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 Governance Area
- Chief Risk Officer Governance Area
- Chief Financial Officer Governance Area

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation, in addition to the establishment of the supporting processes and applications.
The Chief Lending Officer Governance Area, with the aid of the BdT Credit Head Office Department, CIB Credit Head Office Department, International Subsidiary Banks Credit, Credit Decision Coordination Head Office Department, 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 rules on credit granting and on non-performing loans; 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 Governance Area 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 carries out II level credit 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.
The Chief Financial Officer Governance Area assists the Corporate Bodies in establishing the guidelines and policies – in accordance with corporate strategies and objectives – in terms of research, planning, capital and liquidity management, treasury management, financial and credit strategies, management control, financial reporting, tax compliance, and relations with investors and rating agencies. It also promotes value creation within the Group, ensuring the related controls, through integrated monitoring of study and research work, planning, management control, treasury management, and capital and liquidity management, and the optimisation of the financial and credit portfolios. Coordinates and verifies the implementation of guidelines and policies on planning, capital and liquidity management, treasury management, financial and credit strategies, management control, financial reporting and tax compliance, by the relevant Group business units, and in other corporate departments as appropriate.
Establishes the model and oversees the Group's Data Governance and Data Quality system, ensuring its diffusion and implementation and coordinating the activities of the parties involved.
In addition, within the framework of the loan assessment process, the Administration and Tax Head Office Department, under the Chief Financial Officer Governance Area, 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 Powers and Rules 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 a sustainable growth in loans;
- the "Rules on Credit Strategies" whose objective is to guide the growth of the loan portfolio towards an optimal risk/return profile in the medium/long-term.

The exchange of basic information flows between different Group entities is assured by the Group's Central Credit Register (exposure monitoring and control system) and by the "Posizione Complessiva di Rischio" (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.

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 Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference.
A number of rating models are used for the Corporate segment:

- 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 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 Doubtful 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": Danger Rate is a multiplying correction factor, used to recalibrate Doubtful 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 Doubtful 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).

In 2017, an authorisation was received for the Corporate portfolio for the PD, the LGD and the EAD. With the re-estimation of the rating models for the Corporate portfolio, information set used for counterparty assessment was broadened and efforts were also made to simplify their composition and number. Finally, various measures have been adopted that are aimed at favouring a through-the-cycle profile of the probabilities of default produced by the models, consistently with the relational-type commercial approach adopted by the Group.
The Group also received an authorisation from the ECB to use the Credit Conversion Factor (CCF) internal estimates for the calculation of the 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).

In 2017, the PD/LGD approach was also validated for the equity instruments of the banking book for the calculation of the capital requirements.

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 time series used for the development of the model. In 2017, the development continued of new internal models for the calculation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) for the SME Retail segment. The model change is scheduled for 2018;
- for Retail Mortgage, a specific model is currently being used that 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. During the year the new Retail rating model was estimated, which is being validated and is currently awaiting authorisation by the Regulator. Once it has been validated, this new model will replace the model for retail mortgages to individuals, and during the year it replaced the Other Retail acceptance management model that covered all the other products aimed at individual customers. The new Retail rating model aims to cover the entire retail customer portfolio (including the former Venetian banks) and adds significant new elements including a counterparty-based approach instead of a product approach. Another significant change is the differentiation of the models based on customer type.

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 Bank model the key decision to determine the probability of default was to differentiate the models for banks in mature economies and banks in emerging countries. In short, the model consists of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component representing systemic risk, a component relating to specific country risk for banks most closely correlated with country risk, and finally, a module (the "relationship manager's judgement") that allows the rating to be modified in certain conditions. The Loss Given Default (LGD) calculation model partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models;
- for Public Sector Entities the models 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 approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of the assessment financial statement data (notching). As regards the LGD estimate of the Public Sector Entities segment, the methodological framework is substantially similar to that used for the development of the LGD models of the already validated segments.

Experience-based models are used for counterparties belonging to the Non-Banking Financial Institutions portfolio.

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. In particular, in 2017:
- the Slovak subsidiary Vseobecna Uverova Banka (VUB) was authorised to use the corporate model described above solely for counterparties with a turnover of more than 500 million euro and the new internal rating model for the Retail Mortgage regulatory segment.
- the Slovenian subsidiary, Banka Intesa Sanpaolo (formerly Banka Koper) was authorised to use the internal rating systems (PD-FIRB) for the Corporate portfolio.

The rating system also includes a risk monitoring process, run 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 new Corporate proactive process was put into operation that involves the use of the Early Warning System model for singling out and classifying defaults, for the Corporate portfolio, which was also developed to meet the requirements resulting from the 2014 Comprehensive Assessment (AQR impairment trigger). In 2017, the Early Warning System engines were also certified and put into production, with related risk traffic light output, for the SME Retail and Retail segments. The use of these systems and their risk output as an selection system in the operational processes of default prevention and credit management will take place during 2018, replacing the previous IRIS indicator and the other objective impediment criteria (repayment arrears, past due overdrafts etc.).

From 8 December 2017, the risks of the exposures arising from the Aggregate Set have been calculated using the system and rating processes described above, pending the assessment by the regulatory authorities. This does not apply to the risks of the exposures of Banca Nuova and Banca Apulia because as at 31 December 2017 they were not included in the Group's risk management systems. The exposures of these two banks have been treated using the standard calculation method for the RWA.

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 control, guidance and coordination activities, the Internal Validation and Controls Head Office Department within the Chief Risk Officer Governance Area oversees the credit granting and management processes for the performing loans portfolio at the Group level, and through controls on individual positions, assesses that loans are properly classified. It also assesses the compliance of the internal risk measurement and management systems over time as regards determination of the capital requirements to the regulatory provisions, company needs and changes in the relative market.

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 credit lines. The counterparty Risk Department produces daily risk estimates for the measurement of the usages of credit lines for OTC and SFT for the Parent Company and Banca IMI. It also does this for the OTC derivatives for the banks of the Banca dei Territori division. It should be noted that the PFE method, in simplified form, is adopted for the banks of the International Subsidiary Banks Division, through the use of internally estimated add-ons.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure

measures implemented over time following the developments discussed above:
- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives 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 (84% 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.

The management of personal guarantees and real estate collateral uses a single platform at Group level, which is integrated with the register of real estate assets and the portal that manages the valuations.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery.
In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.
The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.

For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.
Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation 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".
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.

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow to compensate credits and debts if a counterparty defaults.
This is achieved by entering into ISDA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
The Group also establishes collateral agreements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

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 and for five of these banks an action plan was drawn up and is being implemented over a three-year period (work started at the end of 2017 and is scheduled for completion in 2019). The project aimed at providing the International Subsidiary Banks an application capable of managing covenants was also completed in 2017.

In 2017 the Parent Company continued its activities relating to the “GARC” (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit.
During the year – again under the “GARC” Project – a synthetic securitisation was also completed on a portfolio of performing loans granted by Banco di Napoli S.p.A. to SMEs and Small Mid-Caps located in Southern Italy. The operations are part of the “SME Initiative Italy (SMEI)”, a project co-financed by the Ministry of Economic Development, the European Commission and the EIB Group (European Investment Bank and European Investment Fund), through a combination of national funds and the European Structural and Investment Funds (ESIF), resources from the COSME (Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises) and from the EIB Group. The initiative is aimed at providing new credit to small and medium-sized enterprises in Southern Italy through the reinvestment of funds freed up through the securitisation.
The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (EU Regulation 575/2013 and Bank of Italy Circular 285/2013).
For details of the transactions carried out in 2017 under the GARC Project, see the description provided in paragraph C. Securitisations of this chapter.

In addition, in recent years, the Bank has been heavily involved in the implementation of two integrated asset and guarantee management systems (PGA - Active Guarantees Portal and ABS - System Assets Archive) in order to improve the efficiency of collateral management. This has been accompanied by the development of a specific system for managing bad loans, to track the main legal actions and particularly those relating to the enforcement of real estate collateral (EPC - Ex Parte Creditoris).

In 2017, the integration and dialogue between these systems was implemented, together with a verification of the data quality and an update of the information recorded. The project work in the area of collateral management also involved the launch of organisational initiatives for the management and recording of information and its monitoring, with the strengthening of the structures responsible for those activities and an update of the statistical valuation model for non-performing positions of a small amount (positions below 2 million euro). For these positions, on one hand, account was taken of the integration of the systems and the data quality checks, with effects in terms of higher provisions of 228 million euro in the 2017 Financial Statements and, on the other hand, the revision of the application of the “LGD model” for the estimate of the recoverable amount to bring it into line with the methods used to calculate the LGD. In essence, the latter is calculated without taking account of changes in the value of the assets given as collateral for the respective positions. Pending the completion of the above activities, the Group used the model on a precautionary basis, also assigning the average LGD calculated on unsecured positions to the unsecured amount of the positions that have become partially secured due to a reduction in the value of the collateral. This component has now been removed and, in line with the criteria for the calculation of the secured LGD, it is applied to the entire amount of the collateralised positions regardless of the value of the collateral (subject, of course, to the application of the unsecured LGD to the fully unsecured positions). The adjustment generated a positive impact on the 2017 income statement of 73 million euro.

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 Policies, 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 2017 Financial Statements and were examined and approved by the Chief Risk Officer. Specifically, the improvement in the default rates resulted in a reduction in the cyclical coefficients for the Corporate, SME Corporate and SME Retail segments. The Loss Confirmation Period factors, on the other hand, remained unchanged.

Overall, the reduction in the cyclical coefficients and the general improvement in the customer ratings, together with the combination of the transition to default of higher risk positions and new loans to better rated customers, led to a reduction in provisions for performing loans.

The illustrated measurement method has also been extended to guarantees and commitments. In the case of the latter, the unused margins on irrevocable lines of credit are not included in the basis of calculation.

The method and assumptions used are subject to periodic revision.

For the companies included in the roll out plan, the EAD and LGD internal rating models are subject to a level two control by the Validation function and a level three control by the Internal Auditing Head Office 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 are subject to an individual measurement process or calculation of the expected loss for uniform categories (identified based on the risk status, duration of non-performance and significance of the exposure represented), with analytical allocation to each position (individual statistical assessment). 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 when the exposures are classified as non-performing loans or when significant events occur and, in any case, is periodically revised in accordance with the criteria and methods described, with regard to the “Loans” caption, in Part A.2 “Accounting Policies, Main financial statement captions” above, 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 Departments, which are responsible for the overall management and coordination of these matters.
With regard to bad loans, since 2015 the Group has 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 Italfondiario S.p.A. of new bad loan flows, without prejudice to its management of the bad positions assigned to it until 30 April 2015;
- for bad positions of limited amounts, routine factoring without recourse to third-party companies on a monthly basis when they are classified as bad loans, with some specific exceptions.

The Loan Recovery Department 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 are 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 and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.
The activity of Italfondiario 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 forborne exposures that have not yet completed their probation period, if those 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 decisions. Materiality is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.
Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.

The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.
Exposures classified amongst “past-due loans” automatically become performing when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as unlikely to pay when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.

The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area performs the level two control on the individual counterparties with non-performing loans, to verify their correct classification and/or adequate provisioning. Checks were also conducted on bad loans to which adjustments have been allocated on a lump-sum basis to provide feedback to the competent structures of the CRO Area in the models adopted to calculate the statistical grids used to determine those adjustments.

With regard to the valuation of the different types of non-performing exposures, as already mentioned, the Group uses two general criteria:

- a specific individual valuation for bad loans and unlikely-to-pay loans of amounts above 2 million euro. This valuation is performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, possible mitigating factors (collateral) and taking into account the financial impact of the estimated recovery time.
  For bad loans in particular, a series of elements are relevant, which differ according to the characteristics of the positions, and must be thoroughly and prudently assessed, including the following, listed merely as examples:
  - nature of the credit, whether preferential or unsecured;
  - net asset value of the borrowers/third party collateral providers;
  - complexity of existing or potential litigation and/or the underlying legal issues;
  - exposure of the borrowers to the banking system and other creditors;
  - last available financial statements;
  - legal status of the borrowers and any pending insolvency and/or individual proceedings.

  For the valuation of real estate guarantees, surveys and/or expert opinions are taken into account, as well as impairment losses resulting from the progress of legal proceedings. The methods used to determine the estimated recoverable amounts in enforcement proceedings for real estate assets pledged as collateral take into account the different possible recovery times, the timing of the various auctions, the actual conditions for recovery of the asset, and the estimate of the amount of provisions needed to cover the decrease in the recoverable amount of the property associated with legal proceedings that take a long time.
  For Unlikely-to-Pay Loans, the valuation is based on a qualitative and quantitative analysis of the borrower's financial position and on precise assessment of the risk situation.
  The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:
  - the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions;
  - the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that have been classified as Bad Loans.
    In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims.
- a statistical individual analysis for Bad Loans and Unlikely-to-Pay Loans of an amount of less than 2 million euro and for past-due loans.
  With regard to bad loans, the individual-statistical assessment is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status ("vintage") and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. technical type, type of guarantee, geographical area, exposure band, etc.).
  The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, technical type).
  For Unlikely-to-Pay Loans, the valuation is carried out by applying statistical LGD grids estimated specifically for positions classified as Unlikely-to-Pay Loans, in line with the estimated LGD grids for Bad Loans.
  The estimation model for the LGD grid for Unlikely-to-Pay Loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for Unlikely-to-Pay Loans is obtained by recalibrating the Bad Loan LGD using the Danger Rate module. the Danger Rate is a multiplying correction factor, used to recalibrate Bad Loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution;
  In addition, for the two subclasses of the "Unlikely-to-Pay Loans" risk status ("Non-Forborne Unlikely-to-Pay Loans" and "Forborne Unlikely-to-Pay Loans"), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.
  For past-due loans, the methods used to determine the grids are the same as those described for the Unlikely-to-Pay Loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. technical type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

Lastly, with regard to non-performing loans, you are reminded that the Intesa Sanpaolo Group uses the write-off/deletion of unrecoverable accounting positions and, in the following cases, the consequent allocation of the remainder to the loss that has not yet been adjusted:

a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);

b) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
c) disposal of loans.

In some cases, partial write-offs of gross loans are also necessary to bring them into line with the Bank's actual credit claims. These circumstances occur, for example, in the case of unchallenged measures, in bankruptcy proceedings, under which a claim lower than the amount entered in the accounts is recognised. The debt amounts written off are usually already fully provisioned.

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)

(millions of euro)

Portfolios/quality	Bad loans	Unlikely to pay	Non performing past due exposures	Performing past due exposures	Other performing exposures	TOTAL
1. Financial assets available for sale	1	-	-	-	126,448	126,449
2. Investments held to maturity	-	-	-	-	1,174	1,174
3. Due from banks	-	-	-	-	72,462	72,462
4. Loans to customers	12,625	12,460	379	8,191	377,091	410,746
5. Financial assets designated at fair value through profit and loss	-	-	-	-	4,911	4,911
6. Financial assets under disposal	-	265	13	-	9	287
Total 31.12.2017	**12,626**	**12,725**	**392**	**8,191**	**582,095**	**616,029**
Total 31.12.2016	**14,896**	**14,438**	**435**	**6,922**	**519,011**	**555,702**

With respect to non-performing assets in the portfolio "Loans to customers", forborne exposures amounted to 1,262 million euro amongst bad loans, 6,071 million euro amongst unlikely to pay loans and 27 million euro amongst non-performing past due exposures.
The forborne exposures included among performing assets in the portfolio "Loans to customers" amounted to 7,828 million euro.

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 (net exposure)
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	
A. Banking group							
1. Financial assets available for sale	34	-33	1	126,448	-	126,448	126,449
2. Investments held to maturity	-	-	-	1,174	-	1,174	1,174
3. Due from banks	4	-4	-	72,577	-115	72,462	72,462
4. Loans to customers	52,073	-26,609	25,464	386,615	-1,333	385,282	410,746
5. Financial assets designated at fair value through profit and loss	-	-	-	X	X	4,911	4,911
6. Financial assets under disposal	313	-35	278	9	-	9	287
Total 31.12.2017	**52,424**	**-26,681**	**25,743**	**586,823**	**-1,448**	**590,286**	**616,029**
Total 31.12.2016	**58,176**	**-28,407**	**29,769**	**522,626**	**-1,698**	**525,933**	**555,702**

Portfolio / Quality	ASSETS OF EVIDENTLY LOW CREDIT QUALITY		OTHER ASSETS
	Cumulated capital	Net exposure	Net exposure
1. Financial assets held for trading	**46**	**309**	**37,248**
2. Hedging derivatives	**-**	**-**	**4,217**
Total 31.12.2017	**46**	**309**	**41,465**
Total 31.12.2016	**87**	**350**	**47,778**

The amount of partial derecognition of non-performing loans came to 6,521 million euro as at 31 December 2017.

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	6,257	707	573	654	8,191
5. Financial assets designated at fair value through profit and loss	-	-	-	-	-
6. Financial assets under disposal	-	-	-	-	-
Total performing exposures (net exposure)	**6,257**	**707**	**573**	**654**	**8,191**

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 4,069 million euro for the bracket "up to three months", to 461 million euro for the bracket "between three and six months", to 460 million euro in the bracket "between six months and one year" and to 269 million euro in the bracket "over one year".

During 2017, the Intesa Sanpaolo Group purchased an insignificant amount of non-performing loans. Accordingly, the outstanding amounts as at 31 December 2017 were immaterial.

A.1.3. Banking group - 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					INDIVIDUAL ADJUSTMENTS	COLLECTIVE ADJUSTMENTS	NET EXPOSURE
	Non-performing assets				Performing assets			
	Up to 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Over 1 year*				
A. ON-BALANCE SHEET EXPOSURES								
a) Bad loans	**-**	**-**	**-**	**4**	**X**	**-4**	**X**	**-**
Of which: forborne exposures	***-***	***-***	***-***	***-***	***X***	***-***	***X***	***-***
b) Unlikely to pay	**-**	**-**	**-**	**-**	**X**	**-**	**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**	**77,093**	**X**	**-115**	**76,978**
Of which: forborne exposures	***X***	***X***	***X***	***X***	***-***	***X***	***-***	***-***
TOTAL A	**-**	**-**	**-**	**4**	**77,093**	**-4**	**-115**	**76,978**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	**12**	**-**	**-**	**-**	**X**	**-1**	**X**	**11**
b) Performing	**X**	**X**	**X**	**X**	**25,291**	**X**	**-10**	**25,281**
TOTAL B	**12**	**-**	**-**	**-**	**25,291**	**-1**	**-10**	**25,292**
TOTAL (A + B)	**12**	**-**	**-**	**4**	**102,384**	**-5**	**-125**	**102,270**

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 transactions, 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
A. Initial gross exposure	**2**	**4**	**-**
- of which exposures sold not derecognised	-	-	-
B. Increases	**3**	**2**	**-**
B.1 inflows from performing exposures	-	1	-
B.2 transfers from other non-performing exposure categories	3	-	-
B.3 other increases	-	1	-
B.4 business combinations	-	-	-
C. Decreases	**-1**	**-6**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-1	-	-
C.3 repayments	-	-3	-
C.4 credit disposals	-	-	-
C.5 losses from disposals	-	-	-
C.6 transfers to other non-performing exposure categories	-	-3	-
C.7 other decreases	-	-	-
C.8 business combinations	-	-	-
D. Final gross exposure	**4**	**-**	**-**
- 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

This type of exposure did not exist as at 31 December 2017.

A.1.5. Banking group – On-balance sheet non-performing credit exposures to banks: changes in total adjustments

(millions of euro)

Reason/Categories	Bad loans	*Of which: forborne exposures*	Unlikely to pay	*Of which: forborne exposures*	Non performing past due exposures	*Of which: forborne exposures*
A. Initial total adjustments	**2**	**-**	**4**	**-**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**3**	**-**	**-**	**-**	**-**	**-**
B.1 impairment losses	-	-	-	-	-	-
B.2 losses on disposal	-	-	-	-	-	-
B.3 transfers from other non-performing exposure categories	3	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
B.5 business combinations	-	-	-	-	-	-
C. Decreases	**-1**	**-**	**-4**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-	-	-1	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-1	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-3	-	-	-
C.6 other decreases	-	-	-	-	-	-
C.7 business combinations	-	-	-	-	-	-
D. Final total adjustments	**4**	**-**	**-**	**-**	**-**	**-**
- 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

(millions of euro)

Type of exposure/value	GROSS EXPOSURE					INDIVIDUAL ADJUSTMENTS	COLLECTIVE ADJUSTMENTS	NET EXPOSURE
	Non-performing assets				Performing assets			
	Up to 3 months	*Between 3 and 6 months*	*Between 6 months and 1 year*	*Over 1 year*				
A. ON-BALANCE SHEET EXPOSURES								
a) Bad loans	**458**	**36**	**93**	**33,639**	**X**	**-21,600**	**X**	**12,626**
Of which: forborne exposures	***271***	***5***	***20***	***2,691***	***X***	***-1,723***	***X***	***1,264***
b) Unlikely to pay	**7,909**	**505**	**1,927**	**7,603**	**X**	**-5,004**	**X**	**12,940**
Of which: forborne exposures	***4,773***	***246***	***757***	***2,628***	***X***	***-2,074***	***X***	***6,330***
c) Non-performing past due exposures	**96**	**166**	**178**	**48**	**X**	**-96**	**X**	**392**
Of which: forborne exposures	***5***	***9***	***13***	***5***	***X***	***-5***	***X***	***27***
d) Performing past due exposures	**X**	**X**	**X**	**X**	**8,315**	**X**	**-124**	**8,191**
Of which: forborne exposures	***X***	***X***	***X***	***X***	***731***	***X***	***-16***	***715***
e) Other performing exposures	**X**	**X**	**X**	**X**	**451,758**	**X**	**-1,186**	**450,572**
Of which: forborne exposures	***X***	***X***	***X***	***X***	***7,223***	***X***	***-87***	***7,136***
TOTAL A	**8,463**	**707**	**2,198**	**41,290**	**460,073**	**-26,700**	**-1,310**	**484,721**
B. OFF-BALANCE SHEET EXPOSURES								
a) Non-performing	**1,316**	**-**	**-**	**-**	**X**	**-237**	**X**	**1,079**
b) Other	**X**	**X**	**X**	**X**	**135,424**	**X**	**-78**	**135,346**
TOTAL B	**1,316**	**-**	**-**	**-**	**135,424**	**-237**	**-78**	**136,425**
TOTAL (A + B)	**9,779**	**707**	**2,198**	**41,290**	**595,497**	**-26,937**	**-1,388**	**621,146**

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 transactions, 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 6,599 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 216 million euro, adjusted for 23 million euro, in dealings between the Banking Group and other non-banking 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 2,696 million euro.
Non-performing exposures with forbearance measures in the past-due bracket by "up to three months" include 4,037 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
A. Initial gross exposure	**37,867**	**19,986**	**554**
- of which exposures sold not derecognised	*25*	*175*	*2*
B. Increases	**4,350**	**6,557**	**2,012**
B.1 inflows from performing exposures	148	2,660	1,806
B.2 transfers from other non-performing exposure categories	2,775	1,550	49
B.3 other increases	1,283	1,759	119
B.4 business combinations	144	588	38
C. Decreases	**-7,991**	**-8,599**	**-2,078**
C.1 outflows to performing exposures	-73	-1,713	-508
C.2 write-offs	-4,932	-672	-5
C.3 repayments	-1,711	-2,639	-154
C.4 credit disposals	-411	-147	-
C.5 losses from disposals	-135	-10	-
C.6 transfers to other non-performing exposure categories	-231	-2,756	-1,387
C.7 other decreases	-498	-662	-24
C.8 business combinations	-	-	-
D. Final gross exposure	**34,226**	**17,944**	**488**
- of which exposures sold not derecognised	*166*	*284*	*14*

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 caption “Business combinations" includes amounts deriving from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.
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
A. Initial gross exposure	**11,956**	**8,135**
- of which exposures sold not derecognised	-	-
B. Increases	**3,148**	**6,681**
B.1 inflows from non-forborne performing exposures	127	4,114
B.2 inflows from forborne performing exposures	645	X
B.3 inflows from non-performing forborne exposures	X	1,023
B.4 other increases	2,166	1,544
B.5 business combinations	210	-
C. Decreases	**-3,681**	**-6,862**
C.1 outflows towards non-forborne performing exposures	X	-3,737
C.2 outflows towards forborne performing exposures	-1,064	X
C.3 outflows towards non-performing forborne exposures	X	-636
C.4 write-offs	-450	-730
C.5 collections	-1,405	-1,373
C.6 gains on disposal	-158	-
C.7 losses on disposal	-12	-
C.8 other decreases	-592	-386
C.9 business combinations	-	-
D. Final gross exposure	**11,423**	**7,954**
- of which exposures sold not derecognised	*45*	*23*

For the non-performing forborne exposures, the “Other increases” mainly include the transfers from non-forborne exposures to forborne exposures, within each risk status.
The caption “Business combinations" includes amounts deriving from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.

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*
A. Initial total adjustments	**22,970**	**1,309**	**5,334**	**2,227**	**120**	**11**
- of which exposures sold not derecognised	*9*	*-*	*20*	*-*	*-*	*-*
B. Increases	**5,275**	**811**	**2,537**	**977**	**315**	**30**
B.1 impairment losses	3,270	401	1,717	530	263	24
B.2. losses on disposal	135	7	10	8	-	-
B.3 transfers from other non-performing exposure categories	1,077	294	368	57	19	3
B.4 other increases	744	105	326	340	27	2
B.5 business combinations	49	4	116	42	6	1
C. Decreases	**-6,645**	**-397**	**-2,867**	**-1,130**	**-339**	**-36**
C.1 recoveries on impairment losses	-992	-96	-739	-419	-17	-
C.2 recoveries on repayments	-239	-25	-146	-79	-6	-
C.3 profits on disposal	-49	-8	-12	-11	-	-
C.4 write-offs	-4,932	-186	-672	-222	-5	-
C.5 transfers to other non-performing exposure categories	-105	-27	-1,078	-295	-282	-31
C.6 other decreases	-328	-55	-220	-104	-29	-5
C.7 business combinations	-	-	-	-	-	-
D. Final total adjustments	**21,600**	**1,723**	**5,004**	**2,074**	**96**	**5**
- of which exposures sold not derecognised	*82*	*2*	*52*	*5*	*2*	*-*

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 caption “Business combinations" includes amounts deriving from the acquisition of the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca.
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 and shares amounted to 96.4 million euro.
The adjustments directly attributable to the conversion process amounted to 78.7 million euro, partly made during previous years and partly during the current year.
Equity instruments and units of UCI were recognised at their fair value of approximately 17.7 million euro at the execution date of the transactions among Assets available for sale, as well as an for amount fully written down among Investments.
In 2017, loans amounting to approximately 29 million euro (fully written down), classified among AFS represented by debt securities were also transformed into convertible bonds.

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 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 essentially 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		
A. On-balance sheet exposures	**23,658**	**23,765**	**127,532**	**15,112**	**5,764**	**27,134**	**341,096**	**564,061**
B. Derivatives	**1,003**	**1,636**	**4,397**	**356**	**120**	**-**	**3,406**	**10,918**
B.1. Financial derivatives	1,003	1,636	4,397	306	120	-	3,404	10,866
B.2. Credit derivatives	-	-	-	50	-	-	2	52
C. Guarantees given	**520**	**1,319**	**8,119**	**2,616**	**451**	**651**	**26,936**	**40,612**
D. Commitments to lend funds	**3,043**	**25,873**	**30,088**	**8,691**	**2,354**	**626**	**36,437**	**107,112**
E. Other	**131**	**1,632**	**393**	**1**	**2**	**68**	**850**	**3,077**
Total	**28,355**	**54,225**	**170,529**	**26,776**	**8,691**	**28,479**	**408,725**	**725,780**

It should be noted that the exposures presented in the table also include units of UCI of 2,362 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

	ECAI	
	Moody's	**Fitch Standard & Poor's DBRS**
Credit quality step		
1	from Aaa to Aa3	from AAA to AA-
2	from A1 to A3	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-
4	from Ba1 to Ba3	from BB+ to BB-
5	from B1 to B3	from B+ to B-
6	Caa1 and lower	CCC+ and lower

Short-term ratings for exposures to supervised issuers and enterprises

	ECAI			
	Moody's	**Fitch**	**Standard & Poor's**	**DBRS**
Credit quality step				
1	P -1	F1 +, F1	A -1 + , A -1	R -1
2	P -2	F2	A -2	R -2
3	P -3	F3	A -3	R -3
from 4 to 6	NP	lower than F3	lower than A -3	R-4 R-5 R-6

Ratings for exposures to UCI

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	from Aaa to Aa3	from AAA to AA-	from AAA m/f to AA - m/f
2	from A1 to A3	from A+ to A-	from A + m/f to A - m/f
3 and 4	from Baa1 to Ba3	from BBB+ to BB-	from BBB + m/f to BB - m/f
5 and 6	B1 and lower	B+ and lower	B + m/f and lower

Standardised approach - Long-term ratings for exposures to securitisations

	ECAI	
	Moody's	**Fitch Standard & Poor's**
Credit quality step		
1	from Aaa to Aa3	from AAA to AA-
2	from A1 to A3	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-
4	from Baa1 to Ba3	from BB+ to BB-
5	B1 and lower	B+ and lower

Standardised approach - Short-term ratings for exposures to securitisations

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	P -1	F 1 +, F 1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
from 4 to 6	NP	lower than F3	lower than A -3

IRB approach - Long-term ratings for exposures to securitisations

	ECAI	
	Moody's	Fitch Standard & Poor's
Credit quality step		
1	Aaa	AAA
2	Aa	AA
3	A1	A+
4	A2	A
5	A3	A-
6	Baa1	BBB+
7	Baa2	BBB
8	Baa3	BBB-
9	Ba1	BB+
10	Ba2	BB
11	Ba3	BB-
12	Ba3 and lower	BB- and lower

IRB approach - Short-term ratings for exposures to securitisations

	ECAI		
	Moody's	Fitch	Standard & Poor's
Credit quality step			
1	P -1	F 1 +, F 1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
All other credit quality steps	NP	lower than F3	lower than A -3

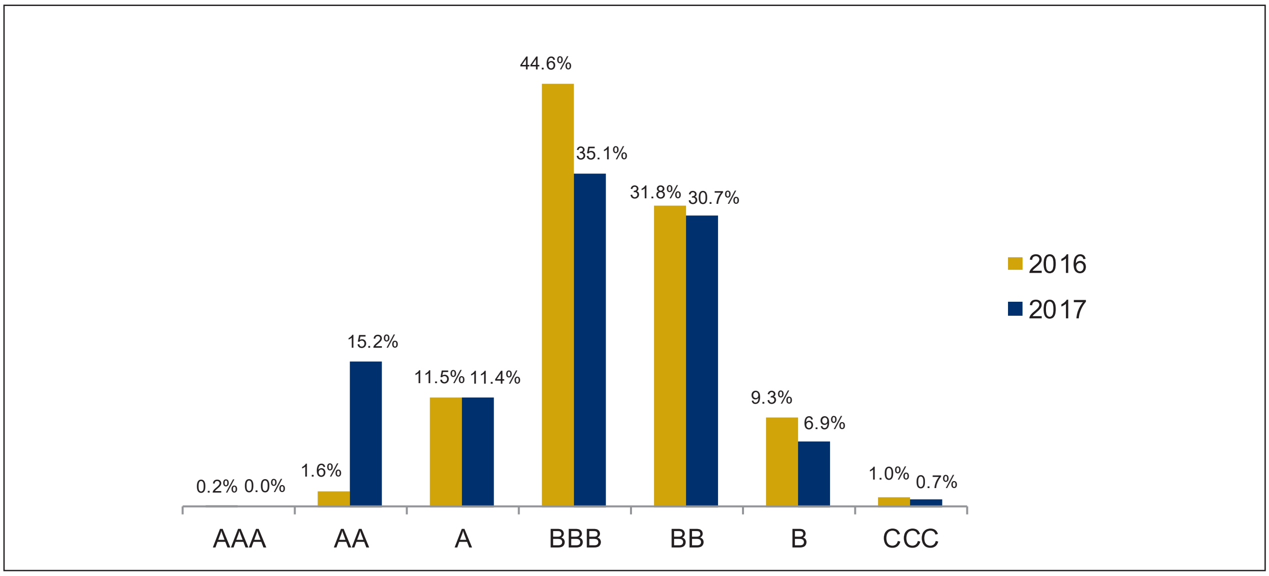
A.2.2. Banking group - Breakdown of on- and off-balance sheet exposures by internal rating classes

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), Retail SME and Public Entities 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 12.2% of all exposures to performing counterparties and refer to customer portfolios for which a rating model is not yet available, to counterparties for which the roll-out of new internal models is still underway, to Group companies whose mission is not related to credit and loans, and to international subsidiaries which have yet to be fully integrated into the credit risk management system.
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 73.5% of the total, whilst 20% fall within the BB+/BB- range (class 4) and 6.5% fall under higher risk classes (of which 1% below B-).

(millions of euro)

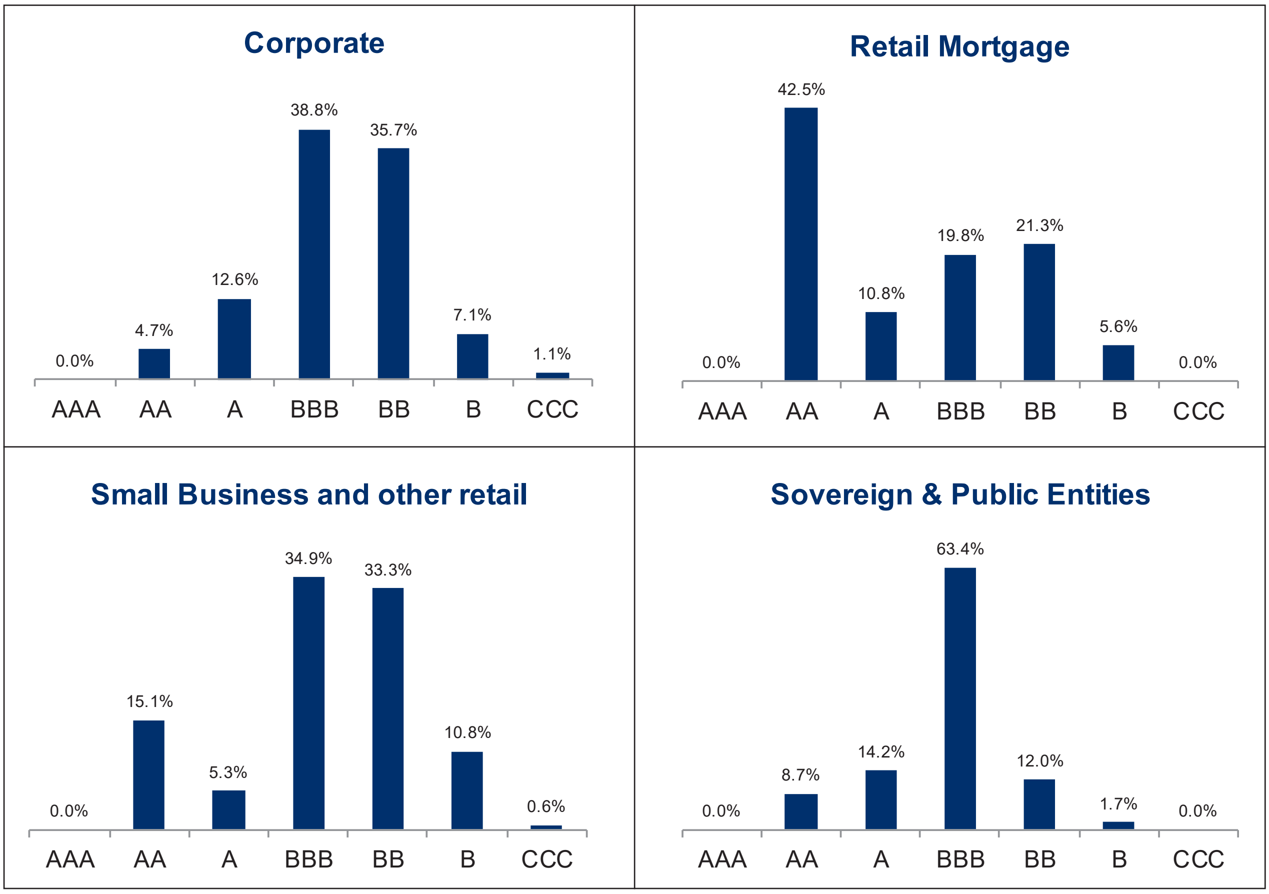
Exposures	INTERNAL RATING CLASSES							UNRATED	TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Non-performing exposures		
A. On-balance sheet exposures	**27,719**	**69,064**	**244,464**	**95,816**	**28,100**	**4,367**	**25,958**	**66,211**	**561,699**
B. Derivatives	**248**	**2,408**	**5,390**	**1,403**	**441**	**34**	**-**	**994**	**10,918**
B.1. Financial derivatives	248	2,408	5,390	1,353	441	34	-	992	10,866
B.2. Credit derivatives	-	-	-	50	-	-	-	2	52
C. Guarantees given	**4,293**	**6,168**	**15,908**	**9,613**	**1,515**	**126**	**619**	**2,370**	**40,612**
D. Commitments to lend funds	**5,014**	**25,635**	**40,406**	**15,132**	**3,457**	**1,513**	**471**	**15,484**	**107,112**
E. Other	**101**	**2,358**	**505**	**23**	**70**	**-**	**-**	**20**	**3,077**
Total	**37,375**	**105,633**	**306,673**	**121,987**	**33,583**	**6,040**	**27,048**	**85,079**	**723,418**

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 2017, performing loans to customers assigned an individual rating internally or by an external agency accounted for 97% of the loans of banks with internal models and for 71% of the entire aggregate at the Group level.



The allocation shows a high level of investment grade exposures (from AAA to BBB inclusive) of 61.8%, up compared to the previous year (58.0%).
Movements between ratings classes are mainly caused by changes in risk parameters as a result of model changes occurring during the year.

The breakdown of the following portfolios by rating is presented below: Corporate, Retail Mortgage (residential mortgages for individuals), Small Business and other retail and Sovereign & Public Entities.



Investment grade positions account for 56.1%, 73.1%, 55.3% and 86.3% 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*	
NET EXPOSURE	**8,850**	**-**	**151**	**-**	**2,694**	**-**	**5,689**	**-**	**17,384**
COLLATERAL(1)									
Real estate assets	5	**-**	-	**-**	-	**-**	-	**-**	5
Mortgages	*-*	**-**	*-*	**-**	*-*	**-**	*-*	**-**	*-*
Financial leases	*5*	**-**	*-*	**-**	*-*	**-**	*-*	**-**	*5*
Securities	8,583	-	-	-	351	-	23	-	8,957
Other	-	-	-	-	2,333	-	4,605	-	6,938
GUARANTEES (1)									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	*37*	-	*-*	-	*-*	-	*-*	-	*37*
Other public entities	*-*	-	*-*	-	*-*	-	*-*	-	*-*
Banks	*155*	-	*25*	-	*9*	-	*-*	-	*189*
Other counterparties	*58*	-	*1*	-	*-*	-	*-*	-	*59*
TOTAL	**8,838**	**-**	**26**	**-**	**2,693**	**-**	**4,628**	**-**	**16,185**

(1) 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*	
NET EXPOSURE	**236,678**	***17,358***	**24,846**	***3,461***	**16,886**	***310***	**4,234**	***150***	**282,644**
COLLATERAL(1)									
Real estate assets	145,275	***13,302***	3,830	***1,840***	1,943	***165***	574	***55***	151,622
Mortgages	*135,493*	***11,012***	*3,800*	***1,820***	*1,914*	***165***	*535*	***55***	*141,742*
Financial leases	*9,782*	***2,290***	*30*	***20***	*29*	**-**	*39*	**-**	*9,880*
Securities	42,728	*167*	2,130	*144*	4,447	*13*	245	*2*	49,550
Other	10,615	*818*	1,015	*75*	1,499	*8*	282	*12*	13,411
GUARANTEES (1)									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	*11,814*	*209*	*2,687*	*90*	*1,241*	*1*	*61*	-	*15,803*
Other public entities	*306*	*13*	*100*	*3*	*6*	-	*-*	-	*412*
Banks	*485*	*36*	*294*	*1*	*96*	-	*8*	-	*883*
Other counterparties	*24,540*	*2,745*	*5,642*	*526*	*7,613*	*121*	*1,299*	*18*	*39,094*
TOTAL	**235,763**	***17,290***	**15,698**	***2,679***	**16,845**	***308***	**2,469**	***87***	**270,775**

(1) 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
A. ON-BALANCE SHEET EXPOSURES																		
A.1. Bad loans	5	-6	X	180	-70	X	155	-311	X	-	-	X	10,460	-18,910	X	1,826	-2,303	X
- of which forborne exposures	1	-	X	-	-20	X	33	-80	X	-	-	X	1,050	-1,485	X	180	-138	X
A.2. Unlikely to pay	-	-1	X	118	-28	X	460	-206	X	-	-	X	10,899	-4,265	X	1,463	-504	X
- of which forborne exposures	-	-	X	87	-18	X	320	-109	X	-	-	X	5,370	-1,798	X	553	-149	X
A.3. Non-performing past due exposures	-	-	X	-	-	X	3	-3	X	-	-	X	236	-45	X	153	-48	X
- of which forborne exposures	-	-	X	-	-	X	1	-	X	-	-	X	19	-3	X	7	-2	X
A.4. Performing exposures	74,013	X	-11	13,580	X	-16	69,894	X	-128	1,543	X	-	184,959	X	-880	114,774	X	-276
- of which forborne exposures	3	X	-	146	X	-1	386	X	-10	-	X	-	5,901	X	-79	1,415	X	-13
Total A	**74,018**	**-7**	**-11**	**13,878**	**-98**	**-16**	**70,512**	**-520**	**-128**	**1,543**	**-**	**-**	**206,554**	**-23,220**	**-880**	**118,216**	**-2,855**	**-276**
B. OFF-BALANCE SHEET EXPOSURES																		
B.1. Bad loans	-	-	X	1	-4	X	2	-	X	-	-	X	166	-82	X	6	-2	X
B.2. Unlikely to pay	-	-	X	-	-	X	13	-1	X	-	-	X	878	-145	X	5	-2	X
B.3. Other non-performing assets	-	-	X	-	-	X	-	-	X	-	-	X	6	-	X	2	-1	X
B.4. Other exposures	7,516	X	-	2,605	X	-2	18,211	X	-4	5,164	X	-	98,347	X	-65	3,273	X	-6
Total B	**7,516**	**-**	**-**	**2,606**	**-4**	**-2**	**18,226**	**-1**	**-4**	**5,164**	**-**	**-**	**99,397**	**-227**	**-65**	**3,286**	**-5**	**-6**
TOTAL (A+B) 31.12.2017	**81,534**	**-7**	**-11**	**16,484**	**-102**	**-18**	**88,738**	**-521**	**-132**	**6,707**	**-**	**-**	**305,951**	**-23,447**	**-945**	**121,502**	**-2,860**	**-282**
TOTAL 31.12.2016	**93,911**	**-4**	**-8**	**17,246**	**-115**	**-31**	**98,517**	**-522**	**-153**	**2,618**	**-1**	**-**	**274,480**	**-24,854**	**-1,326**	**94,734**	**-3,093**	**-248**

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
A. ON-BALANCE SHEET EXPOSURES										
A.1. Bad loans	12,247	-20,739	376	-785	1	-18	1	-6	1	-52
A.2. Unlikely to pay	11,994	-4,372	742	-496	107	-88	6	-2	91	-46
A.3. Non-performing past due exposures	349	-78	40	-18	-	-	-	-	3	-
A.4. Performing exposures	331,766	-904	98,980	-325	18,403	-25	5,044	-13	4,570	-43
Total A	**356,356**	**-26,093**	**100,138**	**-1,624**	**18,511**	**-131**	**5,051**	**-21**	**4,665**	**-141**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Bad loans	149	-70	25	-12	-	-	-	-	1	-6
B.2. Unlikely to pay	799	-126	42	-21	53	-	-	-	2	-1
B.3. Other non-performing assets	6	-	2	-1	-	-	-	-	-	-
B.4. Performing exposures	62,090	-31	54,904	-40	14,353	-3	1,715	-1	2,054	-3
Total B	**63,044**	**-227**	**54,973**	**-74**	**14,406**	**-3**	**1,715**	**-1**	**2,057**	**-10**
TOTAL (A+B) 31.12.2017	**419,400**	**-26,320**	**155,111**	**-1,698**	**32,917**	**-134**	**6,766**	**-22**	**6,722**	**-151**
TOTAL 31.12.2016	**389,363**	**-27,730**	**146,441**	**-2,226**	**33,029**	**-155**	**5,910**	**-42**	**6,763**	**-202**

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
A. ON-BALANCE SHEET EXPOSURES								
A.1. Bad loans	3,906	-6,636	2,697	-4,623	2,779	-4,727	2,865	-4,753
A.2. Unlikely to pay	4,658	-1,778	2,317	-723	2,850	-1,029	2,169	-842
A.3. Non-performing past due exposures	84	-19	77	-17	90	-18	98	-24
A.4. Performing exposures	102,438	-344	64,764	-192	119,758	-208	44,806	-160
Total A	**111,086**	**-8,777**	**69,855**	**-5,555**	**125,477**	**-5,982**	**49,938**	**-5,779**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Bad loans	35	-15	51	-29	57	-23	6	-3
B.2. Unlikely to pay	360	-9	97	-35	251	-80	91	-2
B.3. Other non-performing assets	1	-	-	-	5	-	-	-
B.4. Performing exposures	22,024	-12	7,922	-7	29,683	-10	2,461	-2
Total B	**22,420**	**-36**	**8,070**	**-71**	**29,996**	**-113**	**2,558**	**-7**
TOTAL (A+B) 31.12.2017	**133,506**	**-8,813**	**77,925**	**-5,626**	**155,473**	**-6,095**	**52,496**	**-5,786**
TOTAL 31.12.2016	**121,969**	**-9,519**	**56,433**	**-5,754**	**163,381**	**-6,203**	**47,580**	**-6,254**

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
A. ON-BALANCE SHEET EXPOSURES										
A.1. Bad loans	-	-	-	-1	-	-	-	-3	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3. Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4. Performing exposures	43,796	-55	26,463	-30	3,147	-19	2,114	-8	1,458	-3
Total A	**43,796**	**-55**	**26,463**	**-31**	**3,147**	**-19**	**2,114**	**-11**	**1,458**	**-3**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Bad loans	-	-	-	-	-	-	-	-	-	-
B.2. Unlikely to pay	-	-	-	-	-	-	1	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	10	-1	-	-
B.4. Performing exposures	4,102	-1	15,948	-4	350	-	1,340	-2	695	-3
Total B	**4,102**	**-1**	**15,948**	**-4**	**350**	**-**	**1,351**	**-3**	**695**	**-3**
TOTAL (A+B) 31.12.2017	**47,898**	**-56**	**42,411**	**-35**	**3,497**	**-19**	**3,465**	**-14**	**2,153**	**-6**
TOTAL 31.12.2016	**35,502**	**-12**	**57,766**	**-38**	**6,310**	**-17**	**4,172**	**-16**	**2,140**	**-14**

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
A. ON-BALANCE SHEET EXPOSURES								
A.1. Bad loans	-	-	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-
A.3. Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4. Performing exposures	4,930	-3	371	-49	38,449	-3	46	-
Total A	**4,930**	**-3**	**371**	**-49**	**38,449**	**-3**	**46**	**-**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Bad loans	-	-	-	-	-	-	-	-
B.2. Unlikely to pay	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-
B.4. Performing exposures	1,792	-1	72	-	2,231	-	7	-
Total B	**1,792**	**-1**	**72**	**-**	**2,231**	**-**	**7**	**-**
TOTAL (A+B) 31.12.2017	**6,722**	**-4**	**443**	**-49**	**40,680**	**-3**	**53**	**-**
TOTAL 31.12.2016	**3,263**	**-4**	**1,314**	**-3**	**30,911**	**-5**	**14**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	146,854
b) Weighted value (millions of euro)	15,786
b) Number	7

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by 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

With regard to the business combinations “Aggregate Set of Banca Popolare di Vicenza in compulsory administrative liquidation” and “Aggregate Set of Veneto Banca in compulsory administrative liquidation” described in Part G of these Notes to the Consolidated Financial Statements, there were several securitisations in place at the two banks in compulsory administrative liquidation and at their respective subsidiaries at the date of execution.

The securitisations carried out in 2017 are summarised below:

GARC Securitisations

In 2017 the Parent Company continued its activities relating to the “GARC” (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit. As part of these operations, during the year the junior risk relating to a total portfolio of 2.5 billion euro in loans to approximately 5,300 businesses in the Corporate and SME Corporate segments, valued by applying internal models (Advanced IRB), was sold to specialised investors.

SME Initiative Italy Securitisation

During the year the synthetic securitisation “SME Initiative Italy” (SMEI), which is included within the framework of the “GARC” (Active Credit Risk Management) Project, was also completed on a portfolio of performing loans granted by Banco di Napoli S.p.A. to SMEs and Small Mid-Caps located in Southern Italy. This initiative was jointly financed by the Ministry of Economic Development and the European Commission and the EIB Group - European Investment Bank and European Investment Fund. The transaction involves the issue of a personal guarantee by the European Investment Fund on the investments in the Junior, Lower Mezzanine, Middle Mezzanine and Upper Mezzanine tranches, which covers the credit risk relating to a portfolio of around 500 million euro of loans to around 1,400 businesses in the Corporate and SME Corporate regulatory segment, valued using internal models (Advanced IRB). In exchange for that guarantee, the bank undertakes to provide new funds to support lending to SMEs in Southern Italy.

Telefonia 2 Securitisation

This transaction was conducted in 2017 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group for a programme amount of 100 million euro. The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles used for the transaction were Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc.

Telefonia 3 Securitisation

This transaction was conducted in 2017 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group for a programme amount of 500 million euro. The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles Trade Receivables Investment Vehicle S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc. were used for this transaction.

K_Equity Securitisation

In 2017, the Intesa Sanpaolo Group sold non-performing exposures totalling around 226 million euro through two securitisations. Another Italian bank also participated in the securitisations.
The securitisations consisted of the transfer of their credit exposures with several industrial companies to specifically established third party entities, in order to enable their value enhancement through financial and industrial restructuring.
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.
Among other things, the transaction involved the use of a securitisation company established pursuant to Law 130/99, Norma SPV S.r.l., which purchases and securitises the credit exposures and, where necessary, provides new lending to the transferred borrowers.
The Group holds no investments in the abovementioned company which is therefore a third party that is independent from Intesa Sanpaolo.
Norma SPV shall execute the securitisations by issuing Senior, Mezzanine and Junior notes, fully subscribed by each bank. Therefore, each securitisation already regards the loans due to the selling banks from a single debtor.
The exposures sold have not currently 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.

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

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**63**	**-**	**11**	**-**	**22**	**-4**
– Residential mortgage loans (*)	-	-	-	-	8	-4
– Commercial mortgage loans	19	-	7	-	-	-
– Consumer credit	44	-	4	-	14	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**6,189**	**-15**	**838**	**2**	**3,201**	**-5**
– Trade receivables	34	-	8	-	-	-
– Residential mortgage loans (**)	620	1	617	2	3,098	-5
– Loans to businesses (including SMEs) (***)	5,535	-16	213	-	103	-
TOTAL	**6,252**	**-15**	**849**	**2**	**3,223**	**-9**

(*) The entire amount refers to non-performing financial assets.

(**) The junior notes held also refer to the securitisations of the former Veneto Banca and the former Banca Popolare di Vicenza, with notes issued near the deadline set out by contract for their repurchase and cancellation and with underlying loans which, on completion of the due diligence conducted by the Board of Experts, were excluded - to the extent of the portion considered non-performing at the acquisition date - from the Aggregate Set transferred to the Intesa Sanpaolo Group.

(***) The amounts also include non-performing financial assets amounting to 89 million euro in Senior exposures, 212 million euro in Mezzanine exposures and 70 million euro in Junior exposures. "Loans to businesses (including SMEs)" also include amounts relating to the GARC synthetic securitisations referring to performing exposures.

The securitisations in point a in the above table also include – in addition to the securitisations that meet the requirements of IAS 39 for derecognition – those for which the Group has exercised the option of exemption from compliance with IAS/IFRS permitted by IFRS 1 on first-time adoption. Based on this exemption, assets or liabilities sold and not derecognised, based on previous accounting 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

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A. Fully derecognised	-	-	-	-	-	-	**43**	-	-	-	-	-
– Consumer credit	-	-	-	-	-	-	43	-	-	-	-	-
B. Partly derecognised	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	-	-	**2,751**	-	-	-	-	-
– Trade receivables (*)	-	-	-	-	-	-	2,751	-	-	-	-	-
TOTAL	-	-	-	-	-	-	**2,794**	-	-	-	-	-

(*) 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 (*)	5,230	-	7	-	1	-
Securitisations	47	-	-	-	-	-
Consumer credit	72	-	21	-	-	-
Trade receivables	272	-1	-	-	-	-
Leases	22	-	5	-	14	-
Commercial mortgage loans	52	-	20	-1	8	-
Residential mortgage loans	1,062	4	233	5	125	-
Loans to businesses (including SMEs) (**)	554	-9	197	-3	66	-38
TOTAL	**7,311**	**-6**	**483**	**1**	**214**	**-38**

(*) The amount also includes the Romulus securities for 4,944 million euro, held by the Banking Group, generally represented among third-party securitisation. For more information regarding the type of underlying assets, reference is made to Section 3 – Risks of other companies, of this Part E.

(**) The exposures include non-performing financial assets amounting to 66 million euro in Senior exposures, 75 million euro in Mezzanine exposures and 63 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Bank participates in.The related Junior Notes were fully written down.

Off-balance sheet

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions	-	-	-	-	-	-	*2,414*	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**2,414**	**-**	**-**	**-**	**-**	**-**

C.3. Banking group - Stakes in securitisation vehicles

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION [(a)]	ASSETS [(b)]			LIABILITIES [(b)]		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(g)	4,109	-	144	2,870	-	1,350
Intesa Sanpaolo SEC SA (c)	Luxembourg	Consolidated	40	-	265	305	-	17
Intesa Sanpaolo Securitisation Vehicle S.r.l. (c) (d)	Milan	Consolidated	19	-	30	26	-	156
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. (f)	Milan	(g)	2	-	2	14	-	-
Colombo S.r.l. (f)	Milan	(g)	16	-	7	-	20	10
Diocleziano S.r.l. (f)	Milan	(g)	8	-	2	-	-	-
Trade Receivables Investment Vehicle S.a.r.l.	Luxembourg	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
TIBET CMBS S.r.l.	Milan	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
ISP OBG S.r.l. (former ISP Sec 4 S.r.l.) [(i)]	Milan	Consolidated	24,384	-	3,415	27,445		
ISP CB Ipotecario S.r.l. [(i)]	Milan	Consolidated	19,968	-	4,980	23,000		
ISP CB Pubblico S.r.l. [(i)]	Milan	Consolidated	3,823	2,203	2,849	8,562		
BRERA SEC S.r.l. (c)	Conegliano Veneto (TV)	(g)	6,976	-	297	6,025	-	1,067
Claris ABS 2011 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris Finance 2005 S.r.l. (l)	Rome	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Claris FINANCE 2006 S.r.l. (c) (l)	Conegliano Veneto (TV)	Not consolidated	78		5		58	3
Claris FINANCE 2007 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris FINANCE 2008 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris RMBS 2011 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris RMBS 2014 (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris RMBS 2016 S.r.l.. (c) (l)	Conegliano Veneto (TV)	Not consolidated	1,005		58	781	116	144
Claris SME 2015 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Claris SME 2016 S.r.l. (l)	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Berica 5 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica 6 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica 8 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica 9 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica 10 Residential MBS S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica Abs S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica ABS 2 S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Barica ABS 3 S.r.l. (l)	Vicenza	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Berica ABS 4 S.r.l. (l)	Vicenza	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
Berica ABS 5 S.r.l. (c) (l)	Vicenza	Not consolidated	560		36	452	60	52
Berica Funding 2016 S.r.l. (c) (l)	Vicenza	Not consolidated	949		62	581	199	185
BERICA PMI 2 S.r.l. (c) (l)	Vicenza	Not consolidated	582		51	82		531
Apulia Finance n. 2 S.r.l. (c) (l)	Conegliano Veneto (TV)	(g)	13		5	0	10	5
Apulia Mortgages Finance n. 3 S.r.l. (c) (l)	Conegliano Veneto (TV)	(g)	33		3	4	13	8
Apulia Finance n. 4 S.r.l. (l) (m)	Conegliano Veneto (TV)	(g)	113		5	74		24

[(a)] Consolidation method referring to the "prudential" scope.

[(b)] Figures gross of any intercompany relations.

[(c)] Self-securitisation vehicle described in Section 1.3 Banking Group - Liquidity Risk, Quantitative Information, paragraph 4.

[(d)] This vehicle (former Intesa Lease Sec S.r.l.) has been used to launch 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 in Hungary, also in currencies other than the euro, for a total of 343 million euro.

[(e)] For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.6 of these Notes to the consolidated financial statements.

[(f)] The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2016).

[(g)] Vehicle consolidated at equity.

[(h)] For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of these Notes to the consolidated financial statements.

[(i)] 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.

[(l)] Vehicle deriving from the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca

[(m)] Vehicle that includes three sub-funds, of which one referring to a self-securitisation (3rd issue) and two referring to securitisations (1st and 2nd issues)

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers and K-Equity, in addition to those shown in the table above, other special purpose vehicles were also used that are third-party and independent entities with respect to Intesa Sanpaolo and in which the Group does not hold any investments.

C.4 Banking group – Not consolidated securitisation vehicles

With reference to not consolidated structured entities used for securitisations, the Group reports its residual investments in the vehicles Augusto, Colombo and Diocleziano, consolidated at equity. These 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 not consolidated securitisation vehicles also include those used by the Intesa Sanpaolo Group in which the Group does not hold any stake.

Trade Receivables Investment Vehicle S.a.r.l.
Securitisation of trade receivables

(millions of euro)

A. Assets	**340**
A.1 Receivables	334
A.2 Other assets	6
B. Liabilities	**340**
B.1 Class A securities issued	334
B.2 Class B securities issued	6
B.3 Other liabilities	-
C. Interest charge	**8**
D. Interest income	**8**

Tibet CMBS S.r.l.
Securitisation of commercial mortgage loans

(millions of euro)

A. Securitised assets	**192**
A.1 Loans	192
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**11**
B.1 Deposits with banks	11
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**192**
C.1 Class A securities	99
C.2 Class B securities	26
C.3 Class C securities	9
C.4 Class D securities	58
C.5 Class X securities	-
D. Financing received	**10**
E. Other liabilities	**2**
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
F. Interest expense on securities issued	**8**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Securities placement commissions	-
H. Other expenses	**-**
H.1 Interest expense	-
H.2 Forecast losses on loans	-
H.3 Additional return	-
I. Interest income on securitised assets	**-**
L. Other revenues	**8**
L.1 Interest income	8

CLARIS ABS 2011 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**1,354**
A.1 Loans	1,354
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**70**
B.1 Deposits with banks	70
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**1,179**
C.1 Class A	525
C.2 Class B	654
C.3 Class C	-
C.4 Class D	-
C.5 Class X	-
D. Financing received	**89**
E. Other liabilities	**156**
E.1 Sundry payables	151
E.2 Accrued expenses and deferred income	5
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**13**
G. Commissions and fees	**1**
G.1 Servicing	-
G.2 Other services	1
H. Other expenses	**6**
H.1 Interest expense	1
H.2 Forecast losses on loans	5
H.3 Additional return	-
I. Interest income on securitised assets	**28**
L. Other revenues	**8**
L.1 Interest income	8

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS FINANCE 2007 S.r.l.

Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**128**
A.1 Loans	128
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**12**
B.1 Deposits with banks	11
B.2 Credits to be recognised	1
B.3 Prepayments and accrued income	-
C. Securities issued	**112**
C.1 Class A	84
C.2 Class B	6
C.3 Class C	13
C.4 Class D	9
C.5 Class X	-
D. Financing received	13
E. Other liabilities	**13**
E.1 Sundry payables	13
E.2 Accrued expenses and deferred income	-
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**7**
H.1 Interest expense	-
H.2 Forecast losses on loans	7
H.3 Additional return	-
I. Interest income on securitised assets	**2**
L. Other revenues	**6**
L.1 Interest income	6

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS FINANCE 2008 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**138**
A.1 Loans	138
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**7**
B.1 Deposits with banks	7
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**110**
C.1 Class A	11
C.2 Class B	44
C.3 Class C	55
C.4 Class D	-
C.5 Class X	-
D. Financing received	**15**
E. Other liabilities	**18**
E.1 Due to Originator	18
E.2 Accrued expenses and deferred income	-
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**3**
H.1 Interest expense	-
H.2 Forecast losses on loans	3
H.3 Additional return	-
I. Interest income on securitised assets	**3**
L. Other revenues	**2**
L.1 Interest income	2

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS RMBS 2011 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**544**
A.1 Loans	544
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**66**
B.1 Deposits with banks	66
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**538**
C.1 Class A	335
C.2 Class B	203
C.3 Class C	-
C.4 Class D	-
C.5 Class X	-
D. Financing received	**41**
E. Other liabilities	**47**
E.1 Sundry payables	46
E.2 Accrued expenses and deferred income	1
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**7**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**8**
H.1 Interest expense	-
H.2 Forecast losses on loans	2
H.3 Negative swap differences	6
I. Interest income on securitised assets	**11**
L. Other revenues	**11**
L.1 Interest income	11

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS RMBS 2014 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**482**
A.1 Loans	482
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**16**
B.1 Deposits with banks	16
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**457**
C.1 Class A	281
C.2 Class B	
C.3 Class C	-
C.4 Class D	-
C.5 Class X	176
D. Financing received	**-**
E. Other liabilities	**40**
E.1 Sundry payables	40
E.2 Accrued expenses and deferred income	-
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**10**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**2**
H.1 Interest expense	-
H.2 Forecast losses on loans	-
H.3 Negative swap differences	2
I. Interest income on securitised assets	**13**
L. Other revenues	**-**
L.1 Interest income	-

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

Berica ABS 4 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**643**
A.1 Loans	643
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**23**
B.1 Deposits with banks	23
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**610**
C.1 Class A	392
C.2 Class B	76
C.3 Class C	47
C.4 Class D	-
C.5 Class J	95
D. Financing received	**26**
E. Other liabilities	**-**
E.1 Sundry payables	-
E.2 Accrued expenses and deferred income	-
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**4**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**4**
H.1 Interest expense	-
H.2 Forecast losses on loans	2
H.3 Negative swap differences	2
I. Interest income on securitised assets	**16**
L. Other revenues	**3**
L.1 Interest income	3

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS SME 2015 S.r.l.

Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**959**
A.1 Loans	959
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**112**
B.1 Deposits with banks	112
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**1,021**
C.1 Class A	329
C.2 Class B	290
C.3 Class C	-
C.4 Class D	-
C.5 Class J	402
D. Financing received	**-**
E. Other liabilities	**50**
E.1 Due to Originator	48
E.2 Accrued expenses and deferred income	2
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**15**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**22**
H.1 Interest expense	-
H.2 Forecast losses on loans	21
H.3 Negative swap differences	1
I. Interest income on securitised assets	**33**
L. Other revenues	**5**
L.1 Interest income	5

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS SME 2016 S.r.l.

Securitisation of residential mortgage loans

(millions of euro)

	Total
	561
A.1 Loans	561
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**64**
B.1 Deposits with banks	64
B.2 Credits to be recognised	-
B.3 Prepayments and accrued income	-
C. Securities issued	**628**
C.1 Class A	235
C.2 Class B	393
C.3 Class C	-
C.4 Class D	-
C.5 Class X	-
D. Financing received	**-**
E. Other liabilities	**17**
E.1 Due to Originator	16
E.2 Accrued expenses and deferred income	1
E.3 Charges of losses on segregated assets	-
E.4 Gains/Losses of segregated assets	-
F. Interest expense on securities issued	**12**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**14**
H.1 Interest expense	-
H.2 Forecast losses on loans	14
H.3 Additional return	-
I. Interest income on securitised assets	**19**
L. Other revenues	**2**
L.1 Interest income	2

Vehicle company which the Intesa Sanpaolo Group has not invested in. The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

CLARIS FINANCE 2005 S.r.l.

Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**62**
A.1 Loans	61
A.2 Securities	-
A.3 Other assets	1
B. Investments of the funds collected from loan management	**13**
B.1 Debt securities	13
B.2 Equities	-
B.3 Liquidity	-
C. Securities issued	**49**
C.1 Class A	15
C.2 Class A2	-
C.3 Class A3	-
C.4 Class B	24
C.5 Class C	10
D. Financing received	13
E. Other liabilities	**14**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Intesa San Paolo S.p.A.	-
E.4 Due to SPV	-
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	14
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**1**
H.1 Interest expense	1
H.2 Forecast losses on loans	-
H.3 Additional return	-
I. Interest income on securitised assets	**1**
L. Other revenues	**-**
L.1 Interest income	-

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 5 Residential MBS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**132**
A.1 Loans	132
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**18**
B.1 Debt securities	18
B.2 Equities	-
B.3 Liquidity	-
C. Securities issued	**141**
C.1 Class A1	64
C.2 Class B	27
C.3 Class C	16
C.4 Class D	34
C.5 Class X	-
D. Financing received	4
E. Other liabilities	**16**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originator	7
E.4 Sundry payables	8
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	1
F. Interest expense on securities issued	**1**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**4**
H.1 Interest expense	-
H.2 Forecast losses on loans	3
H.3 Amortisation of excess spread	1
I. Interest income on securitised assets	**2**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 6 Residential MBS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**299**
A.1 Loans	299
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**160**
B.1 Debt securities	-
B.2 Equities	-
B.3 Other assets	160
C. Securities issued	**310**
C.1 Class A1	270
C.2 Class B	21
C.3 Class C	14
C.4 Class D	4
C.5 Class E	1
D. Financing received	-
E. Other liabilities	**78**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Sundry payables	78
E.4 Due to SPV	-
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**1**
H.1 Interest expense	-
H.2 Forecast losses on loans	1
H.3 Additional return	-
I. Interest income on securitised assets	**4**
L. Other revenues	**-**
L.1 Interest income	-

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 8 Residential MBS S.r.l.

Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**394**
A.1 Loans	394
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**72**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	72
C. Securities issued	**375**
C.1 Class A1	200
C.2 Class A2	-
C.3 Class A3	-
C.4 Class B	175
C.5 Class C	-
D. Financing received	**49**
E. Other liabilities	**26**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	4
E.4 Sundry payables	20
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	2
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**1**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**11**
H.1 Interest expense	-
H.2 Forecast losses on loans	2
H.3 Negative swap differences	9
I. Interest income on securitised assets	**10**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 9 Residential MBS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**465**
A.1 Loans	465
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**59**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	59
C. Securities issued	**441**
C.1 Class A1	-
C.2 Class A2	-
C.3 Class A3	248
C.4 Class B	193
C.5 Class C	-
D. Financing received	54
E. Other liabilities	**6**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	2
E.4 Sundry payables	4
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**5**
H.1 Interest expense	-
H.2 Forecast losses on loans	1
H.3 Negative swap differences	4
I. Interest income on securitised assets	**8**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA 10 Residential MBS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**457**
A.1 Loans	457
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**38**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	38
C. Securities issued	**409**
C.1 Class A1	225
C.2 Class A2	-
C.3 Class A3	-
C.4 Class B	184
C.5 Class C	-
D. Financing received	**44**
E. Other liabilities	**5**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	1
E.4 Sundry payables	3
E.5 "Additional return" allowance	1
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**1**
G.1 Servicing	-
G.2 Other services	1
H. Other expenses	**3**
H.1 Interest expense	-
H.2 Forecast losses on loans	1
H.3 Negative swap differences	2
I. Interest income on securitised assets	**8**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA ABS S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**680**
A.1 Loans	680
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**25**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	25
C. Securities issued	**572**
C.1 Class A1	134
C.2 Class A2	110
C.3 Class A3	286
C.4 Class B	42
C.5 Class C	-
D. Financing received	**68**
E. Other liabilities	**7**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	2
E.4 Sundry payables	5
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**8**
H.1 Interest expense	2
H.2 Forecast losses on loans	4
H.3 Negative swap differences	2
I. Interest income on securitised assets	**12**
L. Other revenues	**2**
L.1 Interest income	2

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA ABS 2 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**447**
A.1 Loans	447
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**40**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	40
C. Securities issued	**396**
C.1 Class A1	-
C.2 Class A2	216
C.3 Class A3	-
C.4 Class B	180
C.5 Class C	-
D. Financing received	**34**
E. Other liabilities	**2**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	1
E.4 Sundry payables	1
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**-**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**3**
H.1 Interest expense	1
H.2 Forecast losses on loans	2
H.3 Additional return	-
I. Interest income on securitised assets	**9**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

BERICA ABS 3 S.r.l.
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**546**
A.1 Loans	546
A.2 Securities	-
A.3 Other assets	-
B. Investments of the funds collected from loan management	**19**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	19
C. Securities issued	**501**
C.1 Class A1	292
C.2 Class A2	-
C.3 Class A3	-
C.4 Class B	94
C.5 Class J	115
D. Financing received	**28**
E. Other liabilities	**-**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Intesa San Paolo S.p.A.	-
E.4 Sundry payables	-
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**4**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**6**
H.1 Interest expense	2
H.2 Forecast losses on loans	2
H.3 Negative swap differences	2
I. Interest income on securitised assets	**15**
L. Other revenues	**1**
L.1 Interest income	1

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

Apulia Finance n. 4 S.r.l. issue I and issue II
Securitisation of residential mortgage loans

(millions of euro)

	Total
A. Securitised assets	**214**
A.1 Loans	212
A.2 Securities	-
A.3 Other assets	2
B. Investments of the funds collected from loan management	**-**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	-
C. Securities issued	**178**
C.1 Class A1	75
C.2 Class A2	70
C.3 Class A3	19
C.4 Class B	14
C.5 Class C	-
D. Financing received	-
E. Other liabilities	**49**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Originators	-
E.4 Sundry payables	12
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Income/Losses of segregated assets	37
F. Interest expense on securities issued	**-**
G. Commissions and fees	**2**
G.1 Servicing	1
G.2 Other services	1
H. Other expenses	**2**
H.1 Interest expense	-
H.2 Forecast losses on loans	1
H.3 Additional return	1
I. Interest income on securitised assets	**4**
L. Other revenues	**-**
L.1 Interest income	-

Vehicle company which the Intesa Sanpaolo Group has invested in The securitised assets included in the vehicle were not derecognised pursuant to the international accounting standards, save for the specifications set out in this section and in Part G of the Notes to the consolidated financial statements regarding the specific characteristics of the acquisition by the Group of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca.

C.5. Banking group - Servicer activities – originated securitisations: collection of securitised loans and repayment of securities issued by the securitisation vehicle

SERVICER	SPECIAL PURPOSE VEHICLE	SECURITISED ASSETS (end-of-period figure) (millions of euro)		COLLECTIONS OF LOANS IN THE YEAR (millions of euro)		PERCENTAGE OF REIMBURSED SECURITIES (period-end figure)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing assets	Performing assets	Non-performing assets	Performing assets	Non-performing assets	Performing assets
Intesa Sanpaolo	Intesa Sanpaolo Securitisation Vehicle (*)	19	-	-	97	0%	58%	0%	0%	0%	0%
Intesa Sanpaolo	Intesa Sec 3 S.r.l.	23	216	8	101	0%	100%	0%	93%	0%	0%
Italfondiario	Intesa Sec NPL S.p.A.	11	-	4	-	100%	0%	46%	0%	0%	0%
Intesa Sanpaolo	BRERA SEC S.r.l. (*)	1	7,014	-	153	0%	0%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS ABS 2011 S.r.l.	90	1,264	-	164	0%	79%	0%	0%	0%	22%
Intesa Sanpaolo	CLARIS FINANCE 2005 S.r.l.	12	50	-	11	0%	8%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2006 S.r.l. (*)	1	127	-	12	0%	100%	0%	3%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2007 S.r.l.	19	109	-	15	0%	83%	0%	0%	0%	21%
Intesa Sanpaolo	CLARIS FINANCE 2008 S.r.l.	26	112	-	23	0%	98%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS RMBS 2011 S.r.l.	4	540	-	21	0%	71%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS RMBS 2014 S.r.l.	25	457	-	65	0%	73%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS SME 2015 S.r.l.	154	805	-	279	0%	80%	0%	20%	0%	20%
Intesa Sanpaolo	CLARIS SME 2016 S.r.l.	101	460	-	143	0%	64%	0%	0%	0%	11%
Intesa Sanpaolo	CLARIS RMBS 2016 S.r.l. (*)	16	989	-	121	0%	15%	0%	0%	0%	0%
Intesa Sanpaolo	Berica 5 Residential MBS S.r.l.	36	96	-	17	0%	90%	0%	0%	0%	3%
Intesa Sanpaolo	Berica 6 Residential MBS S.r.l.	11	288	-	44	0%	100%	0%	76%	0%	78%
Intesa Sanpaolo	Berica 8 Residential MBS S.r.l.	30	364	-	69	0%	84%	0%	0%	0%	0%
Intesa Sanpaolo	Berica 9 Residential MBS S.r.l.	15	450	-	68	0%	73%	0%	0%	0%	0%
Intesa Sanpaolo	Berica 10 Residential MBS S.r.l.	19	438	-	62	0%	70%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS S.r.l.	58	622	-	80	0%	77%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 2 S.r.l.	19	428	-	65	0%	70%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 3 S.r.l.	34	512	-	78	0%	54%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 4 S.r.l.	26	617	-	83	0%	46%	0%	0%	0%	0%
Intesa Sanpaolo	Berica PMI 2 S.r.l. (*)	10	572	-	95	0%	87%	0%	0%	0%	0%
Intesa Sanpaolo	Berica Funding S.r.l. 2016 (*)	9	936	-	148	0%	35%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 5 S.r.l. (*)	2	558	-	164	0%	11%	0%	0%	0%	0%
Banca Apulia	APULIA Finance n. 4 S.r.l. issue I	12	74	-	15	0%	33%	0%	0%	0%	0%
Banca Apulia	APULIA Finance n. 4 S.r.l. issue II	40	86	-	17	0%	26%	0%	0%	0%	0%
Total		**822**	**18,184**	**12**	**2,210**						

(*) Vehicle used for self-securitisations

C.6. Banking group – Consolidated securitisation vehicles

Intesa SEC 3 S.r.l.
Securitisation of performing residential mortgage loans

(millions of euro)

A. Securitised assets	**242**
A.1 Loans	241
A.2 Securities	-
A.3 Other assets	1
B. Investments of the funds collected from loan management	**121**
B.1 Debt securities	121
B.2 Equities	-
B.3 Liquidity	-
C. Securities issued	**236**
C.1 Class A1	90
C.2 Class A2	73
C.3 Class A3	73
C.4 Class B	-
C.5 Class C	-
D. Financing received	**49**
E. Other liabilities	**44**
E.1 Amounts due for services rendered	44
E.2 Due to customers	-
E.3 Due to Parent Company	-
E.4 Due to securitisation vehicle	-
E.5 "Additional return" allowance	-
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**2**
G.1 Servicing	1
G.2 Securities placement commissions	1
H. Other expenses	**8**
H.1 Interest expense	3
H.2 Forecasted losses on loans	4
H.4 Additional return	1
I. Interest income on securitised assets	**6**
L. Other revenues	**1**
L.1 Interest income	1

Intesa SEC NPL S.p.A.
Securitisation of non-performing mortgage loans

(millions of euro)

A. Securitised assets	**13**
A.1 Loans	11
A.2 Securities	-
A.3 Other assets	2
B. Investments of the funds collected from loan management	**2**
B.1 Debt securities	-
B.2 Equities	-
B.3 Accrued expenses and deferred income	2
C. Securities issued	**155**
C.1 Class A	-
C.2 Class B	-
C.3 Class C	-
C.4 Class D	114
C.5 Class E	41
D. Financing received	**6**
E. Other liabilities	**84**
E.1 Amounts due for services rendered	1
E.2 Accrued expenses – interest on securities issued	83
E.3 Other accrued expenses	-
E.4 Floor option premium received	-
F. Interest expense on securities issued	**15**
G. Commissions and fees	**-**
G.1 Servicing	-
G.2 Other services	-
H. Other expenses	**20**
H.1 Interest expense	2
H.2 Other expenses	-
H.3 Losses on penalty interest	-
H.4 Losses on loans	-
H.5 Forecasted losses on loans	18
I. Interest income on securitised assets	**27**
L. Other revenues	**-**
L.1 Interest income	-
L.2 Recovery of legal expenses	-
L.3 Write-backs	-
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 consolidated in the accounts other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

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 those 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. After acquisition of the target company’s shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

The Intesa Sanpaolo Group also has investments in/exposures to structured entities represented by UCIs.
The main cases include the Group's investments in several funds managed by IMI Fondi Chiusi SGR, which sponsors and manages closed-end private equity funds, in the form of UCIs reserved to qualified operators, specialised in investment in Small and Medium-Sized Enterprises, operating in two complementary business lines: Private Equity and Venture and Seed Capital.
In the area of Private Equity, there are several operating funds dedicated to investment in SMEs throughout the country and in specific geographical areas.
In the area of Venture and Seed Capital, the sponsored funds operate in the following areas:
– participation in new business initiatives characterised by sound technological profiles;
– participation in projects to introduce process or product innovation using digital technology;
– investments in businesses with high forecast growth rates and cutting-edge technological development, both through direct investments in Seed Capital (financing the assessment and development of a business idea prior to the start-up phase) and indirect investments in UCI units with an investment policy matching the Fund's objectives or in business incubators/accelerators.

Investments in these types of funds derive from the Group's willingness to subscribe unplaced units offered during the placement to qualified investors, to ensure that the initiatives are successful, in any event, while maintaining suitable separation of management in organisational terms.

The closed-end funds in question finance their activities exclusively using the capital that investors committed to paying in at the time of placement, without using any types of debt.

The Group made further investments in UCIs through the subsidiary Eurizon Capital SGR, in line with the financial portfolio management policies issued by the company, in agreement with the Intesa Sanpaolo Group Guidelines.
In detail, the asset management company has both temporary and structural available funds deriving from company equity that is not permanently invested in equity investments or other fixed assets, and from the ordinary cash flows. Based on that set out in the guidelines for managing the financial portfolio, as part of Treasury management activities, structural and temporarily available funds linked to the trend in short-term and on demand cash flows make up the liquidity portfolio net of the amount held in current accounts or invested in term deposits. In relation to the activities carried out by the asset management company and the characteristics of the available funds in question, excess liquidity must be invested in assets with moderate risk that can be easily liquidated. That portfolio includes investments in short-term money market and bond funds, both specialising in the Eurozone, established and/or managed by Eurizon Capital SGR or by its subsidiaries. The Group's investments in UCIs managed by a subsidiary do not prejudice the operational autonomy and capacity of the asset management company to act in the exclusive interest of investors, considering the specific provisions set out in sector regulations and by the Supervisory Authorities.

The exposures to UCIs also include the investments in units of real estate funds deriving from transactions to contribute portions of the Group’s real estate portfolio.

The investments in UCIs also include the units held in the Atlante Fund and the Italian Recovery Fund, alternative investment funds managed by the asset management company Quaestio Capital Management, involved in value enhancement of Non-Performing Loans of Italian banks.

The Intesa Sanpaolo Group also invests in hedge funds. For more information, reference is made to the specific section in Part E of the Notes to the consolidated financial statements.

Quantitative information

(millions of euro)

Captions / Type of structured entity	Accounting portfolios under assets	Total assets (A)	Accounting portfolios under liabilites	Total liabilities (B)	NET BOOK VALUE (C = A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E = D - C)
1. Special purpose vehicle		**4,277**		**264**	**4,013**	**5,439**	**1,426**
	Financial assets held for trading	416	Due to customers	259			
	Financial assets designated at fair value through profit and loss	-	Financial liabilities held for trading	5			
	Financial assets available for sale	18		-			
	Loans to customers	3,843		-			
2. UCI		**2,929**		**445**	**2,484**	**2,924**	**440**
	Financial assets held for trading	1,081	Due to customers	433			
	Financial assets designated at fair value through profit and loss	105	Financial liabilities held for trading	12			
	Financial assets available for sale	1,176		-			
	Loans to customers	567		-			

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; the main revenue component recognised is 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.

(millions of euro)

Type of structured entity sponsored	Interest	Fees and commissions	Dividends	Other revenue	TOTAL
UCI	6	1,860	14	143	2,023
Special-purpose vehicles	113	14	-	7	134

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

(millions of euro)

Type / Portfolio	CASH ASSETS				DERIVATIVES	31.12.2017		31.12.2016	
	Debt securities	Equities	UCI	Loans		Total	*of which non-performing assets*	Total	*of which non-performing assets*
FINANCIAL ASSETS HELD FOR TRADING	**4,611**	**-**	**-**	**-**	**-**	**4,611**	**-**	**4,758**	**-**
- Financial assets sold totally recognised (book value)	4,611	-	-	-	-	4,611	-	4,758	-
- Financial assets sold partly recognised (book value)	-	-	-	-	-	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	-	-	-	-	-
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**-**	**-**	**-**	**-**	**X**	**-**	**-**	**-**	**-**
- Financial assets sold totally recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	X	-	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	**18,098**	**-**	**-**	**-**	**X**	**18,098**	**-**	**19,091**	**-**
- Financial assets sold totally recognised (book value)	18,096	-	-	-	X	18,096	-	19,081	-
- Financial assets sold partly recognised (book value)	1	-	-	-	X	1	-	5	-
- Financial assets sold partly recognised (full value)	1	-	-	-	X	1	-	5	-
INVESTMENTS HELD TO MATURITY	**-**	**X**	**X**	**-**	**X**	**-**	**-**	**-**	**-**
- 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	-	-	-	-
DUE FROM BANKS	**100**	**X**	**X**	**-**	**X**	**100**	**-**	**-**	**-**
- Financial assets sold totally recognised (book value)	100	X	X	-	X	100	-	-	-
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
LOANS TO CUSTOMERS	**302**	**X**	**X**	**4,570**	**X**	**4,872**	***329***	**1,536**	***397***
- Financial assets sold totally recognised (book value)	302	X	X	4,570	X	4,872	*329*	1,536	*397*
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
Total 31.12.2017	**23,111**	**-**	**-**	**4,570**	**-**	**27,681**	**329**	**X**	***X***
Total 31.12.2016	**24,675**	**-**	**-**	**710**	**-**	**X**	**X**	**25,385**	***397***

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, as well as the securitisation transactions deriving from the acquisition of the Aggregate Set of the former Banca Popolare di Vicenza and former Veneto Banca Groups.

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	Total
	Fully recognised	Partly recognised	Fully recognised	Partly recognised	Fully recognised	Partly recognised	31.12.2017	31.12.2016
Financial assets held for trading	3,469	-	968	-	-	-	4,437	4,023
Financial assets measured at fair value	-	-	-	-	-	-	-	-
Financial assets available for sale	8,987	-	9,121	-	-	-	18,108	19,084
Investments held to maturity	-	-	-	-	-	-	-	-
Due from banks	6	-	-	-	-	-	6	-
Loans to customers	3,555	-	212	-	236	-	4,003	1,155
Total	**16,017**	**-**	**10,301**	**-**	**236**	**-**	**26,554**	**24,262**

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, as well as the K-Equity securitisation and those deriving from the acquisition of the Aggregate Set of the former Banca Popolare di Vicenza and former Veneto Banca Groups.

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) 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 31.12.2017	Total 31.12.2016
	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		
A. Cash assets	**4,611**	**-**	**-**	**-**	**18,093**	**1**	**-**	**-**	**101**	**-**	**4,717**	**-**	**27,523**	**25,411**
1. Debt securities	4,611	-	-	-	18,093	1	-	-	101	-	265	-	23,071	24,689
2. Equities	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCI	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	4,452	-	4,452	722
B. Derivatives	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total Assets	**4,611**	**-**	**-**	**-**	**18,093**	**1**	**-**	**-**	**101**	**-**	**4,717**	**-**	**27,523**	**25,411**
C. Associated liabilities	**4,437**	**-**	**-**	**-**	**18,108**	**-**	**-**	**-**	**6**	**-**	**3,994**	**-**	**X**	**X**
1. Due to customers	3,469	-	-	-	8,987	-	-	-	6	-	3,539	-	X	X
2. Due to banks	968	-	-	-	9,121	-	-	-	-	-	219	-	X	X
3. Securities issued	-	-	-	-	-	-	-	-	-	-	236	-	X	X
Total Liabilities	**4,437**	**-**	**-**	**-**	**18,108**	**-**	**-**	**-**	**6**	**-**	**3,994**	**-**	**26,545**	**24,265**
Net Value 2017	**174**	**-**	**-**	**-**	**-15**	**1**	**-**	**-**	**95**	**-**	**723**	**-**	**978**	**X**
Net Value 2016	**735**	**-**	**-**	**-**	**-15**	**5**	**-**	**-**	**-**	**-**	**421**	**-**	**X**	**1,146**

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 2017.

E.4. Banking group - Covered bond transactions

Covered bond transactions where the selling Bank and the lending Bank are the same must be reported under this section. Intesa Sanpaolo uses covered bonds mainly as a type of funding through securities guaranteed by assets originated by Intesa Sanpaolo or by other companies of the Group.

Over time, the Intesa Sanpaolo Group has carried out three Covered Bond issue programmes.

The first programme, launched at the end of July 2009, 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 2017 loans and securities sold to the vehicle had a book value of 6 billion euro.
Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (of which 3 billion euro relating to a covered bond which matured in the fourth quarter of 2011, 12 billion euro relating to issues 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 2017:

- the early repayment of the eighth series of CB was carried out, for a nominal value of 2 billion euro which, as it was fully subscribed for 1.8 billion euro by the Parent Company Intesa Sanpaolo, was already cancelled from the accounts;

- The thirteenth series of Covered Bonds was issued, for a nominal value of 1.6 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 2017 a total nominal amount of 6.7 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Pubblico was outstanding, of which 6.6 billion repurchased and 0.1 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, government bonds and Adriano Finance S.r.l. bonds originated by Intesa Sanpaolo were transferred with a total original nominal value of 24.8 billion euro (net of retrocessions). During 2017, Intesa Sanpaolo transferred residential mortgage loans to the vehicle in May, for a total original nominal value of approximately 5.3 billion euro.
As at 31 December 2017 loans sold to the vehicle had a book value of 20 billion euro.
Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 28.7 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 2017:
- the second series of CB reached maturity, with a nominal value of 1.9 billion euro;
- in June, twenty-second series of CB was issued in the form of a fixed-rate bond (1.125%) for a nominal value of 1 billion euro, with a 10-year maturity, listed on the Luxembourg Stock Exchange with Moody's Aa2 rating. The bond was placed with institutional investors;

As at 31 December 2017, a total nominal amount of 15.1 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Ipotecario was outstanding, of which 11.7 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, Cassa di Risparmio in Bologna and Banca CR Firenze. In particular, Intesa Sanpaolo sold mortgages to the vehicle for an original total nominal value of 18.1 billion euro (net of exclusions). A sale was completed in June 2017 totalling 1.1 billion euro.

As at 31 December 2017 loans sold to the vehicle had a book value of 10.1 billion euro.
The other Group Banks sold assets to the vehicle for a total original nominal value of 17.7 billion euro, of which 1.8 billion euro sold in 2017.

Over time, against the sales of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 49.7 billion euro (of which 28 billion euro subject to early redemption and reimbursed). During 2017:
- in February, the ninth series of CB reached maturity, with a value of 1.375 billion euro;
- in August, the tenth series of CB reached maturity, with a value of 1.375 billion euro;
- in February, the following was issued:
  - the twenty-third series of CB, with a nominal value of 1.375 billion euro. This is an 9-year, floating-rate bond;
  - the twenty-fourth series of CB, with a nominal value of 1.375 billion euro. This is an 10-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 2017 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 2017 are shown in the table below.

(millions of euro)

COVERED BONDS		VEHICLE DATA		SUBORDINATED LOAN [1]	COVERED BONDS ISSUED	
		Total assets	Cumulated write-downs on securitised portfolio	amount	Nominal amount (2)	Book value (2) (3)
ISP CB PUBBLICO	Performing public sector loans and securities	8,875	4	8,562	147	167
ISP CB IPOTECARIO	RMBSs (Performing residential mortgages)	24,948	115	23,000	11,713	12,473
ISP OBG (4) (5)	Mortgages	27,799	246	27,445	-	-

(1) This caption includes the subordinated loan granted by ISP S.p.A. to the vehicles for the purchase of the portfolio lodged as collateral for the CB. This loan is derecognised in the IAS-compliant separate financial statements. The amount of the loan refers to the issue already executed as part of an issue programme with a higher maximum amount.

(2) The nominal amount and the book value shown in the table are to be considered net of securities repurchased.

(3) The covered bonds (CB) issued by Intesa Sanpaolo were placed on the market with professional investors and international financial intermediaries, for the entire amount issued.

(4) The total assets amount to 11,160 million euro for Intesa Sanpaolo; of the remainder: 8,550 million euro is comprised of securitised assets of Banco di Napoli, 3,451 million euro is comprised of securitised assets of CR Veneto, 2,677 million euro is comprised of securitised assets of CR Firenze and 1,961 million euro is comprised of securitised assets of CR Bologna.

(5) The write-downs to the securitised portfolio amounts to 137 million euro for Intesa Sanpaolo; of the remainder: 80 million euro relates to the Banco di Napoli portfolio, 21 million euro relates to assets of CR Veneto, 4 million euro relates to assets of CR Bologna and 4 million euro relates to assets of CR Firenze.

In addition to this type of Covered Bonds, provided for by Italian law (Law 80/2005), there are some mortgage bonds issued by the Slovak investee VUB. These are securities whose nominal value and returns are guaranteed by mortgage loans, i.e. loans with maturity of four to thirty years, backed by a pledge on property located in the Slovak Republic, including property under construction, at least 90% of the value of which is financed by the issue of these securities.
Each issue has specific coverage, and the entire nominal value of the issue, including interest, must be backed by mortgages on local properties on at least 90% of their nominal value, and the remaining 10% by liquidity deposits with the National Bank of Slovakia or with other resident banks, by government securities or other mortgage bonds.
As at 31 December 2017 the subsidiary VUB had issued 2.3 billion euro in this type of securities, booked in the financial statements at a value of approximately 2.3 billion euro.

F. BANKING GROUP - MODELS FOR THE MEASUREMENT OF CREDIT RISK

As at 31 December 2017, the expected loss on core banks (Basel 3 validation area) amounted to 0.44% of disbursed loans, a 0.08 percentage point decrease on the figure as at the end of 2016. The economic capital corresponded to 2.2% of disbursed loans, a reduction of 1.7% compared to the figure in 2016.
The improvement in the risk indicators is due to the change of the rating models, the use of new LGD grids and the application of new credit conversion factors, in addition to the active management of the portfolio towards better exposures and the transitions to non-performing loan status, which contribute to removing performing customers with worse ratings from the portfolio.
For the companies included in the roll out plan, the PD, LGD and EAD internal models are subject to a second level of control by the Validation function and a third level three of control by the Internal Auditing Head Office Department. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also includes a verification on the performances of the models. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the compliance to the regulatory requirements.