firenze assets.

The additional information required by IFRS 12 is not provided by banks that draw up consolidated financial statements pursuant to Bank of Italy Circular 262.

## F. MODELS FOR THE MEASUREMENT OF CREDIT RISK

At year-end, the expected loss amounted to 0.53% of disbursed loans. The indicator is essentially in line with the figure at the end of 2015 (0.55%).

The internal rating, LGD and EAD models are subject to internal validation process by the Internal Validation Sub-Department and a level three control by the Internal Auditing Department. The control functions produce a report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the existence of the compliance requirements.

## SECTION 2 – MARKET RISKS

### 2.1. INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING BOOK

#### QUALITATIVE INFORMATION

Qualitative information about measurement criteria of financial risks of Intesa Sanpaolo's regulatory trading book is contained in Part E of the Notes to the consolidated financial statements.

#### QUANTITATIVE INFORMATION

Operational quantitative information on Intesa Sanpaolo's market risks is contained in Part E of the Notes to the consolidated financial statements.

### 2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

#### QUALITATIVE INFORMATION

Qualitative information on the measurement of financial risks in Intesa Sanpaolo's banking book is contained in Part E of the Notes to the consolidated financial statements.

#### QUANTITATIVE INFORMATION

##### Banking book: internal models and other sensitivity analysis methodologies

Interest margin sensitivity – assuming a +50 and +100 basis point change in interest rates – amounted to 313 million euro and 598 million euro, respectively, at the end of 2016. This latter figure was up compared to the end of 2015, when it was 217 million euro. In the document "Guidelines on the management of interest rate risk in the Group's banking book" the Group has also defined a sensitivity limit for the interest margin as the maximum acceptable value of the loss in the income statement, as represented by the greater decrease in the interest margin generated in two scenarios of parallel increases and decreases in rates (+50 bps and -50 bps). Consequently, the measurement of the sensitivity of the margin in the scenario of a change in rates of -50 basis points has also been introduced starting in the fourth quarter of 2016. At the end of 2016, that value was -349 million euro. The above potential impact would be reflected, in the case of invariance of the other income components, also in the Bank's year-end profit and loss net of tax.

Interest rate risk, generated by Intesa Sanpaolo's banking book, measured through value shift sensitivity (sensitivity of portfolio value to a parallel and uniform shift in the yield curve of +100 basis points), recorded an average of 803 million euro during 2016 and amounted to 920 million euro at year-end.

Interest rate risk, measured in terms of VaR (99% confidence level, 10-day holding period), amounted to an average of 67 million euro during 2016, with a minimum value of 34 million euro and a maximum value of 144 million euro. The latter was equal to the value recorded at the end of 2016.

Price risk generated by minority stakes in quoted companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level during 2016 of 104 million euro (34 million euro at the end of 2015), with minimum and peak values of 21 million euro and 161 million euro respectively (the latter figure coincides with the value at the end of 2016).

The table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock for the abovementioned quoted assets recorded in the AFS portfolio.

##### Price risk: impact on Shareholders' Equity

|             | (millions of euro) |   |
|-------------|--------------------|---|
|             |                    | <b>Impact on<br/>shareholders' equity</b> |
| Price shock | +10%               | 19  |
| Price shock | -10%               | -19                                       |



## 2.3. FOREIGN EXCHANGE RISK

### QUALITATIVE INFORMATION

Qualitative information, including hedging activities of foreign exchange risk, is contained in Part E of the Notes to the consolidated financial statements.

### QUANTITATIVE INFORMATION

#### 1. Breakdown by currency of assets and liabilities and of derivatives

(millions of euro)

|                                 | CURRENCIES    |              |                |              |                     |
|---------------------------------|---------------|--------------|----------------|--------------|---------------------|
|                                 | US<br>dollar  | GB<br>pound  | Swiss<br>franc | Yen          | Other<br>currencies |
| <b>A. FINANCIAL ASSETS</b>      | <b>25,236</b> | <b>1,950</b> | <b>424</b>     | <b>1,727</b> | <b>2,924</b>        |
| A.1 Debt securities             | 3,220         | 720          | -              | 883          | 524                 |
| A.2 Equities                    | 249           | -            | 6              | -            | 43                  |
| A.3 Loans to banks              | 8,964         | 661          | 201            | 158          | 589                 |
| A.4 Loans to customers          | 12,803        | 569          | 217            | 686          | 1,768               |
| A.5 Other financial assets      | -             | -            | -              | -            | -                   |
| <b>B. OTHER ASSETS</b>          | <b>5,025</b>  | <b>26</b>    | <b>16</b>      | <b>84</b>    | <b>203</b>          |
| <b>C. FINANCIAL LIABILITIES</b> | <b>24,214</b> | <b>1,567</b> | <b>68</b>      | <b>259</b>   | <b>1,142</b>        |
| C.1 Due to banks                | 8,631         | 989          | 37             | 37           | 606                 |
| C.2 Due to customers            | 5,436         | 233          | 31             | 21           | 311                 |
| C.3 Debt securities             | 10,147        | 345          | -              | 201          | 225                 |
| C.4 Other financial liabilities | -             | -            | -              | -            | -                   |
| <b>D. OTHER LIABILITIES</b>     | <b>624</b>    | <b>12</b>    | <b>-</b>       | <b>7</b>     | <b>149</b>          |
| <b>E. FINANCIAL DERIVATIVES</b> |               |              |                |              |                     |
| - Options                       |               |              |                |              |                     |
| <i>long positions</i>           | 716           | 11           | -              | 26           | 135                 |
| <i>short positions</i>          | 545           | 11           | 1              | 37           | 135                 |
| - Other derivatives             |               |              |                |              |                     |
| <i>long positions</i>           | 43,479        | 5,404        | 1,562          | 2,959        | 7,904               |
| <i>short positions</i>          | 49,581        | 5,503        | 1,968          | 4,537        | 9,762               |
| <b>TOTAL ASSETS</b>             | <b>74,456</b> | <b>7,391</b> | <b>2,002</b>   | <b>4,796</b> | <b>11,166</b>       |
| <b>TOTAL LIABILITIES</b>        | <b>74,964</b> | <b>7,093</b> | <b>2,037</b>   | <b>4,840</b> | <b>11,188</b>       |
| <b>DIFFERENCE (+/-)</b>         | <b>-508</b>   | <b>298</b>   | <b>-35</b>     | <b>-44</b>   | <b>-22</b>          |

#### 2. Internal models and other sensitivity analysis methodologies

Management of foreign exchange risk relative to trading activities is included within the operating procedures and the estimation methodologies of the internal model based on VaR calculations, as described in Part E of the Notes to the consolidated financial statements.

Foreign exchange risk expressed by equity investments in foreign currency (banking book), including Group companies, originated a VaR (99% confidence level, 10-day holding period) amounting to 28 million euro as at 31 December 2016. This potential impact would only affect Shareholders' Equity, until disposal.

## 2.4. DERIVATIVES

Starting from 2014, the Bank was authorised to use EPE (Expected Positive Exposure) internal models to determine the requirement for counterparty risk.

The Bank uses these approaches for almost the entire trading portfolio (as shown in the table below, as at 31 December 2016 approximately 99% of the total EAD of financial and credit derivatives is measured using EPE models).

Derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2016 accounting for approximately 1 % of overall EAD) and refer to residual contracts of the Bank to which EPE is not applied (in compliance with the insignificance of the EBA thresholds).

Moreover, with the entry into force of the new rules of Basel 3, the scope of counterparty risk is expected to also include Exchange Traded Derivatives (ETD) and contracts with central counterparties (CCP).

The table below shows the overall EAD of exposures in financial and credit derivatives, broken down by measurement approach (EPE internal models or mark-to-market approach).

| Categories of transactions | 31.12.2016              |                     | 31.12.2015              |                     |
|----------------------------|-------------------------|---------------------|-------------------------|---------------------|
|                            | Current Exposure Method | EPE Internal Method | Current Exposure Method | EPE Internal Method |
| Derivative contracts       | 102                     | 7,327               | 121                     | 6,493               |

(millions of euro)

Using the EPE internal model, it is possible to consider the collateral collected to mitigate credit exposure and any excess collateral paid in the simulation. The value of guarantees received and included in the calculation of the EAD amounted to over 1.7 billion euro for Intesa Sanpaolo, while the collateral paid amounted to 6.7 billion euro.

## A. FINANCIAL DERIVATIVES

### A.1. Regulatory trading book: period-end notional amounts

| Underlying assets / Type of derivatives      | 31.12.2016       |                        | 31.12.2015       |                        |
|--|------------------|------------------------|------------------|------------------------|
|  | Over the counter | Central counterparties | Over the counter | Central counterparties |
| <b>1. Debt securities and interest rates</b> | <b>348,660</b>   | -                      | <b>312,717</b>   | -                      |
| a) Options                                   | 5,567            | -                      | 8,258            | -                      |
| b) Swaps                                     | 333,828          | -                      | 298,836          | -                      |
| c) Forwards                                  | -                | -                      | 43               | -                      |
| d) Futures                                   | 9,265            | -                      | 5,580            | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>2. Equities and stock indices</b>         | <b>235</b>       | <b>27</b>              | <b>418</b>       | <b>28</b>              |
| a) Options                                   | 235              | 27                     | 356              | 28                     |
| b) Swaps                                     | -                | -                      | -                | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | 62               | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>3. Foreign exchange rates and gold</b>    | <b>100,025</b>   | -                      | <b>95,124</b>    | -                      |
| a) Options                                   | 3,715            | -                      | 3,986            | -                      |
| b) Swaps                                     | 23,030           | -                      | 22,184           | -                      |
| c) Forwards                                  | 72,240           | -                      | 67,669           | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | 1,040            | -                      | 1,285            | -                      |
| <b>4. Commodities</b>                        | <b>5,474</b>     | -                      | <b>7,748</b>     | -                      |
| <b>5. Other underlying assets</b>            | -                | -                      | -                | -                      |
| <b>TOTAL</b>                                 | <b>454,394</b>   | <b>27</b>              | <b>416,007</b>   | <b>28</b>              |

(millions of euro)

The Bank has traded on organised futures markets through direct participants mainly belonging to the Group Investment Bank.

**A.2. Banking book: period-end notional amounts****A.2.1. Hedging derivatives**

(millions of euro)

| Underlying assets / Type of derivatives      | 31.12.2016       |                        | 31.12.2015       |                        |
|--|------------------|------------------------|------------------|------------------------|
|  | Over the counter | Central counterparties | Over the counter | Central counterparties |
| <b>1. Debt securities and interest rates</b> | <b>212,683</b>   | -                      | <b>178,112</b>   | -                      |
| a) Options                                   | 2,369            | -                      | 2,783            | -                      |
| b) Swaps                                     | 210,314          | -                      | 175,329          | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>2. Equities and stock indices</b>         | -                | -                      | -                | -                      |
| a) Options                                   | -                | -                      | -                | -                      |
| b) Swaps                                     | -                | -                      | -                | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>3. Foreign exchange rates and gold</b>    | <b>2,558</b>     | -                      | <b>2,668</b>     | -                      |
| a) Options                                   | -                | -                      | -                | -                      |
| b) Swaps                                     | 2,558            | -                      | 2,668            | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>4. Commodities</b>                        | -                | -                      | -                | -                      |
| <b>5. Other underlying assets</b>            | -                | -                      | -                | -                      |
| <b>TOTAL</b>                                 | <b>215,241</b>   | -                      | <b>180,780</b>   | -                      |

**A.2.2. Other derivatives**

(millions of euro)

| Underlying assets / Type of derivatives      | 31.12.2016       |                        | 31.12.2015       |                        |
|--|------------------|------------------------|------------------|------------------------|
|  | Over the counter | Central counterparties | Over the counter | Central counterparties |
| <b>1. Debt securities and interest rates</b> | <b>3,158</b>     | -                      | <b>3,589</b>     | -                      |
| a) Options                                   | 2,401            | -                      | 2,645            | -                      |
| b) Swaps                                     | 757              | -                      | 944              | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>2. Equities and stock indices</b>         | <b>741</b>       | -                      | <b>565</b>       | -                      |
| a) Options                                   | 741              | -                      | 565              | -                      |
| b) Swaps                                     | -                | -                      | -                | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>3. Foreign exchange rates and gold</b>    | -                | -                      | -                | -                      |
| a) Options                                   | -                | -                      | -                | -                      |
| b) Swaps                                     | -                | -                      | -                | -                      |
| c) Forwards                                  | -                | -                      | -                | -                      |
| d) Futures                                   | -                | -                      | -                | -                      |
| e) Others                                    | -                | -                      | -                | -                      |
| <b>4. Commodities</b>                        | -                | -                      | -                | -                      |
| <b>5. Other underlying assets</b>            | -                | -                      | -                | -                      |
| <b>TOTAL</b>                                 | <b>3,899</b>     | -                      | <b>4,154</b>     | -                      |

The table above shows the financial derivatives recognised in the financial statements in the trading book, but not forming part of the regulatory trading book. In particular, the table shows the derivatives recorded separately from the combined financial instruments, the derivatives used to hedge debt securities measured at fair value through profit and loss and the put and call options relating to commitments on equity investments.

**A.3. Financial derivatives gross positive fair value – breakdown by product****A.4. Financial derivatives gross negative fair value – breakdown by product****A.5. Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty – contracts not included under netting arrangements****A.6. Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty – contracts included under netting arrangements****A.7. Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty – contracts not included under netting arrangements****A.8. Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty – contracts included under netting arrangements****A.9. Residual maturity of over the counter financial derivatives: notional amounts**

Tables A.3 to A.9 were not filled in as the financial derivatives whose counterparty risk is measured using methods other than internal models represent a residual portion of the portfolio.

Information on derivatives is shown below, in the section relating to internal models. Based on the financial statement instructions issued by the Bank of Italy, tables A.3 to A.9 do not have to be filled in by banks which use EPE internal models to calculate counterparty risk if this approach covers a significant portion of the portfolio.

**A.10 Over the counter financial derivatives: counterparty risk/financial risk – internal models**

As stated in the initial part of the section on derivatives, the Bank was authorised to use EPE internal models to determine the requirement for counterparty risk, which is used for most of the portfolio.

Financial derivatives whose counterparty risk is measured using mark-to-market methods represent a residual portion of the portfolio. For this reason, the data relating to these derivatives was included in the tables below, for the purpose of summarising all the information on derivatives.

*Financial derivatives gross positive fair value – breakdown by product*

(millions of euro)

| Portfolios /Types of derivatives           | POSITIVE FAIR VALUE |                        |                  |                        |
|--|---------------------|------------------------|------------------|------------------------|
|  | 31.12.2016          |                        | 31.12.2015       |                        |
|  | Over the counter    | Central counterparties | Over the counter | Central counterparties |
| <b>A. Regulatory trading book</b>          | <b>14,072</b>       | -                      | <b>13,690</b>    | <b>1</b>               |
| a) Options                                 | 263                 | -                      | 455              | 1                      |
| b) Interest rate swaps                     | 10,376              | -                      | 9,306            | -                      |
| c) Cross currency swaps                    | 1,973               | -                      | 2,041            | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | 1,073               | -                      | 874              | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | 387                 | -                      | 1,014            | -                      |
| <b>B. Banking book - hedging</b>           | <b>5,720</b>        | -                      | <b>6,387</b>     | -                      |
| a) Options                                 | 51                  | -                      | 68               | -                      |
| b) Interest rate swaps                     | 5,174               | -                      | 5,801            | -                      |
| c) Cross currency swaps                    | 495                 | -                      | 518              | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | -                   | -                      | -                | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | -                   | -                      | -                | -                      |
| <b>C. Banking book - other derivatives</b> | <b>264</b>          | -                      | <b>346</b>       | -                      |
| a) Options                                 | 215                 | -                      | 265              | -                      |
| b) Interest rate swaps                     | 49                  | -                      | 81               | -                      |
| c) Cross currency swaps                    | -                   | -                      | -                | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | -                   | -                      | -                | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | -                   | -                      | -                | -                      |
| <b>TOTAL</b>                               | <b>20,056</b>       | -                      | <b>20,423</b>    | <b>1</b>               |

## Financial derivatives gross negative fair value – breakdown by product

(millions of euro)

| Portfolios /Types of derivatives           | NEGATIVE FAIR VALUE |                        |                  |                        |
|--|---------------------|------------------------|------------------|------------------------|
|  | 31.12.2016          |                        | 31.12.2015       |                        |
|  | Over the counter    | Central counterparties | Over the counter | Central counterparties |
| <b>A. Regulatory trading book</b>          | <b>15,588</b>       | -                      | <b>14,688</b>    | -                      |
| a) Options                                 | 269                 | -                      | 408              | -                      |
| b) Interest rate swaps                     | 11,625              | -                      | 10,252           | -                      |
| c) Cross currency swaps                    | 2,048               | -                      | 2,081            | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | 1,253               | -                      | 933              | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | 393                 | -                      | 1,014            | -                      |
| <b>B. Banking book - hedging</b>           | <b>6,517</b>        | -                      | <b>5,960</b>     | -                      |
| a) Options                                 | -                   | -                      | -                | -                      |
| b) Interest rate swaps                     | 6,148               | -                      | 5,612            | -                      |
| c) Cross currency swaps                    | 369                 | -                      | 348              | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | -                   | -                      | -                | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | -                   | -                      | -                | -                      |
| <b>C. Banking book - other derivatives</b> | <b>304</b>          | -                      | <b>385</b>       | -                      |
| a) Options                                 | 218                 | -                      | 266              | -                      |
| b) Interest rate swaps                     | 86                  | -                      | 119              | -                      |
| c) Cross currency swaps                    | -                   | -                      | -                | -                      |
| d) Equity swaps                            | -                   | -                      | -                | -                      |
| e) Forwards                                | -                   | -                      | -                | -                      |
| f) Futures                                 | -                   | -                      | -                | -                      |
| g) Others                                  | -                   | -                      | -                | -                      |
| <b>TOTAL</b>                               | <b>22,409</b>       | -                      | <b>21,033</b>    | -                      |

## Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty

(millions of euro)

|  | Governments and Central Banks | Public entities | Banks   | Financial institutions | Insurance companies | Non-financial companies | Other counterparties |
|--|-------------------------------|-----------------|---------|------------------------|---------------------|-------------------------|----------------------|
| <b>1. Debt securities and interest rates</b> |                               |                 |         |                        |                     |                         |                      |
| - notional amount                            | -                             | 2,241           | 313,057 | 5,380                  | -                   | 27,903                  | 77                   |
| - positive fair value                        | -                             | 563             | 8,094   | 350                    | -                   | 1,530                   | 11                   |
| - negative fair value                        | -                             | -17             | -10,966 | -182                   | -1                  | -605                    | -39                  |
| <b>2. Equities and stock indices</b>         |                               |                 |         |                        |                     |                         |                      |
| - notional amount                            | -                             | -               | 190     | -                      | 45                  | 1                       | -                    |
| - positive fair value                        | -                             | -               | -       | -                      | -                   | -                       | -                    |
| - negative fair value                        | -                             | -               | -       | -                      | -                   | -                       | -                    |
| <b>3. Foreign exchange rates and gold</b>    |                               |                 |         |                        |                     |                         |                      |
| - notional amount                            | 361                           | -               | 68,134  | 18,533                 | 142                 | 12,830                  | 25                   |
| - positive fair value                        | 3                             | -               | 2,339   | 243                    | -                   | 541                     | -                    |
| - negative fair value                        | -                             | -               | -2,171  | -623                   | -2                  | -582                    | -                    |
| <b>4. Other values</b>                       |                               |                 |         |                        |                     |                         |                      |
| - notional amount                            | -                             | -               | 2,743   | 124                    | -                   | 2,607                   | -                    |
| - positive fair value                        | -                             | -               | 232     | -                      | -                   | 167                     | -                    |
| - negative fair value                        | -                             | -               | -171    | -9                     | -                   | -220                    | -                    |

Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty

|  | (millions of euro)                  |                    |         |                           |                        |                                |                         |
|--|-------------------------------------|--------------------|---------|---------------------------|------------------------|--------------------------------|-------------------------|
|  | Governments<br>and Central<br>Banks | Public<br>entities | Banks   | Financial<br>institutions | Insurance<br>companies | Non-<br>financial<br>companies | Other<br>counterparties |
| <b>1. Debt securities and interest rates</b> |                                     |                    |         |                           |                        |                                |                         |
| - notional amount                            | -                                   | 417                | 206,290 | 8,326                     | -                      | 31                             | 777                     |
| - positive fair value                        | -                                   | 3                  | 5,231   | 193                       | -                      | 5                              | -                       |
| - negative fair value                        | -                                   | -                  | -5,655  | -631                      | -                      | -                              | -111                    |
| <b>2. Equities and stock indices</b>         |                                     |                    |         |                           |                        |                                |                         |
| - notional amount                            | -                                   | -                  | 249     | 69                        | -                      | 19                             | 403                     |
| - positive fair value                        | -                                   | -                  | 48      | 8                         | -                      | -                              | -                       |
| - negative fair value                        | -                                   | -                  | -7      | -                         | -                      | -                              | -48                     |
| <b>3. Foreign exchange rates and gold</b>    |                                     |                    |         |                           |                        |                                |                         |
| - notional amount                            | -                                   | -                  | 2,293   | 265                       | -                      | -                              | -                       |
| - positive fair value                        | -                                   | -                  | 493     | 2                         | -                      | -                              | -                       |
| - negative fair value                        | -                                   | -                  | -211    | -158                      | -                      | -                              | -                       |
| <b>4. Other values</b>                       |                                     |                    |         |                           |                        |                                |                         |
| - notional amount                            | -                                   | -                  | -       | -                         | -                      | -                              | -                       |
| - positive fair value                        | -                                   | -                  | -       | -                         | -                      | -                              | -                       |
| - negative fair value                        | -                                   | -                  | -       | -                         | -                      | -                              | -                       |

The data in the tables "Over the counter financial derivatives: regulatory trading book – notional amounts, gross positive and negative fair values by counterparty" and "Over the counter financial derivatives: banking book – notional amounts, gross positive and negative fair values by counterparty" refer exclusively to operations in Over the Counter derivatives.

## B. CREDIT DERIVATIVES

### B.1. Credit derivatives: period-end notional amounts

| Categories of transactions     | (millions of euro)      |                                    |                        |                                    |
|--------------------------------|-------------------------|------------------------------------|------------------------|------------------------------------|
|                                | REGULATORY TRADING BOOK |                                    | BANKING BOOK           |                                    |
|                                | single<br>counterparty  | more<br>counterparties<br>(basket) | single<br>counterparty | more<br>counterparties<br>(basket) |
| <b>1. Protection purchases</b> |                         |                                    |                        |                                    |
| - Credit default products      |                         | 454                                | 1,612                  | -                                  |
| - Credit spread products       |                         | -                                  | -                      | -                                  |
| - Total rate of return swap    |                         | -                                  | -                      | -                                  |
| - Others                       |                         | -                                  | -                      | -                                  |
| <b>Total 31.12.2016</b>        |                         | <b>454</b>                         | <b>1,612</b>           | <b>-</b>                           |
| <b>Total 31.12.2015</b>        |                         | <b>546</b>                         | <b>122</b>             | <b>-</b>                           |
| <b>2. Protection sales</b>     |                         |                                    |                        |                                    |
| - Credit default products      |                         | 260                                | 1,196                  | -                                  |
| - Credit spread products       |                         | -                                  | -                      | -                                  |
| - Total rate of return swap    |                         | -                                  | -                      | -                                  |
| - Others                       |                         | -                                  | -                      | -                                  |
| <b>Total 31.12.2016</b>        |                         | <b>260</b>                         | <b>1,196</b>           | <b>-</b>                           |
| <b>Total 31.12.2015</b>        |                         | <b>509</b>                         | <b>122</b>             | <b>-</b>                           |

Part of the contracts in force as at 31 December 2016, shown in the table above, has been included within the structured credit products, namely: 64 million euro of protection purchases and 41 million euro of protection sales, in any case almost entirely attributable to exposures not included in US subprime exposures.

For further information on the relative economic and risk effects, see the chapter on market risks in this Part of the Notes to the financial statements.

Also tables B.2 to B.6 were not filled in as the credit derivatives whose counterparty risk is measured using methods other than internal models represent a residual portion of the portfolio.

Information on derivatives is shown below, in the section relating to internal models. Based on the financial statement instructions issued by the Bank of Italy, tables B.2 to B.6 do not have to be filled in by banks which use EPE internal models to calculate counterparty risk if this approach covers a significant portion of the portfolio.

**B.2. Over the counter credit derivatives: gross positive fair value – breakdown by product****B.3. Over the counter credit derivatives: gross negative fair value – breakdown by product****B.4. Over the counter credit derivatives: gross (positive and negative) fair values by counterparty – contracts not included under netting arrangements****B.5. Over the counter credit derivatives: gross (positive and negative) fair values by counterparty - contracts included under netting arrangements****B.6. Residual maturity of credit derivatives: notional amounts****B.7. Credit derivatives: counterparty risk/financial risk – Internal models**

As stated in the initial part of the section on derivatives, the Bank was authorised to use EPE internal models to determine the requirement for counterparty risk, which is used for most of the portfolio.

Credit derivatives whose counterparty risk is measured using mark-to-market methods represent a residual portion of the portfolio. For this reason, the data relating to these derivatives was included in the tables below, for the purpose of summarising all the information on derivatives.

*Over the counter credit derivatives: gross positive fair value – breakdown by product*

| Portfolios /Types of derivatives  | (millions of euro)  |            |
|-----------------------------------|---------------------|------------|
|                                   | POSITIVE FAIR VALUE |            |
|                                   | 31.12.2016          | 31.12.2015 |
| <b>A. Regulatory trading book</b> | <b>87</b>           | <b>70</b>  |
| a) Credit default products        | 87                  | 70         |
| b) Credit spread products         | -                   | -          |
| c) Total rate of return swap      | -                   | -          |
| d) Others                         | -                   | -          |
| <b>B. Banking book</b>            | -                   | -          |
| a) Credit default products        | -                   | -          |
| b) Credit spread products         | -                   | -          |
| c) Total rate of return swap      | -                   | -          |
| d) Others                         | -                   | -          |
| <b>TOTAL</b>                      | <b>87</b>           | <b>70</b>  |

Part of the positive fair values, recognised as at 31 December 2016, and shown in the table above, has been included within the structured credit products, namely: 7 million attributable to short positions taken on creditworthiness indexes and protection purchases as part of structured packages.

For further information on the relative economic and risk effects, see the chapter on market risks in this Part of the Notes to the financial statements.

*Over the counter credit derivatives: gross negative fair value – breakdown by product*

| Portfolios /Types of derivatives  | (millions of euro)  |            |
|-----------------------------------|---------------------|------------|
|                                   | NEGATIVE FAIR VALUE |            |
|                                   | 31.12.2016          | 31.12.2015 |
| <b>A. Regulatory trading book</b> | <b>120</b>          | <b>93</b>  |
| a) Credit default products        | 120                 | 93         |
| b) Credit spread products         | -                   | -          |
| c) Total rate of return swap      | -                   | -          |
| d) Others                         | -                   | -          |
| <b>B. Banking book</b>            | -                   | -          |
| a) Credit default products        | -                   | -          |
| b) Credit spread products         | -                   | -          |
| c) Total rate of return swap      | -                   | -          |
| d) Others                         | -                   | -          |
| <b>TOTAL</b>                      | <b>120</b>          | <b>93</b>  |



Part of the negative fair values, recognised as at 31 December 2016, and shown in the table above, has been included within the structured credit products, namely: 19 million attributable to long positions on creditworthiness indexes and protection sales not included under the US subprime category.

For further information on the relative economic and risk effects, see the chapter on market risks in this Part of the Notes to the financial statements.

*Over the counter credit derivatives: gross (positive and negative) fair values by counterparty*

|                                | (millions of euro)                  |                    |       |                           |                        |                                |                         |
|--------------------------------|-------------------------------------|--------------------|-------|---------------------------|------------------------|--------------------------------|-------------------------|
|                                | Governments<br>and Central<br>Banks | Public<br>entities | Banks | Financial<br>institutions | Insurance<br>companies | Non-<br>financial<br>companies | Other<br>counterparties |
| <b>REGULATORY TRADING BOOK</b> |                                     |                    |       |                           |                        |                                |                         |
| <b>1. Protection purchases</b> |                                     |                    |       |                           |                        |                                |                         |
| - notional amount              | -                                   | 125                | 1,847 | 94                        | -                      | -                              | -                       |
| - positive fair value          | -                                   | 68                 | 2     | 7                         | -                      | -                              | -                       |
| - negative fair value          | -                                   | -                  | -25   | -                         | -                      | -                              | -                       |
| <b>2. Protection sales</b>     |                                     |                    |       |                           |                        |                                |                         |
| - notional amount              | -                                   | -                  | 1,392 | 64                        | -                      | -                              | -                       |
| - positive fair value          | -                                   | -                  | 10    | -                         | -                      | -                              | -                       |
| - negative fair value          | -                                   | -                  | -83   | -12                       | -                      | -                              | -                       |
| <b>BANKING BOOK</b>            |                                     |                    |       |                           |                        |                                |                         |
| <b>1. Protection purchases</b> |                                     |                    |       |                           |                        |                                |                         |
| - notional amount              | -                                   | -                  | -     | -                         | -                      | -                              | -                       |
| - positive fair value          | -                                   | -                  | -     | -                         | -                      | -                              | -                       |
| - negative fair value          | -                                   | -                  | -     | -                         | -                      | -                              | -                       |
| <b>2. Protection sales</b>     |                                     |                    |       |                           |                        |                                |                         |
| - notional amount              | -                                   | -                  | -     | -                         | -                      | -                              | -                       |
| - positive fair value          | -                                   | -                  | -     | -                         | -                      | -                              | -                       |
| - negative fair value          | -                                   | -                  | -     | -                         | -                      | -                              | -                       |

The data exclusively refers to operations in Over the counter credit derivatives.

## C. CREDIT AND FINANCIAL DERIVATIVES

### C.1. Over the counter credit and financial derivatives: net fair values and future exposure by counterparty

This table was not filled in because, as previously illustrated, the Bank primarily calculates counterparty risk using the EPE approach, which is not based on the concept of future exposure. According to the internal models approach, the EPE is calculated as a statistical-time-based average of the future mark-to-market evolution of the derivatives, strengthened by conservative restrictions on the mark-to-market profiles that do not decrease over time.

## SECTION 3 - LIQUIDITY RISK

## QUALITATIVE INFORMATION

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

## QUANTITATIVE INFORMATION

## 1. Breakdown by contractual residual maturity of financial assets and liabilities

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity.

Therefore, no operational data was used that would require, for example, the modelling of demand liabilities and the representation of cash items according to their level of liquidity.

## Currency of denomination: Euro

| Type / Residual maturity                              | On demand      | Between 1 and 7 days | Between 7 and 15 days | Between 15 days and 1 month | Between 1 and 3 months | Between 3 and 6 months | Between 6 months and 1 year | Between 1 and 5 years | Over 5 years  | Unspecified maturity | (millions of euro) |
|---|----------------|----------------------|-----------------------|-----------------------------|------------------------|------------------------|-----------------------------|-----------------------|---------------|----------------------|--------------------|
| <b>Cash assets</b>                                    | <b>26,516</b>  | <b>17,871</b>        | <b>5,707</b>          | <b>12,947</b>               | <b>14,547</b>          | <b>22,185</b>          | <b>37,291</b>               | <b>107,640</b>        | <b>69,284</b> | <b>22,891</b>        |                    |
| A.1 Government bonds                                  | 2              | -                    | -                     | 23                          | 63                     | 235                    | 542                         | 20,213                | 13,047        | -                    |                    |
| A.2 Other debt securities                             | 38             | 24                   | 1,276                 | 3,056                       | 245                    | 529                    | 1,651                       | 3,459                 | 4,980         | -                    |                    |
| A.3 Quotas of UCI                                     | 1,095          | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -             | -                    |                    |
| A.4 Loans   | 25,381         | 17,847               | 4,431                 | 9,868                       | 14,239                 | 21,421                 | 35,098                      | 83,968                | 51,257        | 22,891               |                    |
| - Banks   | 6,980          | 3,996                | 276                   | 4,190                       | 7,937                  | 13,251                 | 18,869                      | 30,363                | 4,944         | 22,891               |                    |
| - Customers   | 18,401         | 13,851               | 4,155                 | 5,678                       | 6,302                  | 8,170                  | 16,229                      | 53,605                | 46,313        | -                    |                    |
| <b>Cash liabilities</b>                               | <b>141,208</b> | <b>7,764</b>         | <b>1,408</b>          | <b>3,604</b>                | <b>10,903</b>          | <b>23,471</b>          | <b>21,735</b>               | <b>105,773</b>        | <b>25,817</b> | <b>1,572</b>         |                    |
| B.1 Deposits and current accounts                     | 137,595        | 1,146                | 1,165                 | 2,120                       | 7,297                  | 16,397                 | 12,485                      | 28,369                | 3,911         | -                    |                    |
| - Banks   | 16,724         | 1,127                | 994                   | 1,164                       | 5,383                  | 15,199                 | 11,446                      | 25,103                | 3,911         | -                    |                    |
| - Customers   | 120,871        | 19                   | 171                   | 956                         | 1,914                  | 1,198                  | 1,039                       | 3,266                 | -             | -                    |                    |
| B.2 Debt securities                                   | 29             | 163                  | 80                    | 229                         | 3,519                  | 6,501                  | 8,481                       | 31,767                | 19,984        | 1,572                |                    |
| B.3 Other liabilities                                 | 3,584          | 6,455                | 163                   | 1,255                       | 87                     | 573                    | 769                         | 45,637                | 1,922         | -                    |                    |
| <b>Off-balance sheet transactions</b>                 |                |                      |                       |                             |                        |                        |                             |                       |               |                      |                    |
| C.1 Financial derivatives with exchange of capital    |                |                      |                       |                             |                        |                        |                             |                       |               |                      |                    |
| - Long positions                                      | 1              | 4,522                | 4,814                 | 7,355                       | 8,548                  | 5,854                  | 4,513                       | 8,547                 | 4,569         | -                    |                    |
| - Short positions                                     | 4              | 5,861                | 2,917                 | 6,456                       | 6,576                  | 3,063                  | 3,570                       | 6,457                 | 4,285         | -                    |                    |
| C.2 Financial derivatives without exchange of capital |                |                      |                       |                             |                        |                        |                             |                       |               |                      |                    |
| - Long positions                                      | 9,482          | 20                   | 9                     | 236                         | 320                    | 525                    | 1,079                       | -                     | -             | -                    |                    |
| - Short positions                                     | 10,955         | 37                   | 21                    | 109                         | 235                    | 511                    | 912                         | -                     | -             | -                    |                    |
| C.3 Deposits and loans to be settled                  |                |                      |                       |                             |                        |                        |                             |                       |               |                      |                    |
| - Long positions                                      | 14,993         | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -             | -                    |                    |
| - Short positions                                     | -              | 14,993               | -                     | -                           | -                      | -                      | -                           | -                     | -             | -                    |                    |
| C.4 Irrevocable commitments to lend funds             |                |                      |                       |                             |                        |                        |                             |                       |               |                      |                    |
| - Long positions                                      | 52             | 25,039               | 669                   | 479                         | 4,114                  | 6                      | 510                         | 13,665                | 842           | -                    |                    |
| - Short positions                                     | 45,355         | 21                   | -                     | -                           | -                      | -                      | -                           | -                     | -             | -                    |                    |
| C.5 Financial guarantees given                        | 33             | -                    | -                     | -                           | -                      | 1                      | 3                           | 29                    | -             | -                    |                    |
| C.6 Financial guarantees received                     | -              | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -             | -                    |                    |
| C.7 Credit derivatives with exchange of capital       |                |                      |                       |                             |                        |                        |                             |                       |               |                      |                    |
| - Long positions                                      | -              | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -             | -                    |                    |
| - Short positions                                     | -              | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -             | -                    |                    |
| C.8 Credit derivatives without exchange of capital    |                |                      |                       |                             |                        |                        |                             |                       |               |                      |                    |
| - Long positions                                      | 79             | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -             | -                    |                    |
| - Short positions                                     | 99             | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -             | -                    |                    |

**Currency of denomination: Other currencies**

| Type / Residual maturity                              | (millions of euro) |                      |                       |                             |                        |                        |                             |                       |              |                      |
|---|--------------------|----------------------|-----------------------|-----------------------------|------------------------|------------------------|-----------------------------|-----------------------|--------------|----------------------|
|   | On demand          | Between 1 and 7 days | Between 7 and 15 days | Between 15 days and 1 month | Between 1 and 3 months | Between 3 and 6 months | Between 6 months and 1 year | Between 1 and 5 years | Over 5 years | Unspecified maturity |
| <b>Cash assets</b>                                    | <b>4,665</b>       | <b>2,030</b>         | <b>595</b>            | <b>2,330</b>                | <b>3,294</b>           | <b>2,430</b>           | <b>3,147</b>                | <b>9,762</b>          | <b>4,192</b> | -                    |
| A.1 Government bonds                                  | 1                  | -                    | -                     | -                           | 218                    | 311                    | 61                          | 241                   | 928          | -                    |
| A.2 Other debt securities                             | 8                  | 179                  | 22                    | 207                         | 89                     | 87                     | 168                         | 2,002                 | 870          | -                    |
| A.3 Quotas of UCI                                     | 224                | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| A.4 Loans   | 4,432              | 1,851                | 573                   | 2,123                       | 2,987                  | 2,032                  | 2,918                       | 7,519                 | 2,394        | -                    |
| - Banks   | 3,992              | 672                  | 320                   | 1,044                       | 1,839                  | 896                    | 1,369                       | 463                   | 50           | -                    |
| - Customers   | 440                | 1,179                | 253                   | 1,079                       | 1,148                  | 1,136                  | 1,549                       | 7,056                 | 2,344        | -                    |
| <b>Cash liabilities</b>                               | <b>3,807</b>       | <b>2,010</b>         | <b>3,069</b>          | <b>2,611</b>                | <b>2,898</b>           | <b>362</b>             | <b>844</b>                  | <b>5,944</b>          | <b>5,885</b> | -                    |
| B.1 Deposits and current accounts                     | 3,574              | 1,010                | 784                   | 2,075                       | 652                    | 57                     | 299                         | 1,575                 | 1,112        | -                    |
| - Banks   | 1,577              | 508                  | 260                   | 459                         | 335                    | 20                     | 233                         | 1,342                 | 851          | -                    |
| - Customers   | 1,997              | 502                  | 524                   | 1,616                       | 317                    | 37                     | 66                          | 233                   | 261          | -                    |
| B.2 Debt securities                                   | 2                  | -                    | 1,580                 | 131                         | 284                    | 71                     | 466                         | 3,816                 | 4,670        | -                    |
| B.3 Other liabilities                                 | 231                | 1,000                | 705                   | 405                         | 1,962                  | 234                    | 79                          | 553                   | 103          | -                    |
| <b>Off-balance sheet transactions</b>                 |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| C.1 Financial derivatives with exchange of capital    |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | 15                 | 9,397                | 4,398                 | 10,462                      | 12,061                 | 4,770                  | 6,663                       | 8,512                 | 5,199        | -                    |
| - Short positions                                     | 1                  | 8,024                | 6,367                 | 11,370                      | 14,121                 | 7,641                  | 7,703                       | 10,587                | 5,435        | -                    |
| C.2 Financial derivatives without exchange of capital |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | 1,492              | -                    | 42                    | 91                          | 12                     | 50                     | 168                         | -                     | -            | -                    |
| - Short positions                                     | 1,296              | -                    | 17                    | 41                          | 55                     | 64                     | 179                         | -                     | -            | -                    |
| C.3 Deposits and loans to be settled                  |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | 120                | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| - Short positions                                     | 71                 | 17                   | 25                    | 7                           | -                      | -                      | -                           | -                     | -            | -                    |
| C.4 Irrevocable commitments to lend funds             |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | -                  | 15                   | 2                     | 28                          | 205                    | 330                    | 573                         | 12,677                | 861          | -                    |
| - Short positions                                     | 14,669             | 22                   | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| C.5 Financial guarantees given                        | 2                  | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| C.6 Financial guarantees received                     | -                  | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| C.7 Credit derivatives with exchange of capital       |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | -                  | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| - Short positions                                     | -                  | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| C.8 Credit derivatives without exchange of capital    |                    |                      |                       |                             |                        |                        |                             |                       |              |                      |
| - Long positions                                      | 9                  | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |
| - Short positions                                     | 9                  | -                    | -                     | -                           | -                      | -                      | -                           | -                     | -            | -                    |

**2. Self-securitisations carried out by Intesa Sanpaolo S.p.A.**

The securitisations originated by Intesa Sanpaolo S.p.A. in which it underwrote all the securities issued by the related vehicle (self-securitisations) need not be shown in the tables of Part E, section C "Securitisations" of the Notes to the financial statements.

**Intesa Sanpaolo SEC S.A.**

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxembourg-based vehicle company Intesa Sanpaolo SEC. SA, which is fully owned subsidiary of the Group.

The securities issued, with a total value of about 326 million euro, were subscribed by Intesa Sanpaolo and used for a value of about 308 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.

**Intesa Sanpaolo Securitisation Vehicle S.r.l.**

In December 2014 a new securitisation was approved, involving three portfolios of loans originated by CIB Bank ZRT, primarily non-performing positions, secured by guarantees and mortgages and denominated in euro, Hungarian forints and Swiss francs. Those portfolios were transferred without recourse to Intesa Sanpaolo, which on 30 December 2014 in turn sold the three portfolios without recourse to the vehicle for 241 million euro, 17.1 billion Hungarian forints and 57.2 million Swiss francs, respectively.

Intesa Sanpaolo is the servicer of the portfolio and CIB Bank ZRT the sub-servicer, in accordance with applicable legislation.

In February 2015, Intesa Sanpaolo Securitisation Vehicle S.r.l. issued two classes of notes for each of the three separate asset pools. All classes of notes, which are unlisted and unrated, were subscribed for by Intesa Sanpaolo, as summarised below:

- class-A (senior) notes of 138.2 million euro and class-J (junior) notes of 103.3 million euro were issued for the portfolio of securitised loans in euro;
- class-A (senior) notes of 7.8 billion forints and class-J (junior) notes of 9.3 billion forints were issued for the portfolio of securitised loans in Hungarian forints;
- class-A (senior) notes of 29.4 million francs and class-J (junior) notes of 27.9 million francs were issued for the portfolio of securitised loans in Swiss francs.

As at 31 December 2016, the asset pools held by the vehicle were composed as follows:

- securitised assets in euro of 79.1 million, in addition to cash of 12.9 million euro. The securities in issue had a residual value of 74.3 million euro (class A) and 103.3 million euro (class J);
- securitised assets in Hungarian forints with a value in euro of 15.6 million and cash with a value in euro of 1.8 million euro. The securities in issue had a residual value of 12.9 million euro (class A) and 30.1 million euro (class J);
- securitised assets in Swiss francs with a value in euro of 5.1 million euro and cash with a value in euro of 0.5 million euro. The securities in issue had a residual value of 1.5 million euro (class A) and 26 million euro (class J).

The table below shows the characteristics of the securities issued by the vehicles and subscribed by the Group companies.

| (millions of euro)                                |   |                           |  |                            |
|---|---|---------------------------|--|----------------------------|
| Vehicle   | Type of security issued                     | Type of asset securitised | External rating  | Principal as at 31.12.2016 |
| <b>INTESA SANPAOLO SEC SA</b>                     |   |                           |  |                            |
| of which issued in EURO                           |   |                           |  | <b>291</b>                 |
|   | SECURED PRINCIPAL NOTES                     | Senior                    | Receivables from large international corporate customers | 276                        |
|   | SECURED INCOME NOTES                        | Junior                    | Receivables from large international corporate customers | 15                         |
| of which issued in USD                            |   |                           |  | <b>35</b>                  |
|   | SECURED PRINCIPAL NOTES                     | Senior                    | Receivables from large international corporate customers | 33                         |
|   | SECURED INCOME NOTES                        | Junior                    | Receivables from large international corporate customers | 2                          |
| <b>INTESA SANPAOLO SECURITISATION VEHICLE SRL</b> |   |                           |  |                            |
| of which issued in EURO                           |   |                           |  | <b>241</b>                 |
|   | CLASS A ABS F/R NOTES                       | Senior                    | Commercial mortgage loans                                | 138                        |
|   | CLASS J ABS F/R AND ADDITIONAL RETURN NOTES | Junior                    | Commercial mortgage loans                                | 103                        |
| of which issued in CHF                            |   |                           |  | <b>53</b>                  |
|   | CLASS A ABS F/R NOTES                       | Senior                    | Commercial mortgage loans                                | 27                         |
|   | CLASS J ABS F/R AND ADDITIONAL RETURN NOTES | Junior                    | Commercial mortgage loans                                | 26                         |
| of which issued in HUF                            |   |                           |  | <b>55</b>                  |
|   | CLASS A ABS F/R NOTES                       | Senior                    | Commercial mortgage loans                                | 25                         |
|   | CLASS J ABS F/R AND ADDITIONAL RETURN NOTES | Junior                    | Commercial mortgage loans                                | 30                         |
| <b>TOTAL</b>                                      |   |                           |  | <b>675</b>                 |

## SECTION 4 – OPERATIONAL RISK

### QUALITATIVE INFORMATION

The qualitative information is contained in Part E of the Notes to the consolidated financial statements.

### QUANTITATIVE INFORMATION

From 31 December 2010, Intesa Sanpaolo uses the full AMA Method to determine its capital requirements and the resulting capital absorption amounted to 583 million euro.

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## Part F – Information on capital

### SECTION 1 – PARENT COMPANY'S SHAREHOLDERS' EQUITY

#### A. Qualitative information

Qualitative information on capital and capital management policies is contained in Part F of the Notes to the consolidated financial statements.

Own funds, risk weighted assets (RWA) and the capital ratios at 31 December 2016 were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.

Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from Common Equity when the framework is fully phased-in, will only have a partial percentage effect on Common Equity Tier 1 capital (CET1). Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.

Specific transitional provisions have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Accordingly, the prudential ratios as at 31 December 2016 take account of the adjustments envisaged by the transitional provisions for 2016.

**B. Quantitative information****B.1. Parent Company's shareholders' equity: breakdown**

(millions of euro)

|  | 31.12.2016    | 31.12.2015    |
|--|---------------|---------------|
| <b>1. Share capital</b>  | <b>8,732</b>  | <b>8,732</b>  |
| Ordinary shares  | 8,247         | 8,247         |
| Savings shares   | 485           | 485           |
| <b>2. Share premium reserve</b>  | <b>27,508</b> | <b>27,508</b> |
| <b>3. Reserves</b>   | <b>3,816</b>  | <b>3,576</b>  |
| retained earnings:   | 3,238         | 2,998         |
| a) <i>legal reserve</i>  | 2,065         | 2,065         |
| b) <i>statutory reserve</i>  | -             | -             |
| c) <i>treasury shares</i>  | 20            | 17            |
| d) <i>other</i>  | 1,153         | 916           |
| other  | 578           | 578           |
| <b>4. Equity instruments</b>   | <b>2,117</b>  | <b>877</b>    |
| <b>5. (Treasury shares)</b>  | <b>-20</b>    | <b>-17</b>    |
| <b>6. Valuation reserves:</b>  | <b>-425</b>   | <b>-258</b>   |
| Financial assets available for sale                                      | 104           | 131           |
| Property and equipment   | -             | -             |
| Intangible assets  | -             | -             |
| Hedges of foreign investments  | -             | -             |
| Cash flow hedges   | -1,075        | -1,064        |
| Foreign exchange differences   | -             | -             |
| Non current assets held for sale   | -             | -             |
| Actuarial gains (losses) on defined benefit plans                        | -449          | -319          |
| Share of valuation reserves connected with investments carried at equity | -             | -             |
| Legally-required revaluations  | 995           | 994           |
| <b>7. Net income (loss)</b>  | <b>1,760</b>  | <b>2,778</b>  |
| <b>Total</b>   | <b>43,488</b> | <b>43,196</b> |

The share capital is unchanged.

**Trading on treasury shares**

By virtue of special authorisation from the Shareholders' Meeting, 3,582,633 treasury shares were purchased during the year.

**B.2. Valuation reserves of financial assets available for sale: breakdown**

(millions of euro)

|                    | TOTAL 31.12.2016    |                     | TOTAL 31.12.2015    |                     |
|--------------------|---------------------|---------------------|---------------------|---------------------|
|                    | Positive<br>reserve | Negative<br>reserve | Positive<br>reserve | Negative<br>reserve |
| 1. Debt securities | 63                  | -206                | 69                  | -159                |
| 2. Equities        | 199                 | -36                 | 224                 | -46                 |
| 3. Quotas of UCI   | 85                  | -1                  | 57                  | -16                 |
| 4. Loans           | -                   | -                   | 3                   | -1                  |
| <b>Total</b>       | <b>347</b>          | <b>-243</b>         | <b>353</b>          | <b>-222</b>         |

**B.3. Valuation reserves of financial assets available for sale: annual changes**

(millions of euro)

|   | Debt securities | Equities    | Quotas of UCI | Loans     |
|---|-----------------|-------------|---------------|-----------|
| <b>1. Initial amount</b>  | <b>-90</b>      | <b>178</b>  | <b>41</b>     | <b>2</b>  |
| <b>2. Positive fair value differences</b>                           | <b>270</b>      | <b>117</b>  | <b>105</b>    | <b>1</b>  |
| 2.1 Fair value increases  | 253             | 92          | 98            | 1         |
| 2.2 Reversal to the income statement of negative reserves           | 17              | 25          | 7             | -         |
| - impairment  | -               | 25          | 7             | -         |
| - disposal  | 17              | -           | -             | -         |
| 2.3 Other changes   | -               | -           | -             | -         |
| <b>3. Negative fair value differences</b>                           | <b>-323</b>     | <b>-132</b> | <b>-62</b>    | <b>-3</b> |
| 3.1 Fair value decreases  | -198            | -115        | -62           | -3        |
| 3.2 Impairment losses   | -2              | -1          | -             | -         |
| 3.3 Reversal to the income statement of positive reserves: disposal | -123            | -16         | -             | -         |
| 3.4 Other changes   | -               | -           | -             | -         |
| <b>4. Closing amount</b>  | <b>-143</b>     | <b>163</b>  | <b>84</b>     | <b>-</b>  |

**B.4. Valuation reserves relating to the defined benefit plans: annual changes**

During the year the reserves in question recorded a negative change of 130 million euro (97 million euro of which referring to pension funds and 33 million euro to employee termination indemnities). As at 31 December 2016 there is an overall negative reserve equal to 449 million euro for defined benefit plans.

**SECTION 2 – OWN FUNDS AND CAPITAL RATIOS****2.1. Own funds****A. Qualitative information**

As at 31 December 2016, the bank's own funds were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.

**1. Common Equity Tier 1 Capital (CET1)**

The Common Equity Tier 1 only includes listed ordinary shares, for an amount equal to 8,247 million euro, including 27,508 million euro of share premium reserve.

**2. Additional Tier 1 Capital (AT1)**

The Additional Tier 1 includes listed savings shares for 485 million euro, in addition to the subordinated liabilities listed below.

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

| Characteristics of subordinated instruments   | Interest rate  | St<br>e<br>p<br>-<br>u<br>p | Issue date  | Expiry date | Early redemption | C<br>u<br>r<br>r<br>e<br>n<br>c<br>y | Subject to grandfathering | Original amount in currency (millions) | Contribution to regulatory capital (millions of euro) |
|---|--|-----------------------------|-------------|-------------|------------------|--------------------------------------|---------------------------|--|---|
| Notes   | up to 14/10/2019: 8.375%; thereafter 3-month Euribor + 6.87%           | YES                         | 14-Oct-2009 | perpetual   | 14-Oct-2019      | Euro                                 | YES                       | 1,500                                  | 580   |
| Notes   | up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10% | YES                         | 20-Jun-2008 | perpetual   | 20-Jun-2018      | Euro                                 | YES                       | 1,250                                  | 454   |
| Notes   | up to 24/9/2018 (excluded): 8.698%; thereafter 3-month Euribor + 5.05% | YES                         | 24-Sep-2008 | perpetual   | 24-Sep-2018      | Euro                                 | YES                       | 250                                    | 196   |
| <b>Total Additional Tier 1 capital instruments</b>  |  |                             |             |             |                  |                                      |                           |  | <b>1,230</b>  |
| Notes   | 7.7 % fixed  | NO                          | 17-Sep-2015 | perpetual   | 17-Sep-2025      | USD                                  | NO                        | 1,000                                  | 884   |
| Notes   | 7.0 % fixed  | NO                          | 19-Jan-2016 | perpetual   | 19-Jan-2021      | Euro                                 | NO                        | 1,250                                  | 1,250   |
| <b>Total Additional Tier 1 capital instruments not subject to transition requirements</b> |  |                             |             |             |                  |                                      |                           |  | <b>2,134</b>  |
| <b>Total Additional Tier 1 capital instruments</b>  |  |                             |             |             |                  |                                      |                           |  | <b>3,364</b>  |

**3. Tier 2 capital (T2).**

| Characteristics of subordinated instruments                                    | Interest rate  | S<br>t<br>e<br>p<br>-<br>u<br>p | Issue date  | Expiry date | Early redemption | C<br>u<br>r<br>r<br>e<br>n<br>c<br>y | Subject to grandfathering | Original amount in currency (millions) | Contribution to regulatory capital (millions of euro) |
|--|--|---------------------------------|-------------|-------------|------------------|--------------------------------------|---------------------------|--|---|
| Notes (*)  | up to 14/10/2019: 8.375%; thereafter 3-month Euribor + 6.87%                                     | YES                             | 14-Oct-2009 | perpetual   | 14-Oct-2019      | Eur                                  | YES                       | 1,500                                  | 150   |
| Notes (*)  | up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10%                           | YES                             | 20-Jun-2008 | perpetual   | 20-Jun-2018      | Eur                                  | YES                       | 1,250                                  | 118   |
| Notes (*)  | up to 24/9/2018 (excluded): 8.698%; thereafter 3-month Euribor + 5.05%                           | YES                             | 24-Sep-2008 | perpetual   | 24-Sep-2018      | Eur                                  | YES                       | 250                                    | 51  |
| Subordinated bonds   | quarterly interests according to the formula: (3-month Euribor + 2%)/4                           | NO                              | 31-mar-2011 | 31-mar-2018 | NO               | Euro                                 | YES                       | 373                                    | 37  |
| Bond loans   | quarterly interests according to the formula (3-month Euribor + 1.6%)/4                          | NO                              | 30-Sep-2010 | 30-Sep-2017 | NO               | Eur                                  | YES                       | 805                                    | 24  |
| Subordinated bonds   | quarterly interests according to the formula: (3-month Euribor + 1.6%)/4                         | NO                              | 10-Nov-2010 | 10-Nov-2017 | NO               | Euro                                 | YES                       | 479                                    | 16  |
| Notes  | up to 18/03/2019 (excluded): 5.625% p.a. thereafter: 3-month Sterling LIBOR + 1.125% p.a.        | YES                             | 18-Mar-2004 | 18-Mar-2024 | 18-Mar-2019      | Gbp                                  | YES                       | 165                                    | 14  |
| <b>Total Tier 2 capital instruments subject to transition requirements</b>     |  |                                 |             |             |                  |                                      |                           |  | <b>410</b>  |
| Notes  | 5.017% fixed rate  | NO                              | 26-Jun-2014 | 26-Jun-2024 | NO               | USD                                  | NO                        | 2,000                                  | 1,866   |
| Notes  | 5.71% fixed rate   | NO                              | 15-Jan-2016 | 15-Jan-2026 | NO               | USD                                  | NO                        | 1,500                                  | 1,423   |
| Notes  | up to 12/11/2012 6.375%; thereafter 3m GBP Libor + 135 bps <sup>(*)</sup> .                      | NO                              | 13-Sep-2013 | 13-Sep-2023 | NO               | Euro                                 | NO                        | 1,446                                  | 1,408   |
| Notes  | 3.928% fixed rate  | NO                              | 15-Sep-2014 | 15-Sep-2026 | NO               | Euro                                 | NO                        | 1,000                                  | 980   |
| Bond loans   | 3-month Euribor + 237 bps/4  | NO                              | 30-Jun-2015 | 30-Jun-2022 | NO               | Euro                                 | NO                        | 782                                    | 721   |
| Notes  | 5.15% fixed rate   | NO                              | 16-Jul-2010 | 16-Jul-2020 | NO               | Euro                                 | NO                        | 1,250                                  | 652   |
| Notes  | 5% fixed rate  | NO                              | 23-Sep-2009 | 23-Sep-2019 | NO               | Euro                                 | NO                        | 1,500                                  | 571   |
| Notes  | 2,855% fixed rate  | NO                              | 23-Apr-2015 | 23-Apr-2025 | NO               | Euro                                 | NO                        | 500                                    | 480   |
| Notes  | 6,625% fixed rate  | NO                              | 08-May-2008 | 08-May-2018 | NO               | Euro                                 | NO                        | 1,250                                  | 227   |
| Notes  | 5.75% fixed rate; from 28/05/2013 3-month Euribor +1.98%   | YES                             | 28-May-2008 | 28-May-2018 | NO               | Euro                                 | NO                        | 1,000                                  | 71  |
| Notes  | 6,16% fixed rate   | NO                              | 27-Jun-2008 | 27-Jun-2018 | NO               | Euro                                 | NO                        | 120                                    | 35  |
| Notes  | up to 20/2/2013 excluded: 3-month Euribor + 0.25% p.a.; thereafter: 3-month Euribor + 0.85% p.a. | YES                             | 20-Feb-2006 | 20-Feb-2018 | NO               | Euro                                 | NO                        | 750                                    | 34  |
| Notes  | up to 26/6/2013 excluded: 4.375% p.a.; thereafter: 3-month Euribor + 1.00% p.a.                  | YES                             | 26-Jun-2006 | 26-Jun-2018 | NO               | Euro                                 | NO                        | 500                                    | 32  |
| Notes  | 3-month Euribor + 0,85%  | NO                              | 17-Jul-2007 | 17-Jul-2017 | NO               | Euro                                 | NO                        | 30                                     | 3   |
| Notes  | 6.375% fixed rate ; from 12/11/2012 3-month gpb libor  | YES                             | 12-Oct-2007 | 12-Nov-2017 | NO               | Gbp                                  | NO                        | 250                                    | 1   |
| <b>Total Tier 2 capital instruments not subject to transition requirements</b> |  |                                 |             |             |                  |                                      |                           |  | <b>8,504</b>  |
| <b>TOTAL</b>   |  |                                 |             |             |                  |                                      |                           |  | <b>8,914</b>  |

(\*) Instrument subject to "Grandfathering" in Additional Tier 1 capital, portion subject to cap pursuant to Art. 486 of EU Regulation 575/2013 (CRR).



**B. Quantitative information**

|  | (millions of euro) |               |
|--|--------------------|---------------|
|  | 31.12.2016         | 31.12.2015    |
| <b>A. Common Equity Tier 1 (CET1) before the application of prudential filters</b>               | <b>37,722</b>      | <b>39,034</b> |
| of which CET1 instruments subject to transitional adjustments                                    | -                  | -             |
| <b>B. CET1 prudential filters (+ / -)</b>  | <b>980</b>         | <b>956</b>    |
| <b>C. CET1 before items to be deducted and effects of transitional period (A +/- B)</b>          | <b>38,702</b>      | <b>39,990</b> |
| <b>D. Items to be deducted from CET 1</b>  | <b>2,961</b>       | <b>3,119</b>  |
| <b>E. Transitional period - Impact on CET1 (+/-)</b>   | <b>486</b>         | <b>654</b>    |
| <b>F. Total Common Equity Tier 1 (CET1) (C-D +/-E)</b>   | <b>36,227</b>      | <b>37,525</b> |
| <b>G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period</b> | <b>3,849</b>       | <b>2,804</b>  |
| of which AT1 instruments subject to transitional adjustments                                     | 1,230              | 1,435         |
| <b>H. Items to be deducted from AT1</b>  | -                  | -             |
| <b>I. Transitional period - Impact on AT1 (+/-)</b>  | <b>-191</b>        | <b>-324</b>   |
| <b>L. Total Additional Tier 1 (AT1) (G - H +/- I)</b>  | <b>3,658</b>       | <b>2,480</b>  |
| <b>M. Tier 2 ( T2) before items to be deducted and effects of transitional period</b>            | <b>8,988</b>       | <b>8,753</b>  |
| of which T2 instruments subject to transitional adjustments                                      | 410                | 910           |
| <b>N. Items to be deducted from T2</b>   | <b>134</b>         | <b>135</b>    |
| <b>O. Transitional period- Impact on T2 (+ / -)</b>  | <b>-92</b>         | <b>-202</b>   |
| <b>P. Total Tier 2 (T2) (M - N +/- O)</b>  | <b>8,762</b>       | <b>8,416</b>  |
| <b>Q. Total own funds (F + L + P)</b>  | <b>48,647</b>      | <b>48,421</b> |

Figures as at 31 December 2016 were calculated according to the method envisaged by the Basel 3 Capital Accord.

According to the current regulatory provisions, Intesa Sanpaolo applies the prudential filter, which permits the gradual recognition in the calculation of own funds of the effects deriving from application of IAS 19 on valuation reserves for actuarial gains or losses on defined benefit plans. The amount subject to the prudential filter as at 31 December 2016 is equal to 408 million euro.

**2.2. Capital adequacy****A. Qualitative information**

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Bank's capital as at 31 December 2016 (including the capital retention reserve, equal to 0.625% at year-end) must amount to at least 8.625% of total risk-weighted assets (total capital ratio) arising from the risks typically associated with banking and financial activity (credit, market, counterparty and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risk following insurance coverage.

Following authorisation from the Supervisory Authority, Intesa Sanpaolo began to calculate the capital requirements for credit risk, respectively, according to the IRB approach for the Retail SME (Small Medium Enterprise) segment effective 31 December 2012, the IRB approach for the Retail Mortgages segment (Residential mortgages for private individuals) effective 30 June 2010 and the Advanced Internal Rating Based approach (AIRB) for the regulatory portfolio "Exposures to corporates" effective 31 December 2010. The latter approach is based on the use of internal estimates of both PD - probability of default - and LGD - loss given default.

Banks must also comply with capital requirements for market risks calculated on the whole trading book separately for the various types of risk: position risk on debt securities and equities and concentration risk. Moreover, with reference to the entire financial statements, foreign exchange risk, settlement risk and position risk on commodities must be calculated. The use of internal models to calculate the capital requirement for market risks is permitted; in particular, Intesa Sanpaolo applies the internal model to calculate the general position risk (price fluctuation risk) and specific risk (issuer risk) for equities, and the general position risk (rate fluctuation risk) for debt securities. Subsequently, Intesa Sanpaolo has been authorised by the Supervisory Authority to extend the scope of the model to specific risk on debt securities. The model was extended on the basis of the current methodological framework (a historical simulation in full evaluation), and required the integration of the Incremental Risk Charge into the calculation of the capital requirement for market risks. Furthermore, since December 2011 Intesa Sanpaolo has used the Stressed VaR to calculate the requirement covering the market risks.

Lastly, as from June 2014, capital requirements for the Parent Company's Hedge Fund portfolios are reported according to the internal model. Standardised approaches are used for the other types of risk.

Counterparty risk is calculated independently of the portfolio of allocation.

Starting from the disclosure of 31 March 2014, Intesa Sanpaolo received the authorisation from the Bank of Italy to use the internal counterparty risk model for regulatory purposes (EPE – Expected Positive Exposure methodology) to calculate the EAD component of the requirement with respect to default risk and to calculate the new CVA capital charge.

Starting from the disclosure of 31 December 2015, Intesa Sanpaolo received the authorisation from the European Central Bank to apply the abovementioned modified model to manage negative rates. In December 2016 the European Central Bank authorised Intesa Sanpaolo to use internal models to determine counterparty risk for regulatory purposes also for Securities Financing

Transactions (SFT - Repos, securities lending, etc.).

Since 2010, following the attainment of authorisation from the Supervisory Authority, Intesa Sanpaolo has been using the advanced AMA approach to calculate capital requirements for operating risks.

As indicated in the table on the regulatory capital and capital ratios requirements, as at 31 December 2016 Intesa Sanpaolo had a Tier 1 capital/risk-weighted assets ratio equal to 20.0% and an own funds/risk-weighted assets ratio equal to 24.4%.

## B. Quantitative information

|  | 31.12.2016          |                                | 31.12.2015          |                                |
|--|---------------------|--------------------------------|---------------------|--------------------------------|
|  | Un-weighted amounts | Weighted amounts/ requirements | Un-weighted amounts | Weighted amounts/ requirements |
| (millions of euro)   |                     |                                |                     |                                |
| <b>A. RISK ASSETS</b>  |                     |                                |                     |                                |
| <b>A.1 Credit and counterparty risk</b>                                    | <b>476,214</b>      | <b>186,820</b>                 | <b>459,410</b>      | <b>180,497</b>                 |
| 1. Standardised approach   | 287,407             | 94,096                         | 284,478             | 94,350                         |
| 2. Internal rating based approach  | 178,916             | 87,000                         | 168,954             | 80,781                         |
| 2.1 Basic  | 4,107               | 14,161                         | 3,576               | 12,394                         |
| 2.2 Advanced   | 174,809             | 72,839                         | 165,378             | 68,387                         |
| 3. Securitisations   | 9,891               | 5,724                          | 5,978               | 5,366                          |
| <b>B. CAPITAL REQUIREMENTS</b>   |                     |                                |                     |                                |
| <b>B.1 Credit and counterparty risks</b>                                   |                     | <b>14,946</b>                  |                     | <b>14,440</b>                  |
| <b>B.2 Credit valuation adjustment risk</b>                                |                     | <b>18</b>                      |                     | <b>27</b>                      |
| <b>B.3 Settlement risk</b>   |                     | <b>-</b>                       |                     | <b>-</b>                       |
| <b>B.4 Market risk</b>   |                     | <b>318</b>                     |                     | <b>416</b>                     |
| 1. Standardised approach   |                     | 33                             |                     | 77                             |
| 2. Internal models   |                     | 285                            |                     | 339                            |
| 3. Concentration risk  |                     | -                              |                     | -                              |
| <b>B.5 Operational risk</b>  |                     | <b>583</b>                     |                     | <b>645</b>                     |
| 1. Basic indicator approach  |                     | -                              |                     | -                              |
| 2. Standardised approach   |                     | -                              |                     | -                              |
| 3. Advanced measurement approach   |                     | 583                            |                     | 645                            |
| <b>B.6 Other calculation elements</b>                                      |                     | <b>69</b>                      |                     | <b>44</b>                      |
| <b>B.7 Total capital requirements</b>                                      |                     | <b>15,934</b>                  |                     | <b>15,572</b>                  |
| <b>C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS</b>                          |                     |                                |                     |                                |
| <b>C.1 Risk-weighted assets</b>  |                     | <b>199,175</b>                 |                     | <b>194,650</b>                 |
| <b>C.2 Common Equity Tier 1 /Risk-weighted assets (CET1 capital ratio)</b> |                     | <b>18.2%</b>                   |                     | <b>19.3%</b>                   |
| <b>C.3 Tier 1 Capital / Risk-weighted assets (Tier 1 capital ratio)</b>    |                     | <b>20.0%</b>                   |                     | <b>20.6%</b>                   |
| <b>C.4 Total own funds / Risk-weighted assets (Total capital ratio)</b>    |                     | <b>24.4%</b>                   |                     | <b>24.9%</b>                   |

Please note that, in the case of the standardised approach, "unweighted amounts" correspond – in accordance with regulatory provisions – to the exposure value, which takes into account prudential filters, risk mitigation techniques and credit conversion factors for off-balance sheet transactions. In the case of the internal rating based approach, "unweighted amounts" correspond to "exposure at default" (EAD). For guarantees given and commitments to disburse funds, credit conversion factors are included when determining EAD.

## Part G – Business combinations

### SECTION 1 – TRANSACTIONS CARRIED OUT IN THE YEAR

During the year no business combinations were undertaken pursuant to IFRS 3.

Several extraordinary intragroup transactions were carried out, which are not included in the scope of application of IFRS 3 and had no effects on the Consolidated financial statements. They consisted in transfers of business lines or legal entities between Intesa Sanpaolo Group companies or business combinations (under common control).

Since the transfers were carried out for reorganisation purposes only, in accordance with the Group's accounting policy, these transactions were simply recorded applying book value accounting in the individual statements of the companies involved, without recognition of any economic effect.

The main intragroup transactions completed during the year concerned:

- the contribution of the business line (Amsterdam branch) from Intesa Sanpaolo to Intesa Sanpaolo Bank Luxembourg;
- the partial demerger of Setefi (the "commercial acquiring" line towards captive customers) into Intesa Sanpaolo;
- the merger by incorporation of Banca dell'Adriatico into Intesa Sanpaolo;
- the partial proportional demerger of Oldequiter into Intesa Sanpaolo;
- the partial proportional demerger of Mediocredito Italiano into Intesa Sanpaolo;
- the partial proportional demerger of Mediocredito Italiano into Intesa Sanpaolo Group Services;
- the demerger of the investment in CIB held by Intesa Sanpaolo Holding International into Engenia;
- the merger by incorporation of Engenia into Intesa Sanpaolo;
- the sale of the investment of Intesa Sanpaolo in Banca Intesa Beograd to Intesa Sanpaolo Holding International;
- the merger by incorporation of Casse di Risparmio dell'Umbria into Intesa Sanpaolo;

#### *Annual changes in goodwill*

|                                   | (millions of euro) |
|-----------------------------------|--------------------|
|                                   | <b>31.12.2016</b>  |
| <b>Initial goodwill</b>           | <b>820</b>         |
| <b>Increases</b>                  | <b>39</b>          |
| - Goodwill recorded in the year   | -                  |
| - Intragroup transactions         | 39                 |
| - Other changes                   | -                  |
| <b>Decreases</b>                  | <b>-</b>           |
| - Impairment recorded in the year | -                  |
| - Disinvestments                  | -                  |
| - Intragroup transactions         | -                  |
| - Other changes                   | -                  |
| <b>Final goodwill</b>             | <b>859</b>         |

The amount indicated under Intragroup transactions refers to Banca dell'Adriatico for 32 million euro and to CR Umbria for 7 million euro.

## **SECTION 2 – TRANSACTIONS CARRIED OUT AFTER THE CLOSE OF THE YEAR**

No business combinations in the scope of IFRS 3 have been undertaken since the end of 2016.

## **SECTION 3 – RETROSPECTIVE ADJUSTMENTS**

No adjustments are recognised in the current year that relate to business combinations that occurred in previous reporting periods.

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# Part H – Information on compensation and transactions with related parties

## A) TRANSACTIONS WITH RELATED PARTIES

### 1. Procedural features

With resolution dated 2 August 2016 the Board of Directors of Intesa Sanpaolo S.p.A. adopted, in compliance with the procedures set out by regulations, new Internal Procedures regulating the conduct of transactions with Related Parties of Intesa Sanpaolo S.p.A., Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which replaces the previous version approved in 2012.

In line with the previous ones, these Procedures take into account both the rules issued by Consob, pursuant to Article 2391-bis of the Italian Civil Code, and the supervisory provisions introduced by the Bank of Italy on 12 December 2011 in terms of risk and conflicts of interest by banks and banking groups with respect to “Associated Entities”, issued in accordance with Article 53, paragraphs 4 et seq. of the Consolidated Law on Banking and CICR (Interdepartmental Committee for Credit and Savings) Resolution 277 of 29 July 2008, as well as the rules established by Article 136 of the Consolidated Law on Banking.

The Procedures apply to the entire Intesa Sanpaolo Group with respect to the following aspects:

- the criteria for identifying Related Parties and Associated Entities;
- the process of analysis, decision-making and information for corporate bodies in connection with transactions with Related Parties and Associated Entities;
- market disclosure for transactions with Related Parties;
- the prudential limits and obligations for periodic reporting to the Bank of Italy for activities at risk in relation to Associated Entities;
- the rules governing organisational controls and safeguards;
- the general rules for disclosure and abstention about the management of the personal interests by board members and general managers, employees and company staff, including other than Associated Entities.

Pursuant to the mentioned Regulations, the following are considered Related Parties of Intesa Sanpaolo: parties that exercise significant control or influence, subsidiaries and associates, joint ventures, pension funds of the Group, Board Directors and General Managers and Key Managers of Intesa Sanpaolo and their close family members and significant shareholdings.

The set of Associated Entities of the Group consists of the Associated Entities of each bank of the Group (including the Parent Company) and each monitored significant intermediary with own funds greater than 2% of consolidated own funds. The following are considered to be Associated Entities for each monitored significant bank or intermediary of the Group: i) shareholders that exercise control, significant influence or that are required to request authorisation pursuant to Article 19 of the Consolidated Law on Banking or that may appoint a member of the management or strategic supervisory body and the relative corporate groups; ii) subsidiaries, associated companies under joint control and associated companies, as well as the companies controlled by the latter, also jointly with others; iii) board members and general managers and their relative close family members up to the second degree and significant subsidiary entities.

As a form of self-regulation, the Bank has extended the regulations on transactions with Related Parties, as well as those on activities involving risk and conflicts of interest with respect to Associated Entities, to: i) the shareholders of Intesa Sanpaolo and to the relative corporate groups with an equity investment in the Bank’s voting capital of greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management; ii) the companies in which close family members of board members and general managers of the banks and the monitored significant intermediaries of the Group hold executive offices; iii) the companies which the Group has notable investments in and financial links with. This approach allows closer monitoring of transactions with the main entities in potential conflict of interest risk - by subjecting them to the same requirements for analysis, decision-making process and subsequent disclosure to the Corporate Bodies and the market as the transactions with Related Parties and Associated Entities - and keeps the risk activities carried out by the Group with said parties within the prudential limits set by the Bank of Italy.

The Procedures set forth the assessment process that must be followed by the Parent Company and subsidiary companies when carrying out transactions with Related Parties of Intesa Sanpaolo, Associated Entities of the Group and Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, to ensure appropriateness of the transactions. The Procedures also require detailed examination of the reasons and interests behind the transactions, their effects on the Bank’s financials and the terms of the transaction.

In line with the regulations implemented by Consob and by the Bank of Italy, a regime of full and partial exemptions from the application of the regulations is also envisaged.

With regard to decision-making, the procedure distinguishes between:

- transactions involving smaller amounts: with a value of less than or equal to 250,000 euro for individuals and 1 million euro for legal entities (excluded from application of the regulations);
- less significant transactions: with a value higher than the small-amount thresholds (250,000 euro for individuals and 1 million euro for legal entities) but lower or equal to the most significant thresholds indicated below;
- more significant transactions: with a value higher than the threshold of 5% of the indicators defined by Consob and by the Bank of Italy (approximately 2.5 billion euro for Intesa Sanpaolo);
- transactions attributed to the shareholders’ meeting, in accordance with the law or with the Articles of Association.

In the process of approval of transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group, an important role is reserved for the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group (hereafter Committee for Transactions with Related Parties), which meets the independence requirements laid down in the Corporate Governance Code of Listed Companies. The Committee for Transactions with Related Parties can make use of independent experts, where considered appropriate, according to the degree of importance of the transaction, its specific economic or structural characteristics and the nature of the related party or associated entity.

For most significant transactions, the Committee must be promptly involved in the analysis and negotiation phases, receiving a complete and timely flow of information, with the right of the Committee to request additional information and make observations.

All transactions – that are not exempt based on the Procedures – undertaken by the Parent Company with one of its related parties or associated entities are subject to approval by the Board, upon recommendation by the Committee for transactions with Related Parties.

The Procedures set out specific controls in the event that a less significant or most significant transaction is approved in spite of a negative opinion of the independent Committee.

Transactions undertaken by subsidiaries with Related Parties of Intesa Sanpaolo and Associated Entities of the Group must be approved by the Board of Directors of the subsidiaries concerned, subject to prior authorisation from the Parent Company released in accordance with the procedure described above.

The Procedures also define the general criteria for the information to be provided, at least quarterly – also pursuant to Article 150 of the Consolidated Law on Finance – to the directors and the control body regarding transactions with Related Parties and Associated Entities completed in the reference period by the Parent Company or by its subsidiaries. All of the above is aimed at providing a complete overview of the transactions of greater importance, as well as the volumes and the main features of all those delegated. Reports must include all transactions, even if exempt from the decision-making procedure, for amounts greater than the small-amount thresholds. Transactions of less significant importance and intragroup loans and bank funding are excluded from this requirement (provided they do not regard a subsidiary with significant interests of another Related Party or Associated Entity and are not carried out at market or standard conditions). For ordinary intragroup transactions of less significant importance and at market conditions, reporting is on an aggregate annual basis.

Transactions undertaken by Italian subsidiary banks with Related Parties and Associated Entities of the Group that have not been considered exempt must, subject to authorisation by the Parent Company, be approved by the relative Board of Directors, upon obtaining the opinion of a Committee of independent directors set up within the Board of Directors of the bank itself. Furthermore, specific reporting rules apply to transactions by the Bank's Bodies.

The new Procedures also apply to transactions with Relevant Persons pursuant to Art. 136 of the Consolidated Law on Banking, which must be applied by all the Italian banks of the Intesa Sanpaolo Group, including the Parent Company. This provision requires the adoption of a more thorough decision-making procedure (unanimous decision by the management body, excluding the vote of the interested member, and favourable vote of members of the control body) in order to allow the bank officers to contract obligations, directly or indirectly, with the bank of which they act as officers.

Furthermore, the requirements envisaged by the Italian Civil Code (Article 2391) and Article 53 of the Consolidated Law on Banking governing directors' personal interests are confirmed.

Article 2391, paragraph 1 of the Italian Civil Code requires each Board Member to report every interest held, in his/her own name or on behalf of third parties, that may be significant in carrying out his/her management function, with reference to a specific transaction. In accordance with the abovementioned provision, the Board has jurisdiction over decisions regarding transactions – including those with Related Parties – in which the Managing Director possesses an interest on his/her own account or through a third party and must therefore abstain from the decision, entrusting the Board as per Article 2391 of the Italian Civil Code.

In addition, Article 53 of the Consolidated Law on Banking requires banks' shareholders and directors to abstain from voting on resolutions where they have a conflict of interest on their own behalf or on behalf of third parties.

## 2. Information on balances with related parties

Receivable and payable balances with related parties as at 31 December 2016 – other than those intragroup – amount to a total that is insignificant compared to the size of the Bank's capital base. Likewise, the weight of income and charges with related parties on the Parent Company's operating margin is insignificant.

|                             | <b>31.12.2016</b>  |               |
|-----------------------------|--------------------|---------------|
|                             | <b>Amount</b>      | <b>Impact</b> |
|                             | (millions of euro) | (%)           |
| Total financial assets      | 113,252            | 29.3          |
| Total other assets          | 27,095             | 87.9          |
| Total financial liabilities | 95,754             | 31.6          |
| Total other liabilities     | 27,332             | 22.7          |

|                                  | <b>31.12.2016</b>  |               |
|----------------------------------|--------------------|---------------|
|                                  | <b>Amount</b>      | <b>Impact</b> |
|                                  | (millions of euro) | (%)           |
| Total interest income            | 1,434              | 21.8          |
| Total interest expense           | 726                | 17.9          |
| Total fee and commission income  | 1,351              | 38.8          |
| Total fee and commission expense | 196                | 30.0          |
| Total operating costs            | 1,110              | 21.7          |

During the year there were provisions for non-performing loans for 90 million euro on cash loans and 9 million euro on existing guarantees towards associates and companies subject to joint control.

The table below reports the main terms of reference of transactions with each category of related party, as classified by IAS 24 (please see the next paragraph for information on compensation to Supervisory and Management Board Members) and with the category of Significant Shareholders of Intesa Sanpaolo and their corporate groups (subsidiaries, parent companies and companies subject to joint control) with an equity investment with voting rights in the Bank greater than the minimum threshold set out in regulations on communications of significant shareholdings in listed companies calculated only based on shares owned or under management, including as a form of self-regulation.

With regard to Investments in subsidiaries, associates and companies subject to joint control, please see the tables in the Notes to the Parent Company's financial statements – Part B – Information on the Parent Company's balance sheet – Assets – Section 10.

The table does not show the impact of related party transactions on Group's cash flows, as this was not significant. For greater clarity and in line with the reports sent to the Supervisory Authorities, note that the off-balance sheet items were detailed on two separate columns by grouping on one side the guarantees/commitments given and on the other the guarantees/commitments received. The first category also includes the revocable commitments totalling 103 billion euro, of which 102 billion euro to subsidiaries.

|  | (millions of euro)                |                                     |                |                    |                        |               |                  |  |                             |                                  |                                     |
|--|-----------------------------------|-------------------------------------|----------------|--------------------|------------------------|---------------|------------------|--|-----------------------------|----------------------------------|-------------------------------------|
|  | Financial assets held for trading | Financial assets available for sale | Due from banks | Loans to customers | Other financial assets | Due to banks  | Due to customers | Financial liabilities held for trading | Other financial liabilities | Guarantees and commitments given | Guarantees and commitments received |
| Subsidiaries   | 6,280                             | 448                                 | 91,385         | 8,932              | 4,963                  | 83,866        | 3,084            | 8,448                                  | 5,186                       | 116,561                          | 400                                 |
| - 100%-owned subsidiaries belonging to the banking group         | 6,208                             | 398                                 | 89,086         | 7,407              | 4,610                  | 75,446        | 1,217            | 8,416                                  | 5,124                       | 102,421                          | 350                                 |
| - subsidiaries not 100%-owned and belonging to the banking group | 72                                | 50                                  | 2,299          | 762                | 175                    | 8,390         | 24               | 32                                     | 59                          | 13,671                           | 48                                  |
| - subsidiaries not belonging to the banking group                | -                                 | -                                   | -              | 763                | 178                    | 30            | 1,843            | -                                      | 3                           | 469                              | 2                                   |
| Joint ventures and their subsidiaries                            | 14                                | -                                   | -              | 153                | -                      | -             | 64               | -                                      | 1                           | 21                               | 144                                 |
| Associates and their subsidiaries                                | 156                               | 145                                 | -              | 615                | -                      | 30            | 322              | -                                      | 13                          | 295                              | 60                                  |
| Officers, Key Managers and related parties                       | -                                 | -                                   | -              | 10                 | -                      | -             | 7                | -                                      | -                           | 1                                | 24                                  |
| Pension funds  | -                                 | -                                   | -              | -                  | 3                      | -             | 160              | -                                      | 2                           | -                                | -                                   |
| <b>Total</b>   | <b>6,450</b>                      | <b>593</b>                          | <b>91,385</b>  | <b>9,710</b>       | <b>4,966</b>           | <b>83,896</b> | <b>3,637</b>     | <b>8,448</b>                           | <b>5,202</b>                | <b>116,878</b>                   | <b>628</b>                          |
| Shareholders (*)   | -                                 | -                                   | -              | -                  | -                      | -             | 29               | -                                      | -                           | 44                               | -                                   |

(\*) Shareholders and their groups that hold a stake in the Bank's voting share capital exceeding the minimum threshold set by the regulations on disclosure of material shareholdings in listed companies (calculated considering only shares owned).

For the sake of completeness, the Group's most significant associates – and the companies controlled by them – are: Autostrade Lombarde S.p.A., Equiter S.p.A., Cassa di Risparmio di Fermo S.p.A., Nuovo Trasporto Viaggiatori S.p.A., Autostrada Pedemontana Lombarda S.p.A. and Bank of Qingdao Co.. The main companies subject to joint control (joint venture) include Tangenziali Esterne di Milano S.p.A. and Tangenziale Esterna S.p.A..

A detailed list of subsidiaries and companies subject to significant influence as at 31 December 2016 is provided in the Notes to the consolidated financial statements (Part B – Assets – Section 10).

For the illustration of the associated companies and companies under joint control – and the companies controlled by them – most significant at Group level, see the description in the corresponding paragraph of the Notes to the consolidated financial statements.

### 3. Information on transactions with related parties

#### Most significant transactions

During the year the Parent Company has not carried out any transactions qualifying as non-ordinary "more significant transactions" at non-market or non-standard conditions that would have resulted – in accordance with the Intesa Sanpaolo Group Regulations on the management of transactions with related parties – in an obligation to publish a market disclosure document.

### **Most significant intragroup transactions**

With regard to most significant intragroup transactions – exempt, pursuant to the aforementioned internal Regulations, from the special decision-making procedure and from the obligation to publish a market disclosure document, unless other related parties hold significant interests in the subsidiary – several securitisation transactions took place during the year, as well as transactions aimed at the issue of Covered Bonds. These transactions are described in the Notes to the consolidated financial statements – Part E – Information on risks and relative hedging policies, to which reference is made.

### **Other significant transactions**

The transactions entered into with related parties fall within the scope of Intesa Sanpaolo's ordinary activities and are usually performed at market or standard conditions, based on valuations of mutual economic convenience, in line with the internal procedures mentioned above.

Relations between the Intesa Sanpaolo Group and board members and general managers refer to the Group's normal business activities and are defined applying, where conditions recur, the terms reserved to all employees, in full respect and transparency of terms applied, or, in relation to independent professionals with which a term contract exists, applying the terms reserved to professionals of similar standing, in full compliance with relevant regulations.

Concerning the transactions with subsidiaries carried out in 2016, please note that these are normal internal business activities of a multifunctional banking group. They are usually regulated at the conditions at which the Parent Company accesses the reference markets, which are not necessarily the same conditions that would be applicable if the counterparties operated independently. These conditions are, in any case, applied in compliance with criteria of substantial correctness and with the aim of creating value for the Group.

Intragroup transactions concerned mainly:

- the support given by Parent Company to the financial needs of the other Group companies by providing risk capital and loans and by subscribing securities issued by the subsidiaries;
- the channelling of foreign funding by specialist Group companies in favour of the Parent Company and, in part, of other subsidiaries;
- the Parent Company's investment of subsidiaries' liquidity;
- structured finance transactions within the Group carried out through Banca IMI;
- outsourcing arrangements, which govern services of an auxiliary nature rendered by the Parent Company and Intesa Sanpaolo Group Services S.c.p.A., primarily to banks of the Banca dei Territori Division and the Parent Company;
- the agreements with Group companies on distribution of products and/or services (certain agreements are extended to some associates/joint ventures) or, more generally, intragroup support and consultancy;
- financial settlements provided for by agreements entered into with Group companies taking part in national fiscal consolidation.

During 2016 the activities aimed at implementing the strategic options set out in the Business Plan and at rationalising Group structure continued.

The Business Plan 2014-2017 envisages, among others, an important simplification in the corporate breakdown of Banca dei Territori Division of the Group. As part of the activities defined, the achievement of a gradual and notable reduction in the number of legal entities is expected and, with this view, the mergers of Banca dell'Adriatico and Casse di Risparmio dell'Umbria were launched.

With reference to the first transaction, on 4 May 2016 the merger deed of Banca dell'Adriatico S.p.A., a wholly-owned subsidiary of Intesa Sanpaolo S.p.A., was signed. The merger took effect in relation to third parties from 16 May 2016, the date from which the merged company ceased. The operations conducted by the incorporated company were posted to the financial statements of the incorporating company, effective from 1 January 2016, also for tax purposes.

With regard to Casse di Risparmio dell'Umbria, in which Intesa Sanpaolo held a controlling stake (99.1%), the deed of merger by incorporation into Intesa Sanpaolo was signed on 9 November 2016. The presence of minority shareholders in the Casse di Risparmio dell'Umbria's shareholding structure made it necessary to calculate an exchange ratio for the issue, by Intesa Sanpaolo, of shares to offer in exchange to minority shareholders. Accordingly, the price of sale was determined for the shareholders who had not joined the merger.

The merger took effect in relation to third parties from 21 November 2016, the date from which the merged company ceased. The operations conducted by the incorporated company were posted to the financial statements of the incorporating Intesa Sanpaolo, effective from 1 January 2016, also for tax purposes.

Continuing with an analysis of the extraordinary corporate transactions, we note the revocation of the resolution for merger by incorporation of Oldequiter into the Parent Company of 15 September 2015 in favour of a partial demerger of the subsidiary into the Parent Company, for a net value of the demerged branch of about 249 million euro, which led to the retention in the demerged company of ownership of only the stake in A4 Holding (6.5% of the capital), as well as its ancillary assets and cash equivalents for the current year. The demerger, with legal effect from 1 June 2016, is entirely similar to the original merger and did not involve any equity issue by Intesa Sanpaolo, which partially offset the subsidiary's shares and received the demerged assets and liabilities at book value.

The Intesa Sanpaolo Management Board meeting of 23 February 2016 proposed a simplification of the control structure and corporate chain of CIB Bank Ltd (Hungary), a wholly owned subsidiary of the Intesa Sanpaolo Group, through Intesa Sanpaolo Holding International SA (100% owned by Intesa Sanpaolo) with a 67.7% share and Intesa Sanpaolo with a 32.3% share.

The transaction was aimed at simplifying the shareholding structure of CIB Bank Ltd, in order to give back unitary control to the Parent Company to guarantee direct oversight of the management of the "core" business and the "non-performing" assets.

The corporate process to return ownership of 67.7% of CIB Bank Ltd from Intesa Sanpaolo Holding International S.A. to Intesa



Sanpaolo was identified in a transaction divided into:

- a demerger of the share of CIB Bank Ltd held by Intesa Sanpaolo Holding International S.A. to Engenia S.A., a non-financial Luxembourg company controlled by Intesa Sanpaolo (national demerger, Luxembourg to Luxembourg);
- a simultaneous merger (transnational merger, Luxembourg to Italy) of Engenia S.A. into Intesa Sanpaolo.

The transaction was structured to take into account the different ways in which the European Directive on cross-border corporate transactions was transposed respectively in Italy and Luxembourg.

The transaction, which had legal, accounting and tax effects as of 1 November 2016, did not involve any changes in the Parent Company's capital.

Following the partial demerger of Setefi Services S.p.A. into Intesa Sanpaolo, effective from 1 January 2016, whereby the Setefi business line involved in the acquiring business towards customers of banks in the Intesa Sanpaolo Group was transferred, on 1 October 2016, to complete the concentration in the involved Parent Company structures (Banca dei Territori and Corporate and Investment Banking Divisions) of the commercial business linked to payments, Setefi sold the said Intesa Sanpaolo a further business line involved in the acquiring business, in respect of non-captive customers, with specific exclusions.

In November 2016, the transfer was completed from Setefi Services S.p.A. to Intesa Sanpaolo S.p.A. of Visa Inc. Series C Convertible Participating Preferred Stock, which returned to Setefi from the sale of Visa EU for the sum of 18 million euro.

Finally, with a view to simplifying and rationalising the French component of the Private Banking Division, the merger by incorporation of Euro-Trésorerie SA into Financière Fideuram SA was implemented.

In relation to transactions in equity investments, the following should be noted:

- the transfer to Banca IMI of some units of closed-end private equity funds for a total value of 100.4 million euro (16.7 million investment and 83.7 million commitment). The sale took place for three funds (21 Investimenti, Clessidra and Charme) on 18 March 2016 and for the Apis Fund on 24 March 2016;
- the sale of the stake held by Intesa Sanpaolo (15.2%) in Banca Intesa AD Beograd - Serbia, to Intesa Sanpaolo Holding International S.A. - Luxembourg (ISPHI), for a total value of 148 million euro.

ISPHI already held 84.8%, a stake recently increased in 2015 as a result of taking over 7% from International Finance Corporation (IFC) of Washington;

The objective, pursued at Group level, of the sale of the minority stake from ISP to ISPHI, was to simplify the corporate structure and rationalise administrative processes.

For the determination of the price of this sale, methods and parameters used in the transaction carried out with IFC were used and applied to updated economic and capital data of the Bank of Serbia.

The transaction did not require any particular fulfilments with the Supervisory Authorities (ISPHI was already recognised as the party entitled to retain control of the Bank).

The sale had no impact on the consolidated financial statements and did not cause the emergence of either direct or indirect taxation.

As already explained in the Annual Report 2015, within the framework of the non-profit sector attention is drawn to the request by Banca Prossima to the Parent Company to issue Intesa Sanpaolo domestic senior "Serie Speciale Banca Prossima" bonds, disbursed at rates below market ones, in order to establish a ceiling of funds to be used over time for the disbursement of loans, based on conditions that are adjusted to account for the lower cost of funding, to entities operating in the lay and religious non-profit sector.

This transaction has made it possible to further increase the Group's presence in implementing transactions in support of the non-profit sector.

The transfer of funds from the placement of Intesa Sanpaolo domestic senior "Serie Speciale Banca Prossima" bonds from Intesa Sanpaolo to Banca Prossima took place on 1 January 2016 for a value of 300 million euro.

It should be noted that on 6 December 2016, the transfer of funds from the placement of a further tranche of domestic bonds for a similar amount to the previous one was approved.

Regarding the transactions involving interventions on capital, note should be taken of the 12 million euro increase of the share capital of Intesa Sanpaolo Bank Luxembourg by means of a contribution in kind arising from the contribution of the business operations of the Intesa Sanpaolo subsidiary in Amsterdam. The goal is to strengthen Intesa Sanpaolo Bank Luxembourg through the development of complementary and supplementary services with respect to the present ones (intercompany lending and treasury management).

Moreover, in order to make up for the potential deficit of own funds at the end of 2016 of Intesa Sanpaolo Bank Luxembourg S.A. and to support the strong growth in corporate assets and revenues expected in 2017, on 26 July 2016 the Board of Directors of the Parent Company approved an increase in own funds estimated as a maximum amount of 1.25 billion euro through:

- a capital increase (CET 1) of 850 million euro to be paid in two tranches: the first of 450 million euro paid on 22 September 2016 and the second of 400 million euro to be paid by 31 March 2017;
- a subordinated loan (Tier 2) for a maximum amount of 400 million euro to be disbursed at the time of the second tranche of the capital increase.

The capital increase, as well as the disbursement of the subordinated loan, is underwritten and fully paid-up by Intesa Sanpaolo Holding International S.A. using cash and cash equivalents resulting from its own capital endowment, without any cash outlay by the Parent Company, which has waived its option rights.

Note should be taken of the early repayment to the Parent Company by CIB Bank Ltd of a subordinated loan amounting to 150 million euro, with a simultaneous capital increase for an amount of 148 million euro. The transaction, carried out on 16 February 2016, represents the third and final tranche of recapitalisation and equity strengthening of the subsidiary to meet the new capital requirements under the regulatory framework in force.

In order to ensure fulfilment by the subsidiary Intesa Sanpaolo Provis of the minimum capital requirements laid down by the supervisory authorities, as a company enrolled on the Unified Register of financial intermediaries under Article 106 of the Consolidated Law on Banking which are required to comply with the minimum capital requirement of 6% (CET1, ratio), on 21 April 2016 the Management Board of the Parent Company authorised a capital contribution payment for a maximum of 120 million euro to be paid in several tranches. On 27 May and 31 October 2016 payments were made of two instalments of equal amount (60 million euro), upon submission to the Bank of Italy of the applications for the purpose of their calculation in the Tier 1 capital pursuant to the regulations on own funds.

With reference to the coverage of financial needs related to the development plan of the company Intesa Sanpaolo Reoco S.p.A., whose investment business will start in 2017, on 22 December 2016 Intesa Sanpaolo underwrote the second and last tranche of the capital increase for 20 million euro.

With the aim of balancing the capital shortfall of Intesa Sanpaolo Casa and Intesa Sanpaolo Highline, fully owned subsidiaries still in start-up phase, Intesa Sanpaolo made two capital contributions, respectively of 4 million euro on 20 December 2016 and 1 million euro on 22 December 2016, pending the normalisation of revenues.

Lastly, there was the underwriting by the Parent Company of the capital increase in favour of Intesa Sanpaolo Forvalue (formerly Incube), amounting to 1.9 million euro, as part of the project to incorporate a company dedicated to non-financial services. In this connection, as an alternative to the formation of a new company, a decision was reached to convert the company Incube S.r.l., 100% owned by the Intesa Sanpaolo Group, which is currently not operational. The above-mentioned capital increase was approved by the totalitarian Shareholders' Meeting of 28 September 2016 which also approved the transformation of the company, its renaming, the transfer of the registered office and the adoption of new Articles of Association.

However, with reference to the transactions in financial instruments it was necessary to restore the appropriateness of the cover pool to allow new covered bond issues as part of the programme guaranteed by ISP OBG S.r.l..

As a consequence, a portfolio of performing residential and commercial mortgage loans was transferred without recourse to the vehicle company for an amount of:

- 2.4 billion euro from Intesa Sanpaolo;
- 1.2 million euro from Banco di Napoli;
- 692 million euro from Cassa di Risparmio in Bologna;
- 633 billion euro from Banca Cr Firenze;
- 442 million euro from Cassa di Risparmio del Veneto;

The capital injection required for the payment of the purchase price of the portfolios was obtained from the SPV through a subordinated loan disbursed by the counterparties. An accessory to the purchase of the portfolio of assets above was the signing by the SPV of some hedging agreements again towards the same counterparties used to transform the disparate cash flows coming from the loan portfolio subject to assignment into homogeneous cash flows like those of the CBs. The conditions of the assignment may not be considered as "market" conditions given the lack of a specific reference market.

To complete the disclosure, kindly note the change in the Covered Bonds programme ISP OBG S.r.l., aimed at providing the programme with an additional Account Bank, external to the Group, which could act upon emergence of special situations such as, for example, a possible downgrading of the Parent Company.

Similarly to what has just been described, mention should be made of the assignment by the Parent Company of a portfolio of receivables deriving from mortgage loans to ISP CB Ipotecario S.r.l., the related granting of a subordinated loan for the payment of the sale price and the hedging derivative of the assigned portfolio. The transaction was finalised for 3.7 billion euro. Also in this case, it was necessary to restore the appropriateness of the cover pool to allow new covered bond issues as part of the programme guaranteed by ISP CB Ipotecario S.r.l.. In the same way, the conditions of the assignment may not be considered as "market" conditions given the lack of a specific reference market.

Likewise, note should be taken of the double issue, which occurred in the months of March and September, of new subordinated financial instruments type AT1 by Banca IMI, each with a value of 500 million euro, issued in the form of "Private Placement" and fully underwritten by Intesa Sanpaolo. The instruments were issued with the aim of increasing the regulatory capital allocation, motivated by the continual expansion of Risk-Weighted Assets linked primarily to market risks.

And finally, we announce the granting by Intesa Sanpaolo Holding International of a ten-year Tier 2 subordinated loan to Vseobecna Uverova Banka Bratislava, for a total amount of 230 million euro to be disbursed in several tranches until 2018.

Regarding the Risanamento group, subsidiaries without management and coordination, worth noting are the deferral and the extensions granted by the lending banks for the loans under the Restructuring Agreements pursuant to art. 182 bis of the Bankruptcy Law, endorsed on 15 October 2009 and maturing on 31 December 2014. The actions aim to maintain the Risanamento Group's positive financial balance while the definition of the project to promote the area of Milano Santa Giulia (the Group's most valuable residual asset) is pending, also by maximising the transfer price and/or the entry of new industrial and/or financial partners, at the most profitable conditions possible for Risanamento and its stakeholders. In this regard two exclusivity agreements are underway with the Australian Lend Lease Group for possible cooperation on the joint development of the South Lots and the Milano Santa Giulia project (Northern Sector).

As for the Group's most significant relations with associates and companies controlled by them, during the year loans were granted to: Italconsult S.p.A., Ambienta Sgr, Autostrada Pedemontana Lombarda, Euromilano S.p.A., ISM Investimenti, Società di Progetto Autostrada Diretta Brescia Milano and other minor companies, for transactions at rates aligned to market rates.

Regarding Intesa Sanpaolo Provis, CIB Bank Zrt, Intesa Sanpaolo RE.O.CO. S.p.A., Qindao Yicai Welth Management co. Ltd and Neva Finventures S.p.A., share capital increases were subscribed or payments were made for future capital increases.

Additional information on the Intesa Sanpaolo Group's reorganisation operations is provided in Part G of the Notes to the consolidated financial statements and of the Notes to the Parent Company's financial statements. For more information on investments in associates, reference should be made to Part H of the Consolidated Financial Statements, while for details on the changes in the Parent Company's equity investment portfolio, reference should be made to Section 10 of the Notes to the Parent Company's financial statements – Part B – Information on the Parent Company's balance sheet – Assets.

The operations with the Special Purpose Entities over which the Group exercises control, and consolidated in accordance with the new IFRS 10, in addition to the indications already reported in relation to More significant transactions, is illustrated in the Notes to the Consolidated financial statements - Part E – Information on risks and the relative hedging policies, to which reference should be made.

***Other significant information***

With reference to the investments in associates or companies subject to joint control, value adjustments/impairment losses were recognised for 65 million euro (Compagnia Aerea Italiana S.p.A., Autostrade Lombarde S.p.A., Tangenziali Esterne di Milano S.p.A., Autostrade Pedemontana Lombarda S.p.A., Fenice S.r.l., Tangenziale Esterna S.p.A. and other minor companies). Please refer to Part C – Income Statement – Section 14 of the Parent Company's Financial Statements for more information on the income (loss) of investments.

For Pension Funds in which Intesa Sanpaolo is co-obliged by virtue of guarantees given, during the year provisions were made for the settlement of the technical imbalance of said Funds, as indicated in the Notes to the Parent company's financial statements – Part B – Information on the balance sheet – Liabilities, Point 12.3 Post employment defined-benefit plans, to which reference is made. Allowances for risks and charges include the provisions made against any outstanding or probable disputes.

***Other significant subsequent events***

It should be noted that the Governing Bodies of the Parent Company have approved the project for the merger by incorporation of the company Accedo S.p.A. into Intesa Sanpaolo. The transaction is part of the reorganisation of the consumer credit sector and will be completed during the first quarter of 2017.

**B) INFORMATION REGARDING COMPENSATION OF THE MEMBERS OF MANAGEMENT AND CONTROL BODIES AND KEY MANAGERS**

Pursuant to IAS 24, "key managers" are considered to be the members of the Board of Directors (including members of the Management Control Committee, the Managing Director and CEO), the Manager responsible for preparing the Company's financial reports, the Heads of Business Units and the Heads of Head Office Departments that report directly to the Managing Director/CEO or to the Chairman of the Board of Directors, as well as the Chief Operating Officer and the Heads of the Governance Areas, the Chief Financial Officer, the Chief Risk Officer, the Chief Lending Officer, the Chief Innovation Officer and the Chief Governance Officer.

The following table shows the amounts of the main benefits paid in 2016 to members of the management and control bodies, as well as to other Key Managers who fall within the notion of "related party". This also includes the maximum amounts of the variable portion of remuneration which shall be paid in cash and/or shares of the Parent Company, based on the Group's remuneration and incentive policy, subject to the verification of achievement of the assigned targets and the decisions of the competent bodies of the Parent Company.

(millions of euro)

|   | MANAGEMENT BODIES/<br>CONTROL BODIES <sup>(1)</sup> |             | OTHER MANAGERS <sup>(2)</sup> |             | TOTAL as at 31.12.2016 |             |
|---|---|-------------|-------------------------------|-------------|------------------------|-------------|
|   | Amount due  | Amount paid | Amount due                    | Amount paid | Amount due             | Amount paid |
| Short-term benefits <sup>(3)</sup>      | 7   | 7           | 19                            | 17          | 26                     | 24          |
| Post-employment benefits <sup>(4)</sup> | -   | -           | 1                             | 1           | 1                      | 1           |
| Other long-term benefits <sup>(5)</sup> | -   | -           | 6                             | -           | 6                      | -           |
| Termination benefits <sup>(6)</sup>     | -   | -           | 4                             | 2           | 4                      | 2           |
| Share-based payments <sup>(7)</sup>     | -   | -           | 6                             | -           | 6                      | -           |
| <b>Total</b>                            | <b>7</b>  | <b>7</b>    | <b>36</b>                     | <b>20</b>   | <b>43</b>              | <b>27</b>   |

<sup>(1)</sup> Includes 19 members

The amount includes the remuneration of the Supervisory Board Members and the Management Board in office until April 27, 2016

<sup>(2)</sup> Includes 20 members<sup>(3)</sup> Includes fixed and variable remuneration of Directors that may be treated as equivalent to labour cost and social security charges paid by the company for its employees<sup>(4)</sup> Includes company contribution to pension funds and provisions for employee termination indemnities pursuant to law and company regulations<sup>(5)</sup> Includes an estimate of provisions for employee seniority bonuses<sup>(6)</sup> Includes benefits due under the employment contract for termination of employment and non-competition agreements.<sup>(7)</sup> The cost refers to the variable portion of short-/long-term remuneration to be paid in Intesa Sanpaolo shares/through LECOIPs

As previously noted in Part H of the Notes to the consolidated financial statements, for detailed information on remuneration policies, pursuant to Art. 123 ter of the Consolidated Law on Finance, refer to the separate document "Report on Corporate Governance and Ownership Structures – Report on Remuneration", specifically:

- a detailed indication of the compensation paid to members of the management and control bodies and, in aggregate, Key Managers, as well as the stock option plans reserved for members of the Board of Directors and Key Managers;
- the details and the evolution of the stock option plans relative to Key Managers;
- Parent Company's and subsidiary companies' shares held by members of the management and control bodies, Key Managers and other associated entities.

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# Part I – Share-based payments

## A. QUALITATIVE INFORMATION

### 1. Description of share-based payments

#### 1.1. Incentive Plan based on financial instruments

The Provisions regarding remuneration and incentive policies and practices in banks and in banking groups, issued on 30 March 2011 (now integrated in Circular 285 of the Bank of Italy), required, inter alia, that a portion of incentives paid (50%) to “Risk Takers” be granted through the assignment of financial instruments, over a multi-year time horizon. As a result:

- with regard to the results for 2011, and in implementation of the Shareholders' Meeting resolution of 28 May 2012, on 26 June 2012 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 12,894,692 Intesa Sanpaolo ordinary shares (representing approximately 0.08% of the ordinary share capital) at an average purchase price of 0.97969 euro per share, for a total value of 12,632,743 euro;
- with regard to the results for 2012, and in implementation of the Shareholders' Meeting resolution of 22 April 2013, on 8 October 2013 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,920,413 Intesa Sanpaolo ordinary shares (representing approximately 0.06% of the ordinary share capital) at an average purchase price of 1.72775 euro per share, for a total value of 15,412,287 euro;
- with regard to the results for 2014, and in implementation of the Shareholders' Meeting resolution of 27 April 2015, on 09 October 2015 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 4,501,521 Intesa Sanpaolo ordinary shares (representing approximately 0.03% of the ordinary share capital) at an average purchase price of 3.18822 euro per share, for a total value of 14,389,260 euro.
- with regard to the results for 2015, and in implementation of the Shareholders' Meeting resolution of 27 April 2016, on 16 November 2016 the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 8,440,911 Intesa Sanpaolo ordinary shares (representing approximately 0.05% of the ordinary share capital) at an average purchase price of 2.149 euro per share, for a total value of 18,139,446 euro.

The above Shareholders' Meetings also authorised the sale on the regulated market of any shares exceeding requirements, or their retention for any future incentive plans.

The above shares shall be assigned to the beneficiaries in compliance with the implementing regulations set forth in the above incentive system. Generally, according to these regulations, the beneficiaries must remain in service up to the time the shares are actually delivered to them, and the deferred portion (either in cash or in financial instruments) of the incentive is subject to an ex post correction mechanism – the “malus condition” – according to which the relative amount paid and the number of shares assigned, if any, may be reduced by the level of achievement, in the year to which the deferred portion refers, of specific income statement-balance sheet targets which measure the sustainability of the results achieved over time.

#### 1.2 Long-term share-based instruments: PAD and LECOIP

The long-term employee shareholding instruments aim to support the motivation and loyalty of all the Group's resources, at the time of launching the 2014-2017 Business Plan. In particular, these instruments have the aim of encouraging the identification (ownership), the alignment to the medium/long-term objectives and the sharing of the value created over time.

There have been two long-term instruments offered to employees during 2014: an Employee Share Ownership Plan (PAD) and the Leveraged Employee Co – Investment Plans (LECOIP), because there is the desire, on one side, to strengthen the sense of belonging and cohesion (PAD) and, on the other, to search for the explicit sharing of the “challenge to create value” represented by the Business Plan (LECOIP).

The share ownership proposal is subdivided into two phases:

1. launch of an Employee Share Ownership Plan that allows each employee to share in the value of Intesa Sanpaolo through ownership and, therefore, to increase their sense of belonging;
2. the possibility for each employee to use the shares received and:
  - maintain them in their securities account, in order to sell them subsequently or transfer them immediately;
  - invest them in Co-Investment Plans through long-term financial instruments, the “LECOIP Certificates”, with the duration aligned to the Business Plan.

These financial instruments originate from purchases in the market and from capital increases.

As a matter of fact, the free assignment of Intesa Sanpaolo ordinary shares (PAD) implied the purchase of these shares on the market – Free Shares – while the Lecoip Certificates - issued by a third-party financial company not belonging to the Group – use as underlying some additional newly issued Intesa Sanpaolo ordinary shares assigned to the employee against a free capital increase - Matching shares - and the subscription, by the same employee, of newly issued Intesa Sanpaolo ordinary shares deriving from a paid capital increase reserved to employees, at a discounted price compared to the market value – Discounted shares.

The Lecoip Certificates are subdivided into three categories and have different characteristics, depending on whether these are addressed to so-called Risk Takers, Executives or all employees. Lecoip Certificates in general incorporate:

- the right to receive an amount in cash (or in Intesa Sanpaolo ordinary shares) upon maturity, equal to the original reference value (calculated as the average of the market values recorded during November 2014) of the Free Shares and Matching Shares (“protected capital”) and
- the right to receive, always upon maturity, a portion of any appreciation in the value of the shares (Free Shares, Matching Shares and Discounted Shares) compared to the original reference value described above.

Adhesion to the plans did not imply any outlay for the employees. At the time of signing the Certificates, the employees entered into a forward agreement with the counterparty issuing the Certificates for the sale of the Free Shares, the Matching Shares and the discounted Shares. The sale consideration was used by the employees to subscribe the discounted shares and, for the remaining part, for the purchase of the Certificates.

The Co-Investment Plans were subject to the approval of the ordinary Shareholders' Meeting of 8 May 2014. The ordinary meeting of the Bank also resolved on the purchase of treasury shares (pursuant to Art. 2357, paragraph 2 of the Italian Civil Code) to confer the free shares (Free Shares). On 8 May 2014, ISP's extraordinary meeting resolved on the Management Board's mandate to:

- increase the capital (free share capital increase) to grant the employees the free shares (Matching Shares) and
- increase the paid capital in favour of the employees, without option rights, through the issue of shares at a discounted price compared to the market price of ISP ordinary shares.

The Co-Investment Plans were authorised by the Bank of Italy on 30 September 2014; after this measure, the Management Board took the necessary resolutions on 2 October 2014 to implement the plan.

The offer period for the employees to adhere to the Co-Investment Plans ended on 31 October 2014. The date for the assignment of the shares to the employees is 1 December 2014, which corresponds to the start of the vesting period, which will end in April 2018.

In compliance with IFRS 2 - Share-based payment, the PAD and the LECOIP are represented in the consolidated financial statements of the Group as “equity settled” plans, since the Group has assigned its own equity instruments as additional remuneration for the services received (the work performed). Instead, the Group did not assume any liability to be settled with cash equivalents or other assets towards the employees.

Due to the impossibility of reliably estimating the fair value of the services received from employees, the cost of the benefit to employees is given by the fair value of the assigned shares, calculated on the assignment date, recognised in the income statement under caption 150a “Administrative expenses: personnel expenses”, as a balancing entry for an increase in the shareholders' equity by valorising a specific reserve. The fair value of the Free Shares and Matching Shares was calculated on the basis of the market price of the shares on the date of assignment. As regards the Discounted shares, the fair value of the subscription discount was determined in consideration of the market price of the shares on the assignment date. For the shares assigned to Risk Takers only, the market price was adjusted to account for the constraint to the subsequent transfer upon the accrual period (holding period).

For the employees who only adhered to the Employee Share Ownership Plan, without adhering to the LECOIP investment plans (and who, thus, received the Free Shares only), the cost was entirely charged at the time of the assignment, as the shares are not subject to accrual conditions (vesting period).

For the employees who adhered to the LECOIPs, on the other hand, the condition applies of continuation of employment for the duration of the Plan, plus the additional performance conditions for Risk Takers and Executives (i.e. the achievement of certain objectives associated to the company capitalisation and the achievement of income results). If the accrual conditions fail to be respected, Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates.

The economic and financial effects of the Plan, estimated by suitably weighing the vesting conditions defined (including the probability of the employees continuing employment within the Group for the duration of the Plan), will be recognised during the period of accrual of the benefit and throughout the duration of the Plan.

**B. QUANTITATIVE INFORMATION****1. Share-based incentive plan in 2016**

|   | Number of shares | Average strike price (euro) | Residual life                   |
|---|------------------|-----------------------------|---------------------------------|
| Financial instruments outstanding as at 31 December 2015  | 5,212,222        | -                           | Mar - Jun 2016 / Sep - Oct 2019 |
| Financial instruments granted during the year             | 3,482,379        | -                           | Mar - Jun 2018 / Sep - Oct 2020 |
| Financial instruments no longer assignable (a)            | -                | -                           | -                               |
| Financial instruments vested during the year and assigned | 2,098,313        | -                           | -                               |
| Financial instruments outstanding as at 31 December 2016  | 6,596,288        | -                           | Mar - Jun 2017 / Sep - Oct 2020 |
| of which: vested and assigned as at 31 December 2016      | -                | -                           | -                               |

(a) Shares no longer deliverable to the beneficiaries following the related employment agreement ceasing and/or due to the application of the so-called malus conditions

**Breakdown by residual life**

| Residual life  | Number of shares |
|----------------|------------------|
| Mar - Oct 2017 | 2,521,701        |
| Mar - Oct 2018 | 2,929,460        |
| Mar - Oct 2019 | 860,749          |
| Sep - Oct 2020 | 284,378          |

**2.2 Long-term share-based instruments: LECOIP**

The economic effects for 2016 connected to the LECOIP Plans amount to about 81.8 million euro (including the repayment of the tax charges - sell to cover - to be borne by the assignees).

This being an equity settled plan, payables for cash settled payments are not recorded.

The following tables summarise the changes in the LECOIP Plans from the date of acceptance (December 2014) to 31 December 2016.

|                 | LECOIP                 |                         |                            |                         |                              |                             |                                     |                             | Total number of shares assigned 31.12.2014 | Number of LECOIP Certificates 31.12.2015 |
|-----------------|------------------------|-------------------------|----------------------------|-------------------------|------------------------------|-----------------------------|-------------------------------------|-----------------------------|--|--|
|                 | Free Shares 31.12.2014 |                         | Matching Shares 31.12.2014 |                         | Discounted Shares 31.12.2014 |                             | Sell to cover shares 31.12.2014 (a) |                             |  |  |
|                 | Number of shares       | Average unit fair value | Number of shares           | Average unit fair value | Number of shares             | Average unit fair value (b) | Number of shares                    | Average unit fair value (b) |  |  |
| Total employees | 10,126,532             | 2.3205                  | 18,984,007                 | 2.2986                  | 116,442,156                  | 0.3689                      | 20,814,178                          | 2.4007                      | 166,366,873                                | 28,465,459                               |

(a) Assigned shares allocated to cover the payment relating to the employee's tax burden.

(b) Fair value of the subscription discount.

|                 | Number of LECOIP Certificates 31.12.2015 | Changes in the year (c) | Number of LECOIP Certificates 31.12.2015 | Average fair value 31.12.2016 |
|-----------------|--|-------------------------|--|-------------------------------|
| Total employees | 28,465,459                               | -724,059                | 27,741,400                               | 3.7532                        |

(c) Number of Certificates for which Intesa Sanpaolo shall take over the rights that would have been recognised to the employees by virtue of the Certificates due to failure to comply with the condition of continuation of employment for the duration of the Plan

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## Part L – Segment reporting

Segment reporting is provided in the Notes to the consolidated financial statements.



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# Certification of the Parent Company's financial statements pursuant to Art. 154 bis of Legislative Decree 58/1998

1. The undersigned Carlo Messina (as Managing Director and CEO) and Fabrizio Dabbene (as Manager responsible for preparing the Company's financial reports) of Intesa Sanpaolo, taking into account the provisions of Article 154-bis, par. 3 and 4 of Legislative Decree 58 of 24 February 1998, do hereby certify to:
  - the adequacy in relation to the Company's features and
  - the actual application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements during 2016.
2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements as at 31 December 2016 was based on methods defined by Intesa Sanpaolo consistently with the COSO and – as to the IT component – COBIT models, which are internationally accepted frameworks for internal control systems.<sup>3</sup>
3. The undersigned also certify that:
  - 3.1 The Parent Company's financial statements as at 31 December 2016:
    - have been prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to European Parliament and Council Regulation 1606/2002 of 19 July 2002;
    - correspond to the results of the books and accounts;
    - give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer.
  - 3.2 The report on operations includes a fair review of the development and operating margin, as well as of the position of the issuer, together with a description of the main risks and uncertainties.

21 february 2017

Carlo Messina  
Managing Director and CEO

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

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<sup>18</sup> The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and organisation. The COBIT Framework - Control Objectives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.



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



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

## **Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010**

To the shareholders of  
Intesa Sanpaolo S.p.A.

### **Report on the separate financial statements**

We have audited the accompanying separate financial statements of Intesa Sanpaolo S.p.A. (the "bank"), which comprise the balance sheet as at 31 December 2016, the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended and notes thereto.

### ***Directors' responsibility for the separate financial statements***

The bank's directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

### ***Independent auditors' responsibility***

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In



making those risk assessments, we consider internal control relevant to the bank's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the separate financial statements give a true and fair view of the bank's financial position as at 31 December 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

### **Report on other legal and regulatory requirements**

#### ***Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the separate financial statements***

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the bank's directors, with the separate financial statements of Intesa Sanpaolo S.p.A. as at and for the year ended 31 December 2016. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Intesa Sanpaolo S.p.A. as at and for the year ended 31 December 2016.

Milan, 13 March 2017

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli  
Director



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# Attachments to the Parent Company's financial statements

## **Reconciliation between published Intesa Sanpaolo financial statements and adjusted Intesa Sanpaolo financial statements**

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2015 and the adjusted Intesa Sanpaolo balance sheet as at 31 December 2015

Reconciliation between published Intesa Sanpaolo income statement for 2015 and adjusted Intesa Sanpaolo income statement for 2015

## **Reconciliation between adjusted/published Intesa Sanpaolo financial statements and restated Intesa Sanpaolo financial statements**

Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2015 and the restated Intesa Sanpaolo balance sheet as at 31 December 2015

Reconciliation between adjusted Intesa Sanpaolo income statement for 2015 and restated Intesa Sanpaolo income statement for 2015

## **Restated Intesa Sanpaolo financial statements**

Restated Intesa Sanpaolo balance sheet

Restated Intesa Sanpaolo income statement

## **Reconciliation between restated Intesa Sanpaolo financial statements and reclassified Intesa Sanpaolo financial statements**

Reconciliation between restated Intesa Sanpaolo balance sheet and reclassified Intesa Sanpaolo balance sheet

Reconciliation between Intesa Sanpaolo income statement and reclassified Intesa Sanpaolo income statement

## **Other Attachments**

Statement of Intesa Sanpaolo property, equipment and financial assets subject to revaluation

Fees for auditing and services other than auditing pursuant to Article 149-duodecies of Consob Regulation 11971





## Reconciliation between published Intesa Sanpaolo financial statements and adjusted Intesa Sanpaolo financial statements



**Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2015 and the adjusted Intesa Sanpaolo balance sheet as at 31 December 2015**

The published Intesa Sanpaolo balance sheet as at 31 December 2015 did not require any adjustments.

## Reconciliation between published Intesa Sanpaolo income statement for 2015 and adjusted Intesa Sanpaolo income statement for 2015

| (millions of euro)   |                          |                                     |                  |
|--|--------------------------|-------------------------------------|------------------|
|  | 2015<br>Published<br>(*) | Impact of IFRS 5<br>adoption<br>(a) | 2015<br>Adjusted |
| 10. Interest and similar income  | 6,772                    | -                                   | 6,772            |
| 20. Interest and similar expense   | -4,640                   | -                                   | -4,640           |
| <b>30. Interest margin</b>   | <b>2,132</b>             | <b>-</b>                            | <b>2,132</b>     |
| 40. Fee and commission income  | 3,167                    | -                                   | 3,167            |
| 50. Fee and commission expense   | -491                     | -                                   | -491             |
| <b>60. Net fee and commission income</b>   | <b>2,676</b>             | <b>-</b>                            | <b>2,676</b>     |
| 70. Dividend and similar income  | 3,079                    | -141                                | 2,938            |
| 80. Profits (Losses) on trading  | -110                     | -                                   | -110             |
| 90. Fair value adjustments in hedge accounting   | -10                      | -                                   | -10              |
| 100. Profits (Losses) on disposal or repurchase of:  | 322                      | -                                   | 322              |
| <i>a) loans</i>  | 8                        | -                                   | 8                |
| <i>b) financial assets available for sale</i>  | 373                      | -                                   | 373              |
| <i>c) investments held to maturity</i>   | -                        | -                                   | -                |
| <i>d) financial liabilities</i>  | -59                      | -                                   | -59              |
| 110. Profits (Losses) on financial assets and liabilities designated at fair value             | -                        | -                                   | -                |
| <b>120. Net interest and other banking income</b>  | <b>8,089</b>             | <b>-141</b>                         | <b>7,948</b>     |
| 130. Net losses / recoveries on impairment   | -814                     | -                                   | -814             |
| <i>a) loans</i>  | -856                     | -                                   | -856             |
| <i>b) financial assets available for sale</i>  | -71                      | -                                   | -71              |
| <i>c) investments held to maturity</i>   | -                        | -                                   | -                |
| <i>d) other financial activities</i>   | 113                      | -                                   | 113              |
| <b>140. Net income from banking activities</b>   | <b>7,275</b>             | <b>-141</b>                         | <b>7,134</b>     |
| 150. Administrative expenses   | -4,725                   | -                                   | -4,725           |
| <i>a) personnel expenses</i>   | -2,289                   | -                                   | -2,289           |
| <i>b) other administrative expenses</i>  | -2,436                   | -                                   | -2,436           |
| 160. Net provisions for risks and charges  | -264                     | -                                   | -264             |
| 170. Net adjustments to / recoveries on property and equipment                                 | -131                     | -                                   | -131             |
| 180. Net adjustments to / recoveries on intangible assets                                      | -2                       | -                                   | -2               |
| 190. Other operating expenses (income)   | 699                      | -                                   | 699              |
| <b>200. Operating expenses</b>   | <b>-4,423</b>            | <b>-</b>                            | <b>-4,423</b>    |
| 210. Profits (Losses) on equity investments  | -115                     | -                                   | -115             |
| 220. Valuation differences on property, equipment and intangible assets measured at fair value | -                        | -                                   | -                |
| 230. Goodwill impairment   | -                        | -                                   | -                |
| 240. Profits (Losses) on disposal of investments   | 66                       | -                                   | 66               |
| <b>250. Income (Loss) before tax from continuing operations</b>                                | <b>2,803</b>             | <b>-141</b>                         | <b>2,662</b>     |
| 260. Taxes on income from continuing operations  | -25                      | 2                                   | -23              |
| <b>270. Income (Loss) after tax from continuing operations</b>                                 | <b>2,778</b>             | <b>-139</b>                         | <b>2,639</b>     |
| 280. Income (Loss) after tax from discontinued operations                                      | -                        | 139                                 | 139              |
| <b>290. Net income (loss)</b>  | <b>2,778</b>             | <b>-</b>                            | <b>2,778</b>     |

(\*) Figures originally published, in euro, in the 2015 financial statements.

(a) Economic results of Setefi Services S.p.A.

Reconciliation between adjusted/published Intesa Sanpaolo financial statements and restated Intesa Sanpaolo financial statements

## Reconciliation between the published Intesa Sanpaolo balance sheet as at 31 December 2015 and the restated Intesa Sanpaolo balance sheet as at 31 December 2015

| Assets  | (millions of euro)             |   |  |  |   |   |  | 31.12.2015<br>Restated |
|---|--------------------------------|---|--|--|---|---|--|------------------------|
|   | 31.12.2015<br>Published<br>(*) | Merger of<br>Banca<br>dell'Adriatico<br>S.p.A.<br>(a) | Merger of<br>Cassa<br>di Risparmio<br>dell'Umbria<br>S.p.A.<br>(b) | Partial<br>demerger<br>from<br>Mediocredito<br>S.p.A.<br>(c) | Partial<br>demerger<br>of<br>Accedo S.p.A.<br>(d) | Partial<br>demerger of<br>the<br>acquiring<br>business of<br>Setefi S.p.A.<br>(e) | Elimination<br>of<br>intragroup<br>transactions<br>(f) |                        |
| 10. Cash and cash equivalents   | 7.478                          | 95  | 40   | -  | -   | -   | -  | 7.613                  |
| 20. Financial assets held for trading                                 | 22.972                         | 36  | 19   | -  | -   | -   | -22  | 23.005                 |
| 30. Financial assets designated at fair value through profit and loss | 356                            | -   | -  | -  | -   | -   | -  | 356                    |
| 40. Financial assets available for sale                               | 29.794                         | 24  | 30   | -  | -   | -   | -  | 29.848                 |
| 50. Investments held to maturity                                      | 299                            | -   | 36   | -  | -   | -   | -  | 335                    |
| 60. Due from banks  | 122.044                        | 315   | 133  | -  | -   | -   | -2.483   | 120.009                |
| 70. Loans to customers  | 186.427                        | 6.247   | 2.805  | -  | -   | -   | -  | 195.479                |
| 80. Hedging derivatives   | 6.387                          | 32  | 8  | -  | -   | -   | -  | 6.427                  |
| 90. Fair value change of financial assets in hedged portfolios (+/-)  | 66                             | 6   | 1  | -  | -   | -   | -  | 73                     |
| 100. Equity investments   | 28.582                         | -550  | -398   | -  | -   | -   | -  | 27.634                 |
| 110. Property and equipment   | 2.867                          | 9   | 23   | -  | -   | -   | -  | 2.899                  |
| 120. Intangible assets  | 2.343                          | 31  | 7  | -  | -   | -   | -  | 2.381                  |
| <i>of which</i>   |                                |   |  |  |   |   |  |                        |
| - goodwill  | 820                            | -   | 7  | -  | -   | -   | -  | 827                    |
| 130. Tax assets   | 10.383                         | 184   | 85   | -  | -   | -   | -  | 10.652                 |
| <i>a) current</i>   | 2.422                          | 27  | 17   | -  | -   | -   | -  | 2.466                  |
| <i>b) deferred</i>  | 7.961                          | 157   | 68   | -  | -   | -   | -  | 8.186                  |
| - of which convertible into tax credit (Law no. 214/201               | 6.728                          | 142   | 60   | -  | -   | -   | -  | 6.930                  |
| 140. Non-current assets held for sale and discontinued operations     | 1                              | -   | -  | -  | -   | -   | -  | 1                      |
| 150. Other assets   | 2.361                          | 77  | 35   | -5   | 11  | 92  | -46  | 2.525                  |
| <b>Total Assets</b>   | <b>422.360</b>                 | <b>6.506</b>  | <b>2.824</b>   | <b>-5</b>  | <b>11</b>   | <b>92</b>   | <b>-2.551</b>  | <b>429.237</b>         |

(\*) Figures originally published, in euro, in the 2015 financial statements.

(a) Merger by incorporation of Banca dell'Adriatico S.p.A., effective for legal purposes from 16 May 2016 and with accounting and tax effects from 1 January 2016.

(b) Merger by incorporation of Cassa di Risparmio dell'Umbria S.p.A., effective for legal purposes from 21 November 2016 and with accounting and tax effects from 1 January 2016.

(c) Partial demerger of a loan portfolio into Intesa Sanpaolo S.p.A. from Mediocredito S.p.A. within the context of the "Capital Light Bank" project, which took place on 1 October 2015.

(d) Partial demerger into Intesa Sanpaolo S.p.A. of Accedo S.p.A. (formerly Intesa Sanpaolo Personal Finance S.p.A.), which took place on 1 June 2015.

(e) Partial demerger into Intesa Sanpaolo S.p.A. of the acquiring business line of Setefi S.p.A., which took place on 1 January 2016.

(f) Elimination of intragroup transactions between Intesa Sanpaolo S.p.A. and the merged companies.

(millions of euro)

| Liabilities and Shareholders' Equity   | 31.12.2015     |                                    | Changes                                      |  |                                |  |  | 31.12.2015     |  |
|--|----------------|------------------------------------|--|--|--------------------------------|--|--|----------------|--|
|  | Published (*)  | Merger of Banca dell'Adriatico (a) | Merger of Cassa di Risparmio dell'Umbria (b) | Partial demerger from Mediocredito (c) | Partial demerger of Accedo (d) | Partial demerger of the Acquiring business of Setefi (e) | Elimination of intragroup transactions (f) | Restated       |  |
| 10. Due to banks   | 125,517        | 2,113                              | 767  | -                                      | -                              | -  | -2,483                                     | 125,914        |  |
| 20. Due to customers   | 124,245        | 4,221                              | 1,910  | -                                      | -                              | -  | -  | 130,376        |  |
| 30. Securities issued  | 99,445         | 2                                  | 1  | -                                      | -                              | -  | -  | 99,448         |  |
| 40. Financial liabilities held for trading   | 15,921         | 37                                 | 13   | -                                      | -                              | -  | -22  | 15,949         |  |
| 50. Financial liabilities designated at fair value through profit and loss                   | 4              | -                                  | -  | -                                      | -                              | -  | -  | 4              |  |
| 60. Hedging derivatives  | 5,960          | 44                                 | 10   | -                                      | -                              | -  | -  | 6,014          |  |
| 70. Fair value change of financial liabilities in hedged portfolios (+/-)                    | 680            | 22                                 | 5  | -                                      | -                              | -  | -  | 707            |  |
| 80. Tax liabilities  | 745            | 2                                  | 1  | -                                      | -                              | -  | -  | 748            |  |
| a) current   | 86             | -                                  | -  | -                                      | -                              | -  | -  | 86             |  |
| b) deferred  | 659            | 2                                  | 1  | -                                      | -                              | -  | -  | 662            |  |
| 90. Liabilities associated with non-current assets held for sale and discontinued operations | -              | -                                  | -  | -                                      | -                              | -  | -  | -              |  |
| 100. Other liabilities   | 4,135          | 134                                | 92   | -                                      | -                              | -  | -46  | 4,315          |  |
| 110. Employee termination indemnities  | 645            | 44                                 | 19   | -                                      | -                              | -  | -  | 708            |  |
| 120. Allowances for risks and charges  | 1,866          | 39                                 | 18   | -                                      | -                              | -  | -  | 1,923          |  |
| a) post employment benefits  | 700            | 5                                  | 1  | -                                      | -                              | -  | -  | 706            |  |
| b) other allowances  | 1,166          | 34                                 | 17   | -                                      | -                              | -  | -  | 1,217          |  |
| 130. Valuation reserves  | -258           | 5                                  | 7  | -                                      | -                              | -  | -  | -246           |  |
| 140. Redeemable shares   | -              | -                                  | -  | -                                      | -                              | -  | -  | -              |  |
| 150. Equity instruments  | 877            | -                                  | -  | -                                      | -                              | -  | -  | 877            |  |
| 160. Reserves  | 3,577          | -167                               | -13  | -                                      | -                              | -  | -  | 3,397          |  |
| 170. Share premium reserve   | 27,508         | -                                  | -  | -                                      | -                              | -  | -  | 27,508         |  |
| 180. Share capital   | 8,732          | -                                  | -  | -                                      | -                              | -  | -  | 8,732          |  |
| 190. Treasury shares (-)   | -17            | -                                  | -  | -                                      | -                              | -  | -  | -17            |  |
| 200. Net income (loss)   | 2,778          | 10                                 | -6   | -5                                     | 11                             | 92   | -  | 2,880          |  |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>422,360</b> | <b>6,506</b>                       | <b>2,824</b>                                 | <b>-5</b>                              | <b>11</b>                      | <b>92</b>  | <b>-2,551</b>                              | <b>429,237</b> |  |

(\*) Figures originally published, in euro, in the 2015 financial statements.

(a) Merger by incorporation of Banca dell'Adriatico S.p.A., effective for legal purposes from 16 May 2016 and with accounting and tax effects from 1 January 2016.

(b) Merger by incorporation of Cassa di Risparmio dell'Umbria S.p.A., effective for legal purposes from 21 November 2016 and with accounting and tax effects from 1 January 2016.

(c) Partial demerger of a loan portfolio into Intesa Sanpaolo S.p.A. from Mediocredito S.p.A. within the context of the "Capital Light Bank" project, which took place on 1 October 2015.

(d) Partial demerger into Intesa Sanpaolo S.p.A. of Accedo S.p.A. (formerly Intesa Sanpaolo Personal Finance S.p.A.), which took place on 1 June 2015.

(e) Partial demerger into Intesa Sanpaolo S.p.A. of the acquiring business line of Setefi S.p.A., which took place on 1 January 2016.

(f) Elimination of intragroup transactions between Intesa Sanpaolo S.p.A. and the merged companies.

## Reconciliation between adjusted Intesa Sanpaolo income statement for 2015 and restated Intesa Sanpaolo income statement for 2015

|  | (millions of euro) |                                      |   |   |   |  |   |                          |                  |
|--|--------------------|--------------------------------------|---|---|---|--|---|--------------------------|------------------|
|  | 2015<br>Published  | Partial<br>demerger of<br>Accedo (a) | Partial<br>demerger from<br>Mediocredito<br>(b) | Changes<br>Partial<br>demerger of<br>the<br>Acquiring<br>business of<br>Setefi<br>(c) | Merger of<br>Banca<br>dell'Adriatico<br>(d) | Merger of<br>Cassa di<br>Risparmio<br>dell'Umbria<br>(e) | Elimination of<br>intragroup<br>transactions<br>(f) | Total change<br>in scope | 2015<br>Restated |
| 10. Interest and similar income  | 6,772              | 163                                  | -   | -   | 207   | 94   | -53   | 411                      | 7,183            |
| 20. Interest and similar expense   | -4,640             | -48                                  | -15   | -   | -26   | -12  | 53  | -48                      | -4,688           |
| <b>30. Interest margin</b>   | <b>2,132</b>       | <b>115</b>                           | <b>-15</b>                                      | <b>-</b>  | <b>181</b>                                  | <b>82</b>  | <b>-</b>  | <b>363</b>               | <b>2,495</b>     |
| 40. Fee and commission income  | 3,167              | 13                                   | -   | 134   | 137   | 63   | -39   | 308                      | 3,475            |
| 50. Fee and commission expense   | -491               | -66                                  | -   | -   | -7  | -2   | 39  | -36                      | -527             |
| <b>60. Net fee and commission income</b>   | <b>2,676</b>       | <b>-53</b>                           | <b>-</b>  | <b>134</b>  | <b>130</b>                                  | <b>61</b>  | <b>-</b>  | <b>272</b>               | <b>2,948</b>     |
| 70. Dividend and similar income  | 2,938              | -                                    | -   | -   | 1   | 1  | -   | 2                        | 2,940            |
| 80. Profits (Losses) on trading  | -110               | -                                    | -   | -   | 3   | 2  | -   | 5                        | -105             |
| 90. Fair value adjustments in hedge accounting   | -10                | -                                    | -   | -   | -6  | -1   | -   | -7                       | -17              |
| 100. Profits (Losses) on disposal or repurchase of:  | 322                | -                                    | -   | -   | -4  | -  | -   | -4                       | 318              |
| a) loans   | 8                  | -                                    | -   | -   | -4  | -  | -   | -4                       | 4                |
| b) financial assets available for sale   | 373                | -                                    | -   | -   | -   | -  | -   | -                        | 373              |
| c) investments held to maturity  | -                  | -                                    | -   | -   | -   | -  | -   | -                        | -                |
| d) financial liabilities   | -59                | -                                    | -   | -   | -   | -  | -   | -                        | -59              |
| Profits (Losses) on financial assets and liabilities designated at fair value                  | -                  | -                                    | -   | -   | -   | -  | -   | -                        | -                |
| <b>120. Net interest and other banking income</b>  | <b>7,948</b>       | <b>62</b>                            | <b>-15</b>                                      | <b>134</b>  | <b>305</b>                                  | <b>145</b>   | <b>-</b>  | <b>631</b>               | <b>8,579</b>     |
| 130. Net losses / recoveries on impairment:  | -814               | -27                                  | 10  | -   | -80   | -60  | -   | -157                     | -971             |
| a) loans   | -856               | -27                                  | 10  | -   | -80   | -60  | -   | -157                     | -1,013           |
| b) financial assets available for sale   | -71                | -                                    | -   | -   | -   | -  | -   | -                        | -71              |
| c) investments held to maturity  | -                  | -                                    | -   | -   | -   | -  | -   | -                        | -                |
| d) other financial activities  | 113                | -                                    | -   | -   | -   | -  | -   | -                        | 113              |
| <b>140. Net income from banking activities</b>   | <b>7,134</b>       | <b>35</b>                            | <b>-5</b>                                       | <b>134</b>  | <b>225</b>                                  | <b>85</b>  | <b>-</b>  | <b>474</b>               | <b>7,608</b>     |
| 150. Administrative expenses:  | -4,725             | -21                                  | -2  | -   | -212  | -96  | 17  | -314                     | -5,039           |
| a) personnel expenses  | -2,289             | -9                                   | -   | -2  | -122  | -53  | -   | -186                     | -2,475           |
| b) other administrative expenses   | -2,436             | -12                                  | -2  | 2   | -90   | -43  | 17  | -128                     | -2,564           |
| 160. Net provisions for risks and charges  | -264               | -                                    | -   | -   | -6  | -1   | -   | -7                       | -271             |
| 170. Net adjustments to / recoveries on property and equipment                                 | -131               | -                                    | -   | -1  | -1  | -2   | -   | -4                       | -135             |
| 180. Net adjustments to / recoveries on intangible assets                                      | -2                 | -                                    | -   | -   | -   | -  | -   | -                        | -2               |
| 190. Other operating expenses (income)   | 699                | 4                                    | -   | 3   | 10  | 5  | -17   | 5                        | 704              |
| <b>200. Operating expenses</b>   | <b>-4,423</b>      | <b>-17</b>                           | <b>-2</b>                                       | <b>2</b>  | <b>-209</b>                                 | <b>-94</b>   | <b>-</b>  | <b>-320</b>              | <b>-4,743</b>    |
| 210. Profits (Losses) on equity investments  | -115               | -                                    | -   | -   | -   | -  | -   | -                        | -115             |
| 220. Valuation differences on property, equipment and intangible assets measured at fair value | -                  | -                                    | -   | -   | -   | -  | -   | -                        | -                |
| 230. Goodwill impairment   | -                  | -                                    | -   | -   | -   | -  | -   | -                        | -                |
| 240. Profits (Losses) on disposal of investments   | 66                 | -                                    | -   | -   | -   | -  | -   | -                        | 66               |
| <b>250. Income (Loss) before tax from continuing operations</b>                                | <b>2,662</b>       | <b>18</b>                            | <b>-7</b>                                       | <b>136</b>  | <b>16</b>                                   | <b>-9</b>  | <b>-</b>  | <b>154</b>               | <b>2,816</b>     |
| 260. Taxes on income from continuing operations  | -23                | -7                                   | 2   | -44   | -6  | 3  | -   | -52                      | -75              |
| <b>270. Income (Loss) after tax from continuing operations</b>                                 | <b>2,639</b>       | <b>11</b>                            | <b>-5</b>                                       | <b>92</b>   | <b>10</b>                                   | <b>-6</b>  | <b>-</b>  | <b>102</b>               | <b>2,741</b>     |
| 280. Income (Loss) after tax from discontinued operations                                      | 139                | -                                    | -   | -   | -   | -  | -   | -                        | 139              |
| <b>290. Net income (loss)</b>  | <b>2,778</b>       | <b>11</b>                            | <b>-5</b>                                       | <b>92</b>   | <b>10</b>                                   | <b>-6</b>  | <b>-</b>  | <b>102</b>               | <b>2,880</b>     |

(a) Partial demerger into Intesa Sanpaolo S.p.A. of Accedo S.p.A. (formerly Intesa Sanpaolo Personal Finance S.p.A.), which took place on 1 June 2015.

(b) Partial demerger of a loan portfolio into Intesa Sanpaolo S.p.A. from Mediocredito S.p.A. within the context of the "Capital Light Bank" project, which took place on 1 October 2015.

(c) Partial demerger into Intesa Sanpaolo S.p.A. of the acquiring business line of Setefi S.p.A., which took place on 1 January 2016.

(d) Merger by incorporation of Banca dell'Adriatico S.p.A., effective for legal purposes from 16 May 2016 and with accounting and tax effects from 1 January 2016.

(e) Merger by incorporation of Cassa di Risparmio dell'Umbria S.p.A., effective for legal purposes from 21 November 2016 and with accounting and tax effects from 1 January 2016.

(f) Elimination of intragroup transactions between Intesa Sanpaolo S.p.A. and the merged companies.



## Restated Intesa Sanpaolo financial statements

## Restated Intesa Sanpaolo balance sheet

| Assets  | 31.12.2016     | 31.12.2015<br>restated | (millions of euro)<br>Changes |            |
|---|----------------|------------------------|-------------------------------|------------|
|   |                |                        | amount                        | %          |
| 10. Cash and cash equivalents   | 6,213          | 7,613                  | -1,400                        | -18.4      |
| 20. Financial assets held for trading                                 | 19,577         | 23,005                 | -3,428                        | -14.9      |
| 30. Financial assets designated at fair value through profit and loss | 371            | 356                    | 15                            | 4.2        |
| 40. Financial assets available for sale                               | 38,983         | 29,848                 | 9,135                         | 30.6       |
| 50. Investments held to maturity                                      | 335            | 335                    | -                             | -          |
| 60. Due from banks  | 126,634        | 120,009                | 6,625                         | 5.5        |
| 70. Loans to customers  | 200,549        | 195,479                | 5,070                         | 2.6        |
| 80. Hedging derivatives   | 5,720          | 6,427                  | -707                          | -11.0      |
| 90. Fair value change of financial assets in hedged portfolios (+/-)  | 160            | 73                     | 87                            |            |
| 100. Equity investments   | 30,589         | 27,634                 | 2,955                         | 10.7       |
| 110. Property and equipment   | 2,758          | 2,899                  | -141                          | -4.9       |
| 120. Intangible assets  | 2,379          | 2,381                  | -2                            | -0.1       |
| <i>of which</i>   |                |                        |                               |            |
| - goodwill  | 859            | 827                    | 32                            | 3.9        |
| 130. Tax assets   | 10,589         | 10,652                 | -63                           | -0.6       |
| <i>a) current</i>   | 2,563          | 2,466                  | 97                            | 3.9        |
| <i>b) deferred</i>  | 8,026          | 8,186                  | -160                          | -2.0       |
| - of which convertible into tax credit (Law no. 214/2011)             | 6,758          | 6,930                  | -172                          | -2.5       |
| 140. Non-current assets held for sale and discontinued operations     | 1              | 1                      | -                             | -          |
| 150. Other assets   | 2,834          | 2,525                  | 309                           | 12.2       |
| <b>Total Assets</b>   | <b>447,692</b> | <b>429,237</b>         | <b>18,455</b>                 | <b>4.3</b> |

| Liabilities and Shareholders' Equity   | 31.12.2016     | 31.12.2015<br>restated | (millions of euro)<br>Changes |            |
|--|----------------|------------------------|-------------------------------|------------|
|  |                |                        | amount                        | %          |
| 10. Due to banks   | 139,036        | 125,914                | 13,122                        | 10.4       |
| 20. Due to customers   | 147,364        | 130,376                | 16,988                        | 13.0       |
| 30. Securities issued  | 84,824         | 99,448                 | -14,624                       | -14.7      |
| 40. Financial liabilities held for trading   | 16,670         | 15,949                 | 721                           | 4.5        |
| 50. Financial liabilities designated at fair value through profit and loss                   | 8              | 4                      | 4                             |            |
| 60. Hedging derivatives  | 6,517          | 6,014                  | 503                           | 8.4        |
| 70. Fair value change of financial liabilities in hedged portfolios (+/-)                    | 528            | 707                    | -179                          | -25.3      |
| 80. Tax liabilities  | 811            | 748                    | 63                            | 8.4        |
| <i>a) current</i>  | 190            | 86                     | 104                           |            |
| <i>b) deferred</i>   | 621            | 662                    | -41                           | -6.2       |
| 90. Liabilities associated with non-current assets held for sale and discontinued operations | -              | -                      | -                             |            |
| 100. Other liabilities   | 5,762          | 4,315                  | 1,447                         | 33.5       |
| 110. Employee termination indemnities  | 736            | 708                    | 28                            | 4.0        |
| 120. Allowances for risks and charges  | 1,948          | 1,923                  | 25                            | 1.3        |
| <i>a) post employment benefits</i>   | 836            | 706                    | 130                           | 18.4       |
| <i>b) other allowances</i>   | 1,112          | 1,217                  | -105                          | -8.6       |
| 130. Valuation reserves  | -425           | -246                   | 179                           | 72.8       |
| 140. Redeemable shares   | -              | -                      | -                             |            |
| 150. Equity instruments  | 2,117          | 877                    | 1,240                         |            |
| 160. Reserves  | 3,816          | 3,397                  | 419                           | 12.3       |
| 170. Share premium reserve   | 27,508         | 27,508                 | -                             | -          |
| 180. Share capital   | 8,732          | 8,732                  | -                             | -          |
| 190. Treasury shares (-)   | -20            | -17                    | 3                             | 17.6       |
| 200. Net income (loss)   | 1,760          | 2,880                  | -1,120                        | -38.9      |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>447,692</b> | <b>429,237</b>         | <b>18,455</b>                 | <b>4.3</b> |

## Restated Intesa Sanpaolo income statement

(millions of euro)

|  | 2016          | 2015<br>restated | Changes<br>amount | %            |
|--|---------------|------------------|-------------------|--------------|
| 10. Interest and similar income  | 6,581         | 7,183            | -602              | -8.4         |
| 20. Interest and similar expense   | -4,067        | -4,688           | -621              | -13.2        |
| <b>30. Interest margin</b>   | <b>2,514</b>  | <b>2,495</b>     | <b>19</b>         | <b>0.8</b>   |
| 40. Fee and commission income  | 3,482         | 3,475            | 7                 | 0.2          |
| 50. Fee and commission expense   | -654          | -527             | 127               | 24.1         |
| <b>60. Net fee and commission income</b>   | <b>2,828</b>  | <b>2,948</b>     | <b>-120</b>       | <b>-4.1</b>  |
| 70. Dividend and similar income  | 1,845         | 2,940            | -1,095            | -37.2        |
| 80. Profits (Losses) on trading  | -106          | -105             | 1                 | 1.0          |
| 90. Fair value adjustments in hedge accounting   | -25           | -17              | 8                 | 47.1         |
| 100. Profits (Losses) on disposal or repurchase of:  | 130           | 318              | -188              | -59.1        |
| a) loans   | -52           | 4                | -56               |              |
| b) financial assets available for sale   | 209           | 373              | -164              | -44.0        |
| c) investments held to maturity  | -             | -                | -                 | -            |
| d) financial liabilities   | -27           | -59              | -32               | -54.2        |
| 110. Profits (Losses) on financial assets and liabilities designated at fair value             | 13            | -                | 13                | -            |
| <b>120. Net interest and other banking income</b>  | <b>7,199</b>  | <b>8,579</b>     | <b>-1,380</b>     | <b>-16.1</b> |
| 130. Net losses / recoveries on impairment:  | -1,788        | -971             | 817               | 84.1         |
| a) loans   | -1,587        | -1,013           | 574               | 56.7         |
| b) financial assets available for sale   | -232          | -71              | 161               |              |
| c) investments held to maturity  | -             | -                | -                 | -            |
| d) other financial activities  | 31            | 113              | -82               | -72.6        |
| <b>140. Net income from banking activities</b>   | <b>5,411</b>  | <b>7,608</b>     | <b>-2,197</b>     | <b>-28.9</b> |
| 150. Administrative expenses:  | -5,116        | -5,039           | 77                | 1.5          |
| a) personnel expenses  | -2,577        | -2,475           | 102               | 4.1          |
| b) other administrative expenses   | -2,539        | -2,564           | -25               | -1.0         |
| 160. Net provisions for risks and charges  | -108          | -271             | -163              | -60.1        |
| 170. Net adjustments to / recoveries on property and equipment                                 | -124          | -135             | -11               | -8.1         |
| 180. Net adjustments to / recoveries on intangible assets                                      | -3            | -2               | 1                 | 50.0         |
| 190. Other operating expenses (income)   | 247           | 704              | -457              | -64.9        |
| <b>200. Operating expenses</b>   | <b>-5,104</b> | <b>-4,743</b>    | <b>361</b>        | <b>7.6</b>   |
| 210. Profits (Losses) on equity investments  | -315          | -115             | 200               |              |
| 220. Valuation differences on property, equipment and intangible assets measured at fair value | -             | -                | -                 | -            |
| 230. Goodwill impairment   | -             | -                | -                 | -            |
| 240. Profits (Losses) on disposal of investments   | 325           | 66               | 259               |              |
| <b>250. Income (Loss) before tax from continuing operations</b>                                | <b>317</b>    | <b>2,816</b>     | <b>-2,499</b>     | <b>-88.7</b> |
| 260. Taxes on income from continuing operations  | 368           | -75              | 443               |              |
| <b>270. Income (Loss) after tax from continuing operations</b>                                 | <b>685</b>    | <b>2,741</b>     | <b>-2,056</b>     | <b>-75.0</b> |
| 280. Income (Loss) after tax from discontinued operations                                      | 1,075         | 139              | 936               |              |
| <b>290. Net income (loss)</b>  | <b>1,760</b>  | <b>2,880</b>     | <b>-1,120</b>     | <b>-38.9</b> |

## Reconciliation between restated Intesa Sanpaolo financial statements and reclassified Intesa Sanpaolo financial statements



## Reconciliation between restated Intesa Sanpaolo balance sheet and reclassified Intesa Sanpaolo balance sheet

|  |  | (millions of euro) |                        |
|--|--|--------------------|------------------------|
| Captions of the reclassified balance sheet - Assets                                      | Captions of the restated balance sheet - Assets  | 31.12.2016         | 31.12.2015<br>restated |
| Financial assets held for trading  |  | 19,577             | 23,005                 |
|  | <i>Caption 20 - Financial assets held for trading</i>  | 19,577             | 23,005                 |
| Financial assets designated at fair value through profit and loss                        |  | 371                | 356                    |
|  | <i>Caption 30 - Financial assets designated at fair value through profit and loss</i>                        | 371                | 356                    |
| Financial assets available for sale  |  | 38,983             | 29,848                 |
|  | <i>Caption 40 - Financial assets available for sale</i>  | 38,983             | 29,848                 |
| Investments held to maturity   |  | 335                | 335                    |
|  | <i>Caption 50 - Investments held to maturity</i>   | 335                | 335                    |
| Due from banks   |  | 126,634            | 120,009                |
|  | <i>Caption 60 - Due from banks</i>   | 126,634            | 120,009                |
| Loans to customers   |  | 200,549            | 195,479                |
|  | <i>Caption 70 - Loans to customers</i>   | 200,549            | 195,479                |
| Equity investments   |  | 30,589             | 27,634                 |
|  | <i>Caption 100 - Equity investments</i>  | 30,589             | 27,634                 |
| Property, equipment and intangible assets  |  | 5,137              | 5,280                  |
|  | <i>Caption 110 - Property and equipment</i>  | 2,758              | 2,899                  |
|  | <i>+ Caption 120 - Intangible assets</i>   | 2,379              | 2,381                  |
| Tax assets   |  | 10,589             | 10,652                 |
|  | <i>Caption 130 - Tax assets</i>  | 10,589             | 10,652                 |
| Non-current assets held for sale and discontinued operations                             |  | 1                  | 1                      |
|  | <i>Caption 140 - Non-current assets held for sale and discontinued operations</i>                            | 1                  | 1                      |
| Other assets   |  | 14,927             | 16,638                 |
|  | <i>Caption 10 - Cash and cash equivalents</i>  | 6,213              | 7,613                  |
|  | <i>+ Caption 150 - Other assets</i>  | 2,834              | 2,525                  |
|  | <i>+ Caption 80 - Hedging derivatives</i>  | 5,720              | 6,427                  |
|  | <i>+ Caption 90 - Fair value change of financial assets in hedged portfolios</i>                             | 160                | 73                     |
| <b>Total Assets</b>  | <b>Total Assets</b>  | <b>447,692</b>     | <b>429,237</b>         |
| Captions of the reclassified balance sheet - Liabilities and Shareholders' Equity        | Captions of the restated balance sheet - Liabilities and Shareholders' Equity                                | 31.12.2016         | 31.12.2015<br>restated |
| Due to banks   |  | 139,036            | 125,914                |
|  | <i>Caption 10 - Due to banks</i>   | 139,036            | 125,914                |
| Due to customers and securities issued   |  | 232,188            | 229,824                |
|  | <i>Caption 20 - Due to customers</i>   | 147,364            | 130,376                |
|  | <i>+ Caption 30 - Securities issued</i>  | 84,824             | 99,448                 |
| Financial liabilities held for trading   |  | 16,670             | 15,949                 |
|  | <i>Caption 40 - Financial liabilities held for trading</i>   | 16,670             | 15,949                 |
| Financial liabilities designated at fair value through profit and loss                   |  | 8                  | 4                      |
|  | <i>Caption 50 - Financial liabilities designated at fair value through profit and loss</i>                   | 8                  | 4                      |
| Tax liabilities  |  | 811                | 748                    |
|  | <i>Caption 80 - Tax liabilities</i>  | 811                | 748                    |
| Liabilities associated with non-current assets held for sale and discontinued operations |  | -                  | -                      |
|  | <i>Caption 90 - Liabilities associated with non-current assets held for sale and discontinued operations</i> | -                  | -                      |
| Other liabilities  |  | 12,807             | 11,036                 |
|  | <i>Caption 100 - Other liabilities</i>   | 5,762              | 4,315                  |
|  | <i>+ Caption 60 - Hedging derivatives</i>  | 6,517              | 6,014                  |
|  | <i>+ Caption 70 - Fair value change of financial liabilities in hedged portfolios</i>                        | 528                | 707                    |
| Allowances for specific purpose  |  | 2,684              | 2,631                  |
|  | <i>Caption 110 - Employee termination indemnities</i>  | 736                | 708                    |
|  | <i>Caption 120 - Allowances for risks and charges</i>  | 1,948              | 1,923                  |
| Share capital  |  | 8,732              | 8,732                  |
|  | <i>Caption 180 - Share capital</i>   | 8,732              | 8,732                  |
| Reserves (net of treasury shares)  |  | 31,304             | 30,888                 |
|  | <i>Caption 160 - Reserves</i>  | 3,816              | 3,397                  |
|  | <i>Caption 170 - Share premium reserve</i>   | 27,508             | 27,508                 |
|  | <i>- Caption 190 - Treasury shares</i>   | -20                | -17                    |
| Valuation reserves   |  | -425               | -246                   |
|  | <i>Caption 130 - Valuation reserves</i>  | -425               | -246                   |
| Equity instruments   |  | 2,117              | 877                    |
|  | <i>Caption 150 - Equity instruments</i>  | 2,117              | 877                    |
| Net income (loss)  |  | 1,760              | 2,880                  |
|  | <i>Caption 200 - Net income (loss)</i>   | 1,760              | 2,880                  |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>Total Liabilities and Shareholders' Equity</b>  | <b>447,692</b>     | <b>429,237</b>         |

## Reconciliation between Intesa Sanpaolo income statement and reclassified Intesa Sanpaolo income statement

|   |  | (millions of euro) |                  |
|---|--|--------------------|------------------|
| Captions of the reclassified<br>income statement                | Captions of the restated<br>income statement   | 2016               | 2015<br>restated |
| <b>Net interest income</b>                                      |  | 2,836              | 2,790            |
|   | Caption 30 Interest margin   | 2,514              | 2,495            |
|   | - Caption 30 (partial) Interest margin (Effect of purchase price allocation)   | 2                  | 7                |
|   | + Caption 130 a) (partial) Net losses/recoveries on impairment of loans (Time value loans)                                 | 352                | 312              |
|   | + Caption 150 a) (partial) Personnel expenses (Time value employee termination indemnities and other)                      | -31                | -23              |
|   | + Caption 160 (partial) Net provisions for risks and charges (Time value allowances for risks and charges)                 | -1                 | -1               |
| <b>Net fee and commission income</b>                            |  | 2,807              | 2,930            |
|   | Caption 60 Net fee and commission income   | 2,828              | 2,948            |
|   | + Caption 150 b) (partial) Other administrative expenses (Recovery of other expenses)                                      | -21                | -18              |
| <b>Profits (Losses) on trading</b>                              |  | 133                | 319              |
|   | Caption 80 Profits (Losses) on trading   | -106               | -105             |
|   | + Caption 90 Fair value adjustments in hedge accounting  | -25                | -17              |
|   | + Caption 100 b) Profits (Losses) on disposal or repurchase of financial assets available for sale                         | 209                | 373              |
|   | + Caption 100 d) Profits (Losses) on disposal or repurchase of financial liabilities                                       | -27                | -59              |
|   | + Caption 110 Profits (Losses) on financial assets and liabilities designated at fair value                                | 13                 | -                |
|   | + Caption 70 (partial) Dividend and similar income on shares available for sale and held for trading                       | 95                 | 127              |
|   | + Caption 100 b) (partial) Profits (Losses) on disposal or repurchase of financial assets available for sale (VISA Europe) | -26                | -                |
| <b>Other operating income (expenses)</b>                        |  | 1,831              | 2,908            |
|   | Caption 70 Dividend and similar income   | 1,845              | 2,940            |
|   | + Caption 190 Other operating income (expenses)  | 247                | 705              |
|   | - Caption 70 (partial) Dividend and similar income on shares available for sale and held for trading                       | -95                | -127             |
|   | - Caption 190 (partial) Other operating income (expenses) (Recovery of expenses and indirect taxes)                        | -378               | -399             |
|   | - Caption 190 (partial) Other operating income (expenses) (IMI/SIR dispute)  | -13                | -211             |
|   | - Caption 190 (partial) Other operating income (expenses) (US sanction)  | 225                | -                |
| <b>Operating income</b>   |  | 7,607              | 8,947            |
| <b>Personnel expenses</b>                                       |  | -2,487             | -2,422           |
|   | Caption 150 a) Personnel expenses  | -2,577             | -2,475           |
|   | - Caption 150 a) (partial) Personnel expenses (Time value employee termination indemnities and other)                      | 31                 | 23               |
|   | - Caption 150 a) (partial) Personnel expenses (Charges for integration and exit incentives)                                | 59                 | 30               |
| <b>Other administrative expenses</b>                            |  | -1,772             | -1,801           |
|   | Caption 150 b) Other administrative expenses   | -2,539             | -2,564           |
|   | - Caption 150 b) (partial) Other administrative expenses (Charges for integration)   | 60                 | 58               |
|   | - Caption 150 b) (partial) Other administrative expenses (Recovery of other expenses)                                      | 21                 | 18               |
|   | - Caption 150 b) (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)                    | 308                | 288              |
|   | + Caption 190 (partial) Other operating income (expenses) (Recovery of expenses and indirect taxes)                        | 378                | 399              |
| <b>Adjustments to property, equipment and intangible assets</b> |  | -126               | -138             |
|   | Caption 170 Net adjustments to/recoveries on property and equipment  | -124               | -135             |
|   | + Caption 180 Net adjustments to/recoveries on intangible assets   | -3                 | -3               |
|   | - Caption 170 (partial) Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)      | -4                 | -14              |
|   | - Caption 170 (partial) Net adjustments to/recoveries on property and equipment (Impairment)                               | 3                  | 12               |
|   | - Caption 180 (partial) Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)           | 2                  | 2                |
| <b>Operating costs</b>  |  | <b>-4,385</b>      | <b>-4,361</b>    |
| <b>Operating margin</b>   |  | <b>3,222</b>       | <b>4,586</b>     |



| Captions of the reclassified income statement   |   | Captions of the restated income statement |              |
|---|---|---|--------------|
|   |   | 2016                                      | 2015         |
|   |   | restated                                  |              |
|   |   | (millions of euro)                        |              |
| <b>Operating margin</b>   |   | <b>3,222</b>                              | <b>4,586</b> |
| <b>Net adjustments to loans</b>   |   | -1,960                                    | -1,208       |
|   | Caption 100 a) Profits (Losses) on disposal or repurchase of loans  | -52                                       | 4            |
|   | + Caption 130 a) Net losses/recoveries on impairment of loans   | -1,587                                    | -1,013       |
|   | + Caption 130 d) Net losses/recoveries on impairment of other financial activities  | 31  | 113          |
|   | - Caption 130 a) (partial) Net losses/recoveries on impairment of loans (Time value loans)  | -352                                      | -312         |
| <b>Net provisions and net impairment losses on other assets</b>                               |   | -171                                      | -308         |
|   | Caption 160 Net provisions for risks and charges  | -108                                      | -271         |
|   | + Caption 130 b) Net losses/recoveries on impairment of financial assets available for sale   | -232                                      | -71          |
|   | - Caption 130 b) (partial) Net losses/recoveries on impairment of financial assets available for sale (Investments for the stability of the banking system) | 176                                       | -            |
|   | + Caption 130 c) Net losses/recoveries on impairment of investments held to maturity  | -   | -            |
|   | - Caption 160 (partial) Net provisions for risks and charges (Time value allowances for risks and charges)  | 1   | 1            |
|   | - Caption 160 (partial) Net provisions for risks and charges (Investments for the stability of the banking system)  | 60  | -            |
|   | - Caption 160 (partial) Net provisions for risks and charges (Tax charges)  | -   | 135          |
|   | + Caption 170 (partial) Net adjustments to/recoveries on property and equipment (Impairment)  | -3  | -12          |
|   | + Caption 210 (partial) Profits (Losses) on equity investments (impairment of non-controlling interests)  | -65                                       | -90          |
| <b>Other income (expenses)</b>  |   | 139                                       | 379          |
|   | Caption 100 c) Profits (Losses) on disposal or repurchase of investments held to maturity   | -   | -            |
|   | Caption 210 Profits (Losses) on equity investments  | -315                                      | -115         |
|   | Caption 240 Profits (Losses) on investments   | 325                                       | 66           |
|   | + Caption 100 b) (partial) Profits (Losses) on disposal or repurchase of financial assets available for sale (VISA Europe)                                  | 26  | -            |
|   | + Caption 190 (partial) Other operating income (expenses) (IMI/SIR dispute)   | 13  | 211          |
|   | + Caption 190 (partial) Other operating income (expenses) (US sanction)   | -225                                      | -            |
|   | - Caption 210 (partial) Profits (Losses) on equity investments  | 315                                       | 217          |
| <b>Income (Loss) from discontinued operations</b>   |   | 1,090                                     | 141          |
|   | Caption 280 Income (Loss) from discontinued operations  | 1,075                                     | 139          |
|   | + Caption 260 (partial) Taxes on income from continuing operations (attributable to income (Loss) from discontinued operations)                             | -   | 2            |
|   | - Caption 280 (partial) Income (Loss) from discontinued operations (of which taxes)   | 15  | -            |
| <b>Gross income (loss)</b>  |   | <b>2,320</b>                              | <b>3,590</b> |
| <b>Taxes on income</b>  |   | 139                                       | -332         |
|   | Caption 260 Taxes on income from continuing operations  | 368                                       | -76          |
|   | + Caption 160 (partial) Net provisions for risks and charges (Tax charges)  | -   | -135         |
|   | - Caption 260 (partial) Taxes on income from continuing operations (Charges for integration and exit incentives)  | -36                                       | -27          |
|   | - Caption 260 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)  | -   | 2            |
|   | + Caption 260 (partial) Taxes on income from continuing operations (attributable to income (Loss) from discontinued operations)                             | -   | -2           |
|   | - Caption 260 (partial) Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)   | -100                                      | -94          |
|   | - Caption 260 (partial) Taxes on income from continuing operations (Impairment losses on investments for the stability of the banking system)               | -78                                       | -            |
|   | + Caption 280 (partial) Income (Loss) from discontinued operations (of which taxes)   | -15                                       | -            |
| <b>Charges (net of tax) for integration and exit incentives</b>                               |   | -83                                       | -61          |
|   | + Caption 150 a) (partial) Personnel expenses (Charges for integration and exit incentives)   | -59                                       | -30          |
|   | + Caption 150 b) (partial) Other administrative expenses (Charges for integration)  | -60                                       | -58          |
|   | + Caption 260 (partial) Taxes on income from continuing operations (Charges for integration and exit incentives)  | 36  | 27           |
| <b>Effect of purchase price allocation (net of tax)</b>                                       |   | 1   | 3            |
|   | + Caption 10 (partial) Interest and similar income  | -2  | -7           |
|   | + Caption 20 (partial) Interest and similar expense   | 1   | -            |
|   | + Caption 100 b) (partial) Profits (Losses) on disposal or repurchase of financial assets available for sale  | -   | -            |
|   | + Caption 170 (partial) Net adjustments to/recoveries on property and equipment (Effect of purchase price allocation)                                       | 4   | 14           |
|   | + Caption 180 (partial) Net adjustments to/recoveries on intangible assets (Effect of purchase price allocation)  | -2  | -2           |
|   | + Caption 260 (partial) Taxes on income from continuing operations (Effect of purchase price allocation)  | -   | -2           |
| <b>Levies and other charges concerning the banking industry (net of tax)</b>                  |   | -366                                      | -194         |
|   | + Caption 130 b) (partial) Net losses/recoveries on impairment of financial assets available for sale (Investments for the stability of the banking system) | -176                                      | -            |
|   | - Caption 150 b) (partial) Other administrative expenses (Resolution fund and deposit guarantee scheme)   | -308                                      | -288         |
|   | + Caption 160 (partial) Net provisions for risks and charges (Investments for the stability of the banking system)  | -60                                       | -            |
|   | + Caption 260 (partial) Taxes on income from continuing operations (Resolution fund and deposit guarantee scheme)   | 100                                       | 94           |
|   | + Caption 260 (partial) Taxes on income from continuing operations (Impairment losses on investments for the stability of the banking system)               | 78  | -            |
| <b>Impairment (net of tax) of goodwill, other intangible assets and controlling interests</b> |   | -251                                      | -126         |
|   | Caption 230 Goodwill impairment   | -   | -            |
|   | + Caption 210 (partial) Profits (Losses) on equity investments (impairment of controlling interests)  | -251                                      | -126         |
|   | + Caption 260 (partial) Taxes on income from continuing operations (Goodwill, intangible assets and impairment of controlling interests)                    | -   | -            |
| <b>Net income (loss)</b>  | <b>Caption 290 Net income (loss)</b>  | <b>1,760</b>                              | <b>2,880</b> |



Other attachments



## Statement of Intesa Sanpaolo property, equipment and financial assets subject to revaluation

(millions of euro)

|                           | REVALUATIONS                        |                       |                       |                      |                       |                       | Total |
|---------------------------|-------------------------------------|-----------------------|-----------------------|----------------------|-----------------------|-----------------------|-------|
|                           | Royal Law Decree 1729 of 19.10.1937 | Law 823 of 19.12.1973 | Law 576 of 02.12.1975 | Law 72 of 19.03.1983 | Law 413 of 30.12.1991 | Law 218 of 30.07.1990 |       |
| <b>Real estate assets</b> | -                                   | 16                    | 11                    | 51                   | 141                   | 184                   | 403   |
| <b>Equity investments</b> | -                                   | -                     | -                     | -                    | -                     | 26                    | 26    |
| a) Subsidiaries           | -                                   | -                     | -                     | -                    | -                     | 26                    | 26    |
| b) Other                  | -                                   | -                     | -                     | -                    | -                     | -                     | -     |
| <b>Total</b>              | -                                   | 16                    | 11                    | 51                   | 141                   | 210                   | 429   |

## Fees for auditing and services other than auditing pursuant to Article 149-duodecies of Consob Regulation 11971

(millions of euro)

| Type of service                | INTESA SANPAOLO |              | GROUP COMPANIES <sup>(*)</sup> |              |
|--------------------------------|-----------------|--------------|--------------------------------|--------------|
|                                | KPMG            | KPMG Network | KPMG                           | KPMG Network |
| Independent audit (**)         | 6.57            | -            | 12.22                          | -            |
| Release of attestations (***)  | 1.35            | -            | 1.33                           | -            |
| Tax consulting services        | -               | -            | -                              | -            |
| Other services:                |                 |              |                                |              |
| <i>agreed audit procedures</i> | 0.16            | -            | 1.27                           | -            |
| <i>social report audit</i>     | 0.05            | -            | 0.06                           | -            |
| <i>other</i>                   | -               | -            | 0.05                           | -            |
| <b>TOTAL</b>                   | <b>8.13</b>     | <b>-</b>     | <b>14.93</b>                   | <b>-</b>     |

(\*) Group companies and other consolidated subsidiaries.

(\*\*) Including costs for statutory audit and voluntary audit. Costs for audit of non-consolidated funds (carried by the funds) for about 6.7 million euro are not included

(\*\*\*) Including audit costs, on a voluntary basis, for "Pillar 3" disclosure

Amounts net of VAT and reimbursed expenses and Consob contribution

# Glossary





## GLOSSARY

The definition of certain technical terms is provided below, in the meaning adopted in the "Annual Report" and with exclusion of the terms today widely used in the Italian language or which are used in a context that already clarifies their meaning

### **ABS – Asset-Backed Securities**

Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities. Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

### **ABS (receivables)**

ABS whose collateral is made up of receivables.

### **Acquisition finance**

Leveraged buy-out financing.

### **Additional return**

Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

### **Advisor**

Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

### **AIRB (Advanced Internal Rating Based) Approach**

Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation (IRB) or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. With the Advanced Approach, banks use their own internal estimates for all inputs (PD, LGD, EAD and Maturity) used for credit risk assessment, whereas for Foundation IRB they only estimate PD.

### **ALM – Asset & Liability Management**

Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

### **ALT-A Agency**

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

### **ALT- A - Alternative A Loan**

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

### **Alternative investment**

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

### **Amortised cost**

Differs from "cost" in that it provides for the progressive amortisation of the differential between the book value and

nominal value of an asset or liability on the basis of the effective rate of return.

### **AP – Attachment Point**

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

### **Arrangement fee**

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

### **Arranger**

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

### **Asset allocation**

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

### **Asset management**

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

### **AT1**

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

### **Audit**

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

### **β**

The beta coefficient of an issuer or a group of comparable issuers, an expression of the relationship between an equity's actual return and the total return of the market in question.

### **Back office**

The unit of a bank or financial company that processes all the transactions performed by the operational units (front office).

### **Backtesting**

Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

### **Banking book**

Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to "proprietary" trading.

### **Basis swap**

Contract providing for the exchange between two parties, of two floating-rate payments linked to a different index.

### **Best practice**

It generally identifies conduct in line with state-of-the-art skills and techniques in a given technical/professional area.

**Bid-ask spread**

The difference between the buying and selling price of a given financial instrument or set of financial instruments.

**Bookrunner**

See Lead manager and Joint lead manager.

**Brand name**

IFRS 3 considers the "brand name" a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process. The term "brand" is used in accounting principles with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.

**Budget**

Forecast of cost and revenue performance of a company over a period of time.

**Business combinations**

In accordance with international accounting standard IFRS 3, a transaction or other event in which an acquirer obtains control of one or more company assets.

**CAGR (Compound Annual Growth Rate)**

Compound annual growth rate of an investment over a specified period of time. If  $n$  is the number of years, CAGR is calculated as follows:  $(\text{Ending value}/\text{Starting value})^{1/n} - 1$ .

**Capital Asset Pricing Model (CAPM)**

An economic model for determining the "opportunity cost" i.e. the amount of income for the period necessary to remunerate the cost of capital.

**Capital structure**

It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:

Equity Tranche (B): The riskiest portion of the portfolio, it is also known as "first loss" and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.

Mezzanine Tranche (B): The tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB and AAA.

Senior/Super-senior Tranche (B): The tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

**Captive**

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

**Carry trade**

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

**Cash flow hedge**

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

**Cash-generating Unit (CGU)**

The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

**Cash management**

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

**Categories of financial instruments provided for by IAS 39**

Financial assets "held-for-trading", which includes the following: any asset acquired for the purpose of selling it in the near term or part of portfolios of instruments managed jointly for the purpose of short-term profit-taking, and assets that the entity decides in any case to measure at fair value, with fair value changes recognized in profit and loss; financial assets "held-to-maturity", non-derivative assets with fixed term and fixed or determinable payments, that an entity intends and is able to hold to maturity; "Loans and receivables", non-derivative financial assets with fixed or determinable payments not quoted in an active market; financial assets "available-for-sale", specifically designated as such, or, to a lesser extent, others not falling under the previous categories.

**CDO – Collateralised Debt Obligation**

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

**CDSs on ABX**

An Asset-backed security index (ABX) is an index with asset-backed securities as an underlying. Each ABX refers to a basket of 20 reference obligations belonging to a specific ABS sector. Each ABX (there are five in total) reproduces a rating class (AAA, AA, A, BBB, and BBB-).

In particular, the ABX.HE index, launched on 19 January 2006 (Annex Date), is made up of reference obligations of the home equity segment of ABS (Residential Mortgage-Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.

For ABX, the market does not provide credit curves but directly price valuation. The settlement admitted for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pays the protection buyer the losses incurred as these emerge, without leading to termination of the contract.

Please note that the coverage achieved via the purchase of ABX indices, even if it is structured so as to match as closely as possible the characteristics of the hedged portfolio, remains in any case exposed to basis risks. In other words, since it is not a specific hedge of individual exposures, it may generate volatility in the income statement whenever there is imperfect correlation between index prices and market value of the hedged positions.

**Certificates**

Financial instruments which, based on their contracts, may be classified as optional derivatives that replicate the performance of an underlying asset. By purchasing a certificate, an investor acquires the right to receive – at a set date – an amount linked to the value of the underlying. In other words, through certificates investors can acquire an indirect position in the

underlying asset. In some cases, investors can use the optional structure to obtain full or partial protection of the invested capital, which takes the form of full or partial returns of the premiums paid, irrespective of the performance of the parameters set in the contracts.

Certificates are securitised instruments and, as such, they can be freely traded as credit securities (traded on the SeDeX - Securitised Derivatives Exchange - market managed by Borsa Italiana, and on the EuroTLX market).

#### **CLO - Collateralised Loan Obligation**

CDOs backed by a portfolio of corporate loans.

#### **CMBS - Commercial Mortgage-Backed Securities**

Debt instruments backed by mortgages on commercial real estate.

#### **CMBX index**

The same as the ABX index, the only difference being that the reference entities are CMBSs.

#### **CMO - Collateralised Mortgage Obligation**

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

#### **Collective assessment of performing loans**

With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

#### **Commercial paper**

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

#### **Common equity tier 1 ratio (CET1 Ratio)**

The ratio of Common Equity Tier 1 (CET1) to total risk-weighted assets.

#### **Consumer ABS**

ABS whose collateral is made up of consumer credits.

#### **Core Business**

Main area of business on which company's strategies and policies are focused.

#### **Core deposits**

"Core deposits" are "customer-related intangibles", generally recorded in business combinations between banks. The intangible value of core deposits stems from the future benefits for the acquirer deriving from the lower funding cost compared to market parameters. Basically, the acquirer may use funding for its lending and investment activities which it pays less than the market interest rate.

#### **Corporate**

Customer segment consisting of medium- and large-sized companies (mid-corporate, large corporate).

#### **Cost/income ratio**

Economic indicator consisting of the ratio of operating costs to net operating income.

#### **Covenant**

A covenant is a clause, expressly agreed upon during the contractual phase, under which a lender is entitled to renegotiate and revoke a loan upon the occurrence of the events set out in the clause, linking the debtor's financial

performance to events that trigger termination/amendment of contractual conditions (maturity, rates, etc.).

#### **Covered bond**

Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

#### **CPPI (Constant Proportion Insurance Portfolio)**

A technique consisting of forming a portfolio of two assets, one without risk that offers a certain rate of return (risk-free) and one with risk that offers a generally higher return. The purpose of the re-balancing procedure is to prevent the value of the portfolio from falling below a predetermined level (floor), which rises at the risk-free rate over time and coincides with the capital to be guaranteed at maturity.

#### **CR01**

Referred to a credit portfolio, it indicates the change in portfolio value that would occur for a 1-basis-point increase in credit spreads.

#### **Credit default swap/option**

Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

#### **Credit derivatives**

Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

#### **Credit enhancement**

Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

#### **Credit risk**

The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

#### **Credit Risk Adjustment (CRA)**

A technique that aims to draw attention to the penalty resulting from the counterparty's creditworthiness used in determining the fair value of unlisted derivative financial instruments.

#### **Credit spread option**

Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

#### **Credit/emerging markets (Funds)**

Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

#### **Credit-linked notes**

Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) - in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging - take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

**CreditVaR**

Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank's risk propensity.

**Cross selling**

Activity designed to increase customer loyalty through the sale of integrated products and services.

**CRP (Country Risk Premium)**

Country risk premium; it expresses the component of the cost of capital aimed specifically at providing compensation for the risk implicit in a given country (namely the risk associated with financial, political and monetary instability).

**Cumulative loss**

Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

**Default**

Declared inability to honour one's debts and/or make the relevant interest payments.

**Deferred tax (tax liabilities or assets)**

Deferred tax liabilities are the amounts of income tax that will be payable in future periods and arising from taxable temporary differences.

Deferred tax assets are the amounts of income taxes claimable in future periods and arising from:

- (a) deductible temporary differences;
- (b) the carry forward of unused tax losses; and
- (c) the carry forward of unused tax credits.

Temporary difference is the difference between the carrying amount of an asset or liability and its tax base.

There are two types of temporary difference:

- (d) taxable temporary difference, i.e. a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability is settled; or
- (e) deductible temporary difference: a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled.

**Delinquency**

Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

**Delta**

Value that expresses the sensitivity of the price of the underlying asset for an option. Delta is positive for call options because the price of the option rises along with the price of the underlying asset. Delta is negative for put options because a rise in the price of the underlying asset yields a decrease in the price of the option.

**Delta-Gamma-Vega (DGV VaR)**

Parametric model for calculation of the VaR, able to assess both linear and non-linear risk factors.

**Desk**

It usually designates an operating unit dedicated to a particular activity.

**Directional (Funds)**

Funds that invest in financial instruments that profit from directional market movements, also through macroeconomic forecasting.

**Domestic Currency Swap**

Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the difference between the forward and the spot exchange rates is settled in euro.

**Duration**

An indicator of the interest rate risk of a bond or bond portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a bond.

**Dynamics of funding**

Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time current accounts and time deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

**EAD – Exposure At Default**

Relating to positions on or off balance sheet, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

**EDF – Expected Default Frequency**

Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

**Effective interest rate**

The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

**Embedded derivatives**

Embedded derivatives are clauses (contractual terms) included in a financial instrument that generate the same effects as an independent derivative.

**Embedded value**

A measure of the underlying value of a life insurance company. It is the sum of the company's adjusted net asset value and the present value of the future income margins from the policies already in force over the period of their residual life.

**Eonia (Euro overnight index average)**

Weighted average of the overnight rates transmitted to the ECB by a sample of banks operating in the euro area.

**Equity hedge / long-short (Funds)**

Funds that predominantly invest in stocks with the possibility of creating hedging strategies by means of short sales of the same stocks or strategies in derivatives contracts involving securities or market indices.

**Equity origination**

Increase of a company's risk capital achieved by floating a new issue of stock.

**ERP (equity risk premium)**

Risk premium demanded by investors in the market in question. ISP uses the risk premium calculated according to the historical approach (geometric average of the difference between equity and risk-free returns for the period 1928-2009) by New York University - Stern School of Business.

**EVA (Economic Value Added)**

An indicator that provides a snapshot of the amount of value created (if positive) or destroyed (if negative) by enterprises. In contrast to other parameters that measure business performance, EVA is calculated net of the cost of equity capital, that is to say the investment made by shareholders.

**Event-driven (Funds)**

Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

**EVT – Extreme Value Theory**

Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

**Exotics (derivatives)**

Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

**Expected loss**

Amount of losses on loans or receivables that an entity could sustain over a holding period of one year. Given a portfolio of loans and receivables, the expected loss represents the average value of the distribution of losses.

**Facility (fee)**

Fee calculated with reference to the disbursed amount of a loan.

**Factoring**

Sale of trade receivables to factoring companies, for credit management and collection, normally associated with the granting of a loan to the seller.

**Fair value**

The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

**Fair value hedge**

Hedging against the risk of change in the fair value of a financial statement item, attributable to a particular risk.

**Fair Value Option (FVO)**

The Fair Value Option is one option for classifying a financial instrument.

When the option is exercised, even a non-derivative financial instrument not held for trading may be measured at fair value through profit or loss.

**Fairness/Legal opinion**

An opinion provided on request by experts of recognised professionalism and competence, on the adequacy of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

**FICO Score**

In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual's credit report. The FICO score is an indicator of the borrower's creditworthiness. A mortgage lender will use the "score" to assess borrower default risk and to correctly price risk.

**Financial instruments listed in an active market**

A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**Forward Rate Agreement**

See "Forwards".

**Forwards**

Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

**Front office**

The divisions of a company designed to deal directly with customers.

**Fundamental Valuation**

Stock price analysis performed by estimating the fair value of stocks and comparing it with their market value.

**Funding**

The raising of capital, in various forms, to finance the company business or particular financial transactions.

**Futures**

Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

**"G" factor ("g" growth rate)**

It is the factor used for perpetuity projection of cash flows in order to calculate "Terminal value".

**Global custody**

An integrated package of services including, in addition to the custody of securities, the performance of administrative activities relating to the settlement of securities, collections and payments, acting as depositary bank and cash management, as well as various forms of portfolio performance reporting.

**Goodwill**

The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

**Governance**

The set of instruments, rules and standards regulating the life of the company, particularly as regards the transparency of documents and company records, and the completeness of information made available to the market.

**Grandfathering**

The new composition of own funds according to Basel 3 and other less significant measures shall enter into force following a

transitional period. Specifically, old instruments included in Basel 2 regulatory capital which are not included as per Basel 3 shall be gradually eliminated (known as the grandfathering period).

#### **Greeks**

Greeks are the quantities that identify the greater or lesser sensitivity of a derivative contract, typically an option, to changes in the value of the underlying asset or other parameters (e.g. intrinsic volatility, interest rates, stock prices, dividends and correlations).

#### **Harmonised mutual funds**

Mutual funds within the scope of Directive 85/611/EEC of 20 December 1985, as amended, characterised by their open form, the possibility of offering quotas to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

#### **Hedge accounting**

Rules pertaining to the accounting of hedging transactions.

#### **Hedge fund**

Mutual fund that employs hedging instruments in order to achieve a better result in terms of risk/return ratio.

#### **HELs – Home Equity Loans**

Loans granted up to the current market value of the real estate property used as collateral (therefore with a loan-to-value ratio higher than the ordinary thresholds), by means of first or second lien mortgages. Standard & Poor's considers Subprime and Home Equity Loan largely synonymous when the home equity loan borrowers have low credit score (FICO<659).

#### **HY CBO – High-Yield Collateralised Bond Obligation**

CDOs with collateral represented by High-Yield securities.

#### **IAS/IFRS**

The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

#### **IASB (International Accounting Standard Board)**

The IASB (previously known as the IASC) is the entity responsible for issuing international accounting standards (IAS/IFRS).

#### **ICAAP (Internal Capital Adequacy Assessment Process)**

The "Second Pillar" provisions require that banks implement processes and instruments of Internal Capital Adequacy Assessment Process (ICAAP), to determine the amount of internal capital needed to cover all risks, including risks different from those covered by the total capital requirement ("First Pillar"), when assessing current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

#### **IFRIC (International Financial Reporting Interpretations Committee)**

A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

#### **Impairment**

When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

#### **Impairment test**

The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value

in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:

- intangible assets with indefinite useful life
- goodwill acquired in a business combination
- any asset, if there is any indication of impairment losses.

#### **Incurred loss**

Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss."

#### **Index-linked**

Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

#### **Index-linked life insurance policies**

Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

#### **Indirect customer deposits**

The holding of third parties' securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

#### **Intangible asset**

An identifiable, non-monetary asset lacking physical substance.

#### **Internal dealing**

Transactions between different operating units of the same company. These transactions are recognised in the accounts and contribute to determining the position (trading or hedging) of the individual units involved.

#### **Intraday**

Used to refer to an investment/disinvestment transaction performed in the course of a single day involving the negotiation of a security. It is also used with reference to prices quoted during any one day.

#### **Investment property**

Real estate owned for the purpose of obtaining income and/or benefiting from an increase in their value.

#### **Investment grade**

Term used with reference to high-quality bonds that have received a medium/high rating (e.g., not less than BBB on Standard & Poor's index).

#### **IRS – Interest Rate Swap**

A binding agreement between two parties to exchange two flows calculated over a notional amount with fixed/floating or floating/floating rate.

#### **Joint venture**

Agreement between two or more firms for the performance of a given economic activity, generally through the incorporation of a joint-stock company.

#### **Junior**

In a securitisation transaction it is the lowest-ranking tranche of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.

#### **Ke (Cost of Equity)**

Cost of equity, the minimum return demanded for investments of the same risk level.

**Ke – g**

Difference between the discounting rate for cash flows and the long-term growth rate. If cash flows remain equal, value in use increases as that difference decreases.

**Lambda ( $\lambda$ )**

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.

**LDA - Loss Distribution Approach**

Method for quantitative assessment of the risk profile through the actuarial analysis of single events of internal and external loss; by extension, Loss Distribution Approach shall also include the historical capital calculation model by Business Unit

**Lead manager - Bookrunner Lead bank of a bond issue syndicate.**

The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the borrower. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

**Leveraged & acquisition finance**

See "Acquisition finance".

**Liquidity risk**

The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

**Loss Given Default (LGD)**

It indicates the estimated loss rate in the event of borrower default.

**LTV – Loan-to-Value Ratio**

The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.

The LTV ratio measures the weight of the borrower's own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower's own funds used to buy the asset, the lower the creditor's protection.

**Macro-hedging**

Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

**Mark to Market**

Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

**Mark-down**

Difference between the 1-month Euribor and interest rates on household and business current accounts.

**Market dislocation**

Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with

difficulties in finding significant prices on specialised information providers.

**Market making**

Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

**Market neutral**

Operating strategies involving securities designed to minimise the relevant portfolios' exposure to market volatility.

**Market risk**

Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

**Mark-up**

Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month Euribor.

**Merchant banking**

A range of activities including the underwriting of securities – both equities and bonds – issued by corporate clients for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

**Mezzanine**

In a securitisation transaction it is the tranche ranking between junior and senior tranche.

**M–Maturity**

The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

**Monoline**

Insurance companies which, in exchange for a commission, guarantee the reimbursement of certain bond issues. Formed in the 1970s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for issues of complex financial products: the structure and the assets underlying such issues are often highly complex; the debt positions guaranteed by monoline insurers become easier to value and more appealing for risk-averse investors, since default risk is borne by the insurer.

**Multistrategy / Funds of funds (Funds)**

Funds that do not invest in a single strategy but in a portfolio reflecting different strategies, i.e. in a portfolio of investment funds managed by third parties.

**NAV - Net Asset Value**

The market value of one share of the fund's managed assets.

**Non-performing**

Term generally referring to loans for which payments are overdue.

**Operational risk**

The risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is,

the risk of losses deriving from breach of laws or regulations, contractual or tortious liability or other disputes, ICT (Information and Communication Technology) risk and model risk. Strategic and reputational risks are not included.

#### **Option**

Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

#### **Other related parties – close relatives**

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

#### **Outsourcing**

The transfer of business processes to external providers.

#### **Overnight Indexed Swap (OIS)**

Contract involving the exchange of the net flow deriving from the difference between a fixed and floating interest rate applied to a notional principal amount. The fixed rate is set at the inception of the contract, while the floating rate is determined at maturity as the average of the overnight rates surveyed during the term of the contract, with compound interest.

#### **Over-The-Counter (OTC)**

It designates transactions carried out directly between the parties outside organised markets.

#### **Packages**

Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

#### **Past due loans**

"Past due loans" are non-performing loans on which payments are past due on a continuing basis for over 90 days, in accordance with the definition set forth in current supervisory reporting rules.

#### **Performing**

Term generally referring to loans characterised by regular performance.

#### **Plain vanilla (derivatives)**

Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

#### **Pool (transactions)**

See "Syndicated lending".

#### **Pricing**

Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

#### **Prime broker**

The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund's manager with the utmost confidentiality. The Prime Broker also acts as the fund's lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to the fund. The Prime Broker also provides risk management services, monitoring the hedge

fund's risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund's cash and securities, handling of the netting and settlement process, and recording of all market transactions.

#### **Prime loan**

Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.

#### **Private banking**

Business designed to provide preferred customers with asset management, professional advice and other personalised services.

#### **Private equity**

Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

#### **Probability of Default (PD)**

The likelihood that a debtor will default within the space of 1 year.

#### **Project finance**

Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk, and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

#### **Prudential filters**

In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

#### **PV01**

Measures the price value change of a financial asset following a one basis point shift in the yield curve.

#### **Ratings**

An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

#### **Real estate (finance)**

Structured finance transactions in the real estate sector.

#### **Real Estate Investment Trust (REITs)**

REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

#### **Relative value/Arbitrage (Funds)**

Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

#### **Retail**

Customer segment mainly including households, professionals, retailers and artisans.



**Risk-based lending**

A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

**Risk-free**

Return on risk-free investments. For the Italy CGU and countries in the International Subsidiary Banks CGU with "normal" growth prospects, the return on ten-year Bunds has been adopted, while for countries with "strong" growth prospects, the return on 30-year Bunds has been used.

**Risk Management**

Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

**Risk Weighted Assets (RWA)**

On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

**RMBS - Residential Mortgage-Backed Securities**

Asset-backed securities guaranteed by mortgages on residential real estate.

**ROE (Return On Equity)**

It expresses the return on equity in terms of net income. It is the indicator of greatest interest to shareholders in that it allows them to assess the return on their equity investment.

**Sale without recourse**

Transfer of a loan or receivable in which the transferor does not offer any guarantees in the event of default by the debtor. The transferor thus only guarantees the transferee that the transferred loan or receivable exists, but not that the debtor is solvent.

**Sale with recourse**

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

**Scoring**

System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

**Securitisation**

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

**Senior/Super senior tranche**

In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

**Sensitivity**

It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

**Servicer**

In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

**SGR (Società di gestione del risparmio)**

Joint-stock companies reserved the possibility of providing both collective and individual asset management service jointly. In particular, they are authorised to set up mutual funds, manage their own or others' mutual funds and the assets of SICAVs and provide individual investment portfolio management service.

**SPE/SPV**

Special Purpose Entities or Special Purpose Vehicles are companies established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

**Speculative grade**

Term used to identify issuers with a low credit rating (e.g., below BBB on Standard & Poor's index).

**Spread**

This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

**SpreadVar**

Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

**Stakeholders**

Subjects who, acting in different capacities, interact with the firm's activity, sharing in its profits, influencing its performance/services, and evaluating its economic, social and environmental impact.

**Stock options**

Term used to indicate the right granted to company managers to purchase the company's shares at a certain price (strike price).

**Stress tests**

A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

**Structured export finance**

Structured finance transactions in the goods and services export sector.

**Subprime**

A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or bad loans) or because their debt-to-income or loan-to-value ratio is high.

**Swaps**

Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In an interest-rate swap, the parties exchange flows which may or may not be benchmarked on interest rates, calculated on a notional principal amount (e.g., one party pays a fixed-rate flow while the other pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

**Syndicated lending**

Loans arranged and guaranteed by a pool of banks and other financial institutions.

**Tax rate**

The effective tax rate, determined by the ratio of income taxes to income before tax.

**Terminal value**

An enterprise's value at the end of an analytical cash-flow forecasting period, calculated by multiplying the analytical cash flow for the final period by  $(1 + g)$  and dividing that amount by  $(K_e - g)$ .

**Tier 1**

Tier 1 equity includes Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1).

**Tier 1 ratio**

The ratio of Tier 1 capital, which includes Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) to total risk-weighted assets.

**Tier 2**

Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.

Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

**Time value**

Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

**Total capital ratio**

Capital ratio referred to own funds components (Tier 1 plus Tier 2).

**Total return swap**

A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

**Trading book**

The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

**Trustee (Real estate)**

Real estate vehicles.

**Trust-preferred Securities (TruPS)**

Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

**Underwriting fee**

Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

**Value in use**

Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

**VaR - Value at Risk**

The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

**Vega**

Coefficient that measures the sensitivity of an option's value in relation to a change in or underestimation of volatility.

**Vega01**

Referred to a portfolio, it indicates the change in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

**Vintage**

Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgage portfolios underlying securitisations.

**Warrant**

Negotiable instrument that entitles the holder to purchase from or sell to the issuer fixed-income securities or shares according to specific procedures.

**Waterfall**

Characteristic of a CDO's cash flow projection that is used in the CDO pricing process to model and allocate flows. It establishes the priority of payment of the various tranches in the event of failure of the tests on overcollateralisation and interest coverage ratios.

**Wealth management**

See "Asset management".

**What-if**

Form of analysis that attempts to predict the response of specific elements to changes in baseline parameters.

**Wholesale banking**

Banking activity mainly consisting of high-value transactions concluded with major counterparties.

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## Financial calendar





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| Approval of the Interim Statement as at 31 March 2017:     | 5 May 2017      |
| Approval of the half-yearly report as at 30 June 2017:     | 1 August 2017   |
| Approval of the Interim Statement as at 30 September 2017: | 7 November 2017 |