1.3 BANKING GROUP - LIQUIDITY RISK

QUALITATIVE INFORMATION

General aspects, liquidity risk management processes and measurement methods

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.

Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo, in implementation of the most recent applicable regulatory provisions.

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the *Official Journal of the European Union* of Commission Delegated Regulation (EU) 2015/61 with regard to liquidity coverage requirements (Liquidity Coverage Ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation 2015/61, from 1 October 2015 banks, are required to comply with the short-term indicator in accordance with the phase-in process provided for in Article 38 (100% from 1 January 2018).

Since March 2015, the Group Liquidity Risk Management Guidelines, which already referred to Bank of Italy Circulars 263 and 285, and Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), have reflected the above-mentioned additional regulations, which revised the composition of the liquid assets eligible for liquidity reserves and the definition of the 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions of the Basel Committee concerning the Net Stable Funding Ratio (NSFR) have been adopted.

The Group Liquidity Risk Management Guidelines approved by Intesa Sanpaolo's Corporate Bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.

The key principles guiding the internal control and management system for liquidity risk defined by those Guidelines are as follows:

- the existence of a liquidity management policy approved by senior management and clearly disseminated throughout the Bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.

The Guidelines for Group Liquidity Risk Management set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including the approval of measurement methods, the definition of the main assumptions underlying the stress scenarios and the composition of early warning indicators used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.

The corporate functions of the Parent Company responsible for ensuring the correct application of the Guidelines and the sufficiency of the Group's liquidity position are the Treasury Department, the Planning and Active Value Management Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Financial and Market Risks Head Office Department, which is directly responsible, within the Chief Risk Officer (CRO) Area, for measuring liquidity risk on a consolidated basis.

The Group's liquidity is managed by the aforesaid structures of the CFO area through continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:

- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing transactions by Central Banks.

The Financial and Market Risks Head Office Department is directly responsible for level two controls and, as an active member of the Managerial Committees, it performs a primary role in the management and dissemination of information on liquidity risk, helping to improve the Group's overall awareness of the existing position. In particular, it ensures the measurement of the Group's current and future exposure to liquidity risks, verifying compliance with the limits and, if those limits are exceeded, implementing the reporting to the competent Corporate Bodies and monitoring the agreed correction actions in the event of any excesses.

The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group's exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.

The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio - LCR), in addition to a system of early warning indicators for maturities from 3 months to one year.

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high-quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. Early warning indicators have been established for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years). NSFR's regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on the CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU).

The Group Liquidity Risk Management Guidelines also envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions. Within this framework, the Treasury Head Office Department and the Planning and Active Value Management Head Office Department were officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term. These actions must be updated periodically to verify their compatibility with the market conditions and the stress scenario adopted.

The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Financial and Market Risks Department.

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained largely within the risk limits set out in the current Group Liquidity Policy for 2017: both regulatory indicators, LCR and NSFR, were met, already reaching a level well above the limits provided for by the Regulations under normal conditions. In 2017, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 176%. For the purposes of compliance with the internal limits, the LCR indicator also takes account of the prudential estimate of the "additional outflows for other products and services", assessed based on the provisions of EU Regulation 2015/61 (Article 23).

At the end of December 2017, the liquid reserves eligible with Central Banks, mainly under centralised management by the Treasury Head Office Department of the Parent Company, including the reserves held with Central Banks (Cash and Deposits), amounted to a total of 171 billion euro (150 billion euro at December 2016), of which 98 billion euro, net of haircut, was unencumbered (96 billion euro at the end of December 2016). At the end of 2017, the HQLA component represented

62% of the proprietary and 88% of the unencumbered reserves. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Proprietary		Unencumbered (net of haircut)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash and Deposits at Central Banks (HQLA)	43,343	34,675	43,343	34,675
Highly Liquid Securities (HQLA)	62,663	76,721	42,821	57,420
Other eligible and/or marketable reserves	65,215	48,744	11,710	5,914
Total Group Liquidity Reserves	**171,221**	**160,141**	**97,874**	**98,009**

In view of the high stock of available liquidity reserves (liquid or eligible), the period of independence from wholesale funding, measured by the cumulative projected wholesale imbalances indicator, identifies a financial independence in situations of freeze of the money market ("survival period") for more than 12 months. Also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the risk factors. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.

The corporate assessment on the adequacy of Intesa Sanpaolo's position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group's Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group's culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.

QUANTITATIVE INFORMATION

1. Breakdown by contractual residual maturity of financial assets and liabilities

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity.

Therefore, no operational data was used that would require, for example, the modelling of demand liabilities and the representation of cash items according to their level of liquidability.

Currency of denomination: Euro

(millions of euro)

Type / Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**60,390**	**26,777**	**9,708**	**14,237**	**24,178**	**19,982**	**32,046**	**157,097**	**130,469**	**35,738**
A.1 Government bonds	12	-	6	71	527	2,636	4,515	26,519	21,065	1
A.2 Other debt securities	31	567	1,312	2,801	204	497	777	4,919	8,234	-
A.3 Quotas of UCI	2,191	-	-	-	-	-	-	-	-	-
A.4 Loans	58,156	26,210	8,390	11,365	23,447	16,849	26,754	125,659	101,170	35,737
- Banks	*11,621*	*2,295*	*934*	*684*	*2,513*	*988*	*2,099*	*1,616*	*123*	*35,736*
- Customers	*46,535*	*23,915*	*7,456*	*10,681*	*20,934*	*15,861*	*24,655*	*124,043*	*101,047*	*1*
Cash liabilities	**269,432**	**26,913**	**3,294**	**6,676**	**9,125**	**11,997**	**20,478**	**112,823**	**24,191**	**1,575**
B.1 Deposits and current accounts	250,970	1,756	841	5,008	4,199	3,995	6,449	7,169	1,388	1
- Banks	*5,000*	*128*	*39*	*67*	*62*	*54*	*640*	*1,611*	*308*	*-*
- Customers	*245,970*	*1,628*	*802*	*4,941*	*4,137*	*3,941*	*5,809*	*5,558*	*1,080*	*1*
B.2 Debt securities	137	96	978	523	2,882	7,102	12,129	38,827	18,594	1,572
B.3 Other liabilities	18,325	25,061	1,475	1,145	2,044	900	1,900	66,827	4,209	2
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*2,324*	*8,807*	*5,306*	*7,214*	*15,996*	*6,495*	*8,426*	*22,343*	*8,995*	*-*
- Short positions	*1,732*	*7,060*	*4,990*	*9,266*	*16,609*	*5,216*	*7,451*	*18,857*	*8,682*	*-*
C.2 Financial derivatives without exchange of capital										
- Long positions	*21,829*	*2*	*3*	*20*	*619*	*561*	*393*	*326*	*24*	*-*
- Short positions	*24,871*	*534*	*402*	*25*	*176*	*110*	*245*	*492*	*59*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*37,924*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*37,289*	*5*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*2,563*	*18,275*	*452*	*133*	*911*	*52*	*801*	*12,533*	*2,774*	*-*
- Short positions	*38,277*	*248*	*6*	*130*	*38*	*167*	*273*	*128*	*3*	*-*
C.5 Financial guarantees given	180	18	1	49	26	29	62	120	48	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*625*	*553*	*597*	*2,199*	*1,112*	*-*
- Short positions	*-*	*-*	*-*	*-*	*625*	*553*	*597*	*2,239*	*1,404*	*-*
C.8 Credit derivatives without exchange of capital										
- Long positions	*843*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*912*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

Currency of denomination: Other currencies

(millions of euro)

Type / Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**3,258**	**4,459**	**1,506**	**2,536**	**5,059**	**5,277**	**6,982**	**16,725**	**8,720**	**2,040**
A.1 Government bonds	10	82	37	144	958	1,115	873	3,061	3,256	-
A.2 Other debt securities	22	40	48	357	79	179	369	1,917	1,129	-
A.3 Quotas of UCI	170	-	-	-	-	-	-	-	-	-
A.4 Loans	3,056	4,337	1,421	2,035	4,022	3,983	5,740	11,747	4,335	2,040
- Banks	*1,225*	*2,624*	*832*	*437*	*1,239*	*1,642*	*2,580*	*206*	*48*	*2,004*
- Customers	*1,831*	*1,713*	*589*	*1,598*	*2,783*	*2,341*	*3,160*	*11,541*	*4,287*	*36*
Cash liabilities	**13,481**	**5,412**	**2,802**	**4,955**	**4,187**	**1,235**	**1,940**	**9,752**	**6,122**	**3**
B.1 Deposits and current accounts	12,713	2,906	1,137	2,093	1,620	682	1,036	1,449	391	-
- Banks	*1,291*	*866*	*273*	*368*	*294*	*40*	*44*	*276*	*102*	-
- Customers	*11,422*	*2,040*	*864*	*1,725*	*1,326*	*642*	*992*	*1,173*	*289*	-
B.2 Debt securities	6	550	218	1,545	566	547	874	7,541	5,467	-
B.3 Other liabilities	762	1,956	1,447	1,317	2,001	6	30	762	264	3
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*393*	*9,021*	*6,031*	*12,767*	*15,055*	*6,298*	*11,654*	*20,066*	*9,829*	-
- Short positions	*211*	*10,681*	*6,073*	*10,713*	*16,885*	*7,420*	*14,027*	*20,566*	*9,217*	-
C.2 Financial derivatives without exchange of capital										
- Long positions	*1,260*	-	-	*22*	*32*	*52*	*42*	*45*	*235*	-
- Short positions	*1,062*	-	-	*11*	*33*	*30*	*90*	*45*	*235*	-
C.3 Deposits and loans to be settled										
- Long positions	*191*	-	-	-	-	-	-	-	-	-
- Short positions	-	*171*	*9*	-	*2*	-	*8*	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	*44*	*5*	*7*	*1*	*222*	*1,582*	*694*	*10,036*	*607*	-
- Short positions	*14,196*	*23*	*2*	*73*	*67*	*151*	*355*	*347*	*375*	-
C.5 Financial guarantees given	237	1	1	5	27	32	21	32	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	*609*	*236*	*17*	*628*	*8*	-
- Short positions	-	-	-	-	*609*	*236*	*17*	*628*	*8*	-
C.8 Credit derivatives without exchange of capital										
- Long positions	*223*	-	-	-	-	-	-	-	-	-
- Short positions	*248*	-	-	-	-	-	-	-	-	-

2. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.
A brief description of the existing transactions as at 31 December 2017 is provided below.

Adriano Lease SEC S.r.l.

This is a securitisation that was carried out in November 2017, with the support of the vehicle Adriano Lease Sec S.r.l., which took the form of the sale by Mediocredito Italiano S.p.A. of a loan portfolio selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts, for a total amount of approximately 4,220 million euro. The purpose of the transaction is to expand the liquidity reserve that can be used by the Parent Company for refinancing transactions on the Eurosystem.
The vehicle Adriano Lease Sec S.r.l. issued two series of notes:

- a Senior tranche (class A), with a nominal amount of 2,870 million euro, listed and assigned an A1 rating by Moody's;
- a Junior tranche (class B), with a nominal amount of 1,350 million euro, unlisted and unrated.

The securities were purchased in full by Mediocredito Italiano. As at 31 December 2017, the junior security had been sold in full to the Parent Company through a repurchase agreement.

Intesa Sanpaolo SEC S.A.

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxembourg-based vehicle company Intesa Sanpaolo SEC. SA, which is a fully owned subsidiary of the Group.
The securities issued, with a total value of about 326 million euro, were subscribed by Intesa Sanpaolo and used for a value of about 308 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.

Intesa Sanpaolo Securitisation Vehicle S.r.l.

In December 2014 a new securitisation was approved, involving three portfolios of loans originated by CIB Bank ZRT, primarily non-performing positions, secured by guarantees and mortgages and denominated in euro, Hungarian forints and Swiss francs. Those portfolios were transferred without recourse to Intesa Sanpaolo, which on 30 December 2014 in turn sold the three portfolios without recourse to the vehicle for 241 million euro, around 17 billion Hungarian forints and around 57 million Swiss francs, respectively.
Intesa Sanpaolo is the servicer of the portfolio and CIB Bank ZRT the sub-servicer, in accordance with applicable legislation.
As at 31 December 2017, the asset pools held by the vehicle are composed as follows:

- securitised assets in euro of around 17 million, in addition to cash of around 23 million euro. The securities in issue have a residual value of 15 million euro (class A) and 103 million euro (class J);
- securitised assets in Hungarian forints with a value in euro of around 16 million euro. The securities in issue have a residual value of 11 million euro (class A) and 30 million euro (class J);
- securitised assets in Swiss francs with a value in euro of 2 million euro and cash with a value in euro of 0.4 million euro. The class A securities issued have a residual value of zero, whereas the class J securities issued have a residual value of 23 million euro.

Brera Sec S.r.l.
In October 2017, a new self-securitisation was structured, carried out through the sale of five loan portfolios to the vehicle company Brera Sec. S.r.l. and originated by the Parent Company and by four Banca dei Territori banks (Banco di Napoli, Cassa di Risparmio di Bologna, Cassa di Risparmio di Forlì e della Romagna and Cassa di Risparmio del Friuli Venezia Giulia). The underlying consisted of residential mortgages held by households and/or family businesses. This transaction is the Group's first Multi-Originator Residential Mortgage Backed Security ("RMBS") securitisation.
The transaction involved the issuance by the vehicle company of two tranches of securities: a senior tranche listed on the Luxembourg Stock Exchange, with a rating assigned by two rating agencies (Moody's and DBRS) as required by the European Central Bank criteria for eligibility, and an unlisted junior tranche without rating. Both the senior and junior securities were subscribed pro rata by each individual Selling Bank based on the sale price of each portfolio, so that the loans could remain in the balance sheets of each Selling Bank without derecognition. Each Selling Bank therefore subscribed both classes of securities pro rata in proportion to the individual sale price.
The senior security issued through the transaction was used as collateral for refinancing operations in the Eurosystem. In this regard, each Originator will enter into repurchase agreements with the Parent Company relating solely to the senior securities and supported by Global Master Repurchase Agreements (GRMAs).
Intesa Sanpaolo has acquired a minority interest (5%) in the newly established vehicle, which was purchased on the market, and control (95%) will remain with a corporate entity outside the Group (Dutch-registered foundation known as a Stichting). Intesa Sanpaolo will take care of the accounting management for the vehicle, whereas the corporate administration will be carried out by Securitisation Services S.p.A..

The total sale consideration was 7.1 billion euro and the sale price of each portfolio sold was settled through the issuance of securities on 11 December 2017 for a total of 7 billion euro.

The securities, which are listed with a Aa2 Moody's and A (High) DBRS rating, are eligible for the Eurosystem and have been subscribed by each originator in amounts proportional to the portfolio sold, as detailed below:
- Intesa Sanpaolo subscribed 54.30% of the senior (3,272 million euro) and junior securities (580 million euro)
- Banco di Napoli subscribed 11.25% of the senior (678 million euro) and junior securities (120 million euro)
- CR Bologna subscribed 9.02% of the senior (543 million euro) and junior securities (96 million euro)
- CR Forlì e della Romagna subscribed 12.09% of the senior (728 million euro) and junior securities (129 million euro)
- CR Friuli Venezia Giulia subscribed 13.34% of the senior (804 million euro) and junior securities (142 million euro).

Berica ABS 5 S.r.l.
This is a multi-originator self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:
- senior tranche of 507 million euro with an external rating assigned by Fitch ("AA-") and Moody's ("Aa2") and yield indexed to the 3-month Euribor plus 40 bps. As at 31 December 2017, securities totalling 452 million euro were still to be repaid;
- mezzanine tranche of 39 million euro, fully redeemable, with an external rating assigned by Fitch ("A") and Moody's ("A1") and yield indexed to the 3-month Euribor plus 50 bps;
- mezzanine tranche of 21 million euro, fully redeemable, with an external rating assigned by Fitch ("BBB") and Moody's ("A3") and yield indexed to the 3-month Euribor plus 60 bps;
- junior tranche of 52 million euro, fully redeemable, without rating and indexed to the 3-month Euribor.

Berica PMI 2 S.r.l
This is a multi-originator self-securitisation with an underlying of secured loans and mortgages granted to small and medium enterprises. The nominal amounts of the ABS securities issued through this transaction are detailed below:
- senior tranche of 640 million euro with an external rating assigned by Fitch ("A+") and Moody's ("Aa3") and yield indexed to the 6-month Euribor plus 130 bps. As at 31 December 2017, securities totalling 82 million euro were still to be repaid;
- junior tranche of 531 million euro, fully redeemable, without rating and indexed to 6-month Euribor.

Berica Fundng 2016 S.r.l.
This is a multi-originator self-securitisation with an underlying of mortgages. The nominal amounts of the ABS securities issued through this transaction are detailed below:
- senior tranche of 893 million euro with an external rating assigned by Moody's ("Aa2") and yield indexed to the 3-month Euribor plus 125 bps. As at 31 December 2017, securities totalling 581 million euro were still to be repaid;
- mezzanine tranche of 115 million euro, fully redeemable, with an external rating assigned by Moody's ("A2") and yield indexed to the 3-month Euribor plus 200 bps;
- mezzanine tranche of 84 million euro, fully redeemable, with an external rating assigned by Moody's ("Aa3") and yield indexed to the 3-month Euribor plus 250 bps;
- junior tranche of 185 million euro, fully redeemable, without rating and indexed to the 3-month Euribor plus 300 bps.

Claris RMBS 2016 S.r.l.
In November 2016, Veneto Banca, now merged into Intesa Sanpaolo, arranged a securitisation of mortgages, together with Banca Apulia, for a total of 1,162 million euro (921 million euro and 241 million euro, respectively), which were sold at a price equal to the value of the principal amount of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, in November 2016, "Claris RMBS 2016 srl", the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 1,189 million euro, broken down as follows:
- class A tranche of 929 million euro, which have a residual amount of 781 million euro and an external rating assigned by Fitch ("AA+") and by DBRS ("AAA");
- class B tranche of 116 million euro, with an external rating assigned by Fitch ("A-") and by DBRS ("A (High)");
- class J1 tranche of 114 million euro, without rating;
- class J2 tranche of 30 million euro, without rating.

The class A and B securities are denominated in euro and provide for the payment of a quarterly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying portfolio. These securities, which are listed on the Irish Stock Exchange, were subscribed proportionally by the Parent Company Veneto Banca, now merged into Intesa Sanpaolo, and by the subsidiary Banca Apulia. The class A securities can therefore be used for refinancing transactions with the European Central Bank.
The J1 and J2 securities, also denominated in euro, where subscribed respectively by Veneto Banca, now merged into Intesa Sanpaolo, and Banca Apulia. Their yield is based on a quarterly floating rate coupon, subject to the full redemption of higher class securities.
As at 31 December 2017, the book value of the remaining loans was 1,005 million euro.

Claris Finance 2006 S.r.l.

In 2006, Veneto Banca, now merged into Intesa Sanpaolo, carried out a securitisation of mortgages for a total of 300 million euro that were sold at a price equal to the value of the principal of the remaining debt outstanding at the time of the sale (1 July 2006).
The transaction, which obtained a rating on the tranching from Standard & Poor’s, involved the issuance of four different securities:

- class A1 for an amount of 220 million euro, with an AAA rating and fully redeemed as at 31 December 2017;
- class A2 for an amount of 17 million euro, with an AAA rating and fully redeemed as at 31 December 2017;
- class B for an amount of 60 million euro, with a BBB+ rating, which had a residual amount of 58 million euro as at 31 December 2017;
- class C for an amount of 3 million euro and without rating.

Initially, the class A1 securities were subscribed by the EIB, whereas the class A2, B and C securities were subscribed by Veneto Banca, now merged into Intesa Sanpaolo, or by its Group companies.
This was a revolving transaction, which required Veneto Banca to replace the capital repaid by mortgages with the same characteristics, every six months for the first four years of the operation.
As a guarantee of timely payment of the interest and the full redemption of the senior and mezzanine securities, the vehicle “Claris Finance 2006 srl” was also granted a subordinated loan of around 6 million euro.
As at 31 December 2017, the book value of the remaining loans was 78 million euro.

Apulia Finance n. 2 S.r.l

In 2003, Banca Apulia completed a securitisation of a portfolio of performing mortgages for a total amount of 170 million euro, which were sold at a price equal to the value of the principal of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, “Apulia Finance n. 2 srl”, the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 175 million euro, broken down as follows:

- class A securities for an amount of 153 million euro, without rating and fully redeemed as at 31 December 2017;
- class B securities for an amount of 7 million euro with Standard & Poor’s AA and Fitch AA rating;
- class C securities for an amount of 10 million euro with Standard & Poor’s BBB+ and Fitch A- rating;
- class D securities for an amount of 5 million euro without rating.

The three tranches of rated securities are denominated in euro and have quarterly floating rate coupons and a sequential redemption plan, linked to receipts on the underlying loan portfolio.
The class A, B and C securities, which are listed on the Luxembourg Stock Exchange, were initially placed with institutional investors. The class D securities are denominated in euro, do not have an official rating, and the yield, calculated on a residual basis, is only paid if the receipts from the portfolio exceed the amount of the expenses and outlays related to the higher class securities. Banca Apulia subscribed the class D securities from the outset, whereas it subsequently repurchased the class B and C securities.
As at 31 December 2017, the book value of the remaining loans was 16 million euro.

Apulia Mortgages Finance n. 3 S.r.l

In 2004, Banca Apulia carried out a securitisation of a performing loan portfolio for a total amount of 241 million euro, which were sold at a price equal to the value of the principal of the remaining debt outstanding at the time of the sale.
With respect to the portfolio sold, “Apulia Mortgages Finance n. 3 srl”, the purchasing vehicle company of the portfolio sold, issued Asset Backed securities for a total of 244 million euro, broken down as follows:

- class A securities for an amount of 211 million euro, without rating and fully redeemed as at 31 December 2017;
- class B securities for an amount of 11 million euro, with Standard & Poor’s A, Fitch AA and Moody’s Aa2 rating, and which have a residual amount of 4 million euro;
- class C securities for an amount of 13 million euro with Standard & Poor’s BBB+, Fitch A- and Moody’s Aa2 rating;
- class D securities for an amount of 8 million euro without rating.

The three tranches of rated securities are denominated in euro and have quarterly floating rate coupons and a sequential redemption plan, linked to receipts on the underlying loan portfolio.
The class A, B and C securities, which are listed on the Luxembourg Stock Exchange, were initially placed with institutional investors.
The class D securities are denominated in euro, do not have an official rating, and the yield, calculated on a residual basis, is only paid if the receipts from the portfolio exceed the amount of the expenses and outlays related to the higher class securities. Banca Apulia subscribed the class D securities from the outset, whereas it subsequently repurchased the class B and C securities.
As at 31 December 2017, the book value of the remaining loans was 35 million euro.

Apulia Finance n. 4 S.r.l. - 3rd issue

In November 2008, Banca Apulia completed a second self-securitisation.
This transaction had a warehousing period that started in 2007 with the sale of performing residential mortgages to the bridge vehicle company “Apulia Finance n. 3 srl”. In September 2008 the remaining loans were transferred to the definitive vehicle “Apulia Finance n. 4 srl” and in November of that year the transaction was completed with the issuance of the securities.
Specifically:

- July 2007: Banca Apulia sold Apulia Finance n. 3 srl performing mortgages for an amount of 130 million euro;
- October 2007: Banca Apulia sold Apulia Finance n. 3 srl another portfolio of performing mortgages for an amount of 78 million euro;
- January 2008: Banca Apulia sold Apulia Finance n. 3 srl another portfolio of performing mortgages for an amount of 96 million euro;
- September 2008: the remaining securitised loans of 256 million euro were sold by the provisional vehicle Apulia Finance n. 3 srl to the definitive vehicle Apulia Finance n. 4 srl;
- September 2008: Banca Apulia sold Apulia Finance n. 4 srl the last portfolio of performing mortgages for an amount of 57 million euro.

The securities issued by the vehicle company were fully subscribed by Banca Apulia and were broken down as follows:

- class A securities for an amount of 288 million euro with Standard & Poor’s A and Moody’s Aa2 rating, and which have a residual amount of 74 million euro;
- class B securities for an amount of 24 million euro without rating.

The class A and B securities are listed on the Luxembourg Stock Exchange and provide for the payment of a six-monthly floating rate coupon and a sequential redemption plan, linked to receipts on the underlying loan portfolio.
The class B securities are denominated in euro, do not have an official rating and their yield is calculated on a residual basis and is only paid if the receipts from the portfolio exceed the amount of the expenses and outlays related to the higher class securities.
The transaction was completed by a swap between the vehicle company and BNP Paribas to cover the interest rate risk arising from the differential on the indexing and frequency of the interest on the securitised mortgages and the interest paid on the securities issued.
This swap requires the counterparties to settle the above interest rate differential, on a six-monthly basis, calculated on the average of the nominal amount of the residual principal of the mortgages at the beginning and end of each reference period.
A similar swap, in the opposite direction, was signed between BNP and Banca Apulia.
The service for the management, administration and collection of the mortgages and the handling of disputes is assigned to Banca Apulia.
As at 31 December 2017, the book value of the remaining loans was 103 million euro.

The table below shows the characteristics of the securities issued by the vehicles and subscribed by the Group companies.

(millions of euro)

Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2017
Adriano Lease SEC S.r.l.					**4,220**
of which issued in euro		Senior	Receivables from lease payments	Moody's A1	2,870
		Junior	Receivables from lease payments	no rating	1,350
Intesa Sanpaolo SEC SA					**322**
of which issued in euro					**291**
	Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	276
	Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	15
of which issued in USD					**31**
	Secured Principal Notes	Senior	Receivables from large international corporate customers	no rating	29
	Secured Income Notes	Junior	Receivables from large international corporate customers	no rating	2
Intesa Sanpaolo Securitisation Vehicle S.r.l.					**182**
of which issued in euro					118
	Class A ABS F/R Notes	Senior	Commercial mortgage loans	no rating	15
	Class J ABS F/R and Additional Return Notes	Junior	Commercial mortgage loans	no rating	103
of which issued in CHF					23
	Class A ABS F/R Notes	Senior	Commercial mortgage loans	no rating	-
	Class J ABS F/R and Additional Return Notes	Junior	Commercial mortgage loans	no rating	23
of which issued in HUF					41
	Class A ABS F/R Notes	Senior	Commercial mortgage loans	no rating	11
	Class J ABS F/R and Additional Return Notes	Junior	Commercial mortgage loans	no rating	30
BRERA SEC S.r.l.					**7,092**
	Class A RMBS F/R Notes	Senior	Residential mortgage loans	Moody's Aa2 DBRS A(High)	6,025
	Class B RMBS Fixed Rate and Additional Return Notes	Junior	Residential mortgage loans	no rating	1,067
Berica ABS 5 S.r.l.					**564**
of which issued in euro		Senior	Mortgages	Moody's Aa2; Fitch AA-	452
		Mezzanine	Mortgages	Moody's A1; Fitch A	39
		Mezzanine	Mortgages	Moody's A3; Fitch BBB	21
		Junior	Mortgages	no rating	52
Berica PMI 2 S.r.l.					**613**
of which issued in euro		Senior	Unsecured loans and mortgage loans to SMEs	Moody's Aa3; Fitch A+	82
		Junior	Unsecured loans and mortgage loans to SMEs	no rating	531

(millions of euro)

Vehicle	Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2017
Berica Funding 2016 S.r.l.				**965**
of which issued in euro	Senior	Mortgages	Moody’s Aa2	581
	Mezzanine	Mortgages	Moody’s A2	115
	Mezzanine	Mortgages	Moody’s Aa3	84
	Junior	Mortgages	no rating	185
CLARIS RMBS 2016 S.r.l.				**1,041**
of which issued in euro	Senior	Mortgages	Fitch AA+; DBRS AAA	781
	Mezzanine	Mortgages	Fitch A-; DBRS A	116
	Junior	Mortgages	no rating	114
	Junior	Mortgages	no rating	30
CLARIS Finance 2006 S.r.l.				**61**
of which issued in euro	Senior	Mortgages	S&P BBB+	58
	Junior	Mortgages	no rating	3
Apulia Finance 2 S.r.l.				**15**
of which issued in euro	Mezzanine	Mortgages	Fitch A-; S&P BBB+	10
	Junior	Mortgages	no rating	5
Apulia Mortgages Finance n. 3 S.r.l.				**25**
of which issued in euro	Mezzanine	Mortgage loans	Fitch AA; Moody's Aa2; S&P A	4
	Mezzanine	Mortgage loans	Fitch A-; Moody's Aa2; S&P BBB+	13
	Junior	Mortgage loans	no rating	8
Apulia Finance n. 4 Srl III emissione S.r.l.				**98**
of which issued in euro	Senior	Residential mortgage loans	Moody's Aa2; S&P A	74
	Junior	Residential mortgage loans	no rating	24
TOTALE				**15,198**

OTHER INFORMATION ON FINANCIAL RISKS

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE COUNTERPARTY

The following table illustrates the value of the main exposures of the Intesa Sanpaolo Group to sovereign risk.

(millions of euro)

	DEBT SECURITIES							LOANS
	BANKING GROUP					INSURANCE COMPANIES (**)	TOTAL	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity	Financial assets designated at fair value through profit and loss	Financial assets held for trading (*)			
EU Countries	**6,304**	**47,797**	**782**	**220**	**-210**	**51,285**	**106,178**	**14,529**
Austria	-	-	-	-	217	1	218	-
Belgium	-	303	-	-	16	5	324	-
Bulgaria	-	-	-	-	-	63	63	-
Croatia	6	665	2	220	76	91	1,060	977
Cyprus	-	-	-	-	-	-	-	-
Czech Republic	-	-	-	-	-	-	-	-
Denmark	-	-	-	-	10	-	10	-
Estonia	-	-	-	-	-	-	-	-
Finland	-	31	-	-	75	6	112	-
France	98	3,399	-	-	-6	69	3,560	6
Germany	-	5,507	-	-	-880	568	5,195	-
Greece	-	-	-	-	24	-	24	-
Hungary	-	781	-	-	205	32	1,018	30
Ireland	-	178	-	-	-2	118	294	-
Italy	6,031	21,367	353	-	-437	48,664	75,978	12,951
Latvia	-	9	-	-	-	-	9	45
Lithuania	-	41	-	-	-	-	41	-
Luxembourg	-	30	-	-	20	-	50	-
Malta	-	-	-	-	-	-	-	-
Netherlands	-	100	-	-	228	97	425	-
Poland	16	50	-	-	-5	20	81	-
Portugal	-	-	-	-	-32	-	-32	25
Romania	-	199	-	-	4	167	370	-
Slovakia	-	176	427	-	13	-	616	128
Slovenia	-	157	-	-	-	7	164	251
Spain	153	14,713	-	-	279	1,277	16,422	116
Sweden	-	3	-	-	55	-	58	-
United Kingdom	-	88	-	-	-70	100	118	-
North African Countries	**-**	**748**	**-**	**-**	**-**	**-**	**748**	**-**
Algeria	-	-	-	-	-	-	-	-
Egypt	-	748	-	-	-	-	748	-
Libya	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-
Japan	**-**	**-**	**-**	**-**	**514**	**-**	**514**	**-**

(*) Taking into consideration on-balance sheet positions

(**) Debt securities of insurance companies are classified almost entirely to the available-for-sale portfolio

As illustrated in the table, the exposure to Italian government securities totalled approximately 76 billion euro, in addition to around 13 billion euro represented by loans. The value of debt security exposures decreased by approximately 10 billion euro compared to the figure recorded as at 31 December 2016.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,279 million euro as at 31 December 2017 with respect to funded and unfunded ABSs/CDOs, compared to 2,471 million euro as at 31 December 2016. There were no exposures in structured packages, compared to 7 million euro as at 31 December 2016.

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

The exposure to funded and unfunded ABSs/CDOs designated at fair value, excluding the positions coming from the Venetian banks for 5 million euro, dropped from 2,081 million euro in December 2016 to 2,029 million euro in December 2017. The decrease is attributable to sales and redemptions of ABSs by Banca IMI and of European ABSs/CDOs by the Parent Company, only partially offset by investments in ABSs of Banca IMI (part of which were classified to the available-for-sale portfolio) and in European ABSs/CDOs acquired by the Parent Company and classified to the trading portfolio.

Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings, while the Parent Company confirmed its transactions in European RMBS with mainly AAA ratings, aimed at seizing market opportunities.

The exposure represented by securities classified under the loan portfolio, excluding the positions coming from the Venetian banks for 25 million euro, recorded a decrease (from 390 million euro in December 2016 to 220 million euro in December 2017) attributable to the sales carried out by Banca IMI and the Parent Company, only partially offset by greater investments made by the Parent Company.

The elimination of the exposure of structured packages (7 million euro in December 2016) is attributable to sales during the period.

From the perspective of the income statement, a profit of +28 million euro was posted for 2017, against the +13 million euro for 2016.

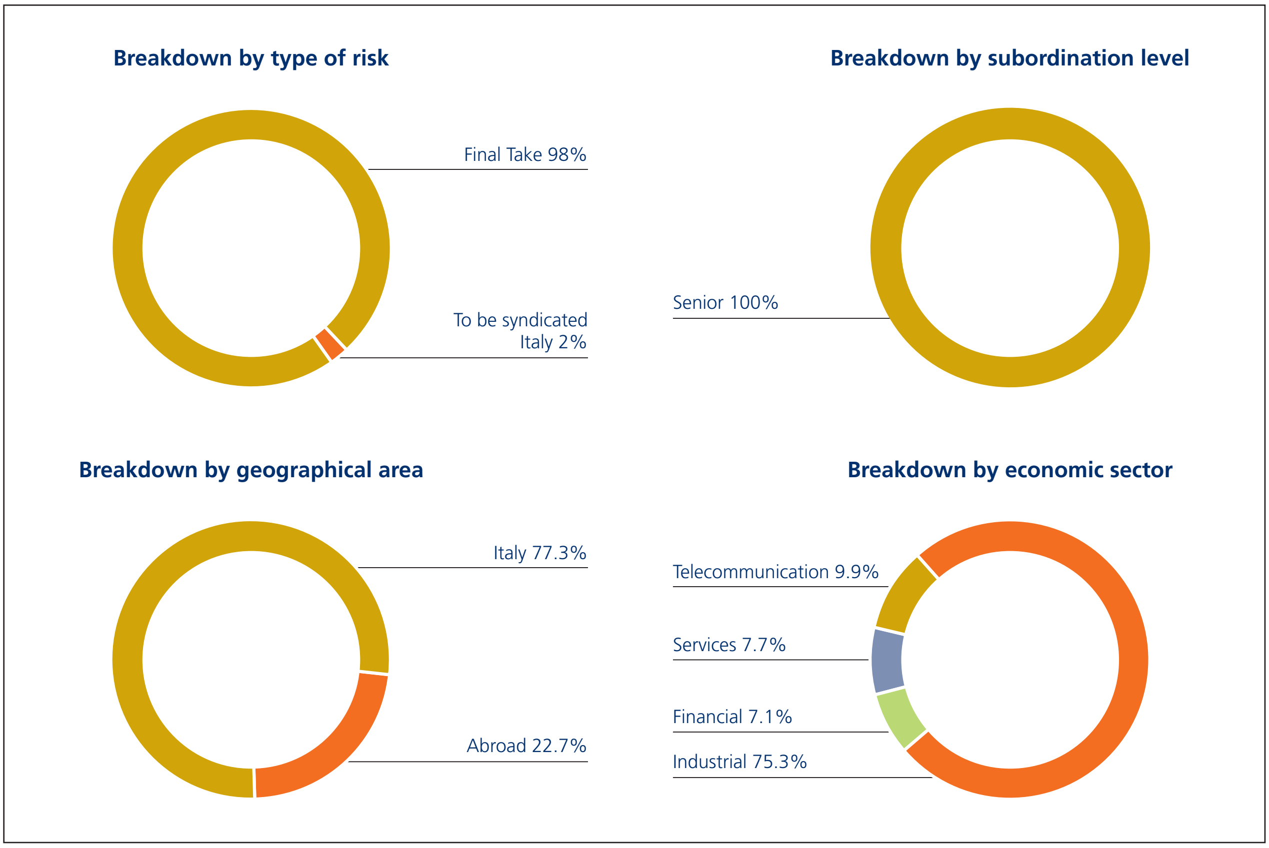
As at 31 December 2017 the “Profits (losses) on trading – caption 80” of the exposure to funded and unfunded ABSs/CDOs came to +17 million euro (+12 million euro in 2016), generated by the positions in funded European and U.S. ABSs/CDOs, while positions in multi-sector CDOs generated a profit of +4 million euro and U.S. subprime positions had a nil result.

The exposure to funded and unfunded ABSs/CDOs in securities classified by the subsidiary Banca IMI in the available-for-sale portfolio recorded a net decrease in fair value of 1 million euro in 2017, accounted for in the specific Shareholders’ Equity Reserve (from a reserve at the end of December 2016 of +5 million euro to a reserve of +4 million euro in September 2017) and a nil net impact on the income statement for sales made in the period (+5 million euro in 2016). As at 31 December 2017, securities classified under the Loan portfolio recorded a nil net impact (-6 million euro in 2016) comprising gains on disposals for +4 million euro and value adjustments due to impairment for -4 million euro.

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

INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

Since 2008 Intesa Sanpaolo has represented in this category exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long-term) to legal entities in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 31 December 2017, 90 transactions for a total amount granted of 2,634 million euro met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.



Moreover, it is noted that in May 2017 the ECB published specific Guidance on Leveraged Transactions, which applies to all significant entities subject to direct supervision by the ECB. The purpose of the new regulations is to strengthen company controls over "leveraged" transactions, where such transactions increase globally and in the context of a highly competitive market, marked by a long period of low interest rates and the resulting search for yields.
The guidance covers, *inter alia*, the following issues with regard to leveraged transactions: definition, risk appetite and governance, syndication activities, policies and procedures for new deal approval, longer-term monitoring and management of longer-term transactions, secondary market activities and internal reporting requirements, while it does not explicitly regulate public disclosure.
In particular, the scope identified by the ECB is larger than the one currently surveyed by Intesa Sanpaolo in that it includes – in addition to exposures to parties whose majority of capital is held by one or more financial sponsors – also exposures in which the borrower's level of leverage, measured as the ratio of total debt to EBITDA, is greater than 4.
The guidance requires that Banks set up the instruments necessary to apply the new rules, and an internal audit report, describing how the expectations of the Regulator have been endorsed and implemented, must be sent to the specific Joint Supervisory Team of the ECB by November 2018.
Intesa Sanpaolo thus launched a specific project with the purpose of gradual alignment with the ECB guidance on leveraged transactions.

In particular, a macro-plan for adjustment was defined, which sets out an initial short-term phase of releasing application/process measures to identify the new leveraged transactions, and a subsequent phase aimed at structuring measures to guarantee full coverage of the aspects not initially covered.
The application of that new definition will therefore also include exposures classified as “leveraged” according to the new connotation.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio held for trading as at 31 December 2017 totalled 270 million euro, compared to 352 million euro recorded in December 2016, 80% of which were funds on the MAP platform.
The reduction of the portfolio is attributable to the distributions and redemptions that started in the second quarter of last year and continuing also this year, aimed at reducing the risk level of the exposure.
In particular, the most significant redemptions in 2017 concerned the MAP 12A Fund for 38 million dollars, the MAP 5A Fund for 13.5 million dollars, the Eurizon Penghua Fund for almost 12 million euro and, to a lesser extent, the Mount Kellett 14th MAF Fund and the Cyrus Opportunities Fund.
As at the same date, the economic result of the investments in this segment was positive, standing at 16 million euro, compared to the negative 35 million euro of “Profits (Losses) on trading – caption 80” as at 31 December 2016, caused by severe turbulence on the markets. The economic result is mainly attributable to the improvement in the NAV of the Halcyon Energy, MAP 19, Mount Kellet MAF 14A, Master Fun MAP 1A, Charity Investment and Cyprus Opportunities funds, only partially offset by the worsening of the Eclectica MAP12A and Matrix MAP 6A funds.
Overall, the portfolio's strategy remains oriented towards benefiting from the occurrence of specific corporate events, largely independent of the general trend, and the reduction of risk through a general downwards revision of allocations of individual funds in response to continued market uncertainty.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 31 December 2017, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 7,011 million euro (7,532 million euro as at 31 December 2016). The notional value of these derivatives totalled 50,488 million euro (47,698 million euro as at 31 December 2016). Of these, the notional value of plain vanilla contracts was 46,764 million euro (44,451 million euro as at 31 December 2016), while that of structured contracts was 3,724 million euro (3,247 million euro as at 31 December 2016).
Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures came to 4,901 million euro (5,175 million euro as at 31 December 2016), of which 480 million euro (463 million euro as at 31 December 2016) referred to structured contracts.
Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,082 million euro as at 31 December 2017 (1,971 million euro as at 31 December 2016). The notional value of these derivatives totalled 22,846 million euro (22,030 million euro as at 31 December 2016). Of these, the notional value of plain vanilla contracts was 20,304 million euro (18,745 million euro as at 31 December 2016), while that of structured contracts was 2,542 million euro (3,285 million euro as at 31 December 2016).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2017, this led to a positive effect of 25 million euro being recorded under “Profits (Losses) on trading” in the income statement.

As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs in Part A of the Notes to the consolidated financial statements.
Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.