# Risk management

## MAIN RISKS AND UNCERTAINTIES

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

Group liquidity remains high: as at 30 September 2017, both regulatory indicators LCR and NSFR, also adopted as internal liquidity risk measurement metrics, were well above fully phased-in requirements established by Regulation 575/2013 and Directive 2013/36/EU. At the end of September, the eligible liquidity reserves for the Central Banks came to 170 billion euro (159 billion euro at the end of June 2017), of which 93 billion euro, net of haircut, was unencumbered (81 billion euro at the end of June 2017).
The loan to deposit ratio at the end of September 2017, calculated as the ratio of loans to customers to direct deposits from banking business, including the components relating to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, came to 93%.
In terms of funding, the widespread branch network remains a stable, reliable source: 74% of direct deposits from banking business come from retail operations (285 billion euro). Moreover, during the nine months 2 billion euro in Additional Tier 1 instruments, 2.5 billion euro in senior Eurobonds, 2.5 billion dollars of senior bonds, 1 billion euro in covered bonds and 500 million euro in green bonds were placed on the international markets.
With regard to the targeted refinancing operation TLTRO II, at the end of September 2017, the Group's participation amounted to 57 billion euro, equal to the maximum borrowing allowance (45 billion euro as at 31 December 2016). Including the components relating to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, the amount as at 30 September 2017 is equal to approximately 64 billion euro.
The Intesa Sanpaolo Group's leverage was 6.4% as at 30 September 2017.
The capital base also remains high. Own funds, risk weighted assets and the capital ratios at 30 September 2017 are calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which have transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.
In this calculation, account has been taken of the risk weighted assets of the acquired operations and the banking subsidiaries included within the aggregated scope envisaged in the sale contract for which the authorisation procedure for inclusion in the Banking Group had been completed as at 30 September 2017. At the end of the third quarter, total Own Funds came to 51,324 million euro, against risk-weighted assets of 291,306 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 17.6%, while the ratio of the Group’s Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.9%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 13%.
With regard to the extraordinary circumstances which led, at the end of the first half, to the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, the Common Equity Tier 1 capital includes – as the regulatory conditions for its inclusion pursuant to art. 26, paragraph 2 of the CRR were met – the 3.5 billion euro contribution received on 26 June 2017 by the government to ensure the absolute neutrality of the operation for CET 1 Ratio purposes. This amount, which is included in net income for the period, will not be distributed as dividend.
Conversely, the portion of net income exceeding the aforementioned 3.5 billion euro was not included in CET 1, since its inclusion will not be required until it exceeds the dividend announced to the market (3.4 billion euro for 2017).

The Group’s risk profile remained within the limits approved by the Risk Appetite Framework, consistent with the intention to continue to privilege commercial banking operations.
In relation to market risk, the Group’s average risk profile during the first nine months of 2017 was approximately 72 million euro, compared to an average amount of approximately 101 million euro in the same period of 2016. The trend in the Group’s VaR in the first nine months - mainly determined by Banca IMI - is described in greater detail later in this chapter.
The macroeconomic environment and the financial market volatility heighten the complexity of assessing credit risk and measuring financial assets.
Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of loans to customers and financial institutions, and of exposures subject to country risk.
With regard to performing loans to customers, “collective” adjustments, equal to 1,478 million euro (1,661 million euro including loans within the segregated scope of the former Venetian banks) provide a portfolio coverage ratio of 0.5%.
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 (60.8%) and unlikely to pay positions (28.7%).
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 83% using level 1 inputs, around 15% 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.
Investment levels in structured credit products and hedge funds remained low. During the period, the former generated a positive contribution of 25 million euro (23 million euro including the adjustments to the positions acquired from the former Venetian banks).
Also for the hedge funds, the economic result of the investments in this segment was positive and amounted to approximately 17 million euro during the nine months, compared to the loss of approximately 42 million euro in the same period of 2016.
In volatile market environments, measuring the recoverable amount of intangible assets is also particularly delicate. No problematic issues requiring the remeasurement of the recoverable values of intangible assets and goodwill were identified during the period. In particular, with regard to goodwill, the analyses conducted showed no significant changes to the main parameters and macroeconomic aggregates which could have an impact on the Group's expected cash flows and on the discounting rates thereof based on the models used to verify the retention of the recognition value of the intangible asset in the financial statements.

## THE BASIC PRINCIPLES OF RISK MANAGEMENT

The Intesa Sanpaolo Group's risk acceptance and governance policies are defined by the Board of Directors. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency and functionality of the risk management process and of the Risk Appetite Framework. The Board of Directors carries out its tasks with the support of 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 Steering Committee, as well as by the Chief Risk Officer, reporting directly to the Chief Executive Officer.
The Chief Risk Officer is responsible for: (i) governing the macro-process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved; (ii) setting the Group's risk management guidelines and policies in accordance with the company's strategies and objectives; (iii) coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments; (iv) ensuring the management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies.
The Parent Company performs a guidance and coordination role with respect to the Group Companies, aimed at ensuring effective and efficient risk management at Group level. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.
Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the group controls.
The risk measurement and management tools contribute to defining a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss the Group might incur over a year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risk Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord. Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

## BASEL 3 REGULATIONS AND THE INTERNAL PROJECT

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

With regard to credit risks, in the third quarter, and specifically on 28 August 2017, the Group received notice from the ECB of authorisation to use the internal estimates of the credit conversion factor (CCF) to calculate EAD for the Corporate segment, starting with Supervisory reporting as at 30 September 2017, on a scope including the Parent Company, the network banks in the Banca dei Territori Division, the main Italian companies of the Group, Intesa Sanpaolo Bank Ireland and Intesa Sanpaolo Bank Luxembourg.
For the changes that occurred during the first half of the year, reference is made to the description provided in the Half-yearly Report as at 30 June 2017.

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.

There were no changes in the scope of application of the internal models concerning counterparty risk for OTC derivatives and operational risks compared to 31 December 2016.

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 2017.

As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled “Basel 3 - Pillar 3” or simply “Pillar 3”.
The document is published on the website (group.intesasanpaolo.com) on a quarterly basis.

## CREDIT RISK

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.
In particular, with regard to loans to customers, risk measurement is performed by means of different internal rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a 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.

As mentioned above, on 28 August 2017 the Group received authorisation from the ECB, starting with Supervisory reporting as at 30 September 2017, to use internal estimates of the credit conversion factor (CCF) to calculate EAD for the Corporate segment.
The credit conversion factor (CCF) is the percentage of the margin on a given credit line that will become an exposure over a given time horizon. When multiplied by the credit line's available undrawn margin, it generates exposure at default (EAD).
The estimation model is based on an analysis of drawdowns over the 12 months prior to the event of default and yields a grid specific to each type of business ("International" and "Domestic"), portfolio ("Corporate" and "Large Corporate"), product macro-aggregate ("On-Balance Sheet Portfolio" and "Medium-/Long-term Products"), type of credit line ("Revocable" and "Irrevocable"), percent margin bracket on agreed amounts (thresholds of 15%, 30% and 55%), borrower's turnover (thresholds of 0.5 and 2 million euro) and business sector ("Industrial" and "Non-industrial").
The EAD of credit products without margins has been determined by multiplying the drawdown by the "K-Factor" calculated as the ratio of drawn amounts at default to performing drawn amounts. The statistical analysis supported the choice of a K-Factor of 100% (exposure at default equivalent to drawdowns).

### Credit quality

(millions of euro)

| | 30.09.2017 | | | | | | | | | 31.12.2016 | | | Changes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross exposure | | | Total adjustments | | | Net exposure | | | Gross exposure | Total adjustments | Net exposure | Net exposure |
| | Consolidated figure (a) | Of which: figure of operations acquired (b) | Consolidated figure excluding operations acquired (c) = (a) - (b) | Consolidated figure (a) | Of which: figure of operations acquired (b) | Consolidated figure excluding operations acquired (c) = (a) - (b) | Consolidated figure (a) | Of which: figure of operations acquired (b) | Consolidated figure excluding operations acquired (c) = (a) - (b) | | | | |
| Bad loans | 35,324 | 469 | 34,855 | -21,451 | -247 | -21,204 | 13,873 | 222 | 13,651 | 37,834 | -22,939 | 14,895 | -1,244 |
| Unlikely to pay | 18,506 | 186 | 18,320 | -5,283 | -30 | -5,253 | 13,223 | 156 | 13,067 | 19,745 | -5,310 | 14,435 | -1,368 |
| Past due loans | 485 | 53 | 432 | -91 | -7 | -84 | 394 | 46 | 348 | 558 | -121 | 437 | -89 |
| **Non-performing loans** | **54,315** | **708** | **53,607** | **-26,825** | **-284** | **-26,541** | **27,490** | **424** | **27,066** | **58,137** | **-28,370** | **29,767** | **-2,701** |
| ***of which forborne*** | ***11,494*** | ***113*** | ***11,381*** | ***-3,764*** | ***-28*** | ***-3,736*** | ***7,730*** | ***85*** | ***7,645*** | ***11,727*** | ***-3,523*** | ***8,204*** | ***-559*** |
| Performing loans | 352,319 | 26,453 | 325,866 | -1,661 | -183 | -1,478 | 350,658 | 26,270 | 324,388 | 322,130 | -1,607 | 320,523 | 3,865 |
| *of which forborne* | *8,281* | *747* | *7,534* | *-204* | *-14* | *-190* | *8,077* | *733* | *7,344* | *8,036* | *-208* | *7,828* | *-484* |
| Performing loans represented by securities | 12,863 | 262 | 12,601 | -193 | -16 | -177 | 12,670 | 246 | 12,424 | 14,651 | -228 | 14,423 | -1,999 |
| *of which forborne* | *94* | *-* | *94* | *-1* | *-* | *-1* | *93* | *-* | *93* | *97* | *-1* | *96* | *-3* |
| **Loans to customers** | **419,497** | **27,423** | **392,074** | **-28,679** | **-483** | **-28,196** | **390,818** | **26,940** | **363,878** | **394,918** | **-30,205** | **364,713** | **-835** |

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures concerning assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza and Veneto Banca have not been restated.

As at 30 September 2017, the Group's non-performing loans, net of adjustments, came to 27.1 billion euro, below the levels of the end of 2016 (9.1%) on a like-for-like basis, confirming the gradual decrease shown during the last year. Since the beginning of the year, a significant decrease has also been recorded in non-performing assets as a percentage of total net loans to customers, down to 8.2% from 7.4%, on a like-for-like basis. Including the 26.3 billion euro in performing loans to customers of the former Venetian banks, the percentage of non-performing loans decreases further to 6.9% (this excludes the 424 million euro in non-performing loans subject to securitisation relating to Banca Nuova and Banca Apulia, to be returned to the banks under compulsory administrative liquidation).
In further detail, bad loans came to 13.7 billion euro, net of adjustments, at the end of September 2017, down (-8.4%) from the beginning of the year, also based on the write-offs and sales carried out, and represented 3.7% of total loans (3.5% including the performing loans of the former Venetian banks), compared to 4.1% at the end of 2016. During the same period, the coverage ratio was 60.8% (60.6% in December 2016). Loans included in the unlikely to pay category amounted to 13.1 billion euro, down by 9.5%, accounting for 3.6% of total loans to customers (3.3% including the performing loans of the former Venetian banks), with a coverage ratio of 28.7% (26.9% in December 2016). Past due loans amounted to 348 million euro, down 20.4% since the beginning of the year, with a coverage ratio of 19.4%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, according to the definition introduced by the European Banking Authority, amounted to 7.6 billion euro, with an average coverage ratio of 32.8%, whereas those in the performing loan category were slightly lower (7.3 billion euro).
The overall coverage ratio of performing loans was 0.5%.

# MARKET RISKS

## TRADING BOOK

The measurements concerning market risk include the risks from the scope formerly of Banca Popolare di Vicenza and Veneto Banca, based on the information available as at the date of preparation of the Interim Statement at 30 September 2017.

During the third quarter of 2017, the market risks generated by Intesa Sanpaolo and Banca IMI decreased compared to the average values of the second quarter. The average VaR for the period totalled 61.5 million euro compared to 70 million euro in the second quarter of 2017.

### Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI[(a)]

(millions of euro)

| | 2017 | | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | average 3rd quarter | minimum 3rd quarter | maximum 3rd quarter | average 2nd quarter | average 1st quarter | average 4th quarter | average 3rd quarter | average 2nd quarter | average 1st quarter |
| Intesa Sanpaolo | 8.9 | 7.9 | 10.0 | 11.6 | 11.5 | 11.7 | 11.5 | 11.5 | 14.9 |
| Banca IMI | 52.6 | 47.4 | 58.1 | 58.4 | 73.7 | 63.8 | 90.6 | 85.5 | 90.0 |
| **Total** | **61.5** | **56.4** | **67.8** | **70.0** | **85.3** | **75.6** | **102.2** | **97.0** | **104.9** |

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

In the first nine months of 2017, the Group's average VaR was 72.4 million euro, down from 101.3 million euro in the same period of 2016.

(millions of euro)

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | average 30.09 | minimum 30.09 | maximum 30.09 | average 30.09 | minimum 30.09 | maximum 30.09 |
| Intesa Sanpaolo | 10.2 | 7.9 | 14.2 | 12.6 | 9.8 | 17.5 |
| Banca IMI | 61.7 | 47.4 | 93.2 | 88.7 | 60.1 | 125.6 |
| **Total** | **72.4** | **56.4** | **104.8** | **101.3** | **71.9** | **137.9** |

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

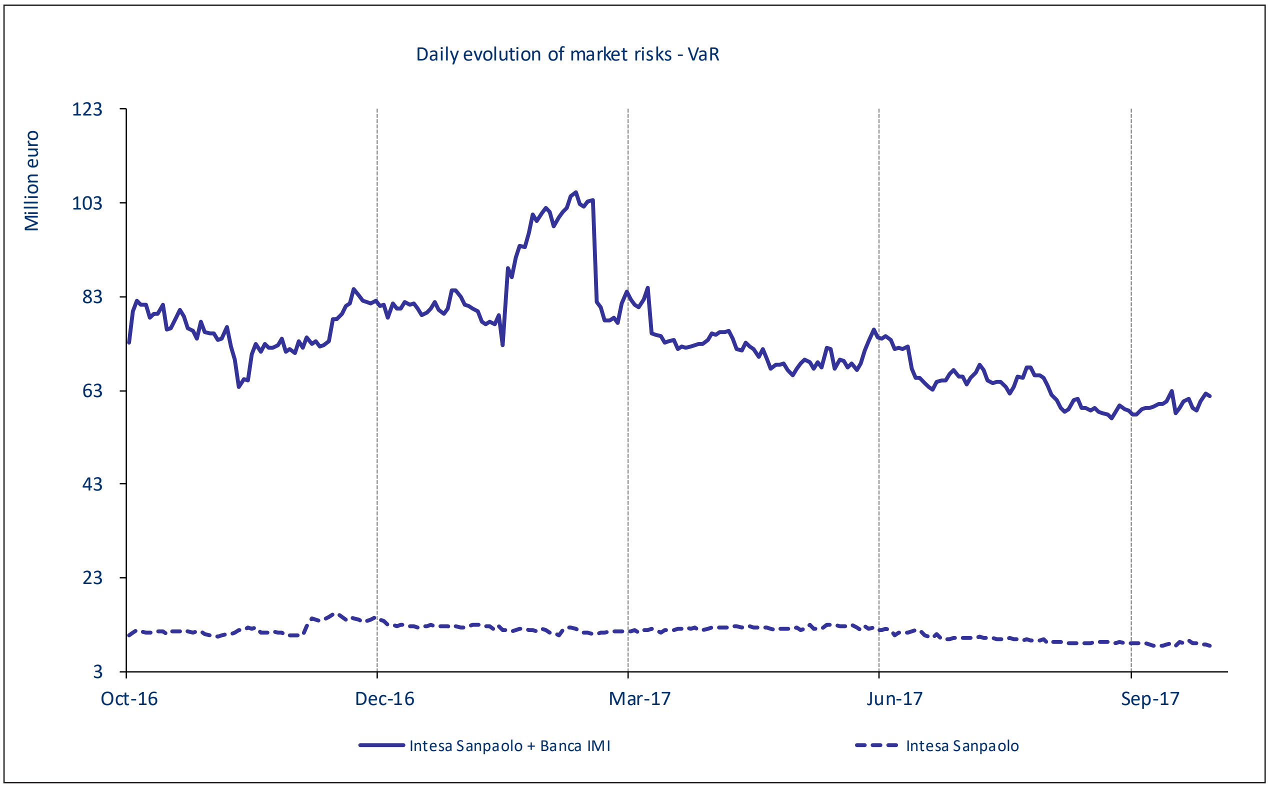
For Intesa Sanpaolo, the breakdown of risk profile in the third quarter of 2017 with regard to the various factors shows the prevalence of credit spread risk, equal to 38% of total operational VaR; for Banca IMI too credit spread risk was the most significant, representing 79% of total VaR.

### Contribution of risk factors to total VaR[(a)]

| 3rd quarter 2017 | Shares | Hedge funds | Interest rates | Credit spreads | Foreign exchange rates | Other parameters | Commodities |
|---|---|---|---|---|---|---|---|
| Intesa Sanpaolo | 4% | 5% | 24% | 38% | 27% | 2% | 0% |
| Banca IMI | 5% | 0% | 8% | 79% | 1% | 6% | 1% |
| **Total** | **5%** | **1%** | **10%** | **73%** | **5%** | **5%** | **1%** |

[(a)] Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the third quarter of 2017, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

The trend in VaR is mainly attributable to Banca IMI. The risk profile declined in the third quarter of 2017 as a result of the lesser exposure to the government bond portfolio and interest rate risk. In addition, volatile scenarios had a lesser impact due to the technical effect linked to the passage of time.




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

(millions of euro)

| | EQUITY | | INTEREST RATES | | CREDIT SPREADS | | FOREIGN EXCHANGE RATES | | COMMODITIES | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Crash | Bullish | +40bp | lower rate | -25bp | +25bp | -10% | +10% | Crash | Bullish |
| Total | -29 | 37 | -12 | -3 | 288 | -285 | 60 | -16 | 1 | 5 |

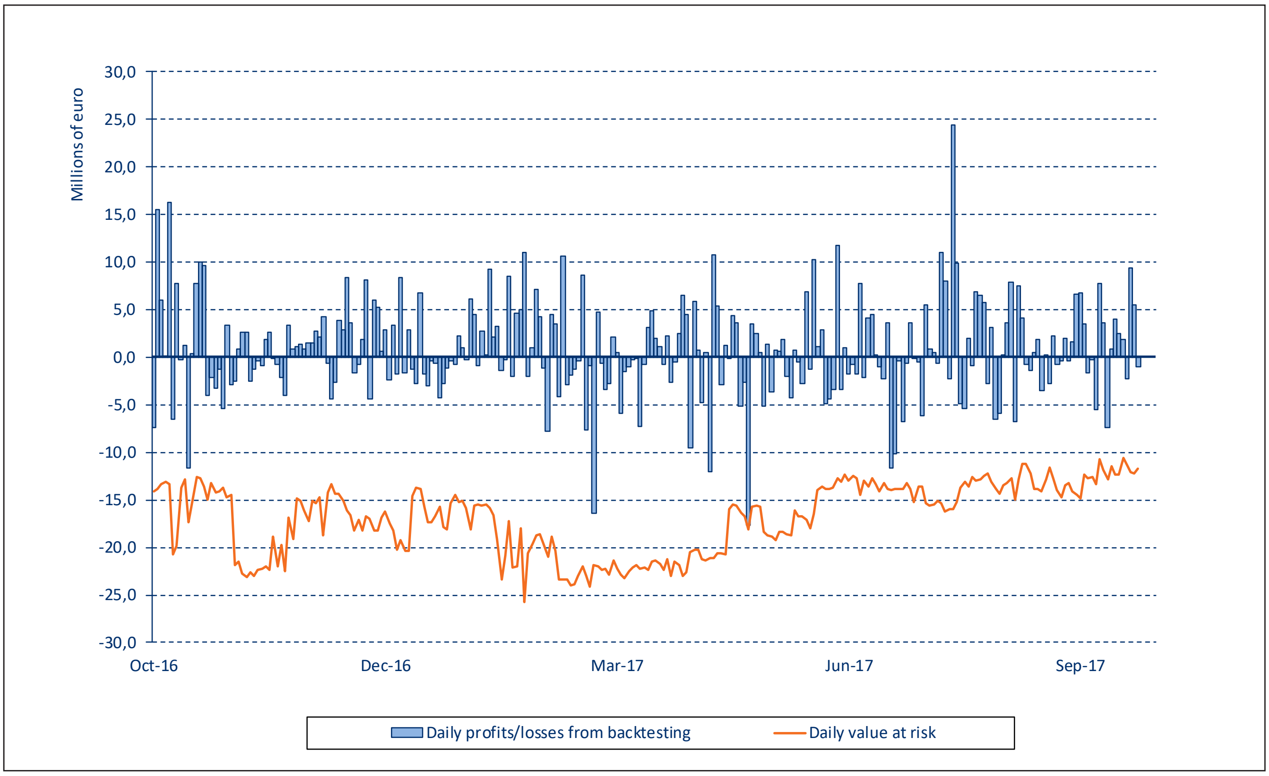
In particular:
- on stock market positions, a 15% decrease in stock prices with a resulting 70% increase in volatility would have led to a loss of approximately 29 million euro;
- on interest rate exposures, a rise of the curves of 40 basis points would have had a negative impact of 12 million euro, whereas a scenario with near zero rates would have led to a negative impact of 3 million euro;
- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 285 million euro loss;
- on foreign exchange exposures, were the Euro to appreciate against the US dollar by 10%, a loss of approximately 16 million euro would be recorded;
- lastly, for commodities exposures there would be potential gains in both scenarios.

## Backtesting

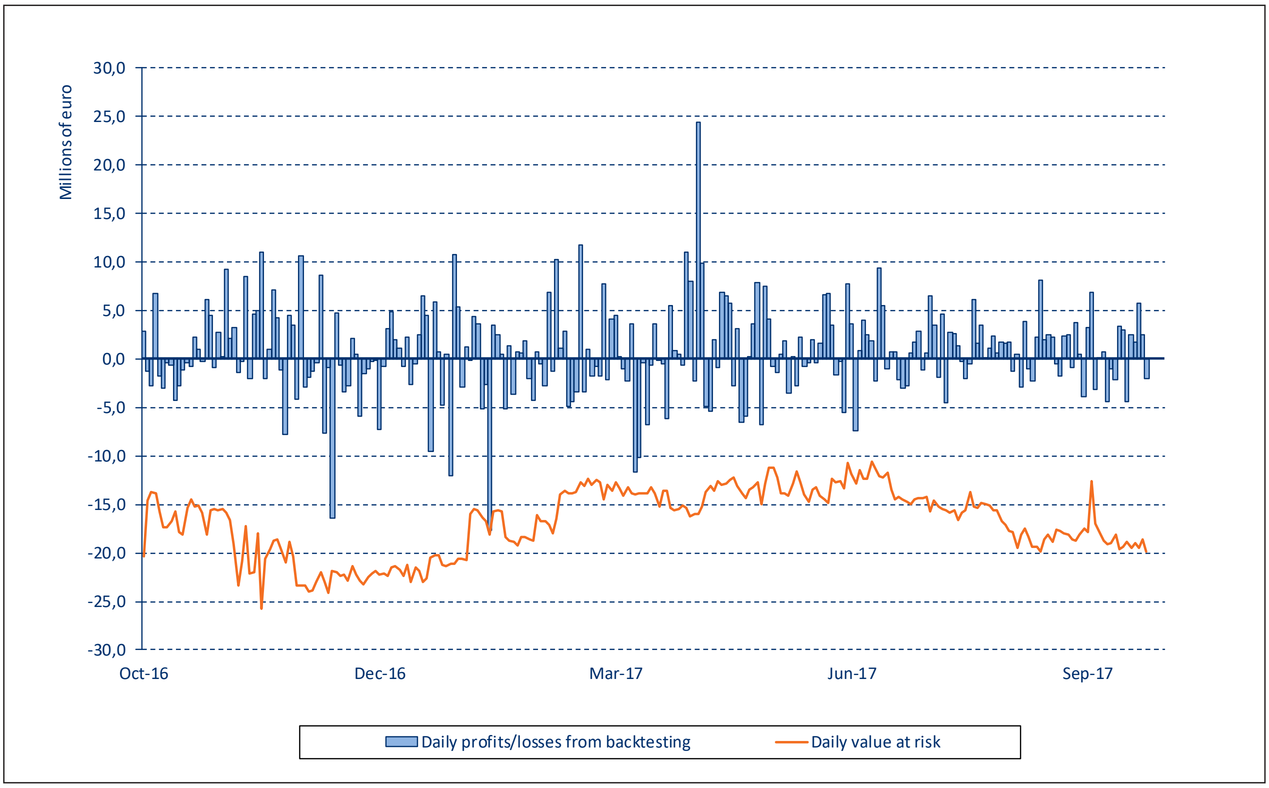
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by 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
In the past twelve months, no backtesting exceptions were recorded




### Backtesting in Banca IMI
In the past twelve months, there were no backtesting exceptions



## BANKING BOOK

In the first nine months of 2017, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, recorded an average value of 1,100 million euro settling at 1,194 million euro at the end of September 2017, almost entirely concentrated on the euro; this figure compares with 945 million euro at the end of 2016.
The sensitivity of net interest income – assuming a +100, +50 and -50 basis point change in interest rates – amounted to 1,306 million euro, 658 million euro and -817 million euro respectively, at the end of September 2017 (1,081 million euro, 571 million euro and -665 million euro at the end of 2016).
Interest rate risk, measured in terms of VaR, recorded an average of 127 million euro in the first nine months of 2017 (117 million euro at the end of 2016), with a maximum value of 153 million euro and a minimum value of 85 million euro; this figure compares with an exact end-of-quarter value of 137 million euro.
Price risk generated by minority stakes in listed companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level of 116 million euro in the first nine months of 2017 (161 million euro at the end of 2016), with a maximum value of 146 million euro and a minimum value of 72 million euro; the latter figure coincides with the value at the end of September 2017.
Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows sensitivity to a 10% negative shock equal to 3 million euro at the end of September 2017.

The measurements concerning interest rate risk include the items from the segregated scope formerly of Banca Popolare di Vicenza and Veneto Banca, based on the information available as at the date of preparation of the Interim Statement at 30 September 2017.

## LIQUIDITY RISK

In the first nine months of 2017, the Group's liquidity position remained within the risk limits provided for in the current Group's Liquidity Policy: both the LCR and NSFR indicators were largely respected, as they reached a level well above the phased-in requirements. As at 30 September 2017, the eligible liquidity reserves for the Central Banks, considering cash components, came to 170 billion euro (159 billion euro at the end of June 2017), of which 93 billion euro, net of haircut, was unencumbered (81 billion euro at the end of June 2017).
Also the stress tests, when considering the high availability of liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the 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.

The measurements concerning liquidity risk include the items from the segregated scope formerly of Banca Popolare di Vicenza and Veneto Banca, based on the information available as at the date of preparation of the Interim Statement as at 30 September 2017.

## INFORMATION ON FINANCIAL PRODUCTS

In line with the requests for utmost transparency made by supranational and national Supervisory Authorities, the following information is provided on the fair value measurement methods adopted, structured credit products, activities performed through Special Purpose Entities (SPE), leveraged finance transactions, hedge fund investments and transactions in derivatives with customers

### FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

#### Fair value hierarchy

(millions of euro)

| Financial assets / liabilities at fair value | 30.09.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Financial assets held for trading | 13,187 | 27,791 | 784 | 10,685 | 31,978 | 950 |
| *of which: Equities* | *671* | *-* | *-* | *885* | *-* | *-* |
| *of which: quotas of UCI* | *890* | *49* | *145* | *584* | *86* | *165* |
| 2. Financial assets designated at fair value through profit or loss | 71,411 | 973 | 421 | 62,341 | 1,072 | 452 |
| *of which: Equities* | *1,524* | *-* | *-* | *1,295* | *-* | *-* |
| *of which: quotas of UCI* | *65,835* | *-* | *124* | *57,438* | *-* | *127* |
| 3. Financial assets available for sale | 134,737 | 6,129 | 3,040 | 137,354 | 6,341 | 2,997 |
| *of which: Equities* | *2,060* | *2,477* | *915* | *1,765* | *2,728* | *970* |
| *of which: quotas of UCI* | *8,007* | *106* | *1,594* | *7,942* | *30* | *1,663* |
| 4. Hedging derivatives | - | 4,636 | 13 | - | 6,214 | 20 |
| 5. Property and equipment | - | - | - | - | - | - |
| 6. Intangible assets | - | - | - | - | - | - |
| **Total** | **219,335** | **39,529** | **4,258** | **210,380** | **45,605** | **4,419** |
| 1. Financial liabilities held for trading | 15,027 | 26,211 | 238 | 12,983 | 31,541 | 266 |
| 2. Financial liabilities designated at fair value through profit or loss | - | 65,567 | - | - | 57,187 | - |
| 3. Hedging derivatives | - | 7,602 | 5 | - | 9,024 | 4 |
| **Total** | **15,027** | **99,380** | **243** | **12,983** | **97,752** | **270** |

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations. The figures as at 30 June 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza and Veneto Banca. The figures for comparison have not been restated.

As shown in the table, level 3 instruments, which allow for more discretion in fair value measurement, still account for a limited portion of the financial instruments portfolio: 1.6% for financial assets and 0.2% for financial liabilities.
Approximately 83% of financial assets measured at fair value are determined based on market prices, and therefore without any discretion by the valuator.

## STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,275 million euro as at 30 September 2017, with respect to funded and unfunded ABSs/CDOs; excluding the positions attributable to the Venetian banks for 227 million euro, the exposure stands at 2,048 million euro compared to 2,471 million euro as at 31 December 2016. The nil exposure to structured packages as at 30 September 2017 due to the sales during the period compares to 7 million euro as at 31 December 2016.

The strategy regarding the portfolio in question in 2017 focused on investments to exploit market opportunities, on the one hand, and on disposing of the portfolio hard hit by the financial crisis, which is now managed by Capital Light Bank, on the other.

The exposure to funded and unfunded ABSs/CDOs designated at fair value, excluding the positions coming from the Venetian banks for 8 million euro, dropped from 2,081 million euro in December 2016 to 1,832 million euro in September 2017. The decrease is attributable to sales and redemptions of ABSs by Banca IMI and of European ABSs/CDOs by the Parent Company, only partially offset by investments in ABSs of Banca IMI (part of which were classified to the available-for-sale portfolio) and in European ABSs/CDOs acquired by the Parent Company and classified to the trading portfolio.
Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings, while the Parent Company confirmed its transactions in European RMBS with mainly AAA ratings, aimed at seizing market opportunities.

The exposure represented by securities classified under the loan portfolio, excluding the positions coming from the Venetian banks for 219 million euro, recorded a decrease (from 390 million euro in December 2016 to 216 million euro in September 2017) attributable in equal measure to the sales that concerned the portfolio of Banca IMI and of the Parent Company.

The decrease in the exposure of structured packages is attributable to sales during the period.

From the perspective of the income statement, a profit of +23 million euro was posted in the first nine months of 2017. Excluding value adjustments due to impairment of 2 million euro recognised on the items acquired from the Venetian banks, this profit amounted to +25 million euro, compared with a profit of +13 million euro in 2016.
As at 30 September 2017 the “Profits (losses) on trading – caption 80” of the exposure to funded and unfunded ABSs/CDOs came to +14 million euro (+12 million euro in 2016), generated by the positions in funded European and U.S. ABSs/CDOs, while positions in multi-sector CDOs generated a profit of +4 million euro and U.S. subprime positions 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 decrease in fair value of 1 million euro in 2017, accounted for in the specific Shareholders’ Equity Reserve (from a reserve at the end of December 2016 of +5 million euro to a reserve of +4 million euro in September 2017) and a nil net impact on the income statement for sales made in the period (+5 million euro in 2016). As at 30 September 2017, securities classified under the Loan portfolio recorded a nil net impact (-6 million euro in 2016) comprising gains on disposals for +3 million euro and value adjustments due to impairment for -3 million euro.

For the “Monoline risk” and “Non-monoline packages” the contribution to “Profits (Losses) on trading – caption 80” of +7 million euro as at 30 September 2017 mostly refers to the sales taking place and is compared with the +2 million euro profit recorded as at 31 December 2016.

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

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective (raising funds on the market, acquiring/selling/managing assets both for asset securitisations, acquisition of funding through self-securitisations and the issue of covered bonds, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity’s portfolio) are considered Special Purpose Entities.
The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above.
For the SPE categories identified as not consolidated structured entities, no amendments are recorded to the criteria based on which the Intesa Sanpaolo Group decides on whether to include the companies in the scope of consolidation, compared to the information already provided in the 2016 financial statements.

During the period, within the framework of the multi-originator programme guaranteed by ISP OBG, the two series expiring in 2017 - the 9th and 10th series - were redeemed in advance in February, each for an amount of 1.375 billion euro.
Following these redemptions, the 23rd and 24th series of floating-rate securities were concurrently issued, for the same amounts, maturing in nine and ten years respectively.
All the securities, which are listed on the Luxembourg Stock Exchange and rated A High by DBRS, were subscribed by the Parent Company and are eligible on the Eurosystem.
With reference to the covered bond issue programme guaranteed by ISP CB Pubblico, the 10th series was redeemed partially for an amount of 500 million euro, while in May the 13th series was issued for 1.650 billion euro, at a floating rate and maturing in 7 years.
The securities, which are listed on the Luxembourg Stock Exchange and rated A1 by Moody’s, were subscribed by the Parent Company and are eligible on the Eurosystem.
As part of the covered bond issue programme guaranteed by ISP CB Ipotecario, in June a new issue of covered bonds was placed on the institutional market, the 22nd fixed-rate series, for 1 billion euro and a 10-year maturity. The securities are listed on the Luxembourg Stock Exchange and rated Aa2 by Moody's.
No collateralised funding was raised in the third quarter of 2017.

There were no significant changes to the other categories of SPEs subject to disclosure. Accordingly, reference should be made to the 2016 financial statements.

## LEVERAGED FINANCE TRANSACTIONS

Pending the application of a 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. 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 30 September 2017, 99 transactions for a total amount granted of 2,480 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 30 September 2017 totalled 306 million euro, compared to 352 million euro recorded in December 2016, 80% of which were funds on the MAP platform, and 448 million euro in September 2016.
The reduction of the portfolio is attributable to the distributions and redemptions that took place starting from the second quarter of last year and continuing also this year, aimed at reducing the risk level of the exposure.
In particular, the most significant redemptions to date have concerned the MAP 5A Fund for 13.5 million dollars, the Eurizon Penghua Fund for almost 12 million euro and, to a lesser extent, the Mount Kellett 14th MAF Fund and the Cyrus Opportunities Fund.
As at the same date, the economic result of the investments in this segment was positive, standing at 17 million euro, compared to the negative 42 million euro of Profits (Losses) on trading in September 2016, connected with severe turbulence on the markets. This profit of 17 million euro is mainly attributable to the improvement in the NAV of the Halcyon, MAP 19, 4A and 1A funds and to the Charity Investment Fund.
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 continued market uncertainty.

## INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 September 2017, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 6,945 million euro (of which 92 million euro from the Venetian banks), compared to 7,532 million euro as at 31 December 2016. The notional value of these derivatives totalled 51,253 million euro (of which 2,025 million euro from the Venetian banks) and 47,698 million euro as at 31 December 2016.
Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 4,841 million euro (of which 39 million euro attributable to the Venetian banks), compared to 5,175 million euro as at 31 December 2016.
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 1,502 million euro as at 30 September 2017 (of which 54 million euro from the Venetian banks) and 1,971 million euro as at 31 December 2016. The notional value of these derivatives totalled 26,389 million euro (of which 1,764 from the Venetian banks) and 22,030 million euro as at 31 December 2016.
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 30 September 2017, this led to a positive effect of 41 million euro being recorded under "Profits (Losses) on trading" in the income statement.

As regards the means of calculation, for the various methodologies used in the determination of the fair value of financial instruments, see the information provided in the 2016 Annual Report and the Half-yearly Report as at 30 June 2017.

## OPERATIONAL RISK

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 also includes legal risk, compliance risk, model risk, ICT risk and financial reporting 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.
To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to 1,698 million euro as at 30 September 2017, up from 1,658 million euro as at 30 June 2017, due to the inclusion of the operational risks requirements of Banca Nuova, Banca Apulia and Veneto Banka Croazia, which were consolidated in the third quarter.

### Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions are made to the allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.

No new significant legal disputes were initiated during the third quarter.
The following is a discussion of the most significant developments during the period with regard to the disputes reported in the Notes to the 2016 Financial Statements, to which reference is made for further information, without prejudice to the disclosures presented in the Consolidated Half-yearly Report as at 30 June 2017.

*SEC and DOJ proceedings against IMI Securities Corp. of New York -* The SEC proceedings were concluded in the third quarter through the payment of a total sum of approximately 35 million dollars – entirely covered by provision – levied on the basis of violations of Articles 15(b)(4)(E) of the Exchange Act and 17(a)(3) of the Securities Act. As to the investigation launched in October 2016 by the Antitrust Division of the Department of Justice (DoJ), cooperation is being provided through the submission of specific documents and information in order to clarify the position of IMI Securities Corp.

### Tax litigation

With regard to tax disputes in the third quarter of 2017, Intesa Sanpaolo has incurred no new disputes for significant amounts.
The tax audit relating to tax period 2014, which was launched by the Piedmont Regional Office – Large Taxpayers Office on 15 May 2015 and already disclosed in the Half-yearly Report as at 30 June 2017, is still in progress. It is being carried out in cooperation with the Central Directorate for Tax Assessment and the Cooperative Compliance Office of the Italian Revenue Agency. No observations or objections have been formulated so far.
As to the tax litigation cases pending in Italy, the assessment regarding the opportunity to opt, within 2 October 2017, for the settlement of tax disputes pursuant to Art. 11 of Law Decree No. 50/2017 (converted, after amendments, into Law No. 96/2017) has been completed. The rule allowed the taxpayer to settle tax disputes with the Italian Revenue Agency, pending in all degrees and instances of the proceedings, including before the Court of Cassation, provided the claim was served on the adverse party by 24 April 2017 and no final judgment has been issued by that date. As already mentioned in the Half-yearly Report as at 30 June 2017, the impact of the relief measure on the pending disputes of Intesa Sanpaolo was very limited, since it was deemed appropriate to opt for a settlement in only four cases, the most significant one relating to the tax dispute deriving from an assessment notice issued by the Italian Revenue Agency – Bologna Provincial Office, concerning IRES and IRAP for tax period 2006, notified on 29 November 2013 to Intesa Sanpaolo in its capacity as the acquiring company of Banco Emiliano Romagnolo (value of the dispute estimated approximately at 3.5 million euro of taxes, interest and penalties). The settlement did not entail financial disbursements, since an appropriate amount had already been paid on a provisional basis, nor did it affect the income statement for the period, given that the risk of a liability had already been appropriately estimated in previous financial statements.
The following foreign tax audits have been initiated: i) a general tax audit of the Paris branch, which commenced on 28 August 2017 and concerns tax periods 2014, 2015 and 2016. This audit is currently focused on transfer pricing, employees' tax returns and tax treatment; ii) the audit of the Innsbruck branch of the former Banca di Trento e Bolzano, which commenced on 29 September 2017 and is currently focused on employees' tax treatment.
As regards the huge amount of tax credit reimbursements, a total of 10 million euro related to the refund of tax payments made on a provisional basis in the course of proceedings but no longer due as a result of judgments favourable to the Bank, was refunded on 12 October by the Italian Revenue Agency.
The main developments involving Group companies that occurred in the third quarter of 2017 are reported hereunder.
Intesa Sanpaolo Group Services is continuing discussions with the Piedmont Regional Office on a dispute – anticipated with a questionnaire served in May 2017 – concerning the contribution of a branch of activity from ISP to ISGS which took place in 2012. The case originates from a report made by the Tuscany Regional Office during an audit conducted in 2015 on Cassa di Risparmio di Firenze and concerns the VAT treatment of fees paid for services provided by Intesa Sanpaolo to some subsidiaries, through the above mentioned branch of activity in the fraction of the year preceding the transfer, but which were subsequently invoiced by ISGS without VAT pursuant to Art. 10, paragraph 2 of the Italian VAT decree (the amount at issue in the dispute is about 7 million euro of VAT, plus interest, and penalties of approximately 8 million euro). Further to the response to the questionnaire, the Italian Revenue Agency indicated that they were willing to consider a settlement concerning tax only, without any penalties. The Parent Company and Intesa Sanpaolo Group Services have therefore decided to submit a formal settlement proposal.
As regards Banca IMI, it should be noted that, pursuant to the aforementioned Art. 11 of Law Decree No. 50, the dispute on withholding taxes for the years 2005 and 2006 involving the former Banca d'Intermediazione Mobiliare IMI was settled (the value of the dispute amounted to approximately 17.2 million euro – as recalculated according to the more favourable new penalty rules – for which provisional payments of 0.5 million euro had already been made). The settlement involved the payment of an additional 8.1 million euro, with a total effective outlay of approximately 8.6 million euro, without any impact on the income statement given this amount had already been covered by previous provisions. The settlement had an immediate

impact on the proceedings against Banca IMI, leaving only pending before the Court of Cassation the tax disputes relating to annual instalments for which significant payments have already been made on a provisional basis and recognised in the income statement.
As regards Intesa Sanpaolo Private Banking, a claim has been lodged concerning the goodwill’s deductibility for IRES and IRAP purposes in 2012 by means of separate assessment notices served on 9 August 2017 and resulting from the tax audit report of 23 November 2012 issued by the Lombardy Regional Office – Large Taxpayers Office. The above auditors' report alleged, pursuant to Art. 103, paragraph 3-bis, of the Italian Income Tax Legislation (TUIR), the unlawful deduction of the amortisation charge (11.9 million euro) of the goodwill deriving from the contribution of the private banking business by Intesa Sanpaolo for a value of 115.6 million euro, by Cassa dei Risparmi di Forlì e della Romagna for a value of 0.3 million euro, by Banca di Trento e Bolzano for a value of 0.3 million euro and by Cassa di Risparmio di Firenze for a value of 3 million euro. The recipient ISPB did align the relevant tax base of those assets (goodwill) to their higher accounting value pursuant to Art. 15, paragraph 10, of the Law Decree No. 185 of 29 November 2008. The greater taxable amount assessed results in a higher IRES of 3.3 million euro, penalties for the same amount, plus interest, and a higher IRAP of 0.66 million, penalties for the same amount, plus interest.
The same dispute, which had already been brought against the Company in respect of tax period 2011 by notices served in December 2016, was thoroughly discussed in last year's annual report. The appeals against the assessment notices have been heard by the Provincial Tax Commission. The related decision is pending (the value of the dispute amounts to IRES of 3.2 million euro, plus interest, and a penalty of 2.8 million euro and IRAP of 0.6 million euro, plus interest, and a penalty of 0.6 million euro).
At the international level, it must be mentioned that a general tax audit of the Ukrainian subsidiary Pravex Bank covering tax years 2010 to 2017 was launched on 29 September 2017.

## INSURANCE RISKS

### Life business

The typical risks of a life insurance portfolio may be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.
Premium risks are managed initially during definition of the technical features and product pricing and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Actuarial and demographic risks are monitored by means of systematic statistical analysis of the evolution of liabilities in its own contract portfolio, divided by risk type, and through simulations of expected profitability of the assets hedging technical reserves.
Reserve risk is monitored through the exact calculation of mathematical reserves, with a series of detailed checks as well as overall verifications, by comparing results with the estimates produced on a monthly basis.
The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

### Non-life business

The risks of the non-life insurance portfolio are essentially premium risk and reserve risk.
Premium risks are managed initially during definition of the technical features and product pricing and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Reserve risk is monitored through the exact calculation of technical reserves.

### Financial risks

In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives has been launched with the objective of both strengthening risk governance and managing and controlling financial risks.
With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Framework Resolution is the main control and monitoring instrument for market and credit risks.
The Resolution defines the goals and the operating limits that are needed to distinguish the investments in terms of eligible assets and asset allocation, breakdown by rating classes and credit risk, concentration risk by issuer and sector, and market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk (VaR).

### Investment portfolios

The investments of the insurance companies of the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Fideuram Vita) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 30 September 2017, the investment portfolios of Group companies, recorded at book value, amounted to 154,285 million euro. Of these, a part amounting to 83,074 million euro relates to traditional revaluable life policies (the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined), non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Index-linked policies, Unit-linked policies and pension funds and amounted to 71,210 million euro.
Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional revaluable life policies, non-life policies and free capital.
In terms of breakdown by asset class, net of derivative financial instruments, 86.5% of assets, i.e. approximately 71,890 million euro, were bonds, whereas assets subject to equity risk represented 2.2% of the total and amounted to 1,809 million euro. The remainder (9,436 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (11.4%).
The carrying value of derivatives came to approximately -61 million euro, of which -63 million euro relating to effective management derivatives[1], while the remaining portion (2 million euro) is attributable to hedging derivatives.
At the end of the first nine months of 2017, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 1,594 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 33 million euro.
The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 3,950 million euro.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 3.9 % of total investments and A bonds approximately 5.7%. Low investment grade securities (BBB) were 87.6 % of the total and the portion of speculative grade or unrated was minimal (2.7%).
A considerable portion of the BBB area is made up of securities issued by the Italian Republic.
The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central Banks made up 75.1% of the total investments, while financial companies (mostly banks) contributed 13.5% of exposure and industrial securities made up approximately 11.4%.

At the end of the third quarter of 2017, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was -4,016 million euro, with -3,125 million euro due to government issuers and -891 million euro to corporate issuers (financial institutions and industrial companies).

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[1] ISVAP Regulation 36 of 31 January 2011 on investments defines as “effective management derivatives” all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.