INTESA SANPAOLO VITA

2017 Annual Report of the Intesa Sanpaolo Vita Insurance Group

only including the companies over which the parent has control

Società del gruppo INTESA SANPAOLO

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of the Intesa Sanpaolo Vita Insurance Group

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31 December 2017

Insurance parent
Intesa Sanpaolo Vita S.p.A.
Registered office: Corso Inghilterra, 3 – 10138 Turin – Administrative offices: Viale Stelvio, 55/57 – 20159 Milan – Turin company registration no. 02505650370 – Fully paid-up share capital €320,422,508.00 – Included in the register of insurance and reinsurance companies as no. 1.00066 – Parent of the Intesa Sanpaolo Vita Insurance Group, included in the register of insurance groups as no. 28– Managed and coordinated by Intesa Sanpaolo S.p.A.

Contents

Directors’ report

Company bodies

Board of Directors

Chairman	Luigi MARANZANA
Deputy Chairman	Elio FONTANA
Managing director	Nicola Maria FIORAVANTI
Directors	Paolo FIGNAGNANI Giuseppe ATTANÀ Franco GALLIA Andrea PANOZZO Anna TORRIERO Guglielmo WEBER

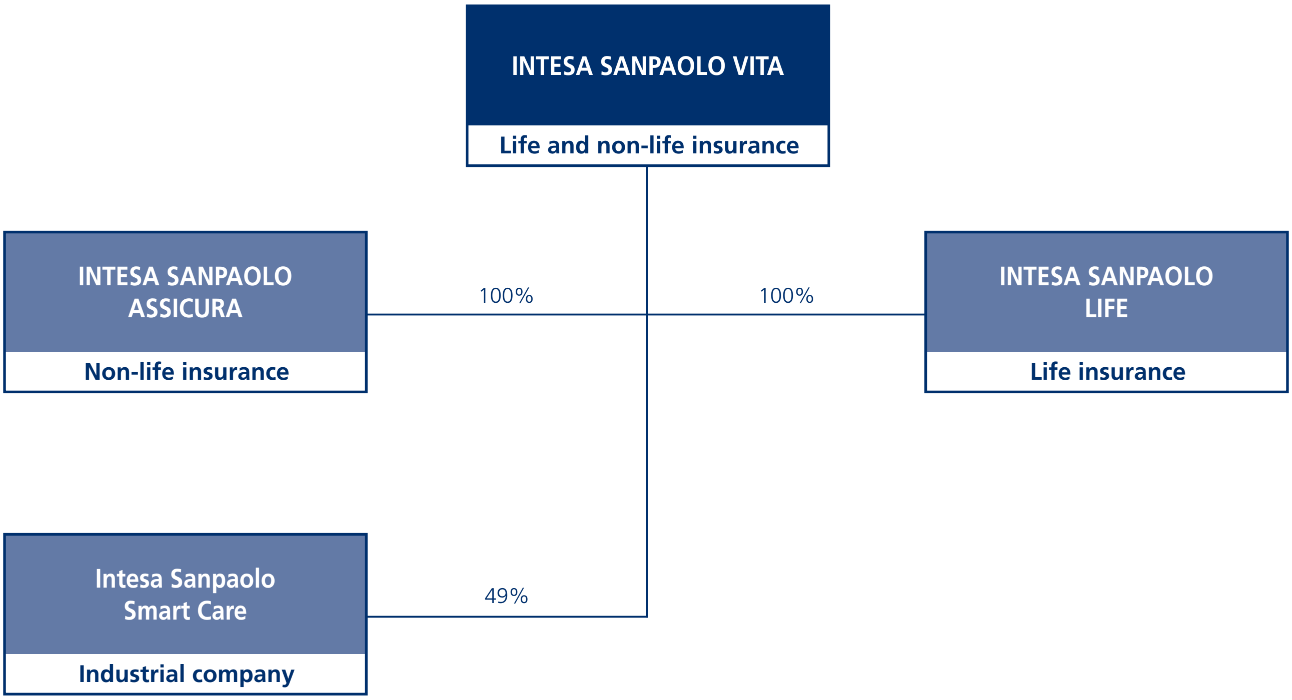
Board of statutory auditors

Chairman	Massimo BROCCIO
Standing statutory auditors	Paolo MAZZI Riccardo RANALLI
Alternate statutory auditors	Eugenio Mario BRAJA Patrizia MARCHETTI

Independent auditors

KPMG S.p.A.

Group structure at 31 December 2017



Key consolidated figures

(in millions of euro)

	31.12.2017	31.12.2016	Change	
Operational figures				
Gross collection	18,171.0	19,816.3	-1,645.3	-8.3%
Premiums of Life insurance products	873.5	856.8	16.7	2.0%
Premiums of Life financial products with DPF	4,977.1	6,745.1	-1,768.0	-26.2%
Gross collection of Life insurance products without DPF	11,888.9	11,820.7	68.2	0.6%
Premiums of Non-life business	431.6	393.8	37.8	9.6%
Life new business	17,562.8	19,239.4	-1,676.5	-8.7%
Life Contracts	3,720,638	3,490,133	230,505	6.6%
Non-life Contracts	2,360,252	2,068,211	292,041	14.1%
Human Resources	601	562	39	6.9%
Balance sheet figures				
Investments	124,333.0	117,892.2	6,440.8	5.5%
- Available-for-sale financial assets	75,456.3	78,056.9	-2,600.7	-3.3%
- Financial assets at fair value through profit or loss	48,855.1	39,819.0	9,036.1	22.7%
- Other investments	21.7	16.3	5.3	32.7%
Insurance provisions	76,452.9	80,136.1	-3,683.2	-4.6%
- Life insurance contracts	7,740.8	7,497.0	243.8	3.3%
- Life financial contracts with DPF	63,600.5	66,711.8	-3,111.3	-4.7%
- Shadow accounting provision	4,433.2	5,334.6	-901.4	-16.9%
- Non-life insurance policies	678.4	592.7	85.7	14.5%
Financial liabilities	45,790.5	36,212.3	9,578.1	26.4%
- Unit-linked financial policies	43,442.1	34,531.8	8,910.3	25.8%
- Index-linked financial policies	0.8	0.8	-0.0	-3.7%
- Subordinated liabilities	1,926.6	1,316.2	610.4	46.4%
- Other liabilities	421.0	363.4	57.5	15.8%
Shareholders' equity	4,818.2	4,565.4	252.8	5.5%
- attributable to the Group	4,818.2	4,565.4	252.8	5.5%
- attributable to minority interests	-	-	-	0.0%
Income statement				
Net earned premiums	6,195.0	7,902.6	-1,707.6	-21.6%
Net insurance benefits and claims	6,993.0	8,851.0	-1,858.0	-21.0%
Net fee and commission income	217.4	167.1	50.3	30.1%
Net income from financial instruments and investments	2,320.4	2,404.5	-84.1	-3.5%
Commissions and other acquisition costs	304.0	319.0	-15.0	-4.7%
Net income from financial instruments and investments	587.1	638.7	-51.6	-8.1%
- attributable to the Group	587.1	638.7	-51.6	-8.1%
- attributable to minority interests	-	-	-	0.0%
Ratio				
Expense ratio	32.8%	33.1%	-0.3%	-1.0%
Non-life Loss ratio	29.1%	31.6%	-2.5%	-7.8%
Gross collection/insurance provisions and financial liabilities	14.9%	17.0%	-2.2%	-12.7%
Non-life combined ratio	61.9%	64.7%	-2.8%	-4.3%
Net fees and commissions/financial liabilities (Index- and Unit-linked)	0.5%	0.5%	0.0%	3.4%

Reclassified consolidated financial statements

Reclassified statement of financial position and income statement

(in millions of euro)

ASSETS	31.12.2017	31.12.2016	Change	
Intangible assets	639.9	635.5	4.3	0.7%
Tangible assets	1.6	4.9	-3.3	-67.1%
Amount ceded to reinsurers from insurance provisions	15.8	17.3	-1.5	-8.4%
Investments	124,333.0	117,892.2	6,440.8	5.5%
- Lands and buildings (investment properties)	-	-	-	n.a.
- Investments in subsidiaries, associates and joint ventures	2.3	-	2.3	n.a.
- Held to maturity investments	-	-	-	n.a.
- Loans and receivables	19.3	16.3	3.0	18.5%
- Available-for-sale financial assets	75,456.3	78,056.9	-2,600.7	-3.3%
- Financial assets at fair value through profit or loss	48,855.1	39,819.0	9,036.1	22.7%
Receivables	365.6	403.6	-38.0	-9.4%
Other assets	2,745.0	2,299.9	445.1	19.4%
Cash and cash equivalents	768.1	1,495.0	-726.9	-48.6%
Total assets	**128,869.1**	**122,748.5**	**6,120.9**	**5.0%**
LIABILITIES				
Shareholders’ equity	4,818.2	4,565.4	252.9	5.5%
- attributable to the Group	4,818.2	4,565.4	252.9	5.5%
- attributable to minority interests	-	-	-	n.a.
Other provisions	13.0	12.0	1.0	8.6%
Insurance provisions	76,452.9	80,136.1	-3,683.2	-4.6%
- Life insurance contracts	7,740.7	7,497.0	243.7	3.3%
- Life financial contracts with DPF	63,600.5	66,711.8	-3,111.3	-4.7%
- Shadow accounting provision	4,433.2	5,334.6	-901.4	-16.9%
- Non-life insurance policies	678.4	592.7	85.7	14.5%
Financial liabilities	45,790.5	36,212.3	9,578.1	26.4%
- Index-linked financial policies	0.8	0.8	0.1	8.7%
- Unit-linked financial policies	43,442.1	34,531.8	8,910.3	25.8%
- Products with specific assets	-	-	-	n.a.
- Subordinated liabilities	1,926.6	1,316.2	610.4	46.4%
- Other liabilities	421.0	363.4	57.4	15.8%
Payables	743.3	754.3	-11.0	-1.5%
Other liabilities	1,051.2	1,068.3	-17.1	-1.6%
Total Shareholders' equity and liabilities	**128,869.1**	**122,748.5**	**6,120.6**	**5.0%**

(in millions of euro)

	31.12.2017	31.12.2016	Change	
Net earned premiums	**6,195.0**	**7,902.6**	**-1,707.6**	**-21.6%**
- Life businesses	5,850.0	7,601.3	-1,751.3	-23.0%
- Non-life businesses	345.0	301.3	43.7	14.5%
Net insurance benefits and claims	**-6,993.0**	**-8,851.0**	**1,857.9**	**-21.0%**
Net fee and commission income	**217.4**	**167.1**	**50.2**	**30.1%**
Net income from financial instruments and investments	**2,320.4**	**2,404.5**	**-84.0**	**-3.5%**
- Net income from financial instruments at fair value through profit or loss	98.8	23.9	74.9	>100%
- Other income	2,221.6	2,380.6	-159.0	-6.7%
Acquisition and administration costs	**-447.8**	**-454.1**	**6.3**	**-1.4%**
- Commissions and other acquisition costs	-304.0	-319.0	15.0	-4.7%
- Other costs	-143.8	-135.2	-8.6	6.4%
Other revenues and expenses	**-476.3**	**-238.4**	**-237.9**	**99.8%**
Profit before taxes for the period	**815.4**	**930.7**	**-115.3**	**-12.4%**
- Income taxes	-228.2	-292.0	63.7	-21.8%
Consolidated profit after taxes	**587.1**	**638.7**	**-51.6**	**-8.1%**
Loss from discontinued operations	**-**	**-**	**-**	**n.a.**
Consolidated profit	**587.1**	**638.7**	**-51.6**	**-8.1%**
- attributable to the Group	587.1	638.7	-51.6	-8.1%

Statement of comprehensive income

(in thousands of euro)

INTESA SANPAOLO VITA S.P.A.	Total 31.12.2017	Total 31.12.2016
CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD	**587,119**	**638,710**
Other comprehensive income after taxes without reclassification in the income statement	**31**	**-103**
Change in shareholders' equity of subsidiaries	-	-
Changes in the revaluation reserve of intangible assets	-	-
Changes in the revaluation reserve of tangible assets	-	-
Gains (losses) of non-current assets held for sale and discontinued operations	-	-
Actuarial gains (losses) arising from defined benefit plans	31	-103
Other items	-	-
Other comprehensive income after taxes with reclassification in the income statement	**-79,431**	**-168,872**
Foreign currency translation differences	-	-
Net unrealized gains (losses) on available for sale financial assets	-82,066	-168,872
Net unrealized gains (losses) on cash flow hedging derivatives	2,635	-
Net unrealized gains (losses) on hedge of a net investment in foreign operation	-	-
Change in shareholders' equity of subsidiaries	-	-
Gains (losses) of non-current assets held for sale and discontinued operations	-	-
Other items	-	-
TOTAL OF OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME	**-79,400**	**-168,975**
TOTAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	**507,719**	**469,735**
of which attributable to the Group	**507,719**	**469,735**
of which attributable to minority interests	**-**	**-**

Statement of changes in equity

(in thousands of euro)

Intesa Sanpaolo Vita S.p.A.		Amount as of 31.12.2015	Change in Closing Balances	Allocations	Reclassification adjustments to income statement	Transfers	Change in Profit sharing	Amount as of 31.12.2016
Shareholders' equity attributable to the Group	Share capital	320,423	-	-	-	-	-	320,423
	Other equity instruments	-	-	-	-	-	-	-
	Capital reserves	1,328,097	-	-	-	-	-	1,328,097
	Revenue reserves and other reserves	1,689,868	-	613,203	-	-504,503	-	1,798,568
	(Own shares)	-	-	-	-	-	-	-
	Result for the period	612,492	-	26,218	-	-	-	638,710
	Other comprehensive income	648,589	-	-103	10,108	-178,980	-	479,614
Total attributable to the Group		**4,599,469**	**-**	**639,318**	**10,108**	**-683,483**	**-**	**4,565,412**
Shareholders' equity attributable to minority interests	Shareholder capital and reserves	-	-	-	-	-	-	-
	Result for the period	-	-	-	-	-	-	-
	Other comprehensive income	-	-	-	-	-	-	-
Total attributable to minority interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,599,469**	**-**	**639,318**	**10,108**	**-683,483**	**-**	**4,565,412**

Intesa Sanpaolo Vita S.p.A.		Amount as of 31.12.2016	Change in Closing Balances	Allocations	Reclassification adjustments to income statement	Transfers	Change in Profit sharing	Amount as of 31.12.2017
Shareholders' equity attributable to the Group	Share capital	320,423	-	-	-	-	-	320,423
	Other equity instruments	-	-	-	-	-	-	-
	Capital reserves	1,328,097	-	-	-	-	-	1,328,097
	Revenue reserves and other reserves	1,798,568	-	639,285	-	-255,511		2,182,342
	(Own shares)	-	-	-	-	-	-	-
	Result for the period	638,710	-	-51,591	-	-	-	587,119
	Other comprehensive income	479,614	-	2,666	-36,008	-46,058	-	400,214
Total attributable to the Group		**4,565,412**	**-**	**590,360**	**-36,008**	**-301,569**	**-**	**4,818,195**
Shareholders' equity attributable to minority interests	Shareholder capital and reserves	-	-	-	-	-	-	-
	Result for the period	-	-	-	-	-	-	-
	Other comprehensive income	-	-	-	-	-	-	-
Total attributable to minority interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,565,412**	**-**	**590,360**	**-36,008**	**-301,569**	**-**	**4,818,195**

Statement of cash flows (indirect method)

(in thousands of euro)

INTESA SANPAOLO VITA S.P.A.	31.12.2017	31.12.2016
Profit (loss) before taxes for the period	**815,355**	**930,671**
Change in non-cash items	**-2,683,143**	**873,570**
Change in non-life provision from unearned premium	79,761	86,134
Change in non-life provision for outstanding claims and other insurance provisions	7,698	5,905
Change in mathematical provisions and other life insurance provisions	-3,851,204	645,404
Change in deferred acquisition costs	-	-
Change in provisions	1,032	-1,930
Non-cash income and expenses from financial instruments, investment property and equity investments	1,073,176	283,479
Other expenses	6,394	-145,422
Change in receivables and payables generated by operating activities	**-442,790**	**-265,702**
Change in receivables and payables on direct insurance and reinsurance operations	25,930	1,333
Change in other receivables and payables	-468,720	-267,035
Income taxes paid	**-228,236**	**-291,961**
Net cash generated/absorbed by cash items related to investment and financing activity	**-522,918**	**22,135**
Financial liabilities related to investment contracts	9,578,136	8,848,440
Payables to banks and customers	-	-
Loans and receivable from banks and customers	-	-
Other financial instruments at fair value through profit or loss	-10,101,054	-8,826,305
CASH FLOW FROM OPERATING ACTIVITY	**-3,061,732**	**1,268,713**
Net cash generated/absorbed by lands and buildings (investment property)	-	19,249
Net cash generated/absorbed by equity investments in subsidiaries, associates and joint ventures	-2,312	-
Net cash generated/absorbed by loans and receivable	-3,024	556,563
Net cash generated/absorbed by held to maturity investments	-	-
Net cash generated/absorbed by available for sale financial assets	2,592,399	-2,848,745
Net cash generated/absorbed by tangible and intangible assets	-	-
Other cash generated/absorbed by investment activity	-	-
CASH FLOW FROM INVESTING ACTIVITY	**2,587,063**	**-2,272,933**
Net cash generated/absorbed by Group's share capital and equity instruments	-252,270	-503,895
Net cash generated/absorbed by own shares	-	-
Dividends payment	-	-
Net cash generated/absorbed by minority interests' share capital and reserves	-	-
Net cash generated/absorbed by subordinated liabilities and participative financial instruments	-	-
Net cash generated/absorbed by other financial liabilities	-	-
CASH FLOW FROM FINANCING ACTIVITY	**-252,270**	**-503,895**
Effect of foreign-exchange differences on cash and cash equivalents	**-**	**-**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	1,495,047	3,003,162
INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	**-726,939**	**-1,508,115**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	768,108	1,495,047

Reference context and group performance

The economic and financial context

The macroeconomic scenario

In 2017, world economic growth strengthened its pace and became more widespread. Growth in international trade intensified. Inflation rebounded, partly driven by the strong recovery in oil prices, but was still moderate. Financial results were often surprisingly good.

In the US, the economy picked up again after a weak first half of the year, pushing the unemployment rate below 4%. In addition, a tax reform was approved at the end of the year, which could fuel stronger growth in domestic demand in 2018. In response to the increasing risk of the economy overheating, the Federal Reserve tightened its monetary policy stance. Official rates have been raised three times since the start of 2017 for a total of 75 bps and the Central Bank is notifying the markets they might continue at the same pace in the current year. The Federal Reserve also rolled out a gradual cutback in the reinvestment policy for securities nearing maturity which will reduce the surplus in banking reserves. However, inflation remains moderate for the time being.

The Eurozone witnessed stunning growth during the year, far above the standards of recent years and the forecasts of one year ago. Year-on-year GDP growth reached 2.8% in the third quarter (the latest for which official figures are available). Recoveries in exports and fixed investments more than offset the marginal slowdown in consumption. Economic growth across all countries in the Eurozone drove employment figures up and the unemployment rate down to 8.7% in November. Improved confidence figures were favoured by various factors, including general election outcomes in the Netherlands and France, which dispelled the risk of a victory by Eurosceptic parties and, therefore, of major crisis in the Eurozone. Rather, the outcome of the French general election has raised expectations of fresh stimulus to the Eurozone reform process. The start of negotiations for the United Kingdom's exit from the European Union did not have any major repercussions, with the exception of the impact on trade flows of a devalued Sterling.

Italy has also fully participated in the improved European economic climate and the recovery underway. Year-on-year GDP growth reached 1.7% in the third quarter, the highest recorded since the fleeting rebound in 2010-2011. Increased confidence in the demand outlook has started to generate a recovery in investment. The consensus estimates for 2017 and 2018 GDP have been revised upwards. Employment growth slowed due to the phasing out of extraordinary measures which buoyed growth through 2016, though it remained sufficient to drive the unemployment rate down to 11% in November. Higher energy prices and growth in demand began to impact inflation, which rose temporarily to 2% in April, but then fell again. In terms of public finances, despite accelerated growth, the primary budget surplus was insufficient to significantly lower the debt-to-GDP ratio, which is practically unchanged according to the European Commission estimates.

The European Central Bank began to adapt its monetary policy stance to improvements in economic conditions and the balance of risks. After announcing an initial reduction in its securities purchase programme from €80 billion to €60 billion as of April, in June the ECB dropped any reference to the likelihood of further interest rate cuts. Subsequently, the ECB extended its purchase programme to the period January-September 2018, though with a halved monthly volume of €30 billion. The ECB continues to forecast a rise in official rates only once the asset purchase programme has been wound up.

The ECB's monetary policy stance led to a strengthening of the exchange rate and a rise in medium/long-term interest rates. The ten-year Bund yield, which was negative at the end of 2016, had risen to 0.60% at the beginning of the third quarter but then averaged 0.39% in the fourth quarter. The ten-year BTP yield rose slightly, ending the year at 2.0%, just above the level at the end of 2016 (1.83%). The spread with German bonds came under pressure for a short time during the French electoral campaign, after which it fell to a low of 133 bps in December, ending 2017 at 157 bps.

The Euro/US dollar exchange rate rose almost constantly between January and September, gaining an overall 14% to close 2017 at 1.20.

Stock markets

The trend in international stock markets was positive overall in 2017, as risk aversion in investors gradually fell and stock prices showed lower volatility.

Various factors have contributed to propping up stock markets. One is the consolidation of world economic growth, in both emerging countries and major advanced economies. The flow of positive financial figures led to the upward review of growth forecasts, especially for the Eurozone, including Italy. Moreover, in the first half of the year, the political risk posed by elections in the Netherlands, and in particular France, failed to materialise, with pro-euro and pro-European Union political parties emerging from the vote with stronger consensus, which helped lower the risk premium on stocks. Lastly, the outlook of company profits gradually improved during the year, on the back of the improvement in business profits.

After dropping to a relative low in February, stock markets in the Eurozone progressively rose, driven by favourable developments in company earnings. The first quarter, in particular, delivered the most positive surprises, accompanied by confirmation or improvement in guidance for yearly results.

In the second half of the year, European stock markets further consolidated their increases, in the wake of company results that confirmed the steady improvement in earnings margins, despite the strengthening of the euro exchange rate against the dollar, which put a partial brake on growth in some cases.

The Euro Stoxx index was up by 10.1%. The DAX 30 posted a rise of 12.5% at the end of the year, and the CAC 40 performed strongly with an increase of 9.3%, while the IBEX 35 index slightly underperformed, with a rise of 7.4%. Outside the Eurozone, the Swiss market index SMI rose by 14.1%, while the United Kingdom's FTSE 100 index ended 2017 up 7.6%.

In the US, the S&P 500 closed the year with a strong rise (+19.4%), while the Nasdaq Composite Index of technology stocks outperformed with a rise of +28.2%. The overall performance of the main Asian stock markets was positive: the Chinese SSE A-Share benchmark index ended the year up by 6.6%, while the Nikkei 225 index posted a rise of +19.1% for the year.

The overall performance of the Italian stock market was satisfactory, also driven by the recovery in the banking sector (which represents 26% of the FTSE MIB Index) and the progressive improvement in economic growth outlooks and company earnings. The FTSE MIB index closed 2017 up 13.6%, while the FTSE Italia All Share posted a slightly higher increase (+15.6%). Mid-cap stocks performed very strongly, with the FTSE Italia STAR index up 34.7% at the end of the year. The fundamentals were also accompanied by the positive effect of the Individual Savings Plans, which invest a significant proportion of their funds in shares not included in the FTSE MIB benchmark.

Corporate bond markets

The European corporate bond markets ended 2017 positively, with risk premiums (measured as ASW – asset swap spread) down compared to the beginning of the year, although slightly higher than the lows reached in the first sessions of November. Also in 2017, the monetary policies of the central banks (and in particular the ECB's corporate securities purchase programme - CSPP) continued to be among the most important factors supporting the markets. At the end of December, corporate securities purchases by the ECB totalled around €132 billion (with a monthly average of €7 billion since June 2016), of which around 11% involving securities of Italian issuers, according to the central bank's figures. Markets also benefited from positive macroeconomic fundamentals, with moderate growth coupled with only marginal inflationary pressures.

The key catalyst for markets in the first part of the year was expectations over major general elections due in Europe. After initial uncertainty and rise in volatility, the outcome of French general elections, which allayed fears of a possible surge in antieuro populist movements, had a strong positive effect on markets, which resumed their growth trend.

In the following months, however, market sentiment was driven by the expectation of changes in the ECB's monetary policy, and a possible tapering of its purchasing programme. At its meeting on 26 October, the ECB, despite taking another step towards the normalisation of its monetary policy, actually envisaged a much more accommodative stance than previously feared. Indeed, the ECB announced its commitment to continue its purchases in

2018 at a rate of €30 billion per month (from €60 billion) at least until September, or later, if necessary. The market reaction was positive, with spreads narrowing further in the remainder of the year, except for a short correction in November.

In terms of performance, investment grade securities saw their spreads fall by around 40% from the beginning of 2017, while riskier high yield securities underperformed (-25%) as a result of the increased widening in November. The effect of the ECB policy – reflected in very favourable funding conditions – and the search for yields by investors had a very positive impact on the primary market, with record volumes both for Investment Grade (IG) and High Yield (HY) issuers. In this regard, a major contribution came from euro-denominated issues made by US companies.

Emerging economies

Economic cycle and inflation

The economic growth in the emerging countries, which began in the second half of 2016, continued to strengthen in 2017.

According to the most recent IMF estimates (World Economic Outlook, January 2018 Update), in 2017 average GDP growth in the emerging countries rose to 4.7% from 4.4% in 2016. Asia continued to be the most dynamic region, with GDP growing by 6.5%, driven both by China (+6.8%) and India (+6.7%). The recovery in oil and other commodity prices supported economic activity both in Latin America, which came out of a six-quarter recession, and in Sub-Saharan Africa, with GDP growth in the two regions estimated at 1.3% and 2.7%, respectively. In the MENA area, on the other hand, production is estimated to have slowed down to 2.5% in 2017, from 4.9% in 2016, particularly in the hydrocarbon-producing countries, due to the oil extraction cuts decided and the fiscal measures taken by various governments to cope with the fall in revenues following the collapse of oil prices in 2014. This slowdown was only partly offset by stronger performance in the net hydrocarbon importing countries, such as Egypt.

In Central and South-Eastern Europe, GDP growth in 2017 is estimated to have accelerated, particularly in the Czech Republic, Hungary, Slovenia and Romania. Growth was driven by domestic as well as foreign demand. Consumption benefited in particular from improvements in the labour market, thanks to falling unemployment and wage increases. Investment was also supported by the recovery in the private sector and the use of EU structural funds. In Russia, which has come out of recession, GDP growth is expected to be above 1.5% (from -0.2% in 2016). Ukraine is expected to post a figure close to 2% (in line with 2016). The region's economy continues to be affected by persistent geopolitical tensions.

In 2017, the average inflation rate in the emerging countries slowed down to 4.1%, from 4.3% in 2016. In the CIS area, the annual inflation rate at the end of 2017 had fallen to 2.5% in Russia, below the target of 4% indicated by the Central Bank, favoured by the strength of the rouble, but also due to the weak economic performance, whereas in Ukraine the rate had risen to 13.7%. In Egypt, inflation slowed down steadily, after having peaked in July (33%), ending 2017 at 21.9%, thanks to the gradual absorption of pressures linked to the devaluation of the currency at the end of 2016. In the CEE and SEE countries, economic growth led to a general increase in inflation. Slovakia and Slovenia in the CEE area and Bosnia, Croatia and Romania started to see consumer prices rise again in 2017, after a period of deflation in 2016. Within the region, inflation recovery was particularly strong in the Czech Republic and Romania, with rates rising above the targets set by their respective central banks.

Monetary policy

In 2017, monetary policy varied across the different areas, according to the different inflation dynamics. New easing measures, with very large rate cuts, were implemented in Brazil (where the Selic rate fell by 675 basis points to 7%) and in Russia (where the minimum rate fell by 225 basis points to 7.75%). Rates also fell in South Africa (from 7% to 6.75% for the official rate) and in India (from 7.2% to 6.5% for the average 3-month MIBOR). In China, on the other hand, the People's Bank of China, mindful of the risks arising from excessive credit growth, favoured a rise in the 90-day interbank rate (the average rose from 3% in 2016 to 4.6% in 2017). After initial easing measures, higher-than-expected inflation also led the Central Bank of Ukraine to raise interest rates by 50 basis points in the second half of the year. Significant interest rate rises (+400 basis points) were also seen in Egypt, aimed at countering inflationary pressures linked to the devaluation of the currency. In the CEE and SEE area, the policy rate in Serbia was reduced by 50 basis points, while in the Czech Republic it was raised by 25 basis points.

In Romania, in response to a rise in inflation, the Central Bank tightened the interest rate corridor from +/- 150 to +/- 100 basis points, through an initial measure in December. In the other countries in the region where ISP subsidiaries are based, the monetary policy stance remained accommodative.

The financial markets

In 2017, the US dollar depreciated overall against the currencies of the advanced countries (Major Index -8.7%) as well as the emerging countries (OITP index -6%). The most significant movements on the dollar were recorded by several currencies in Asia (Korea, Thailand, and Singapore, but also China and India, with the latter achieving earnings above 6%) and in the CEE and SEE countries where ISP subsidiaries are based, which essentially followed the euro, recovering by 13.8% on the US dollar in 2017. In the CIS area, the Russian rouble appreciated by 4.4%, despite the sharp fall in interest rates, driven by the further recovery in oil prices, while the Ukrainian currency depreciated by 3.6%, penalised by uncertainties regarding IMF support due to delays in implementing agreed reforms. The Egyptian pound stabilised, after the major devaluation in 2016 accompanied by the transition to a floating exchange rate system, closing the year up slightly (+1.9%).

The continued strengthening of economic performance, with several major economies out of recession, gave a further boost to stock prices in the emerging markets. The MSCI composite index of emerging markets rose by 27.7% in 2017, recording a higher gain than the +7.2% registered by that index in the previous year and by the S&P (+19%) and EuroStoxx (+10%) indexes in the advanced countries in the same year. Price rises were particularly significant in the Latin American and Asian markets. On the other hand, the markets of the Gulf oil countries were penalised by regional tensions and relatively weak economic growth. In the countries where ISP subsidiaries are based, some markets in Central Eastern Europe performed better than the EuroStoxx, including Hungary (+23%) and the Czech Republic (+17%), whereas the Croatian stock exchange (-7.6%) was affected by difficulties experienced by some major listed companies. In the CIS area, the stock index in Russia remained substantially unchanged in 2017 (+0.2%), after the considerable gains recorded in 2016 (+52.2%), while Kiev was down (-10%), having been penalised by the slow progress of stabilisation policies. In contrast, the strong cyclical performance and economic stabilisation policies pushed up the stock market in Egypt (+21.7%).

The pursuit of yields by international investors, the improvement in the risk profile in several countries and the rise in commodity prices led to a further reduction of the EMBI+ spread for the emerging countries, which fell by 34 basis points to 330 basis points in 2017. The most significant decrease was on the EMBI+ spread of the European countries (-65 basis points to 232 basis points). For the countries where ISP subsidiaries are based, the decrease in the CDS spread was particularly large in relative terms (above one third) in the CIS area (Russia and Ukraine), but also in the SEE area (particularly in Croatia and Serbia) and in the CEE area (particularly in Hungary, Poland and Slovenia). In Serbia, the spread almost halved (down to under 130 basis points), and the country also saw an upgrade in its S&P rating from BB- to BB in 2017. In the countries where ISP subsidiaries are based, Egypt also had a rating increase (from B- to B by S&P).

The domestic insurance market

The life market

Premiums of the domestic life market in the first nine months of 2017 came to €85.6 billion (-5.9% on the corresponding period of 2016).

With regard to volumes of products sold, on the one hand, there was a contraction in sales of traditional products, confirming the choice of almost all companies to limit segregated fundses, while, on the other, there was a rebalancing of the business mix towards class III products with lower capital absorption.

During the period (January to September 2017), class I and V products collected premiums of €48.8 billion, down 18.2%, accounting for 57.0% of total premiums. Unit-linked products earned €35.3 billion, up 17.5% on the same period of 2016. Multi-class products also recorded growth. Finally, the domestic insurance market was also characterised by the introduction of insurance Individual Savings Plan (unit-linked and multi-class) in 2017.

There was a slump in net premiums in the market overall in 2017. This was due, on the one hand, to the reduction in class I premiums which cancelled out the positive effect of class III and, on the other, the rise in payments on surrenders, maturities and annuities, especially in class III.

In terms of distribution, the agencies channel increased sales compared to the same period of 2016, mainly thanks to the recovery in sales of class I policies, while banks and financial advisors both recorded a contraction in their business.

The pensions market

At 30 September 2017, supplementary pension plans counted 8.1 million members, up 7.0% on 30 September 2016.

During the period (January to September 2017), members of open pension plans numbered 1.3 million, up 9.4% on 30 September 2016, while workers who joined revised individual pension plans increased by 9.2% to 3.0 million at 30 September 2017. Members of negotiated pension plans came to 2.7 million, up 6.5% on 30 September 2016. This increase led to the launch of the contractual membership mechanism for the pension fund for the motorways sector and Ferrovie dello Stato Group.

Supplementary pension plan assets continue to increase and amounted to €157.5 billion at 30 September 2017, up 7.6% on the first nine months of 2016. The market's top product continues to be the individual pension plans, which grew by 15.4% on 30 September 2016, followed by the open pension plans (+11.9% on 30 September 2016) and the negotiated pension plans (+7.2% on 30 September 2016).

In terms of product trends, operators again focused on reorganising their product portfolio and restyling the products in 2017, with a view to reducing guaranteed returns and streamlining their product portfolio in order to achieve operating efficiency by cutting administrative costs and raising the quality of services offered.

The non-life market

In the first nine months of the year, the non-life market earned premiums of €25.6 billion, up 0.3% on the corresponding period of the previous year. On the one hand, there was a slight improvement in the reduction rate of premiums in the motor insurance segment and, on the other, there was an increase in the non-motor insurance segment.

With regard to the business mix, the non-motor insurance segment continued to be positively impacted by the general economic upturn to rise 1%, accounting for 51.7% of non-life premiums for the period ended 30 September 2017.

Specifically, the motor insurance segment recorded premiums of €12.4 billion, down 1.2% on the corresponding period of the previous year. The motor vehicle third party liability segment dropped 2.8%, which gradually reduced over more recent quarters. The non-mandatory covers (motor property damage premiums) increased 7.0% on the corresponding period of 2016, thanks to the rise in sales of new vehicles (up 8.2% from 1 January to 30 September 2017). Non-motor insurance segment premiums amounted to €13.2 billion, up 1.8% on the corresponding period of 2016. Specifically, the health insurance, support and assistance and pecuniary losses classes recorded an above-average increase, while the general third-party liability and fire classes decreased.

The agency and broker channel confirmed its role as the main distribution network in terms of market share, with 85.1% of the total non-life business volumes, down 0.2% on the corresponding period of 2016. With a 6.5% share, the banking channel grew 0.6% on the same period of the previous year. Finally, direct sales accounted for an overall 8.1%.

The expansion of company welfare areas where companies can avail of tax benefits has led to insurance companies developing a more complete and innovative product range. Focus was placed on the health segment in order to develop more targeted solutions for specific risks or preventing risks, with the end goal of expanding the customer base. Finally, the increasingly widespread use of remote devices for household, healthcare and company products, as well as the motor insurance segment, opens up to further growth prospects.

Action plans and business development

The strategies adopted in 2017 by the Intesa Sanpaolo Vita Group, in line with the previous year, were focused on the following aspects:

- product innovation in accordance with the new legislative and regulatory framework, concentrating on customer requirements;
- adequate capitalisation of the Intesa Sanpaolo Vita Group, particularly focusing on compliance with the Solvency II Directive;
- ongoing monitoring, checks and management of risks with the promotion of an appropriate internal risk culture to completely manage its risks;
- investment in resources by encouraging dialogue and team work, including through projects to promote innovation and talent development;
- financial optimisation through ALM (asset and liability management);
- cost containment and management.

Companies in the life business segment renewed the product range in 2017. Intesa Sanpaolo Vita and Fideuram Vita focused on customers in the retail, personal and private segments. As well as supporting the group with its own range, Intesa Sanpaolo Life began selling some products especially for the Spanish market. The strategy of distributing multi-class products with lower capital absorption is still relevant and successful as it is most suited to the present market situation.

In the non-life business, Intesa Sanpaolo Assicura focused on optimising sales processes in 2017 after renewing and expanding the range of protection products during the previous year.

Despite the effect of the macroeconomic trends of 2017, the Intesa Sanpaolo Vita Group's results were fully satisfying and enabled the group to reach the goals set out in its 2014/2017 business plan. In addition, it became and remained leader of the domestic life insurance market[1], the bancassurance non-life market and the pension plan segment, especially for open pension plans.

Customers' approval of the group's insurance products reflects the companies' dedication and professionalism together with the distribution network's skill and professionalism.

The results of all segments of the insurance group were achieved under the usual governance standards hinged on ensuring strong capitalisation in line with the solvency requirements as per the Solvency II framework, both at the reporting date and for the future.

With regard to the future, the Intesa Sanpaolo Group's new 2018/2021 business plan attributes an important role to the insurance group with goals of strengthening the life business and especially with reference to Intesa Sanpaolo Assicura, whose objective is to become the top Italian non-motor retail insurance company and one of the top four non-life insurance companies in Italy. In this regard, starting from 1 February 2018, the new organisational structure was formalised for both the parent, Intesa Sanpaolo Vita, and the non-life company Intesa Sanpaolo Assicura to aid the new mission.

[1] Including Fideuram Life S.p.A., an Intesa Sanpaolo group company dedicated to private customers.

Performance

Overall performance

The profit for the year attributable to the owners of the parent came to € 587.1 million, a decrease compared to 2016 (€ 638.7 million).

The group recognised an excellent operating result:

– an approximate €5 billion increase in assets under management (+4.6%, €119.9 billion at year end compared to €114.7 billion at 31 December 2016);
– transition in the life business product mix from class I products to multi-class and unit-linked products;
– increase in the non-life business portfolio due to the upturn in premiums (+9.6%, €431.6 million for 2017 compared to €393.8 million for 2016), mostly as a result of the higher sales of the credit protection insurance (CPI) policies tied to the loans issued by the Intesa Sanpaolo Group network and the other non-life lines of business excluding aviation, marine, bonds and credit.

This performance had the following main effects on profit or loss:

– higher net commission income (€50.3 million).
– smaller contribution of the technical performance (approximately € 76.3 million) and net financial income (€ 89.3 million).

The profit before taxes amounted to €815.4 million compared to €930.7 million for the previous year.

Income taxes came to €228.2 million for the year (tax rate of 28.0%) against €292.0 million for 2016 (tax rate of 31.4%).

Risk management

An internal control system is of strategic importance to the Intesa Sanpaolo Vita Group as it is a fundamental part of the entire governance system, which allows the group to manage its activities in line with its strategies and policies in a prudent and effective manner.

The risk management system is an important informational tool for the company bodies, keeping them fully up-to-date, ensuring the efficient monitoring of risks and their interaction, providing guidance about strategies and policies and how to adapt its organisation consistently. It is also important to ensure compliance with general and sector regulations, especially those issued by the supervisory authority and to encourage the adoption of a valid control culture.

The risk management system was again reinforced during the year to comply with EU and national regulations issued as part of the preparatory phase before enactment of the Solvency II Directive. Specifically, the group strengthened the procedures and models used to assess its risk profile, the related monitoring processes and its governance documents. This project not only involved the group's internal processes but also included fostering a greater risk management culture, involving the entire organisation in developing and introducing methods to identify, measure, communicate and manage risks.

The Intesa Sanpaolo Vita Group implemented an internal control system based on the following pillars:

– the internal control environment, based on senior management's awareness of the importance of properly identifying the key tools making up the control system, i.e.:
  - formalisation of roles, tasks and responsibilities (delegated powers, internal codes and procedures, circulation

of organisational charts, segregation of duties, with the subsequent segregation of the processes sensitive to business risks);

  - internal communication system (necessary information and production times needed to generate flows and reports, timely reporting to management, awareness and receptiveness of the operating personnel);

- the risk management process, that is the ongoing process to identify and analyse those internal and external factors that may jeopardise the attainment of company objectives, in order to manage them (risk identification, measurement and monitoring);
- the adequacy of the methods used to design, structure and effectively perform controls at the various organisational levels (line/operational, hierarchical, risk management and internal audit), essential to allow senior management to check that their instructions are being followed correctly;
- the IT system, whose objective is to ensure the integrity and completeness of the data and information used to manage and monitor the company's processes and operations;
- monitoring activities carried out by the relevant parties (line managers, risk management officers, internal auditors, senior management, board of statutory auditors, independent auditors, pension fund managers (open pension funds and individual pension plans) and, for Intesa Sanpaolo Life, the committees responsible for audit and risk, investments and accounting and reporting) to ensure continuous supervision of the internal controls and to identify and implement any improvements necessary to resolve critical issues identified, ensuring the maintenance, updating and improvement of the system.

As part of the larger Intesa Sanpaolo Group, the insurance group complies with its regulations to ensure the consistent and prompt management of business risks in line with the relevant national legislation. It monitors risk management results on an ongoing basis as well as developments in internal controls to protect the interests of policyholders and the integrity of group assets.

The parent's governance system is described in the corporate governance documents, presented to and approved by the board of directors. In addition to its by-laws, the more significant documents are:

- directives on internal controls and the annual internal controls report;
- the risk management regulation;
- the proxies and powers system (approved in advance by the parent and subsequently by the boards of directors of the group companies, as well as by the supervisory board set up in compliance with Legislative decree no. 231, the audit committee and the local regulator). This system regulates the management independence vested in the various company bodies to allow them to carry out their duties, in accordance with the organisational principles governing delegation and supervision.

The organisational structure is defined in such a manner as to guarantee the segregation of duties and responsibilities between operational functions and control units, as well as the independence of the latter from the former.

In order to strengthen supervision of company operations, the insurance group companies have set up special committees to analyse performance, investment management, commercial management, risk management and anti-money laundering issues across the various departments.

Internal controls are structured according to the guidelines set out below:

- segregation of duties and responsibilities: duties and responsibilities are clearly divided among company bodies in order to avoid gaps or overlapping powers that may impinge upon the company's proper functioning;
- formalisation: the actions of the boards of directors and delegated parties must always be documented to allow the checking of management activities and decisions taken;
- independence of controls: the necessary independence of the control structures from the operational units must be assured.

The ultimate parent's risk management and control system, also adopted by the insurance group, involves the company bodies and the operational and supervisory units in the comprehensive management of the parent and the group, whilst respecting the different roles and levels of responsibility, which are intended to guarantee the adequacy of the system as a whole at all times.

The internal controls are commensurate with the group's size and operational characteristics and the nature and intensity of risks, as is the risk management system, which is commensurate with the size, nature and complexity of the activities carried out, in order to identify, assess and monitor the most significant risks, being those whose consequences may undermine the solvency of the parent and the group or represent a serious obstacle to the fulfilment of their objectives.

Senior management is also vested with the task of propagating a "control culture", which ensures that staff at all levels are aware of their own roles, including in relation to control activity, and fosters the involvement of all company units in the pursuit of the group's objectives.

The risk management strategy

The Intesa Sanpaolo Vita Group is committed to developing an effective risk management unit given its contribution to the balanced performance of the insurance group's activities. To assist this objective:

- clear risk governance and management principles have been defined;
- risk governance and management tools have been introduced;
- a risk governance and management culture has been promoted at all levels of the insurance group.

The parent has ultimate responsibility for the definition of risk management and internal control strategies and guidelines, also in its capacity as the parent of the insurance group, and to ensure their adequacy and solidity over time with regard to their completeness, functionality and effectiveness, in line with the size and operational characteristics of the companies and the insurance group, as well as the nature and intensity of the parent's and group's risks. The subsidiaries are also vested with similar prerogatives within the context of the objectives allocated to them.

Specifically, the administrative bodies of the group companies are responsible for:

- setting objectives at regular intervals, in line with the capital adequacy level and the guidelines of the Intesa Sanpaolo Group as implemented by Intesa Sanpaolo Vita and its subsidiaries;
- approving risk management policies and strategies and risk tolerance levels for the parent and subsidiaries;
- regularly examining the results achieved, including those relating to stress testing activities, as well as the underlying risk profiles of the parent and the subsidiaries, as communicated by senior management and the independent risk control unit (risk management);
- acquiring information concerning the most significant critical issues in the area of risk management and internal controls of Intesa Sanpaolo Vita and its subsidiaries as identified by the various bodies responsible for their monitoring and control;
- the prompt assessment of the aforementioned critical issues and the implementation of the necessary corrective measures.

The internal controls consist of three lines of defence:

- line controls (first level);
- risk monitoring (second level);
- internal audit (third level).

The Risk Management Unit contributes to the second line of defence by reconciling the prerogatives of independence from line controls with close cooperation with the line controls that are responsible for the assigned activities. This Unit ensures that the group's market, technical and operational risks are identified, assessed and monitored with a view to maintaining those risks within a limit that is consistent with the group's assets, taking account of risk assumption, assessment and management policies as defined by the administrative body. It also prepares suitable reports and provides timely and systematic information to senior management and the Board of Directors.

Principal results of the risk management strategy

The strategic priority attributed to the gradual reduction of risks and their ongoing monitoring and management has achieved important results:

- the commercial offer was revised as part of the product definition process to reduce the guaranteed minimums, promoting mixed solutions including class I and class III products and developing capital protection products. These products optimise the capital profile under Solvency II and have led to improved performances over time for policy holders compared to the old generation products;
- as part of the management of interest rate and spread risk, the term of assets was kept lower than the term of the liabilities, mitigating the reinvestment risk through the continuous reduction of average minimum guaranteed levels for assets under management;
- as part of the management of credit risk, a policy was introduced involving diversification and reduction of issuer exposures which, with the exception of the Italian, German and ultimate parent bonds, never have an overall exposure above 1%;
- total exposure has been contained as part of management of equity risk;
- as part of the management of surrender risk, in addition to closely monitoring the trends and net cash flows for each asset under management, adequate liquidity was maintained to cover unforeseeable outcomes without necessarily having to make unplanned divestments;
- in order to mitigate liquidity risk, efforts continued to focus the investment portfolio on actively traded and liquidable instruments by divesting positions comprised of structured instruments or that were not associated with sufficiently liquid trading markets;
- the careful selection of new investments, especially as regards the alternative investments portfolio;
- as part of the management of derivatives, in keeping with the policy of focusing investments on liquid instruments that are priceable and have measurable risks, the parent operated as a matter of preference on explicit derivatives, adequately linked to primary financial instruments, with the goal of mitigating interest rate risks (IRSs, futures, forwards), currency risks (DCSs and forwards) and credit spread risks (CDSs);
- as part of the management of operational risks, the business and control processes were strengthened.

These results can clearly be seen in the stress tests and capital measurements made by the parent, all within an operating context that saw the group achieve higher profitability levels than the previous year.

Part G of the notes ("Information on Risks") provides additional qualitative and quantitative information about risk management.

The insurance group companies worked to implement the requirements of the Solvency II Directive in a consistent and coordinated manner, mainly focusing on system optimisation and the standardisation of assessment methods.

To this end, they identified areas and environments to be developed at strategic and operational level. Specifically, they identified the following six strategic areas:

- Products
- Asset Liability Management (ALM) policies
- Planning
- Capital allocation and management
- Reinsurance policies
- Internal models and transition measures

A work group coordinated by a reference person was set up for each area.

At operational level, two macro environments were identified: one related to application tools, for which the data quality management (DQM), the quantitative reporting system, the source systems, the provision calculation engine and the Solvency II report are introduced. The other environment involves the governance tools and, especially, preparation of guidelines, formalisation of processes and operating guides and rationalisation of the methods.

In addition to the above, two specific processes will be introduced for the design activities: the Pillar II ORSA (Own Risk & Solvency Assessment) process and the Pillar III quantitative and qualitative reporting process.

The principal new products

During 2017, the insurance parent updated its multi-class product range, launching two new investment solutions for retail and individual customers, one single premium product and one recurring premium product.

The parent's new flagship product, rolled out in the first half of 2017, is "*InFondi StabilitàInsurance*", which replaced the previous "Giusto Mix". This is a multi-class policy which has renewed the underlying investment options, also adding a unit-linked protected fund which is in particularly high demand among the customers of the sales network.

In the second half of the year, the parent launched a recurring premium multi-class product for younger retail customers, "*Progetta Stabilità Insurance*", which replaced the previous pure class I recurring premium product. This is a flexible solution that enables customers to set aside amounts every month to build up savings over time, with the possibility to choose among different investment combinations based on their risk profile. As well as offering flexible payments, the product includes all the options necessary for strengthening the savings goal, including the option to pay an initial one-off payment fully invested in the class I policy, a simple and effective optional insurance policy against the risk of death caused by accident, and the option to begin a plan gradually reducing the proportion of the higher-risk component of the investment.

Periodic activities continued to expand the investment options offered for the "Synthesis" multi-class product for Intesa Sanpaolo Private Banking customers.

As it had done for the "*InFondi StabilitàInsurance*" product in the first half of 2017, the parent launched a marketing campaign for "*Progetta Stabilità Insurance*" aimed at continuing to convey the parent's support to customers in achieving future projects in the medium or long term with peace of mind and based on the solidity of the brand.

In February 2017, the subsidiary Intesa Sanpaolo Life launched the "*Exclusive Private*" and "*Doppia Prospettiva*" products which invest in the "Prospettiva" and "Exclusive" funds. It also rolled out the "Regular Premium" and "Single Premium" products, both for the Spanish market.

After a year spent renewing and expanding its offer for protection products, during the first half of the year, Intesa Sanpaolo Assicura focused on optimising its sales processes. Specifically, between December 2016 and July 2017, it extended the dematerialisation and distance sales to the ViaggiaConMe and MotoConMe policies and to all individual lines of the retail offer (health, accident, family and aCasaConMe).

In June, the group changed its assistance service provider for the motor insurance products, engaging Europe Assistance, and updated its minimum coverage limits based on European requirements. Subsequently, in July, it streamlined the range of motor insurance products by extending the utilisation formula to vehicles that are more than six years old and discontinuing the sale of 5000 km and 8000 km formulas.

Turning to SMEs, two regional management teams (Veneto Trentino AA Friuli VG and Emilia Romagna Marche Abruzzo Molise) launched, on a pilot basis, an offer that covers the risk of bad harvests for agricultural businesses. In light of the pilot, the distribution model for agricultural risks will be modified in 2018.

From the second half of 2017, the group focused on activities for the "Non-life business project", an important initiative launched in the second half of 2016, which aims at creating certain fundamental drivers for the structural growth of the group's non-life insurance business. This comprises the creation of a specialist sales network operating in synergy with the branches, the fine-tuning of a remote sales model through the on-line branch, the activation of Banca 5 (formerly Banca ITB), the optimisation of the offer to the Businesses segment and the construction of an integrated offer system (insurance wallet) for the retail segment that streamlines the commercial offer.

Thanks to the pilot initiatives related to the specialist sales network (in Lazio and Veneto) and the reporting agreement with AON on Businesses segment customers (in Piedmont and Lombardy), the group optimised the organisation and management processes for launching such projects on the entire network in 2018. With the support and methodology of the Digital Factory, an interdepartmental team was formed to tackle the challenging development of the insurance wallet, with the objective of launching the product on the entire sales network within the first half of 2018.

Performance

During 2017, the group reported gross premiums of €18,171.0 million for both the life and the non-life businesses and, in relation to the former, both products classified as insurance products and policies with a more financial content. Premiums decreased by 8.3% on the previous year (2016: €19,816.3 million).

Gross life premiums amounted to €17,739.4 million, down 8.7% on the €19,422.5 million for the previous year.

Gross non-life premiums amounted to €431.6 million, up 9.6% on the €393.8 million for the previous year.

Income from traditional products decreased (-25%), partly countered by the rise in class III products related to investment products and the upturn in class VI products due to consolidation of the pension plan products (+11%).

(in millions of euro)

	31.12.2017	31.12.2016	Change	
Collection of contracts classified as insurance and investment with DPF:	**5,850.6**	**7,601.8**	**-1,751.2**	**-23.0%**
- Traditional (class I)	5,329.1	7,130.4	-1,801.3	-25.3%
- Capitalisation (class V)	0.8	0.9	-0.1	-15.6%
- Unit Linked (class III)	3.5	5.3	-1.8	-34.2%
- Pension funds and Fip (VI)	517.2	465.2	52.0	11.2%
Collection of contracts classified as investment without DPF:	**11,888.9**	**11,820.7**	**68.2**	**0.6%**
- Index Linked (class III)	-	-	-	0.0%
- Unit Linked (class III)	11,888.9	11,820.7	68.2	0.6%
Total Life business	**17,739.4**	**19,422.5**	**-1,683.1**	**-8.7%**

New life business, including income from financial products without discretionary participation features (DPF), came to €17,562.8 million (-8.7%) compared to €19,239.4 million for 2016.

The distribution structure

The parent, Intesa Sanpaolo Vita, uses the banking network of the Intesa Sanpaolo Group to distribute its insurance savings and investment products as well as its CPI and pension products.

The parent also has sales agreements with non-group brokers, mainly for post-sales services and, marginally, for the distribution of pension products.

Intesa Sanpaolo Assicura's main distribution channel is the Intesa Sanpaolo Group's sales network for its home and family, motor, business, health, financing, lifestyle and cards products. It uses the branches of the Intesa Sanpaolo Group and Accedo's (formerly Intesa Sanpaolo Personal Finance) distribution network to distribute its financing and business products (CPI products). The subsidiary also avails of the financial advisors network of the Fideuram - Intesa Sanpaolo Private Banking Group to distribute the Salute Fideuram product. Finally, it has management only agreements with non-group banks.

Reinsurance policy

During the year and in order to contain exposure on specific portfolios, Intesa Sanpaolo Vita agreed proportionate reinsurance treaties on both a proportionate basis and an excess of loss basis for whole/term life insurance products with complementary covers for pension products. It also agreed an excess of loss treaty for catastrophic risks relating to the retained portion of all portfolios.

During the year and in order to contain exposure on specific portfolios, the insurance parent agreed proportionate reinsurance treaties on both a proportionate basis and an excess of loss basis for whole/term life insurance products with complementary covers for pension products. It also agreed an excess of loss treaty for catastrophic risks relating to the retained portion of all portfolios.

Intesa Sanpaolo Assicura's current reinsurance policy means the portfolio is protected by non-proportional excess of loss treaties in order to contain excessive and catastrophic exposure. Retention has been reduced through proportional cover exclusively for specific guarantees and products, mainly assistance guarantees and legal protection.

The main products reinsured with excess of loss treaties refer to the motor property damage and MTPL classes (ViaggiaConMe), fire, other damage to goods and GTHL (aCasaConMe), illness/accident products (health) and CPI. During the year, the subsidiary did not deem it necessary to resort to additional reinsurance, which is limited to the rare cases in which the risk does not fall under existing reinsurance treaties.

Other run-off treaties continue to apply, both on a proportionate and an excess of loss basis for life insurance policies and certain accident covers of non-life businesses (temporary and permanent disability).

It was not deemed necessary to agree additional reinsurance contracts, as is the case when the existing reinsurance treaties cannot be used, during the year.

All its treaties are signed with leading operators and comply with ISVAP (the Italian Insurance Regulator) Circular no. 574/D. The reinsurer with the lowest rating is in line with the Master Resolution which provides for a minimum rating of A (Standard & Poor's) for long tail business.

While continuing to assess the opportunities offered by the market, the group does not engage in inwards reinsurance.

Research and development

The group incurred R&D costs during the year for new insurance products, for which reference should be made to the relevant section of this report.

IT systems

In 2017, the parent continued the project launched in 2016, when the 2016-2018 IT systems development road map was defined (started in 2016 from the technological infrastructure and will end in 2018 with the completion of the application upgrade).

During 2017, the IT systems confirmed their role as one of the main drivers for change, proving their ability to combine business development with the technological transformation plan for the entire IT system. The parent underwent a dramatic digital transformation through the launch of important initiatives:

- completing the multi-channel project, which integrates the physical channel with Intesa Sanpaolo's virtual channel, offering better service to customers and creating opportunities for the banking parent's network to sell insurance products remotely or out-of-branch;
- definitively activating the policy dematerialisation process for all sales and post-sales functions (the use of paper is eliminated upon request for customers and definitively for the group's paper copies), to increase work effectiveness and individual and group productivity;
- launching online reporting, to offer customers the option of receiving contractual documents directly from the secure area of the parent's or bank's website;
- opening the IT system to an external bank network for the sale of the insurance division's life policies;
- launching the first stage of the IDEA project for the building of a new data warehouse system, which will enhance the division's proprietary information;
- building the new modular and scalable application architecture of the Universo system and discontinuance of obsolete and no longer supported software and hardware components, which will mitigate security risks and improve the overall performance of the system.

In 2017, the works commenced in 2015 to upgrade all IT systems in all areas (commercial, legislative/regulatory, process and technological efficiency/completion) continued on schedule in 2017, with a balanced use of group resources and internal and external development.

In addition, the group reinforced the IT systems management model which provides for outsourcing of some activities to qualified suppliers chosen via bids for tender, while keeping control and expertise highly centralised, enabling group personnel to focus on activities with high added value.

The development objectives defined in the IT strategic plan are as follows:

1. Commercial - meet the needs of customers and the distribution networks, and enable new service models in line with the ultimate parent's projects;
2. Legislative/regulatory - fine-tune new capital and risk measurement tools, and implement and complete processes and tools to assist legislative compliance;
3. Process efficiency and completion - reduce operational risks, increase process efficiency and service levels;
4. Technological - reduce IT risks and development costs for project management, update the application infrastructure and integrate the business processes.

The main releases for the commercial areas and products related to:

- the release of Base Sicura Tutelati products on the Private network, Tua Scelta, the new OEICs, the restyling of the Synthesis product and the InFondi Stabilità product;
- the activation of online reporting, the out-of-branch option for the Giusto Mix product and the completion of the remote sales option for life products.

With respect to the legislative and regulatory framework, the activities included:

- anti-money laundering implementations to manage group profiles, beneficiary owners, strengthened due diligence for relevant customers and the roll out of the Hawk system;
- implementation of the new supervisory QRTs required by Solvency II;
- upgrading of the accounting and financial reporting systems to comply with IFRS 9 requirements for the purposes of the Intesa Sanpaolo Vita Insurance Group's and the Intesa Sanpaolo Group's consolidated financial statements;

- the launch, in synergy with Intesa Sanpaolo, of the project to adapt the IT system to comply with the new European regulation on privacy (GDPR);
- the activation of the IFRS 17 project for new accounting standards becoming applicable in 2021.

As part of the development process for process efficiency and completion, the main activities carried out were as follows:

- the first wave of the IDEA project for the completion and renewal of the parent’s proprietary information was released;
- settlement and collection procedures were optimised;
- the new product development process and new Promos Actuarial Engine for the users’ self-establishing of product rules were issued;
- the renewal of the revaluation, unit transfer and premium settlement procedures in the new Promos Actuarial Engine was completed;
- the centralised securities database was released for all insurance group companies, fed by the same single database of the ultimate parent, Intesa Sanpaolo;
- all group communications were revised in order to improve transparency and simplicity for customers.

With respect to development of the main technological activities:

- the internal application authentication systems were revised;
- the second stage of the renewal of the entire IT system was commenced by:
  1. renewing the application change;
  2. activating new system performance monitoring and control tools;
  3. releasing the new architecture;
  4. removing obsolete components and upgrading the operating system.

Staff

At 31 December 2017, the parent and its subsidiaries had 559 employees, three less than at 31 December 2016. The group had 88 resources seconded from other companies of the Intesa Sanpaolo Group and had seconded 51 employees to other companies of the Intesa Sanpaolo Group.

	Intesa Sanpaolo Vita	Intesa Sanpaolo Life	Intesa Sanpaolo Assicura	Total
Employees	384	62	113	559
- Managers	11	2	4	17
- Officers	192	12	39	243
- Other employees	181	48	70	299
Staff seconded from other companies to the Intesa Sanpaolo Group	78	4	6	88
Staff seconded to other companies of the Intesa Sanpaolo Group	23	-	28	51
Total	**439**	**66**	**91**	**596**
Other contractual forms	5	-	-	5
General total	**444**	**66**	**91**	**601**

Intesa Sanpaolo’s insurance division was fully operational during the year to coordinate and strategically steer the group’s entire insurance business. In this regard, the insurance parent further strengthened and supplemented the management team, adding first and second level managers from Intesa Sanpaolo and Fideuram Vita. In addition, to promote the development of internal talent, six new managers were appointed.

The group also continued to select personnel with specialist skills from both inside and outside the Intesa Sanpaolo Group, in order to correctly size its organisational departments, including with non-managerial positions.

The conditions for activation of the reward system were met again in 2017 and the bonuses proposed by the remuneration committee and subsequently approved by the board of directors were paid to the employees of the "risk taker" category.

The rest of the employees also received one-off bonuses and performance bonuses were paid to recognise achievement and professional growth.

Industrial relations

Intesa Sanpaolo Vita rejoined the Italian Association of Insurance Companies (ANIA) after discussing a series of initiatives with the association's leaders aimed at recognising the specific nature of the bancassurance model, including with regard to national labour contracts.

In this regard, the insurance parent invoked article 2 of the association's bylaws to guarantee its prerogative to independently and separately conduct all collective negotiations related to employment relations, including for second-level bargaining.

The group effectively exercised such prerogative with regard to the national labour contract of 7 March 2012 for non-managerial personnel. Indeed, the insurance parent did not automatically apply the renewal of such national labour contract, signed by ANIA on 22 February 2017 on behalf of insurance companies and the most representative trade unions of the sector.

As the parent of the insurance group, Intesa Sanpaolo Vita began independent negotiations with trade unions in the second half of 2017 to define a contract to make the renewal of the national labour contract of 22 February 2017 applicable to the insurance group and simultaneously revise the second-level contract that has been applied by insurance companies for some time.

The negotiations led to the signing of the "Protocol for the integration of first-level and second-level bargaining of the insurance division of the Intesa Sanpaolo Group" on 18 December 2017, involving Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura and Fideuram Life (insurance company dedicated to Intesa Sanpaolo S.p.A.'s private customers).

Finalised following heated debate with the national secretaries and trade unions of the insurance group companies, the agreement defines the application of the national labour contract of 22 February 2017 renewed by ANIA, as negotiated independently and separately by the Intesa Sanpaolo Group, availing of the provisions of the association's bylaws mentioned above given the Group's unique situation as leader in Italy for insurance activities as part of the wider Intesa Sanpaolo banking group.

This situation sets Intesa Sanpaolo Vita Insurance Group apart from other Italian insurance groups significantly, making it even more necessary, as well as beneficial, to regulate the Group's activities in a specific manner in order for its companies, branches and agencies to operate in a synergistic and integrated manner, including via greater standardisation of how employees are treated.

The synergy between the insurance and lending activities finds common ground in the negotiations involved from time to time in relation to the organisational and regulatory developments applied in the ISP Group, of which the insurance division is an essential and strategic component.

Specifically, common regulations have been set up throughout the Group's insurance companies and banks in order to improve the organisation of work, as well as to facilitate the exchange of expertise within the Group, also extending the working hours of the group's insurance personnel to Friday afternoon.

The regulatory and financial structure defined, in line with the bancassurance model adopted by the Intesa Sanpaolo Group, provides for further integration of the insurance division's activities to support the group.

Training
The Insurance Academy continued its activities during the year. This permanent training, development and innovation platform is dedicated to all insurance business personnel.

The Insurance Academy follows the model of the existing professional academies in the Intesa Sanpaolo Group, promoting the consolidation of professional expertise and individual skills to enable employees to best fulfil their current and future roles.

The Academy's activities are broken down into three distinct sections:
- Skills: dedicated to improving technical expertise;
- Development: dedicated to development initiatives, in reason of job rotation internal mobility;
- Factory: dedicated to promulgating the culture of innovation, also in collaboration with the CIO Area of Intesa Sanpaolo.

Technical and professional
The technical specialist courses provided in 2017 were designed on the basis of facts emerged during the first roll-out stage in 2016. Specifically, focus was placed on customisation, local aspects and on-the-job training.

In more detail, the following courses were provided:
- Meetings with internal instructors: "Breakfast in company" and "Focus on" related to issues of interest for the insurance business;
- On-the-job training: "Masters of complaints management";
- Focus on anti-money laundering: "AML analyses", "Best practice: the fight against money laundering and the financing of terrorism" and "New anti-money laundering regulations following the introduction of Legislative decree no. 90/2017";
- Analyses of the culture of operational risk: "The culture of operational continuity" and "Operational risks";
- Focus on IT issues: "Cyber security", "Big Data" and "IoT";
- Course on "Fighting insurance fraud";
- Focus on "IFRS 17";
- Tutorship on applications: "ADP – Time Revolution", "Sofia" and "Gamma";
- Seminars on "Public Speaking";
- Modules and programmes included in training curricula:
  - "Methodologies for analysing financial markets";
  - "Financial statements and the IFRS";
  - "Solvency II: the legislative framework";
  - "Project management: working for projects";
  - "IVASS, CONSOB, COVIP regulations";
  - "Financial instruments";
  - "Life business actuarial techniques";
  - "Non-life business actuarial techniques".

Conduct
There are no specific aspects of this type of training for the insurance model; therefore, it follows the group's training, development and management school structure. In 2017, conduct training initiatives were steered by the new training model, especially with regard to how courses were provided and what channels were used.

In 2017, there was a particular initiative designed together with local bank structures. Using cross collaboration, this activated a joint study on the most effective marketing strategies to adopt for welfare and social security products.

Managerial
In 2017, insurance division managers benefited from the new "Scuola Capi" App designed by the Intesa Sanpaolo training department to promote a common managerial identity and to support and strengthen managers in their role.

Foreign languages
The group implemented the following initiatives to develop English learning and practice:

- W-English: e-learning activities and telephone/Skype sessions for individual learning;
- English Corner: courses of small groups of colleagues of similar levels with a medium to high level of English;
- Intensive residential seminar for management at Cheney Court, Bath (UK);
- One-on-one courses for management.

Mandatory
The group continued to provide and monitor mandatory courses. The situation at 31 December 2017 was as follows:

- Training pursuant to Legislative decree no. 231/2001 on the administrative liability of companies: the e-learning course "Administrative liability as per Legislative decree no. 231" continued;
- Training on anti-money laundering: the basic e-learning course continued;
- Training on health and safety in the workplace: courses on health and safety continued, specifically:
  - General training: basic e-learning course and classroom training (for personnel who had not yet attended and new hires) completed by 95% of relevant employees.
  - Courses for specific positions identified in the legislation:
- Supervisors: classroom course on "Specific additional training";
- Five-year refresher courses for supervisors: e-learning course;
- Five-year refresher courses for personnel with special responsibilities: e-learning course;
- Emergency responders: attending classroom-style courses, "First aid - basic course", "Fire prevention - medium risk" and "First aid - refresher course";
- Assistants to colleagues with disabilities: attending the classroom course "Ministerial decree of 10/3/98 Assistance to personnel with disabilities";
- Individuals in charge of AED: attending basic and refresher courses for "Individuals in charge of using automated external defibrillators";
- VDU operators: basic e-learning training.

Communication
Launched in June 2016 to offer a new more tailored service to meet employees' specific requirements, the "myinsurance" portal represents a new way of communicating in the insurance division.

During 2017, the portal was upgraded with new functions and the content to be published was defined.

New functions implemented:

Service tools:

- Dashboard: a dedicated space on each user's homepage to help customised navigation;
- Breadcrumb: directions for finding the user's position within myinsurance;
- News with commenting options;
- Blackboard: a space on the homepage for sharing flash news.

Specific sections:

- Legislation: developed together with relevant departments, this section covers all legislation issued, fully revising the approach applied to categorising, thanks to sub-sections by macro-processes and processes in line with those of the ultimate parent. The section also adopts new search criteria to make finding documents easier and faster;

- Companies: under the Division channel, the Companies section is full of useful information for getting to know all of the group's companies. In addition to missions, company data, organisational charts and functional charts, this section also includes the financial statements and governance documents set out in specific sub-folders;
- Together with Intesa Sanpaolo: created in the Cross Collaboration section of Agorà, this page contains all the joint projects between the insurance division and the Intesa Sanpaolo Group born of a common goal: to promote development and innovation via active collaboration. Gathering ideas, sharing them and communicating mutual professional experiences is a priceless contribution to fine-tuning skills to best meet market needs, making the most of internal synergies and sharing all the expertise needed to grow and create value together.
- Guardamy: a space on the homepage where the portal "talks about itself". In addition to words, a series of snapshots, film frames and messages and a collection of videos take employees on a journey through the areas of myinsurance.

Content

Myinsurance contains, on the one hand, informational content updating employees on all of the division's news and, on the other, engagement content promoting initiatives in which people can directly participate, putting themselves to the test and taking part in projects designed for them.

The latter include the mywell-being project and the storytelling campaign for "Il Fiore dei Valori".

Promoting well-being in all its forms also means placing the right emphasis on nutrition. This is the guideline of the Food area whose leading initiative is a series of theoretical and practical meetings where employees can hear and share experiences in dedicated laboratories and events.

The Culture area includes information gathered via meetings with artists and professionals under a new format which employees can join on a voluntary basis: Agoràlive.

Allinsurance 2017 of 19 December brought the entire insurance division together. This was an opportunity to come together to reflect on the past and future, noting the results achieved over the past three years and looking to the important challenges arising with the new company plan. Like in 2016, the energy, talent and dedication of employees were key to the success of this year's event.

Employer branding

Activities to develop employer branding were expanded and diversified in 2017. Specifically:

- Intern Day, held in March by the Faculty of Banking, Finance and Insurance Sciences of Milan's Università Cattolica del Sacro Cuore, with more than 40 students attending the insurance division's presentation;
- Classroom at work: organised in March by the Faculty of Banking, Finance and Insurance Sciences of Milan's Università Cattolica del Sacro Cuore where the lecture hall was transferred to the office for a day, enabling 111 students to attend employees' presentations on best practice and case studies;
- Make it Real: a "recruiting contest" carried out in June together with Intesa Sanpaolo at the Viale Stelvio offices. During the contest, 27 graduating and recently-graduated students from the Politecnico and Università degli Studi in Turin and La Sapienza and LUISS Guido Carli universities in Rome competed in three business games on the Internet of Things, Insurance Design Products and Big Data, to win eight internships;
- Students in the insurance division: a "job shadow" project launched in February and organised in partnership with LUISS Guido Carli University of Rome, which unites traditional teaching with training on the job, offering third-year undergraduates the possibility to experience the company: four three-day experiences held in March, April, May and September for a total of 36 students;
- Together with the academic world: a meeting with 19 near-graduates in September promoted by the Faculty of Mathematical Engineering of Milan's Politecnico. The students had the opportunity to listen to a talk by a member of the insurance division management who contextualised within the insurance business some theoretical aspects of their studies and offered a glimpse of the roles that will enable them to put the knowledge they acquired at university into practice.

Health and safety in the workplace

The insurance division is constantly vigilant about the complex and ever-evolving legislation on health and safety in the workplace, diligently acting to ensure the prevention of risks and protect the health of employees and all third parties present in the workplace, via a series of activities in line with the provisions of company regulations (rules, operating guidelines, the organisational model).

Specifically, the organisational and management model implemented by the division on the basis of criteria and systems aimed at ensuring compliance with all legal obligations on the following elements, in accordance with article 30 of Legislative decree no. 81/2008:

- legal technical and structural standards related to equipment, plant, workplaces, and chemical, physical and biological agents;
- risk assessment and preparation of relevant prevention and protection measures;
- organisational activities, such as emergencies, first aid, management of tenders, periodic safety meetings and liaising with workers' safety representatives;
- health monitoring activities;
- information and training activities for personnel;
- supervision of workers' compliance with safety procedures and work instructions;
- acquisition of legally-required documentation and certifications;
- periodic checks that the adopted procedures are applied and effective.

Principal regulatory developments in the year

Sector regulations

The supervisory authority published the following regulations in 2017 that affect the group:

- **Regulation no. 34** of 7 February 2017 "Corporate governance requirements for measuring assets and liabilities other than technical provisions and related methods and reporting" – issued to implement articles 30, 30-bis, 30-ter and 35–quater.1 of Legislative decree no. 209/2005 of the Italian Private Insurance Code, as amended by Legislative decree no. 73 of 12 May 2015, following the introduction of provisions in this regard by the new requirements introduced by the Solvency II Directive to regulate various elements for measuring assets and liabilities other than technical provisions. Based on such legislation, companies shall include adequate organisational and informational defences within their corporate governance system which also extend to recognising and measuring assets and liabilities. The measuring of assets and liabilities for the purposes of solvency follows the market-based measurement principle, reflecting the amount at which the various items could be exchanged, transferred or settled between knowledgeable, willing parties under normal market conditions;
- **Regulation no. 35** of 7 February 2017 "Instructions for adjusting the loss absorbing capacity of technical provisions and deferred taxes in the calculation of the solvency capital requirement using the standard formula" – issued to implement articles 45-quinquies.2, 191.1.b).2/s).216-ter of Legislative decree no. 209 of 7 September 2005 of the Italian Private Insurance Code, as amended by Legislative decree no. 74 of 12 May 2015, following the introduction of provisions in this regard by the new requirements introduced by the Solvency II Directive to regulate the calculation of adjusting the loss absorbing capacity of technical provisions and deferred taxes. Based on such legislation, in calculating the solvency capital requirement, companies can take into consideration any risk mitigation effect deriving from the loss absorbing capacity of technical provisions and deferred taxes, i.e., offsetting potential unexpected losses by reducing technical provisions and deferred taxes;
- **Regulation no. 36** of 28 February 2017 "Requirements for the supervisory reporting of data and information for statistical surveys, studies and analyses relating to the insurance market" issued to implement article 190-bis of Legislative decree no. 209/2005 of the Italian Private Insurance Code, under which the Italian Insurance Supervisory Authority (IVASS) sets the frequency, manner, content and terms for supervised parties to report of data and information for statistical surveys, studies and analyses relating to the insurance market, thus linking it to regulations on accounting and reporting for supervisory purposes, following the amendments to the ISVAP Regulations no. 22 of 4 April 2008 and no. 7 of 13 July 2007, contained in IVASS Measure no. 53 of 6 December 2016, together with other modifications to accounting and reporting to the supervisory authority and the public (Pillar III) following the implementation of the requirements of the Solvency II Directive.

Among the measures issued by IVASS, **Measure no. 63** of 3 October 2017 refers to amendments to ISVAP Regulation no. 24 of 19 May 2008 concerning the procedure for lodging complaints with IVASS and complaints management by insurance companies.

Finally, regulations under public consultation include:

- **Document no. 1** of 10 January 2018 which completes the broader dematerialisation process for risk certificates launched with the issue of IVASS Regulation no. 9 of 15 May 2015. The Measure was formulated in response to the need to adapt the secondary legislation and technical rules for the data-base of risk certificates in order to correctly assess the claims ratio of the policyholder, also based on claims paid outside of the observation period as per article 1.j) of IVASS Regulation no. 9/2015, or paid after the contract maturity date if the policyholder changed company upon maturity of the contract (so-called late claims);
- **Document no. 2** of 10 January 2018 which contains an outline of the Measure on identification criteria and amended rules for the universal conversion class (UC class) as per article 3 of IVASS Regulation no. 9 of 19 May 2015 (Dematerialisation of risk certificate).
- **Document no. 4** of 15 November 2017 which illustrates the proposed amendments to ISVAP Regulation no. 38/2011 to introduce new methods for calculating returns on segregated assets, as well as amendments that would be consequently required to ISVAP Regulations no. 14/2008 and no. 22/2008;
- **Document no. 6** of 19 December 2017 which provides instructions for the current year and a regulation outline for subsequent years, establishing that the Solvency and Financial Condition Report (SFCR), required by the Solvency II framework, should be checked for compliance by the independent auditors.

The companies provided IVASS with the necessary information in due time and revised its internal regulations to comply with the new implemented requirements. It also commenced the actions necessary to introduce the additional obligations to send data/make changes to internal processes that will become effective in 2018.

International Financial Reporting Standards

The parent contributes to the insurance consolidated financial statements of the Intesa Sanpaolo Vita Group and the banking consolidated financial statements of the Intesa Sanpaolo Group, both prepared in accordance with International Financial Reporting Standards. Information on the main developments therein is provided below.

IFRS 9

The new standard IFRS 9 - which replaces IAS 39 - is effective as of 1 January 2018 and will be adopted by the Intesa Sanpaolo Group under first time adoption. The main changes introduced relate to the accounting treatment for changes in credit risk related to the banking book, changing from a backward looking (incurred loss) to forward looking (expected loss) concept with impacts on income statement.

In September 2016, the International Accounting Standards Board (IASB) published an amendment to IFRS 4 which introduces two options for insurance groups: temporary exemption and overlay approach.

- **Temporary exemption** allows full exemption from IFRS 9, maintaining the application of IAS 39 until the 2020 financial statements;
- **The Overlay approach** allows entities to remove from profit or loss (by moving it to OCI) the volatility that could occur before IFRS 17 is implemented by some financial instruments that, following application of IFRS 9, no longer meet the requirements for measurement at cost or fair value through profit or loss.

On 3 November 2017, the European Official Journal published Regulation no. 1998/2017 that extends the two options to both insurance financial statements of insurance groups and consolidated financial statements of financial conglomerates, such as Intesa Sanpaolo.

Both measures were introduced in order to avoid volatility of results deriving from the misalignment of effective dates of the new standard IFRS 17 on insurance contracts, replacing the current IFRS 4, and the new standard IFRS 9.

In December, the Intesa Sanpaolo Vita Group, together with the ultimate parent, Intesa Sanpaolo, opted for the temporary exemption which defers the adoption of IFRS 9 to 1 January 2021 in order to implement the standard together with IFRS 17 for the insurance division.

IFRS15

The new standard IFRS 15 – which replaces IAS 18 - Revenue and IAS 11 - Construction Contracts – will be effective as of 1 January 2018. The Intesa Sanpaolo Vita Group and the Intesa Sanpaolo Group will adopt the new standard as of such date.

The changes introduced with respect to the existing rules may be summarised as follows:

- the introduction – within a single accounting standard – of a "common framework" for revenue recognition for both the sale of goods and the provision of services;
- the adoption of a step based approach for revenue recognition;
- an unbundling mechanism for the allocation of the total transaction price to each of the commitments (sale of goods and/or provision of services) in a sale contract.

The parent's analysis found that there were no significant differences between the group's revenue recognition and the provisions of the new standard.

IFRS17

The new standard IFRS 17 on insurance contracts was published by the IASB in May 2017 and is currently being analysed by the EFRAG for the purposes of endorsement by the European Commission.

This standard will replace the current IFRS 4, which, from the time of its initial publication, was considered an interim standard and – as such – its objectives did not include establishing a single approach for the presentation of insurance contracts. Addressing this aspect – together with better disclosure regarding the operating performance of the insurance undertaking – forms the basis for the publication of the new standard.

Descriptions are provided below of the main elements of IFRS 17, which will be applicable as of 1 January 2021:

- initial recognition of the insurance liability: when the contract is signed with the policyholder, the insurance entity recognises a liability whose amount represents the sum of the present value of the expected contractual cash flows (discounted also taking account of an appropriate risk margin, for non-financial risks) and the contractual service margin (representing the present value of the future profits);
- subsequent measurement of the insurance liability: IFRS 17 requires the measurement at each reporting date of the above elements (cash flows and contractual service margin), to verify the consistency of the estimates with the current market conditions. The effects of any mismatches must be immediately recorded in the financial statements: in profit or loss for changes relating to events that have already occurred in the past or as a reduction of the contractual service margin when the changes relate to future events;
- grouping of contracts: the application of IFRS 17 involves the identification of "portfolios" of insurance contracts (units of account, or groups of contracts that are subject to similar risks and managed together) broken down into groups composed of contracts signed by policyholders in the same years (cohorts, or annual generations of insurance contracts) and similar characteristics of expected profitability. In this regard, the standard establishes clear separations (also in terms of disclosure) between the contracts defined as "onerous" and the remaining contracts;
- measurement of the insurance revenue: IFRS 17 requires the presentation in profit or loss of the earnings "by margins" achieved during the life of the policies;
  - measurement of the performance: with a view to improving (and harmonising) the disclosure of the performance of the insurance companies, a distinct and separate presentation is required of the two main components that typically contribute to making up the earnings of insurance undertakings: the first, which represents the profit from the "coverage" provided (the "technical margin") and the second, which brings together all the financial components (results of investments, effects of financial variables used in the valuations of the contracts, etc.). Changes in the estimates of the premiums (cash flows to be received) and payments (cash flows to be paid) related to future events are recognised in profit or loss, but are "spread" over the entire remaining contractual lifetime of the policies concerned;
- approach for contracts with direct participation features: a specific approach is established for contracts that give the policyholders direct participation in the results of (some) assets held by the insurance company.

IFRS 17 therefore introduces new criteria for determining the earnings of insurance companies, also with a view to achieving better comparability of the financial disclosure produced by competitors in the sector. These new criteria will lead to potential impacts in the design of new insurance products, as well as their pricing, and to new risk management approaches in relation to Asset and Liability Management. The financial disclosure will see the introduction of new key performance indicators based on product margins compared to the current collected premiums used as a reference at both national and international level.

Lastly, the insurance companies will need to design a new target operational model that will enable the management of the new earnings measurements established by the standard, with significant investments both in terms of internal processes and information technology.

The Intesa Sanpaolo Vita Group has initiated a project for the introduction of IFRS 17 whose objective is to ensure both the optimal management of the insurance business and an operating and accounting model that fully adopts this standard in time.

Premiums and net payments relating to insurance contracts

Premiums recognised in the year for the life and non-life business, including reinsurance, amounted to € 6,204.9 million, down 22% on the previous year. This decrease mainly referred to the life business and principally to premiums for financial products with DPF.

(in millions of euro)

	31.12.2017				31.12.2016			
	First year	Subsequent years	Single premiums	Total	First year	Subsequent years	Single premiums	Total
Life insurance products without DPF	2.2	21.6	799.9	**823.7**	2.5	22.5	776.2	**801.2**
Life insurance products with DPF	-	32.9	16.9	**49.8**	-	39.2	16.4	**55.6**
Life financial products with DPF	17.2	108.7	4.851.2	**4,977.1**	16.4	107.0	6,621.7	**6,745.1**
Non-life insurance products (*)	-	-	-	**354.3**				**310.1**
Total	**19.4**	**163.2**	**5,668.0**	**6,204.9**	**18.9**	**168.7**	**7,414.3**	**7,912.0**

(*) premiums for period

The amounts paid in the life business rose from € 7,526.1 million in 2016 to € 9,720.1 million in 2017.
The amounts paid in the non-life business increased by 2% from € 94.8 million in 2016 to € 96.3 million in 2017.

The increase in the non-life business is due to the growth in the size of the policy portfolio which reported a slight deterioration in the loss ratio in relative terms (from 31.6% in 2016 to 29.1% in 2017).

The reinsurers' share (of amounts paid) amount to €0.2 million for the life business and € 4.1 million for the non-life business.

(in millions of euro)

	Claims	Annuities	Surrenders	Maturities	Liquidation costs	Total
Insurance products without DPF	-90.0	-0.1	-297.6	-34.1	-10.0	**-431.8**
Insurance products with DPF	-14.3	-6.8	-45.6	-64.6	-	**-131.3**
Financial products with DPF	-1,860.2	-0.1	-7,056.1	-240.6	-	**-9,157.0**
Non-life business insurance products	-	-	-	-	-	**-96.3**
Total 31.12.2017	**-1,964.5**	**-7.0**	**-7,399.3**	**-339.3**	**-10.0**	**-9,816.3**
Insurance products without DPF	-85.1	-	-363.8	-73.8	-8.8	**-531.5**
Insurance products with DPF	-17.2	-7.1	-45.7	-58.8	-	**-128.8**
Financial products with DPF	-1,539.5	-0.1	-4,934.0	-392.2	-	**-6,865.8**
Non-life business insurance products	-	-	-	-	-	**-94.8**
Total 31.12.2016	**-1,641.8**	**-7.2**	**-5,343.5**	**-524.8**	**-8.8**	**-7,620.9**

Commissions

Net commissions on financial products without DPF, comprised of index-linked and financial unit-linked policies, amounted to € 217.4 million, up 30.1% on 2016 (€ 167.1 million). This net increase is due to the unit-linked products as the index-linked product portfolio is gradually maturing.

More information is available in the notes to the consolidated financial statements.

Financial income and expense

Net gains on financial instruments decreased to € 2,320.4 million compared to € 2,404.5 million for 2016. The € 84.1 million decrease is mainly due to the smaller gains on the sale of available-for-sale instruments (€ 155.6 million), partially offset by higher fair value gains of € 51.7 million. Net gains on financial instruments at fair value through profit or loss also decreased, for the main part related to assets hedging the unit-linked and pension product provisions.

Commissions and operating costs

Commissions and operating costs amount to € 304.0 million for the year, down 4.7% compared to € 319.0 million for 2016.

Investment management costs of € 55.1 million increased by € 4.1 million or 8%. The other administrative costs also increased with respect to 2016 from € 84.2 million to €88.7 million.

Other administrative costs as a percentage of total net premiums were 1.4% compared to 1.1% for the previous year.

Commissions and other acquisition costs as a percentage of net premiums came to 4.9% compared to 4.0% for 2016, following the change in the production mix.

Other revenue and costs

Other net costs went from € 238.4 million for 2016 to € 476.3 million for the year, mainly due to exchange rate trends.

Statement of financial position

Investments

The financial investments portfolio amounts to €124,333.0 million (up 5.5% compared to 31 December 2016) and comprises available-for-sale securities (60.7%), securities at fair value through profit or loss (38.9%) with the remainder mostly consisting of financial assets held for trading and loans and receivables.

(in millions of euro)

Investimenti	31.12.2017		31.12.2016		Change	
Financial assets available for sale	75,456.3	60.7%	78,056.9	66.2%	- 2,600.7	-3.3%
Financial assets measured at fair value	48,326.5	38.9%	39,231.5	33.3%	9,095.0	23.2%
Financial assets held for trading	528.6	0.4%	587.5	0.5%	- 58.9	-10.0%
Land and buildings	-	0.0%	-	0.0%	-	n,a,
Investments in subsidiaries, associates and joint ventures	2.3	0.0%	-	0.0%	2.3	n,a,
Loans and receivables	19.3	0.0%	16.3	0.0%	3.0	18.4%
Total	**124,333.0**	**100%**	**117,892.2**	**100%**	**6,440.8**	**5.5%**

The Group's investment transactions carried out during the year complied with the guidelines specified in the Finance Policy of the group companies and, in particular, with the general principles of prudence and enhancement of the quality of assets from a medium and long-term perspective.

Against the backdrop of global financial markets which maintained a favourable trend throughout the year, the Group continued to pursue a policy aimed at limiting the financial risk whilst at the same time maintaining a level of profitability that is commensurate with the commitments made to policyholders.

The component comprised of bonds and fixed income securities continues to be significant, accounting for 49% of the total. The bond portfolio includes bonds issued by the Italian government, foreign governments, international bodies and national banks and corporate bonds distributed over a broad range of issuers, including, in particular, companies from the Eurozone.

Equity

(in millions of euro)

	31.12.2017	31.12.2016	Change
Capital and reserves attributable to the Group	**4,818.2**	**4,565.4**	**5.5%**
Group capital and reserves	3,833.1	3,446.7	11.2%
Gains (losses) on financial assets available for sale	398.0	480.0	-17.1%
Profit (loss)	587.1	638.7	-8.1%

At 31 December 2017, the Group reported equity of € 4,818.2 million, including the profit for the year of € 587.1 million, compared to equity at the start of the year of € 4,565.4 million.

It recognised a € 398.0 million fair value gain in the fair value reserve under equity compared to € 480.0 million recognised at 31 December 2016 as a result of the different market values compared to the carrying amounts of AFS securities.

As a result of application of shadow accounting, the difference between the fair value and cost of the aforementioned instruments, net of the tax effects, is recognised in this reserve for the sole part pertaining to the Group. The policyholders' portion is included under the technical provision.

Group solvency

Pursuant to article 4-bis of ISVAP Regulation no. 7/2008, the Group's Solvency Capital Requirement, the minimum capital requirement and the eligible own funds to cover these requirements classified by level are given below:

(in millions of euro)

Solvency requirements	**SCR**	**MCR**
Solvency Capital Requirement	2,911,379	
Minimum Capital Requirement		1,521,811
Eligible Own Funds	7,127,289	6,277,616
Eligibility level of own funds		
Tier 1 - unrestricted	5,187,541	5,187,541
Tier 1 - restricted	785,714	785,714
Tier 2	1,154,035	304,362
Tier 3		

The above figures for the solvency capital requirement and the minimum capital requirement are those that will be communicated to the supervisory authority for the fourth quarter of 2017.

Liabilities with policyholders

Liabilities with policyholders, which include technical provisions of the life and non-life businesses as well as financial liabilities of the life business, increased by 4.6% from € 114,668.8 million at 31 December 2016 to € 119,895.8 million at the reporting date.

(in millions of euro)

	31.12.2017	31.12.2016	Changes
Liabilities due to policyholders for Life segment	**119,217.3**	**114,076.0**	**4.5%**
Insurance provisions and financial liabilities:	114,784.1	108,741.5	5.6%
traditional	67,246.5	70,405.1	-4.5%
- of which financial liabilities	-	-	*n.a.*
- of which insurance provisions	*67,246.5*	*70,405.1*	*-4.5%*
linked	47,537.6	38,336.4	24.0%
- of which financial liabilities	*43,442.9*	*34,532.6*	*25.8%*
- of which insurance provisions	*4,094.7*	*3,803.8*	*7.7%*
Deferred liabilities due to policyholders	4,433.2	5,334.6	-16.9%
Insurance provisions for non-life segment	**678.4**	**592.7**	**14.5%**
Provision for unearned premiums	496.5	419.3	18.4%
Provision for outstanding claims	180.5	172.0	4.9%
Other insurance provisions	1.4	1.4	2.2%
Liabilities due to policyholders	**119,895.8**	**114,668.8**	**4.6%**

Technical provisions and financial liabilities, considering deferred liabilities with policyholders as well, of the life business went from € 114,076.0 million at 31 December 2016 to € 119,216.3 million at 31 December 2017 (+4.5%).

Technical provisions

The technical provisions of the life business decreased 4.7% in line with the downsizing of the traditional products portfolio to make way for unit-linked products also offered in the hybrid multi-class format.

The increase in the non-life business technical provisions was 14.5% from € 592.7 million at the end of 2016 to € 678.4 million at the reporting date.

Deferred liabilities with policyholders incorporating the policyholders' share of fair value gains and losses on investments and the accrual made after the liability adequacy test decreased from € 5.334.6 million at 31 December 2016 to € 4,433.2 million at the reporting date.

Financial liabilities

Financial liabilities rose by 25.8% from € 34,532.6 million at 31 December 2016 to € 43,442.9 million at the reporting date. This increase is principally attributable to business trends and portfolio movements. It also incorporates fair value gains and losses on investments to which those liabilities are related.

Measurement of the fair value of financial assets and liabilities

This section summarises the criteria used by the Group to measure the fair value of financial instruments. As illustrated in the basis of preparation section of the notes to the consolidated financial statements, the application of IFRS 13 governing fair value measurement and the related disclosure is mandatory from 1 January 2013.

The standard does not extend the scope of fair value measurement. The aim, in fact, was to concentrate in a single standard the rules for fair value measurement previously contained in various standards, in some cases, with requirements in conflict with one another.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., not as part of a forced liquidation or distress sale) at the measurement date. Fair value is a market-based measurement that is not entity-specific.

An entity shall measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria based on the origin, type and quality of the information used in the calculation. The aim of this classification is to establish a hierarchy in terms of reliability of the fair value based on the level of discretion applied by entities, giving precedence to the use of market-observable inputs that reflect the assumptions that market operators would make in pricing the asset or liability. The hierarchy also aims to increase consistency and comparability in fair value measurements.

There are three different input levels:

- **level 1**: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date;
- **level 2**: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly for the assets or liabilities to be measured;
- **level 3**: non-observable inputs for the asset or liability.

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: highest priority is attributed to quoted prices (Level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instrument prices (Level 2) and lowest priority to assets and liabilities whose fair value is determined using valuation techniques based on non-observable and, therefore, more discretional inputs (Level 3).

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument.

The valuation process for financial instruments (which is governed within the Intesa Sanpaolo Group by the "Fair Value Policy") entails the following phases:

- identification of the sources for measurement: for each asset class, the Market Data Reference Guide establishes the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- certification and treatment of market data for measurements: this stage consists of the precise verification of the market parameters used (checking the integrity of data contained on the proprietary platform with respect to the source), reliability tests (consistency of each single figure with similar or comparable figures) and verification of actual application methods;
- validation of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the compliance of the various measurement techniques used with current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for measurement;
- monitoring consistency of pricing models over time: regular monitoring that the pricing model used in the valuation reflects the market, in order to discover any gaps promptly and start the necessary verifications and actions.

The Fair Value Policy also provides for adjustments to reflect the model risk and other uncertainties relating to valuation. In particular, model risk is represented by the possibility that the valuation of a complex instrument is materially influenced by the model chosen. Indeed, it is possible that models using price elementary instruments with the same quality may give rise to different prices for exotic instruments. In these cases, where possible, alternative models are compared, and where necessary, model inputs are subjected to stress tests, thus obtaining useful elements to quantify fair value adjustments, expressed in terms of measurable financial indicators (vega, delta, correlation shifts), and periodically reviewed. These fair value adjustments, due to model risks, are part of a mark to market adjustment policy adopted for the purposes of also considering, in addition to model risk described above, other factors that could influence valuation and essentially attributable to:

- high and/or complex risk profile;
- position illiquidity determined by temporary or structural market conditions or in relation to the entity of exchange values held (in case of excessive concentration); and
- valuation difficulties due to the lack of liquid and observable market parameters.

In the case of Level 2 inputs, the valuation is not based on prices of the financial instrument being valued but on prices or credit spreads derived from official prices of instruments that are substantially similar in terms of price risk, using a given calculation method (pricing method). Resort to this approach entails searching for transactions on active markets relating to instruments that are comparable to the instrument being valued in risk factor terms. The calculation methods classified as Level 2 allows the reproduction of prices of financial instruments listed on active markets (model calibration) without including discretional parameters (i.e., parameters whose values cannot be obtained from prices of financial instruments on active markets or that cannot be pegged at levels that duplicate prices on active markets) that would have a significant influence on the final valuation price.

In order to calculate the fair value of certain types of financial instrument, valuation models are used that entail the use of parameters that cannot be observed directly on the market and, hence, require the valuer to make estimates and assumptions (level 3).

As required by IFRS 13, the following tables provide quantitative information about significant non-observable inputs used for the fair value measurement of financial assets and financial liabilities valued at Level 3 as well as the effects of a change in one or more non-observable parameters used in the valuation technique used to calculate fair value.

(in thousands of euro)

Financial assets/ liabilities	Valuation technique	Main non-observable inputs	Minimum value of range of changes	Maximum value of range of changes	Unit	Fair value gain	Fair value loss
Securities	Discounting Cash Flows	Credit Spread	-17	433	%	3,577	-92,850
Structured securities	Two-factor model	Two-factor model	-64	52	%	3,517	-2,660

(in thousands of euro)

Financial assets/liabilities	Non-observable parameters	Sensitivity	Variation in non-observable parameter
Securities held for trading and available-for-sale	Credit Spread	-77	1bp
Securities held for trading and available-for-sale	Correlation	-126	1%

Additional information is given in the annexes to the notes "Assets and liabilities measured at fair value on a recurring and non-recurring basis: breakdown by fair value level" and "Assets and liabilities not measured at fair value: breakdown by fair value level".

The amount of securities transferred to another fair value level is specified below:

(in thousands of euro)

	Transfers among levels as at 31.12.2017					
	to Level 1		to Level 2		to Level 3	
	from Level 2	from Level 3	from Level 1	from Level 3	from Level 1	from Level 2
Financial assets held for trading	702	-	1,205	-	-	2,928
Financial assets designated at fair value through profit and loss	9,637	-	30,588	-	-	30,788
Financial assets available for sale	105,036	-	177,665	4,192	8,399	69,484
Financial assets measured at fair value through profit and loss	**115,375**	**-**	**209,458**	**4,192**	**8,399**	**103,200**
Financial liabilities held for trading	-	-	-227	-	-	-
Financial liabilities designated at fair value through profit and loss	-	-	-	-	-	-
Financial assets/liabilities at fair value	**-**	**-**	**-227**	**-**	**-**	**-**

Transfers from one level to another are made on the basis of the empirical observation of intrinsic factors of the instrument being valued or its markets. Transfer from level 1 to level 2 takes place if an adequate number of inputs, i.e., a limited number of investors that hold the float, no longer exist. This event often materialises when the instrument nears maturity. Conversely, securities that upon issue are illiquid and for which trades are numerous and are thus classified in level 2 are reclassified into Level 1 when an active market is identified.

The impact on profit or loss and equity of Level 3 securities recognised in the year and their changes are analysed below.

(in thousands of euro)

	Profit or loss	Equity	Total
Financial assets available for sale	-2,626	47,232	44,606
Financial assets held for trading	3,312	-	3,312
Financial assets designated at fair value throught profit and loss	-487	-	-487
Loans and receivables	-	-	-
Equity investments	-2,931	-	-2,931
Total	**-2,732**	**47,232**	**44,500**

(in thousands of euro)

	Available-for-sale financial assets	Financial assets held for trading	Financial assets designate at fair value throght profit or loss
Opening balance	**651,004**	**45,387**	**598,976**
Increases	**436,083**	**6,239**	**30,788**
Acquisitions	286,485	0	0
Fairl value gains recognised in equity	57,861	0	0
Fairl value gains recognised in profit or loss	0	3,312	0
Transfer from L1 to L3 - increases	8,399	0	0
Transfer from L2 to L3 - increases	69,484	2,927	30,788
Realised gains	5	0	0
Other increases	13,849	0	0
Decreases	**-107,128**	**-3**	**-150,626**
Sales and repayments	-32,398	0	-20,353
Fairl value losses recognised in equity	-13,083	0	0
Transfer from L3 to L1 - decreases	0	0	0
Transfer from L3 to L2 - decreases	-4,192	0	0
Fairl value losses recognised in profit or loss	0	0	-529
Realised losses	-324	0	0
Other decreases	-57,131	-3	-129,744
Closing balance	**979,959**	**51,623**	**479,138**

Fair value gains and losses on securities classified as available-for-sale are recognised in equity caption 1.1.7 "Fair value reserve" except for impairment losses which are recognised in profit or loss in caption 2.4.4. "Impairment losses". Fair value gains or losses are recognised in caption 1.3 "Gains or losses on remeasurement of financial instruments at fair value through profit or loss" when they relate to securities classified as held for trading and at fair value through profit or loss.

Business segments

The insurance group operates principally in the life business, whilst the contribution of the non-life business is gradually growing.

It is active in Italy and, to a lesser extent, in other European Union member states. Its activities in other countries are conducted entirely by the subsidiary Intesa Sanpaolo Life.

For details regarding the financial data relating to the two life and non-life segments, reference should be made to the annexes to these notes while the performance of the two segments during the period is commented on below.

Life business

Insurance operations

The Group recorded gross premiums of €17,739.4 million for the year, relating to both premiums on insurance products and financial products with DPF, as well as gross inflows from financial products without DPF.

Gross premiums decreased by 8.7% compared to the previous year.

(in millions of euro)

	31.12.2017	31.12.2016	Change	
Collection of contracts classified as insurance and investment with DPF:	**5,850.6**	**7,601.8**	**-1,751.2**	**-23.0%**
- Traditional (class I)	5,329.1	7,130.4	-1,801.3	-25.3%
- Capitalisation (class V)	0.8	0.9	-0.1	-15.6%
- Unit Linked (class III)	3.5	5.3	-1.8	-34.2%
- Pension funds and Fip (VI)	517.2	465.2	52.0	11.2%
Collection of contracts classified as investment without DPF:	**11,888.9**	**11,820.7**	**68.2**	**0.6%**
- Index Linked (class III)	-	-	-	0.0%
- Unit Linked (class III)	11,888.9	11,820.7	68.2	0.6%
Total Life business	**17,739.4**	**19,422.5**	**-1,683.1**	**-8.7%**

At 31 December 2017, more than 3 million policies had been signed by group policyholders, up 6.6% on the previous year end.

Changes in the Life insurance contracts are set out below:

	Contracts on 31.12.2016	New contracts	Other inflows	Payments and maturities	Other outflows	Contracts on 31.12.2017
Contracts under the scope of IFRS4	**3,194,369**	**550,473**	**1,460**	**-302,329**	**-162,193**	**3,281,780**
Traditional	1,195,159	11,993	749	-131,801	-1,491	1,074,609
Capitalisation	2,230	4	2	-139	-	2,097
Unit Linked	423,144	121,421	6	-46,089	-	498,482
Pension	104,152	22,097	-	-641	-1,162	124,446
Individual pension funds	28,932	-	7	-651	-1,913	26,375
Term life	1,130,478	335,689	696	-119,436	-154,503	1,192,924
Index Linked	26	-	-	-4	-	22
Open Pension Funds	310,248	59,269	-	-3,568	-3,124	362,825
Contracts under the scope of IAS 39	**295,764**	**175,920**	**72**	**-18,137**	**-14,761**	**438,858**
Unit Linked	45,833	-	3	-4,621	-	41,215
Index Linked	-	-	-	-	-	-
Multi-class	249,931	175,920	69	-13,516	-14,761	397,643
Total	**3,490,133**	**726,393**	**1,532**	**-320,466**	**-176,954**	**3,720,638**

The net charges relating to claims, including the adjustment to the technical provisions, amount to €6,894.7 million, showing a decrease of 21% on the €8,755.7 million recognised for 2016. This performance is the result of the combined effect of the increase in benefits paid and the decrease in technical provisions, due principally to the commercial performance.

With regard to amounts paid, charges due to claims increased by 20%.

Changes in technical provisions were as follows:

– an increase in mathematical provisions, after accounting for the reinsurers' share, amounting to € 3,039.3 million;
– a decrease in provisions resulting from pension fund management where the investment risk is borne by the policyholders, amounting to € 291 million;
– an increase in the provision for payable amounts, net of reinsurance, amounting to € 6.0 million;
– an increase in other technical provisions, net of the reinsurers' share, amounting to € 71 million.

Commissions and other acquisition costs, net of profit participation and other commissions received from reinsurers, amount to € 186 million. They include acquisition costs relating to insurance contracts and investment contracts with discretionary participation features (DPF). In particular, the caption includes acquisition commissions of € 126 million (-17%), other acquisition costs of € 18 million (-11%) and collection commissions of € 42 million (+12%).

Investment management costs amount to € 55 million for 2017 (€ 51 million for 2016) and include general costs and personnel expenses related to the management of investment property and equity investments.

Administrative costs amount to € 7 3 million, in line with 2016 (€ 72 million).

Non-life business

The Intesa Sanpaolo Vita Group is mainly active in the non-life business through its subsidiary Intesa Sanpaolo Assicura and with the accident and health insurance products merged into the parent from the former Centrovita Assicurazioni.

Gross premiums for the year amount to € 431.6 million, up on 2016 (€ 393.7 million). The banking channel contributed € 426.8 million, the financial advisors channel contributed € 3.6 million whilst the other channels contributed € 1.1 million.

A breakdown by distribution channel is as follows:

(in millions of euro)

	31.12.2017					31.12.2016					Change	
	Promoters	Bancassurance	Post office counters	Other channels	Total	Promoters	Bancassurance	Post office counters	Other channels	Total		
Health	3.5	19.4	-	-	22.9	4.4	8.7	-	-	13.1	9.8	74.8%
CPI	-	200.7	-	-	200.7	-	183.9	-	-	183.9	16.7	9.1%
Multi-guarantee on loans	-	-	-	-	-	-	55.5	-	-	55.5	-55.5	-100.0%
Property	0.1	105.0	-	-	105.1	0.2	40.6	-	-	40.8	64.3	157.6%
CPI on Neos leasing	-	-	-	-	-	-	0.2	-	-	0.2	-0.2	-100.0%
Motor	-	88.9	-	0.9	89.8	-	86.5	-	4.0	90.5	-0.7	-0.8%
Other banking-insurance products	-	12.9	-	0.3	13.1	-	8.0	-	1.7	9.7	3.4	35.1%
Total	**3.6**	**426.8**	**-**	**1.1**	**431.6**	**4.5**	**383.5**	**-**	**5.7**	**393.7**	**37.8**	**9.6%**

The following table sets out the claims paid in the principal non-life lines of business:

(in millions of euro)

	31.12.2017	31.12.2016	Change	
Accident	8.3	2.4	5.9	245.8%
Health	12.9	13.5	-0.6	-4.4%
Land vehicles	5.7	6.1	-0.4	-6.6%
Railway rolling stock	-	-	-	n.a.
Aircraft	-	-	-	n.a.
Ships	-	-	-	n.a.
Goods in transit	-	-	-	n.a.
Fire and natural events	5.4	2.8	2.6	92.9%
Other damage to property	4.6	2.4	2.2	91.7%
Credit	49.9	49.0	0.9	1.8%
Surety	-	-	-	n.a.
Motor third party liability	-	0.0	-0.0	n.a.
Aircraft liability	5.4	2.4	3.0	<100%
Liability for ships	0.1	1.6	-1.5	-93.8%
Legal protection	1.3	0.1	1.2	<100%
General third party liability	2.1	11.0	-8.9	-80.9%
Miscellaneous financial loss	0.1	0.2	-0.1	-50.0%
Assistance	0.5	1.6	-1.1	-68.8%
Total	**96.3**	**93.1**	**3.2**	**3.4%**

At 31 December 2017, non-life policies numbered 2,360,252.

Commissions and other acquisition costs, net of profit participation and other commissions received from reinsurers, amount to € 118.5 million (€ 110.6 million for 2016).

Investment management costs amount to € 0.5 million for the year (€ 0.5 million for 2016) and include general costs and personnel expenses related to the management of investment property and equity investments.

Administrative costs amount to € 23.4 million, up from € 20.0 million for 2016.

Other information

Principal risks and uncertainties for companies included in the consolidation scope

The Intesa Sanpaolo Group, which encompasses the companies included in the consolidation scope of Intesa Sanpaolo Vita, has had a Risk Management Unit for some time. This department is responsible for the definition, implementation and monitoring of the methodological and organisational framework, as well as for the measurement of risk profiles, the verification of mitigation effectiveness and reporting to senior management.

Within this context, in accordance with the process defined by the ultimate parent for operational risks, the Intesa Sanpaolo Vita Group has set up a monitoring system for financial, insurance and operational risks through an integrated reporting system, which provides management with the information necessary to manage and/or reduce the risks taken on.

Section G "Information on risks" provides qualitative and quantitative disclosures on the principal risks and uncertainties to which the consolidated companies are exposed.

As the parent of the Intesa Sanpaolo Vita Group, Intesa Sanpaolo Vita S.p.A. availed itself of the exemption from preparing the non-financial statements as per Legislative decree no. 254/16 as it is included under the consolidated non-financial statements prepared by the Intesa Sanpaolo Group.

Going concern

The Group considers that the risks to which it is exposed do not raise any doubts as to its ability to continue as a going concern.

Non-recurring transactions and capital management

No non-recurring transactions took place in 2017.

ALM and Capital Management

During the year, the insurance Group achieved the first objectives of the plan to upgrade its assessment and analysis of insurance risks and financial mismatching, already begun in 2016, completing the implementation of the ALM application. This development strengthens the management framework that, with an integrated view of assets and liabilities and the proactive management of capital, can direct the activities of the other internal bodies involved in generating and managing the parent's risk positions in an optimal manner.

The various commercial, actuarial and financial needs are factorised and assessed against the main goal of containing the volatility of own funds, while simultaneously ensuring compliance with the risk/returns profile expected by shareholders.

The parent's ALM and capital management activities are split into three areas.

At micro level, each segregated funds is considered individually based on its portfolio of assets and liabilities, the minimum protection offered, the type of product and unrealised gains and losses.

In addition to defining the asset allocation policy, the parent analyses their resilience to calculate the possible returns based on different commercial and operating strategies and different retrocession policies. The parent also performs the traditional analyses of liquidity, cash flow and duration gaps as well as using passive immunisation metrics (PV01) and defines the future management measures to be included in the model used to project the liability's future cash flows.

At macro level, the parent sums the results of the microanalyses and assesses their overall consistency, identifying any mismatched time buckets which are then reversed at aggregated level, i.e., by offsetting them during the portfolio allocation.

The parent assesses the total impact of specific adverse economic scenarios at the present stage in time and the future to define appropriate hedging strategies to be implemented for its portfolio or allocated proportionally to the segregated assets with the largest exposures.

The parent performs capital management activities which are complementary to and integrated into the above ALM activities to assess its capital requirements and its optimal allocation.

It monitors current and future solvency via its sensitivity analysis on various risk factors that are calibrated to reflect the output of the simulations performed during the year and during the assessments performed pursuant to regulations and management requirements.

Suitable LME (Liability Management Exercise) assumptions about debt instruments issued or to be issued in different forms and in different economic scenarios complete the set of analyses carried out.

Capital management transactions

The 2017 performance on the Luxembourg stock exchange of the two series of subordinated bonds issued in 2013 and 2014 is set out below:

- Five-year non-convertible subordinated bonds issued on 18 September 2013 for €500 million (XS0972240997).

  The bond price was €108.193 and €103.868 at 1 January 2017 and 29 December 2017, respectively. The lowest price was €103.784 on 22 December while the highest price quoted was €108,289 on 4 January. The 5.35% coupon was paid on 18 September 2017 (€26,750 thousand).

- Non-convertible subordinated bonds with an unspecified maturity redeemable at the end of the tenth year issued on 17 December 2014 for €750 million (XS1156024116).

  The bond price was €98.545 and €111.141 at 1 January 2017 and 29 December 2017, respectively. The lowest price was €98.566 on 12 January while the highest price quoted was €112.62 on 7 November. The 4.75% coupon was paid on 18 December 2017 (€35,625 thousand).

Furthermore, on 21 July 2017, the insurance parent was granted a ten-year subordinated loan by its ultimate parent, Intesa Sanpaolo, eligible for Tier 2 classification, for €600 million at an annual interest rate of 3.41%.

Related party transactions

The Intesa Sanpaolo Vita Group has undertaken transactions with Intesa Sanpaolo Group companies as part of its ordinary operations. These transactions, which took place at normal market conditions to the mutual benefit of both parties, are analysed in greater detail in the “Other information” section of the notes to the consolidated financial statements.

A capital increase was made to Intesa Sanpaolo Smart Care, in which the Banca dei Territori division of Intesa Sanpaolo also participated, acquiring a 51% controlling share in the Company at 1 December 2017.

Supervisory authority

In November 2016, IVASS performed an ordinary inspection at the parent's offices to obtain a better estimate of the technical provisions, the assumptions used to calculate these provisions and the SCR and the ALM of revaluable products. The inspection was concluded during the first quarter of 2017 and the Board of Directors was informed of the supervisory authority's findings during its meeting of 5 May 2017.

The parent promptly planned the actions to resolve the issues raised by the inspectors. The resolution plan is being monitored by the parent's supervisory body. There were no delays to the implementation of the plan at the reporting date.

Some of the supervisory authority's findings alleged that the parent violated the requirements of article 30-bis.1 of Legislative decree no. 209/2005. The parent sent its reply within the timeframe provided for by the law, confirming that it had operated correctly. Additional factors came to light in this regard during the second half of 2017.

Furthermore, the IVASS performed inspections on Intesa Sanpaolo Vita from 6 February to 1 June 2017, related to "the prevention of money laundering and the fight against the financing of terrorism". Its findings were presented to the parent's Board of Directors on 23 November 2017.

The parent promptly took action and formulated a plan to resolve the issues detected by IVASS. No serious, repeated, systematic or multiple violations were noted.

Ownership structure

Intesa Sanpaolo Vita belongs to the Intesa Sanpaolo Group and is 99.99% controlled by Intesa Sanpaolo S.p.A. which also manages and coordinates it. Its residual share capital is held by 18 third party shareholders. Its share capital is comprised of 655,157,496 ordinary shares with no nominal amount.

At 31 December 2017, Intesa Sanpaolo Vita Group held 650,054 shares of the ultimate parent, Intesa Sanpaolo. These shares were acquired in order to service the share incentive plan for senior management in relation to 2012, 2014, 2015 and 2016 and the LECOIP plan for Intesa Sanpaolo Life employees, authorised by the shareholders of Intesa Sanpaolo and resolved upon by the Boards of Directors of Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura and Intesa Sanpaolo Life. The carrying amount and fair value of the shares is € 1.8 million.

A breakdown of the ultimate parent's shares held by the Intesa Sanpaolo Vita Group companies at the reporting date is as follows:

(in thousands of euro)

	No. of shares	31.12.2017
Intesa Sanpaolo Vita SpA	434,924	1,205
Intesa Sanpaolo Assicura SpA	76,419	212
Intesa Sanpaolo Life Ltd	138,711	384
Total	**650,054**	**1,801**

Main offices

The parent's registered office is located in Corso Inghilterra 3, Turin and its administrative offices are located in Viale Stelvio 55/57, Milan.

Audit

KPMG S.p.A. performs the legally-required audit of the group's consolidated financial statements.

Events after the reporting date and outlook

No events have taken place after the reporting date that would have had a significant adverse effect on the Group's financial position, financial performance or cash flows.

The growth phase of the global economy will extend to 2018, encouraging the central banks to further reduce their monetary stimulus measures and pushing the rate curves to rise. There are still uncertainties at economic level (particularly due to the financial surpluses in China and the inflationary response to the very mature level of the economic cycle in the United States) and at political level. The adaptation of the markets to the shift in monetary policy may lead to greater volatility in exchange and interest rates.

Growth in the emerging countries is expected to strengthen slightly in 2018. In the January update of the World Economic Outlook, the IMF forecasts a continued acceleration in GDP growth, to 4.9% from an estimated 4.7% in 2017. The cycle has probably reached its peak in Asia, with a slight slowdown expected in China, offset, however, by a forecast of an acceleration in India. In the commodity exporting emerging economies of Latin America, Sub-Saharan Africa and the MENA area, a general strengthening of growth is now forecast, thanks to the recovery of commodity prices and the easing of the restrictive phase of fiscal policies in the Gulf countries.

In the countries of Central and South-Eastern Europe where ISP subsidiaries are located, the average growth rate is expected to be more moderate in 2018 than in the previous year, both in the CEE countries and SEE countries, more consistent with their potential. In the CIS countries, GDP growth in Russia should be supported by favourable credit conditions and the boost to disposable income resulting from low inflation and the recovery of oil prices. However, both Russia and Ukraine will continue to be affected by the regional geopolitical tensions. In the MENA area, Egypt's economic growth is forecast to accelerate further, driven by the expected fall in inflation and interest rates and the start of exploitation of the Zohr gas reserve recently discovered in the Mediterranean.

Within the Italian banking system, credit access conditions continue to be favourable, thanks to the support of monetary policy and the availability of supply in a scenario of steady reduction in credit risk. The strengthening of economic growth and the recovery of fixed investments justify expectations of an increase in credit demand.
As regards loans to businesses, a more robust recovery is expected during the year, though at still very modest rates, slowed down by liquidity conditions that will continue to be sufficient and the use of bond issues. For households, the lending scenario remains positive: growth in stocks will continue at a moderate pace in 2018, favoured by continued low interest rates, the positive outlook for the real estate market, and improved conditions in the labour market.

With regard to funding, the total aggregate will remain essentially unchanged, due to the low demand for customer deposits by banks, considering the loan trends and the significant liquidity available. In particular, the net redemption of bonds in the retail segment and the growth in deposits will continue. Once again, unattractive market yields will continue to fuel balances on overnight deposits. These factors will continue to favour the reduction of customer deposit costs. In a context of continuously very low, where not negative, market rates, and favourable credit access conditions, the cost of credit is expected to remain low.

Turin, 16 February 2018

The Chairman of the Board of Directors
Luigi Maranzana
(signed on the original)

Consolidated financial statements

Statement of financial position

(in thousands of euro)

ASSETS		Total 31.12.2017	Total 31.12.2016
1	**INTANGIBLE ASSETS**	**639,937**	**635,544**
1.1	Goodwill	634,580	634,580
1.2	Other intangible assets	5,357	964
2	**TANGIBLE ASSETS**	**1,616**	**4,915**
2.1	Lands and buildings (self used)	-	-
2.2	Other tangible assets	1,616	4,915
3	**AMOUNT CEDED TO REINSURERS FROM INSURANCE PROVISIONS**	**15,762**	**17,311**
4	**INVESTMENTS**	**124,333,014**	**117,892,199**
4.1	Lands and buildings (investment properties)	-	-
4.2	Investments in subsidiaries, associates and joint ventures	2,312	-
4.3	Investments held to maturity	-	-
4.4	Loans and receivables	19,339	16,315
4.5	Financial assets available for sale	75,456,258	78,056,921
4.6	Financial assets at fair value through profit and loss	48,855,105	39,818,963
5	**RECEIVABLES**	**365,629**	**403,616**
5.1	Receivables arising from direct insurance operations	8,892	15,623
5.2	Receivables arising from reinsurance operations	3,510	649
5.3	Other receivables	353,227	387,344
6	**OTHER ASSETS**	**2,745,033**	**2,299,860**
6.1	Non-current assets held for sale and discontinued operations	-	-
6.2	Deferred acquisition costs	-	-
6.3	Deferred tax assets	181,959	195,287
6.4	Current tax assets	2,041,458	1,697,988
6.5	Other assets	521,616	406,585
7	**CASH AND CASH EQUIVALENTS**	**768,108**	**1,495,047**
TOTAL ASSETS		**128,869,099**	**122,748,492**

(in thousands of euro)

LIABILITIES		Total 31.12.2017	Total 31.12.2016
1	**SHAREHOLDERS' EQUITY**	**4,818,195**	**4,565,412**
1.1	**attributable to the Group**	**4,818,195**	**4,565,412**
1.1.1	Share capital	320,423	320,423
1.1.2	Other equity instruments	-	-
1.1.3	Capital reserves	1,328,097	1,328,097
1.1.4	Revenue reserves and other reserves	2,182,342	1,798,568
1.1.5	(Own shares)	-	-
1.1.6	Reserve for currency translation differences	-	-
1.1.7	Reserve for unrealized gains (losses) on available for sale financial assets	397,957	480,023
1.1.8	Reserve for other unrealized gains (losses) through equity	2,257	-409
1.1.9	Result of the period	587,119	638,710
1.2	**attributable to minority interests**	**-**	**-**
1.2.1	Share capital and reserves	-	-
1.2.2	Reserve for other unrealized gains (losses) through equity	-	-
1.2.3	Result of the period	-	-
2	**OTHER PROVISIONS**	**13,024**	**11,992**
3	**INSURANCE PROVISIONS**	**76,452,900**	**80,136,128**
4	**FINANCIAL LIABILITIES**	**45,790,456**	**36,212,320**
4.1	Financial liabilities at fair value through profit and loss	43,509,555	34,620,738
4.2	Other financial liabilities	2,280,901	1,591,582
5	**PAYABLES**	**743,297**	**754,294**
5.1	Payables arising from direct insurance operations	158,610	138,709
5.2	Payables arising from reinsurance operations	3,869	1,710
5.3	Other payables	580,818	613,875
6	**OTHER LIABILITIES**	**1,051,227**	**1,068,346**
6.1	Non-current liabilities held for sale and discontinued operations	-	-
6.2	Deferred tax liabilities	488,244	494,084
6.3	Current tax liabilities	373,390	416,895
6.4	Other liabilities	189,593	157,367
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**128,869,099**	**122,748,492**

Income statement

(in thousands of euro)

Intesa Sanpaolo Vita S.p.A.		Total 31.12.2017	Total 31.12.2016
1.1	Net earned premiums	6,195,016	7,902,618
1.1.1	*Gross earned premiums*	*6,204,890*	*7,911,889*
1.1.2	*Earned premiums ceded*	*-9,874*	*-9,271*
1.2	Commission income	791,814	565,279
1.3	Gains (losses) on financial instruments at fair value through profit and loss	98,776	23,863
1.4	Income from investments in subsidiaries, associates and joint ventures	-	-
1.5	Income from other financial instruments and lands and buildings	2,403,430	2,586,412
1.5.1	*Interest income*	*1,824,726*	*1,852,296*
1.5.2	*Other income*	*186,158*	*202,784*
1.5.3	*Gains on disposal*	*392,546*	*531,327*
1.5.4	*Unrealized gains*	*-*	*5*
1.6	Other income	118,678	198,153
1	**TOTAL INCOME**	**9,607,714**	**11,276,325**
2.1	Net insurance benefits and claims	-6,992,972	-8,851,004
2.1.1	*Claims paid and change in insurance provisions*	*-6,998,178*	*-8,852,488*
2.1.2	*Reinsurers' share*	*5,206*	*1,484*
2.2	Fee and commission expense	-574,410	-398,159
2.3	Expenses from investments in subsidiaries, associates and joint ventures	-393	-
2.4	Expenses from other financial instruments and lands and buildings	-181,781	-205,781
2.4.1	*Interest expense*	*-81,799*	*-70,953*
2.4.2	*Other expenses*	*-2*	*-1*
2.4.3	*Losses on disposal*	*-91,716*	*-74,871*
2.4.4	*Unrealized losses*	*-8,264*	*-59,956*
2.5	Operating expenses	-447,811	-454,146
2.5.1	*Commissions and other acquisition costs*	*-303,994*	*-318,960*
2.5.2	*Investment management expenses*	*-55,077*	*-51,017*
2.5.3	*Other administrative expenses*	*-88,740*	*-84,169*
2.6	Other expenses	-594,992	-436,564
2	**TOTAL EXPENSES**	**-8,792,359**	**-10,345,654**
	PROFIT (LOSS) BEFORE TAXES FOR THE PERIOD	**815,355**	**930,671**
3	Income taxes	-228,236	-291,961
	PROFIT (LOSS) AFTER TAX FOR THE PERIOD	**587,119**	**638,710**
4	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	-	-
	CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD	**587,119**	**638,710**
	of which attributable to the Group	587,119	638,710
	of which attributable to minority interests	-	-

Statement of comprehensive income

(in thousands of euro)

Intesa Sanpaolo Vita S.p.A.	Total 31.12.2017	Total 31.12.2016
CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD	**587,119**	**638,710**
Other comprehensive income after taxes without reclassification in the income statement	**31**	**-103**
Change in shareholders' equity of subsidiaries	-	-
Changes in the revaluation reserve of intangible assets	-	-
Changes in the revaluation reserve of tangible assets	-	-
Gains (losses) of non-current assets held for sale and discontinued operations	-	-
Actuarial gains (losses) arising from defined benefit plans	31	-103
Other items	-	-
Other comprehensive income after taxes with reclassification in the income statement	**-79,431**	**-168,872**
Foreign currency translation differences	-	-
Net unrealized gains (losses) on available for sale financial assets	-82,066	-168,872
Net unrealized gains (losses) on cash flow hedging derivatives	2,635	-
Net unrealized gains (losses) on hedge of a net investment in foreign operation	-	-
Change in shareholders' equity of subsidiaries	-	-
Gains (losses) of non-current assets held for sale and discontinued operations	-	-
Other items	-	-
TOTAL OF OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME	**-79,400**	**-168,975**
TOTAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	**507,719**	**469,735**
of which attributable to the Group	**507,719**	**469,735**
of which attributable to minority interests	**-**	**-**

Statement of changes in equity

(in thousands of euro)

Intesa Sanpaolo Vita S.p.A.		Amount as of 31.12.2015	Change in Closing Balances	Allocations	Reclassification adjustments to income statement	Transfers	Change in Profit sharing	Amount as of 31.12.2016
Shareholders' equity attributable to the Group	Share capital	320,423	-	-	-	-	-	320,423
	Other equity instruments	-	-	-	-	-	-	-
	Capital reserves	1,328,097	-	-	-	-	-	1,328,097
	Revenue reserves and other reserves	1,689,868	-	613,203	-	-504,503	-	1,798,568
	(Own shares)	-	-	-	-	-	-	-
	Result for the period	612,492	-	26,218	-	-	-	638,710
	Other comprehensive income	648,589	-	-103	10,108	-178,980	-	479,614
Total attributable to the Group		**4,599,469**	**-**	**639,318**	**10,108**	**-683,483**	**-**	**4,565,412**
Shareholders' equity attributable to minority interests	Shareholder capital and reserves	-	-	-	-	-	-	-
	Result for the period	-	-	-	-	-	-	-
	Other comprehensive income	-	-	-	-	-	-	-
Total attributable to minority interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,599,469**	**-**	**639,318**	**10,108**	**-683,483**	**-**	**4,565,412**

Intesa Sanpaolo Vita S.p.A.		Amount as of 31.12.2016	Change in Closing Balances	Allocations	Reclassification adjustments to income statement	Transfers	Change in Profit sharing	Amount as of 31.12.2017
Shareholders' equity attributable to the Group	Share capital	320,423	-	-	-	-	-	320,423
	Other equity instruments	-	-	-	-	-	-	-
	Capital reserves	1,328,097	-	-	-	-	-	1,328,097
	Revenue reserves and other reserves	1,798,568	-	639,285	-	-255,511		2,182,342
	(Own shares)	-	-	-	-	-	-	-
	Result for the period	638,710	-	-51,591	-	-	-	587,119
	Other comprehensive income	479,614	-	2,666	-36,008	-46,058	-	400,214
Total attributable to the Group		**4,565,412**	**-**	**590,360**	**-36,008**	**-301,569**	**-**	**4,818,195**
Shareholders' equity attributable to minority interests	Shareholder capital and reserves	-	-	-	-	-	-	-
	Result for the period	-	-	-	-	-	-	-
	Other comprehensive income	-	-	-	-	-	-	-
Total attributable to minority interests		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,565,412**	**-**	**590,360**	**-36,008**	**-301,569**	**-**	**4,818,195**

Statement of cash flows (indirect method)

(in thousands of euro)

Intesa Sanpaolo Vita S.p.A.	31.12.2017	31.12.2016
Profit (loss) before taxes for the period	**815,355**	**930,671**
Change in non-cash items	**-2,683,143**	**873,570**
Change in non-life provision from unearned premium	79,761	86,134
Change in non-life provision for outstanding claims and other insurance provisions	7,698	5,905
Change in mathematical provisions and other life insurance provisions	-3,851,204	645,404
Change in deferred acquisition costs	-	-
Change in provisions	1,032	-1,930
Non-cash income and expenses from financial instruments, investment property and equity investments	1,073,176	283,479
Other expenses	6,394	-145,422
Change in receivables and payables generated by operating activities	**-442,790**	**-265,702**
Change in receivables and payables on direct insurance and reinsurance operations	25,930	1,333
Change in other receivables and payables	-468,720	-267,035
Income taxes paid	**-228,236**	**-291,961**
Net cash generated/absorbed by cash items related to investment and financing activity	**-522,918**	**22,135**
Financial liabilities related to investment contracts	9,578,136	8,848,440
Payables to banks and customers	-	-
Loans and receivable from banks and customers	-	-
Other financial instruments at fair value through profit or loss	-10,101,054	-8,826,305
CASH FLOW FROM OPERATING ACTIVITY	**-3,061,732**	**1,268,713**
Net cash generated/absorbed by lands and buildings (investment property)	-	19,249
Net cash generated/absorbed by equity investments in subsidiaries, associates and joint ventures	-2,312	-
Net cash generated/absorbed by loans and receivable	-3,024	556,563
Net cash generated/absorbed by held to maturity investments	-	-
Net cash generated/absorbed by available for sale financial assets	2,592,399	-2,848,745
Net cash generated/absorbed by tangible and intangible assets	-	-
Other cash generated/absorbed by investment activity	-	-
CASH FLOW FROM INVESTING ACTIVITY	**2,587,063**	**-2,272,933**
Net cash generated/absorbed by Group's share capital and equity instruments	-252,270	-503,895
Net cash generated/absorbed by own shares	-	-
Dividends payment	-	-
Net cash generated/absorbed by minority interests' share capital and reserves	-	-
Net cash generated/absorbed by subordinated liabilities and participative financial instruments	-	-
Net cash generated/absorbed by other financial liabilities	-	-
CASH FLOW FROM FINANCING ACTIVITY	**-252,270**	**-503,895**
Effect of foreign-exchange differences on cash and cash equivalents	**-**	**-**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	1,495,047	3,003,162
INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	**-726,939**	**-1,508,115**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	768,108	1,495,047

The undersigned states that the above is true and consistent with the accounting records.

The parent's legal representatives (*)

The Chairman - Luigi Maranzana .... (**)
(signed on the original)

(*) For foreign companies, the signature of the general representative for Italy is required.
(**) Specify the position held by the signatory representative.

Notes to the consolidated financial statements

Part A - Basis of preparation and accounting policies

Basis of preparation

The legislative context

As set forth by Legislative decree no. 38 of 28 February 2005, those companies falling under the scope of Legislative decree no. 209/05 "Codice delle Assicurazioni Private" (Italian Code for Private Insurance Companies), are required to draw up their consolidated financial statements, starting from 2005, in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission.

The Group's consolidated financial statements have, therefore, been prepared in compliance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) endorsed by the European Commission pursuant to EC regulation no. 1606 of 19 July 2002, as well as applying the standards or subsequent amendments endorsed after that date.

The new standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation no. 2067/2016, will replace IAS 39, which currently governs the classification and measurement of financial instruments, with effect from 1 January 2018. IFRS 9 is structured into the three different areas of classification and measurement of financial instruments, impairment and hedge accounting.

Starting from 1 January 2018, the new standard IFRS 15 also came into force, replacing IAS 18 – Revenue and IAS 11 – Construction Contracts. It will be adopted by the Intesa Sanpaolo Vita Group, as well as the Intesa Sanpaolo Group, as of such date.

Moreover, the new standard IFRS 16 will be applicable as of 1 January 2019, replacing the previous standard IAS 17 - Leases which is deemed to have insignificant effects on the insurance group. IFRS 17 will come into effect as of 1 January 2021 (reference should be made to the Directors' report for more details).

In order to better guide the interpretation and the application of the new accounting standards, reference was also made to the following documents, even though they have not been endorsed by the European Commission:

– "Framework for the preparation and presentation of financial statements" of the International Accounting Standards Board;
– "Implementation guidance, basis for conclusions" and any other documents prepared by the IASB or the International Financial Reporting Interpretations Committee (IFRIC) to supplement the issued standards.

Lastly, again in terms of interpretation, the documents regarding the application of the IFRS prepared by the Italian Accounting Standard Setter (Organismo Italiano di Contabilità, OIC), the Italian Association of Insurance Companies (Associazione Nazionale delle Imprese di Assicurazioni, ANIA) and the Italian Banking Association (Associazione Bancaria Italiana, ABI) were considered.

With regard to IFRS 9, on 3 November 2017, the European Official Journal published Regulation no. 1988/2017 that extends the two options (Temporary exemption and Overlay approach) to both insurance financial statements of insurance groups and consolidated financial statements of financial conglomerates, such as Intesa Sanpaolo Group.

Both measures were introduced in 2016 in order to avoid volatility of results deriving from the misalignment of effective dates of the new standard IFRS 17 on insurance contracts expected for 1 January 2021, replacing the current IFRS 4, and the new standard IFRS 9.

In December, the Intesa Sanpaolo Vita Group, together with the ultimate parent, Intesa Sanpaolo, opted for the temporary exemption which defers the adoption of IFRS 9 to 1 January 2021 in order to implement the standard together with IFRS 17 for the insurance division.

***

On 1 January 2016, the Solvency II Directive became applicable to the European insurance sector. The new legislation completely revised the calculation method of the synthetic indicators used to measure insurance companies' solvency.

The Group's insurance companies took steps in 2017 to comply with the new regulations and the new calendar for reporting to the supervisory authority, IVASS. The main reports cover the Eligible Own Funds, the Solvency Capital Requirement (SCR) and the Solvency Ratio. Intesa Sanpaolo Vita calculated the aggregate solvency ratio of the insurance companies as the insurance parent of the Intesa Sanpaolo banking Group. Based on article 96 of Legislative Decree 209/2005 (the Italian Private Insurance Code), Intesa Sanpaolo Vita is also required to prepare the "consolidated aggregate" financial statements of the insurance Group that includes Intesa Sanpaolo Assicura and Intesa Sanpaolo Life, inasmuch as they are 100% subsidiaries, and Fideuram Vita, inasmuch as it is subject to unitary management in accordance with the Italian Private Insurance Code.

With reference to Capital Management, pursuant to Solvency II and the guidelines provided by the supervisory authority about how to apply the EIOPA guidelines on governance systems, the prospective valuation of risks using the ORSA, the group companies defined the method to calculate their own funds. The related management rules are designed to assess capital requirements and the optimum allocation of capital.

From a quantitative point of view, the Solvency Capital Requirement amounts to € 2,911,379 thousand and the Minimum Capital Requirement amounts to € 1,521,811 thousand. In accordance with article 62 of IVASS Measure no. 53/2016, such figures are estimates. The definitive figures will be communicated to the supervisory authority and included in the Solvency and Financial Condition Report (SFCR) in line with the timeframe provided for by IVASS regulations about Solvency II.

The Eligible Own Funds covering the SCR amount to € 7,127,289 thousand and the Eligible Own Funds covering the MCR amount to € 6,277,616 thousand.

Basis of presentation

These consolidated financial statements comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes. They are accompanied by a directors' report.

The consolidated financial statements have been prepared based on the instructions about layouts issued by ISVAP with regulation no. 7 of 13 July 2007, as subsequently amended and integrated. The information to be included in the notes to the consolidated financial statements has been supplemented with the additional disclosures required by the IFRS for the preparation of financial statements.

The consolidated financial statements have been drawn up in Euros as the functional currency. The amounts are expressed in thousands of Euros, unless specified otherwise.

Accounting policies

The accounting policies adopted to draw up these combined consolidated financial statements have been identified assuming the consolidated companies will continue to operate as it is deemed that there are no significant uncertainties that generate doubt as to their ability to continue as going concerns.

During the year, none of the companies included in the Intesa Sanpaolo Vita Group consolidation scope availed themselves of the possibility to change the classification of their financial instruments.

Application of EC regulation no. 1254/2012 which endorsed IFRS 10, IFRS 11 and IFRS 12 and introduced amendments to existing standards (IAS 27 and IAS 28) is mandatory from 1 January 2014. The new requirements introduced by the above regulation were integrated by subsequent regulations (nos. 313 and 1174 of 2013), also applicable from 1 January 2014.

IFRS 10 introduces a single model for consolidation to be applied by all entities, regardless of their nature. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

This standard bases the concept of control on the concurrent existence of three elements:

– power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities;
– exposure, or rights, to variable returns from its involvement with the investee;
– the ability to use its power over the investee to affect the amount of the investor's returns.

In general, IFRS 10 requires a more detailed analysis of control and more subjectivity compared to the previous standards.

These accounting policies have been identified assuming the consolidated companies will continue to operate as it is deemed that there are no significant uncertainties that generate doubt as to their ability to continue as going concerns.

Share-based payment

Based on the treasury share repurchase programme commenced by Intesa Sanpaolo S.p.A. to service the senior management free share assignment plan, the group has purchased the ultimate parent's shares.

These shares are measured at fair value. Fair value gains or losses on the shares are recognised in profit or loss with the concurrent recognition of personnel expense of the same amount and an increase in the related equity reserve for the ultimate parent's shares.

Transactions with entities under common control

Business combinations between entities controlled by the same party both before and after the business combination when that control is not transitory (so called "under common control" according to IFRS 3.10) are outside the scope of IFRS 3 which normally provides for the application of the acquisition method to business combinations, requiring the fair value measurement of acquired assets and liabilities for the acquirer.

As there is no IFRS which specifically deals with these transactions, reference needs to be made to IAS 8.10, which provides that, in the absence of an IFRS or interpretation, a reliable and faithful presentation has to be ensured that reflects the economic substance of the transactions, regardless of their legal form.

Assuming the economic substance to be the ability to generate added value for all of the stakeholders (such as increased revenue, cost savings, realisation of synergies) that translates into significant changes in cash flows, both before and after the business combination, of the transferred assets, those transactions between entities subject to common control were accounted for, depending on whether they possess or lack the above-mentioned economic substance.

Where properly demonstrated economic substance existed, reference was made to the fair value of the assets sold for the acquirer and the recognition in the seller's profit or loss of the higher price of the transaction compared to the carrying amount of the transferred assets.

In the opposite case, the principle used was that of the continuity of values related to the assets sold, against the reduction/increase in the acquirer's equity for the higher/lower value paid, as compared to the carrying amount of the assets, with a parallel increase/decrease in the seller's equity.

Insurance products

Pursuant to IFRS 4, the policies portfolio was classified as insurance contracts and investment contracts with or without discretionary participation features (DPF), based on the significance of the underlying insurance risk, i.e., the risk related to the fact that, at the date the policy is signed, at least one of the following events is uncertain: the occurrence of the event, the time at which the event will occur or the economic impact for the insurer.

Insurance contracts are those contracts that transfer significant insurance risks. Investment contracts are those that transfer financial risks, without significant insurance risks.

Once the insurance risk transferred from the holder of a contract to the insurer is identified, the group carries out assessments to measure its significance, fixing the determining level for the classification between 5% and 10%. Should the benefits that would be payable if the insured event occurs exceed by 10% over a longer period of time those that would be payable if no insurance event occurs, then the contract is classified as an insurance contract. If, on the other hand, they remain at a level below 5%, then the contract is classified as a service or investment contract, with or without DPF. In the intermediate category, the significance of these benefits was assessed on a case-by-case basis, according to the specific nature of each agreement. This assessment was carried out considering all possible scenarios, excluding scenarios that lack commercial substance, i.e., that have no discernible effect on the economics of the transaction.

No contracts were found that only provide for service features (IAS 18), or agreements that do not transfer a significant insurance risk and that provide for the supply of a service without creating financial assets or liabilities. Service features were only found with reference to products classified as financial instruments without DPF.

The product classification was based on the identification of the substantial nature of the agreement, with substance prevailing over form. Therefore, at the issue of the contract, the Group has taken into account the significance of the insurance risk and it did this basically contract by contract. However, when possible, it did this by significant groupings: by price, product or guarantee. If, within the context of the same price, there were both investment and insurance contracts, because the price was not consistent compared to the insurance risk, then the following steps were taken:

- if, within a price, only a small part of the agreements lacked a sufficient insurance risk, the whole price was still considered for insurance purposes and, similarly, where the part of the insurance contracts was not considered to be significant, the whole price was used for investment purposes;
- if a significant part of the contracts did not qualify as insurance contacts, these were divided into two parts, one containing investment contracts and the other insurance contracts.

For some products, like term life insurance and life annuities, it was not necessary to carry out any assessment of the insurance risk, because it was objectively significant due to the actual structure of the product itself.

The group also analysed all the features that characterised the contract itself, including the existence and the nature of any options in it. The presence of specific options that, by themselves, qualify as insurance-related is enough to qualify the whole contract as an insurance contract, subject to the verification of the relevant risk significance.

Insurance products

Products for which the insurance risk is deemed significant include: term life insurance, annuity and mixed policies with guaranteed fixed annuity conversion rates at the time of issue, open-ended pension funds, some types of index-linked policies and all non-life policies. As far as these products are concerned, IFRS 4 basically confirms that the national insurance standards apply to the accounting treatment of the premiums, the amounts paid and the change in the technical provisions. Gross premiums are to be recorded in the income statement under revenue; they include all amounts accrued during the year as a result of insurance contracts signed, net of cancellations; likewise, all premiums ceded to reinsurers are recorded under current year costs. Acquisition and collection commissions are expensed on an accruals basis. Obligations to policyholders are allocated to mathematical provisions against gross premiums, calculated analytically for each contract using the prospective method based on the demographic/financial assumptions currently used in the market.
In the case of insurance contracts with a discretionary participation feature, the technical provisions were adjusted for shadow accounting. For these contracts, as set forth by the IFRS 4, the Group has decided not to unbundle the guaranteed component of the contract from the part containing a discretionary participation feature, thus consequently submitting the whole contract to the insurance liability adequacy test.
Pursuant to IFRS 4, the adjustments required for catastrophe and equalisation provisions in the non-life businesses have been carried out.

Financial products with discretionary participation features

Financial products included under segregated funds, despite their not being subject to significant insurance risk and which, therefore, contain DPF, include the majority of life policies and mixed class I policies, as well as class V capitalisation policies.

As established by IFRS 4, the Group has decided not to recognise the guaranteed element separately from the DPF. The whole contract was thus subjected to the insurance liability adequacy test.

These products are recognised in accordance with IFRS 4, which may be summarised as follows:

– their presentation in the financial statements is similar to that required by Italian GAAP and therefore any premiums, amounts paid and changes in technical provisions are recorded in the income statement. The acquisition and collection commissions are recognised in the income statement on an accruals basis;

– they are measured using shadow accounting, which means allocating the portion of recognised fair value gains and losses on available-for-sale financial instruments attributable to policyholders to technical provisions and the portion attributable to the group to equity. If, on the other hand, the financial instruments are recognised at fair value through profit or loss, any fair value gains or losses are recognised in profit or loss, giving rise to a change in the technical provisions equal to the amount of the policyholders' portion.

Financial products

Financial products without a significant insurance risk and which are not included in segregated funds, and therefore do not envisage DPF, basically comprise part of the index-linked and unit-linked policies, as well as policies with an eligible asset, if they are not included in segregated funds, and policies for redundancy insurance that cannot be revalued. These products are accounted for according to the principles set forth in IAS 39, as summarised below:

– they are recognised as financial liabilities and are measured at fair value, based on the established option, or at amortised cost; specifically, the part of index-linked and unit-linked policies considered to be investment contracts are carried at fair value through profit or loss, while the products with eligible assets that are not included in segregated funds are measured at amortised cost;

– any separable marginal insurance component of index-linked and unit-linked products is measured separately, i.e., unbundled. This insurance component is provided for in the technical provisions; the insurance component is not unbundled for index-linked products with a non-marginal insurance component, which were originally classified as insurance products in the companies that belonged to another group at that time.

The income statement does not reflect the premiums, the amounts paid and the change in the provisions. However, it shows the revenue components, represented by the fee and commission income - including loadings and management commissions - and the surrender gains, as well as the cost items, consisting of the other expense and the commission expense. These include, among other things, the acquisition costs of the above-mentioned investment contracts. The changes in the value of the financial liabilities relative to the unit-linked and index-linked policies that are classified as investment products measured at fair value are recognised in profit or loss in the caption "Fair value gains and losses on financial instruments at fair value through profit or loss". Adjustments to financial liabilities measured at amortised cost are recognised as interest income or expense. In more detail, IAS 39 and IAS 18 establish that the revenue and costs relative to the products in question must be identified and separated into the following two components: (i) origination, to be recognised in profit or loss when the product is issued and (ii) investment management service, to be deferred over the product's life according to how the service is supplied.

Specifically, for financial products without discretionary participation features, only the component of investment management services was identified. Costs to be capitalised, i.e., deferred acquisition costs (DAC), were identified for all single premium index-linked and unit-linked financial products and for some recurring single premium unit-linked products with a lump-sum commission, which is adequately covered by the future loading, and the initial loading, deferred income to be recognised as a liability has only been identified for the single premium products with explicit loading on the premium. In both cases, straight-line amortisation was carried out, assuming, with reasonable approximation, that the management activity would by supplied on a constant basis over time.

For the recurring premium unit-linked rates, acquisition commissions continued to be recognised in the income statement, on an accruals basis, matching the relative loading on the recurring premiums.

In the case of products with an eligible asset and not included under segregated funds, revenue and costs are included in the calculation of the amortised costs. For these products, the DAC and the deferred income were not recognised separately as assets and liabilities, respectively, with the consequent reversal of the operating costs. The Group maintained that it could approximate the net effect of deferred income and DAC by keeping the operating cost provision, calculated according to Italian GAAP.

Investments

Investments in subsidiaries and associates and interests in joint ventures

These include non-consolidated equity investments defined and regulated by IAS 28 - Investments in Associates and Joint Ventures which are not classified as held-for-sale in compliance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The caption does not include investments in parents or investments in entities as per article 72 of Legislative decree no. 209/2005. It includes investments in equity-accounted associates. Subsequent to initial recognition, changes in the carrying amount of such investments during the year due to the application of equity accounting are taken to the specific statement of profit or loss caption. If there is evidence that the investment has been impaired, its recoverable amount is estimated, considering the present value of the estimated future cash flows, including the final investment disposal amount. Should the recoverable amount be lower than the carrying amount, the impairment loss is taken to profit or loss. Should the reasons for an impairment loss cease to exist, the impairment loss is reversed to the extent of the asset's carrying amount. Any reversal of impairment loss is recognised in profit or loss.

Financial instruments and derivatives

Fair value

Regulation (EU) no. 1255/2012 endorsed IFRS 13 – Fair value measurement. The new standard does not extend the scope of application of fair value, but rather provides a guide as to how to measure the fair value of financial instruments and non-financial assets and liabilities when already required or permitted by other standards. The rules for measurement at fair value, previously contained in various standards, in some cases with requirements in conflict with one another, were thus concentrated into a single standard.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable, independent and expert parties not subject to any restriction.

In operational terms, the existence of official quotations in an active market is the best indication of fair value. Therefore, these quotations represented the prices used, as a priority, to measure the financial assets and liabilities. The financial instruments that have an official quotation in an active market were classified as "level 1".

When no quotation on an active market exists (true for a marginal part of the investment portfolio), the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price of a hypothetical arm's length transaction, motivated by normal business considerations, as at the measurement date. Such techniques include:

- reference to market values indirectly connected to the instrument to be measured and identified from products with the same risk profile (Comparable Approach – "level 2" financial instruments);
- valuations performed using - even partially - inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the valuator (Mark-to-Model - "level 3" financial instruments).

The choice between the aforesaid methodologies is made according to a hierarchy. The availability of a price in an active market excluded the need to use one of the other measurement methods.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include assets held for trading and assets designated at fair value.

Financial assets held for trading include the following:

– debt or equity instruments that are mainly purchased for purposes of a short-term profit;
– derivatives, with the exception of those designated as hedging instruments.

Assets designated at fair value include financial assets connected to index-linked and unit-linked investment contracts, or the management of pension funds, as well as hedging derivatives. They also include financial assets originally related to financial liabilities or technical provisions related to unit-linked products that are temporarily held as investments in unrestricted capital or allocated to internal segregated assets due to the customer's exercise of its surrender option.

Financial assets at fair value through profit or loss are initially recognised in the statement of financial position at their fair value, which is generally the same as the price paid for them. They are subsequently measured considering changes in fair value. The fair value gain or loss is recognised in the income statement.

To determine the fair value of financial instruments quoted on active markets, the relative market quotation is used. Where there is no active market, fair value is measured by referring to the prices supplied by external operators, or by using valuation models that are mainly based on objective financial variables, as well as taking into account the prices that are found regarding recent transactions and quotations for similar financial instruments.

Securities and related derivatives, for which the fair value cannot be determined in a reliable manner, are measured at cost, which is adjusted for any impairment losses, which are not reversed.

The derivatives are recognised as assets if their fair value is positive and as liabilities if their fair value is negative. An exception to this is the case where the contract relates to index-linked or unit-linked type products. In this circumstance, in fact, the net assets used to hedge the obligations to the policyholders are shown in caption 4.6 "Financial assets at fair value through profit or loss". The group offsets the fair value gains and losses coming from transactions with the same counterparty, whenever this setoff is established contractually.

Loans and receivables

Loans and receivables include non-derivative financial assets, including debt instruments, with fixed or determinable payments, which are not quoted on an active market and which are not classified at acquisition as available-for-sale financial assets. This caption mainly comprises loans and receivables with customers regarding loans on policies, reinsurance deposits and repurchase agreements.

Loans and receivables are recognised when they are issued.

Loans and receivables are initially recognised at their fair value, which is usually the same as the amount disbursed and to which any directly attributable transaction costs are added, if they are material and determinable.

They are subsequently measured at amortised cost, using the effective interest method. Any gains and losses are recognised in profit or loss when these assets are derecognised, or when they have undergone impairment, as well as through the repayment process. The amortised cost method is not used for current loans and receivables, due to the expected immateriality of the impact of applying the effective interest method.

The Group, using its measurement experience, utilises all the information available, which is based on events that have already taken place as well as observable data at the measurement date to assess any situation that brings about an impairment loss and to calculate the related amount. The impairment losses are calculated as the difference between the carrying amount of the assets and the present value of the estimated future cash flows, discounted at the original effective interest rate. Reversals of impairment losses are recognised in the income statement, up to the amount of the cost of the financial assets.

Some types of insurance policies issued by the Group provide for the right of the policyholder to obtain loans, within the limits of the accrued surrender value and at conditions set out when the loan is granted; these loans are measured at amortised cost, which coincides, as a rule, with their nominal amount.

Available-for-sale financial assets

Available-for-sale financial assets include financial assets other than loans and receivables, held-to-maturity investments and financial assets at fair value through profit or loss. They include debt instruments, equity instruments and OEIC units that do not qualify as investments in subsidiaries, associates and joint ventures.

Upon initial recognition, available-for-sale financial assets are recognised in the statement of financial position at their fair value, which normally corresponds to the amount paid to acquire them, plus any transaction costs, if material and determinable, directly attributable to their acquisition.

They are subsequently measured at fair value with any change in fair value recognised in a specific equity reserve. Unlisted equity instruments, for which the fair value cannot be calculated in a reliable or verifiable way, also in consideration of the relevance of the ranges of values retractable from the application of the valuation models used in market practices, are recognised at cost. The fair value gains or losses are recognised in profit or loss at the time of their disposal or if an impairment loss is ascertained. Investments in unlisted closed-end private equity funds or venture capital funds for which the fund manager communicates the net asset value in timeframes that are not compatible with the drafting of the financial statements, are measured based on their last known value, which is their cost or, alternatively the last value communicated by the fund manager. With respect to debt instruments classified as available for sale, the amount of the relative yields, based on the amortised cost technique, is recognised in profit or loss in the same way as the effects relative to the changes in the exchange rates.

The Group, using its measurement experience, utilises all the information available, which is based on events that have already taken place and on observable data at the measurement date to assess any situation that brings about an impairment loss and to calculate the related amount. A significant or prolonged drop in the fair value of an equity instrument to below cost can be considered as objective evidence of impairment.

Recognition of any impairment losses on the equity instruments implies the following two steps:

- checking whether there are specific indicators of impairment;
- calculating the impairment loss.

The impairment indicators are essentially divided into two categories: indicators deriving from factors specifically relating to the company being valued, and therefore qualitative, and for listed securities, indicators deriving from the market values of the company.

Within the first category, the following indicators are considered significant: the generation of losses or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating issued by a specialist company.

With respect to the second category, a significant or prolonged reduction in fair value to below cost is particularly important. Specifically, in relation to the second amount, a fair value reduction of over 30% is considered significant, and a reduction of over 24 months is considered a "prolonged" continuous reduction.

If one of these thresholds is exceeded, an impairment loss is recognised. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment loss must also be corroborated by the result of specific analyses of the security and the investment.

The impairment loss is calculated with reference to the financial asset's fair value.

For an illustration of the valuation techniques used to determine fair value, see the relevant section.

Impairment losses on equity instruments cannot be reversed in profit or loss, if the reasons for the impairment loss are no longer valid. Therefore, these reversals are recognised in the specific equity reserve. On the other hand, a reversal related to debt instruments is posted to the income statement up to the amortised cost of the financial assets involved.

For financial instruments that represent investments in closed-end private equity funds, the fair value of the investment is identified from a qualitative and quantitative analysis of the investment, a contributory element of which is also the fund's net asset value.

As far as investments in bonds are concerned, after measurement of their fair value, a test is performed to verify impairment and, if the elements exist, the fair value loss is posted to the income statement.

As part of the test, the following are considered as indicators to identify the positions to be analysed:

– the persistence of a negative fair value for over six months;
– the presence of debt restructuring plans;
– the group's participation in debt restructuring plans;
– the presence of credit events;
– the existence of actions by the issuer aimed at suspending the payment of the coupons, or their reduction, postponing the reimbursement of the positions, or the replacement of the financial instruments with others before the due date.

The presence of one or more of the indicators described above brings about the analysis of the positions and the decision as to whether or not to recognise an impairment loss.

Cash flow hedges

Hedging transactions are aimed at neutralising potential losses on a specific type of risk, through the realisable gains from the hedging instrument.

For the purpose of applying hedge accounting, governed by the IFRS, the relationship between the hedging instruments and the hedged items is formally documented, including the risk management goals, the hedging strategy and the methods used for checking on the effectiveness of the hedging. The checking of the effectiveness of the hedge is foreseen both at the beginning of the transaction and periodically during it. Generally, a hedging transaction is considered effective if, both at its beginning and during its lifespan, the changes in the fair value, or in the cash flows of the hedged item are almost completely matched by the changes in the fair value, or in the cash flows of the hedging derivative, which means that the effectiveness falls within a range going from 80% to 125%.

The hedging relationship ceases to exist if the hedge carried out through the derivative disappears, or is no longer highly effective, if the derivative expires, if it is sold, terminated or exercised, if the hedged item is sold, expires or is reimbursed, or if it is no longer highly probable that the future transaction that is being hedged will take place.

Lands and buildings

Investment property includes all properties held and owned by the Group to earn rentals or for capital appreciation or both. They are measured at fair value starting from the consolidated financial statements at 31 December 2017.

Property, plant and equipment includes chattels, furnishings, plant, equipment and office machines.

Other items of property, plant and equipment are initially recognised at cost, including the ancillary charges that are directly recognisable at the acquisition and commissioning of the asset. They are subsequently recognised net of depreciation and impairment losses.

Subsequent expenditure either increases the carrying amount of the asset or is recognised separately only when it brings about an increase in the future economic benefits deriving from the investment's use. The other subsequent expenditure is expensed when incurred.

Depreciation is charged in equal annual amounts over the remaining useful life of each asset. The remaining useful life of the depreciated property, plant and equipment is periodically checked. If the initial estimates are adjusted, then the relative amount of the depreciation is also changed.

Intangible assets

Intangible assets are identifiable non-monetary assets, without physical substance. They are owned to be used over more than one year. They include goodwill and software that is either developed internally or acquired from third parties.

Goodwill

Goodwill is the excess of the cost of acquisition incurred compared to the net fair value, at the acquisition date, of the assets and liabilities that constitute entities or business units.

Goodwill is not subject to systematic amortisation but is tested for impairment regularly. This test is carried out with reference to the cash-generating unit that the goodwill is attributable to. Impairment losses on goodwill are recognised in the income statement when its recoverable amount is lower than its carrying amount.

Other intangible assets

Other intangible assets include the expenses for the software acquired from third parties, or developed internally.

The expenses relating to the internally developed software are recognised as intangible assets, subject to a check of the technical feasibility of the completion of the related projects and their ability to generate future financial benefits. During the development stage, these assets are measured at cost, including any direct ancillary charges and any expenses for the internal personnel employed in their development. In the case of a negative outcome of the check, the expenses are recognised in profit or loss.

Intangible assets for software developed internally, or acquired from third parties, are amortised systematically, starting from its completion and the entry into operation of the applications, based on the relative useful life that is estimated as being three years. Whenever the recoverable amount of these assets is lower than their carrying amount, the difference is recognised in profit or loss.

An intangible asset is derecognised whenever, due to its disposal or impairment, it is no longer able to generate future benefits.

Financial liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss mainly consist of the liabilities connected to index-linked and unit-linked investment contracts that do not present a significant insurance risk and therefore do not fall under the scope of IFRS 4. For these contracts, the Group has opted for a fair value measurement. This choice is due to the fact that Italian GAAP, regarding the valuation of assets and liabilities, are very close to what is required by IAS 39. The recognition in the income statement of fair value gains or losses enables the correlation with the measurement of the underlying assets.

The carrying amount of the contract at the measurement date, expressed for the unit-linked and index-linked investments as the equivalent of the units and as the price of the structured investment, respectively, reflects the fair value of the underlying assets. Furthermore, the amounts to which the policyholder would have a legal right in the case of surrender, or the heirs in the case of a death, are calculated starting from the contract's carrying amount, i.e. the market price. Taking into account that the units of the available funds and of the structured investment have a periodic quotation, it is reasonable to assume that, at least for the deposit component, a price that is quoted in an active market exists. Accordingly, with reference to the deposit component, the provision set up based on Italian GAAP is very close to fair value.

The insurance component was unbundled from the above products when the group set up an additional term life provision, included under the mathematical provisions, under Italian GAAP.

Financial liabilities also include the provision necessary for the settlement of the bonus, required in some types of unit-linked policies, or the expiration guarantee, if necessary.

Financial liabilities at fair value through profit or loss also include derivatives that have a negative fair value at the reporting date.

Other financial liabilities
The other financial liabilities include liabilities with customers, the deposits received from reinsurers and any financial component that is present in the reinsurance contracts. The captions are recognised at amortised cost.

The category also includes contracts with eligible assets, referred to in article 16 of ISVAP Regulation no. 21, which are measured at amortised cost. For these contracts, the treatment used provides for the calculation of an internal rate of return so that, at the issue of the contract, the premium net of the acquisition and management loading is equal to the present value of the future cash flows.

For a specific product, coupon redemptions are established, and appropriately considered in the calculation of the internal rate of return.

Based on the internal rate of return, the provision is calculated at amortised cost with its consequent reversal based on the pure premiums, calculated according to Italian GAAP.

Other financial liabilities also include subordinated liabilities, the creditors' repayment of which is subordinated to the settlement of the senior debt in the case of the group's liquidation.

Subordinated liabilities are measured at the amortised cost of each individual loan.

Technical provisions

Life technical provisions
Technical provisions relate to insurance contracts and to financial contracts included under segregated funds having DPF that, in accordance with IFRS 4, are calculated under Italian GAAP. Any insurance component contained in the index-linked and unit-linked financial products, if it can be unbundled, is measured separately and is calculated under Italian GAAP.

Provision for outstanding claims
The provision for outstanding claims includes the amounts that the Group has settled as a result of payment due dates, claims, surrenders, periodic payment dates and annuity instalments, but has not yet paid at the measurement date and for which the right to receive the payment has already accrued by 31 December.

Mathematical provisions
The mathematical provisions refer to the provisions set aside based on the pure premiums, the provisions for additional health, professional and sports premiums, the premium carry-over and the additional provision relative to additional benefits, for term life, of the index-linked policies.

The provisions for additional health, professional and sports premiums are not less than the total overall amount of the additional premiums for the year on an accruals basis.

Technical provisions where investment risk is borne by policyholders and provisions arising from pension fund management
The caption refers to the provisions related to insurance contracts whose benefits are connected to investment funds, market indices and pension funds. Pursuant to article 38 of Legislative decree no. 173/97, the technical provisions put in place to cover the obligations of insurance contracts, whose return is determined based on investments or indices and, therefore, for which the risk is borne by the policyholders, are calculated with reference to the obligations established by the contracts that are represented, as closely as possible, by the reference assets, pursuant to article 41 of Legislative decree no. 209/05.

Other technical provisions

The other technical provisions include the following:

- the provisions for future expenses, which have been set up to cover future contract management costs;
- the provisions set up following the liability adequacy test;
- the additional provisions and the provisions calculated based on the foreseeable returns resulting from the application of the criteria referred to in ISVAP Regulation no. 21 of 28 March 2008;
- the provision for premium reversals that are relative to the collective policies in the format "single yearly premium for term life" that contractually establishes the repayment of a part of the net premium paid and which is based on the mortality rate of the group of policyholders covered by the policy;
- the provisions for complementary covers that include the risk of death following accidents, permanent disability due to an accident, serious illness and the absence of self-sufficiency in carrying out the actions of daily life. The provision for complementary covers was calculated on an accruals basis;
- deferred liabilities with policyholders, which means the elements of DPF of the contracts included under segregated funds. The identification of the deferred liabilities takes place through applying shadow accounting, i.e., allocating to the policyholders a part of the unrealised fair value gains or losses recognised on the available-for-sale financial assets and financial assets at fair value through profit or loss that constitute the segregated funds.

Liability adequacy test

In line with the provisions set forth in IFRS 4, for the purpose of checking the adequacy of the technical provisions at the reporting date, a liability adequacy test (LAT) was carried out.

The test was made to check that the provisions, net of the deferred acquisition costs, connected to the contracts acquired through business combinations, can cover the obligations to the policyholders.

These obligations are defined by the present value of the expected future cash flows generated by the existing portfolio at the measurement date. The cash flows, calculated based on realistic assumptions, include tariff premiums, commissions on premiums, payments for the insured benefits, implicitly the financial income not allocated to the contracts, expense trends, as well as the maintenance fees to pay to the network.

The assumptions used for determining the cash flows, both financial on the prospective rates of return and demographic/actuarial, were defined based on a detailed analysis of the portfolio of the assets and liabilities.

The liabilities of the portfolio were tested by distinguishing by segregated funds each tariff type and projecting the portfolio closed at 31 December based on the typical features of the individual tariff, such as the measure and structure of the financial commitment, the minimum rate committed, the type and periodicity of the premium, the sales network and the technical bases. The test was also carried out for the pure risk contracts. The procedure involved summarising the contracts portfolio into model points that represented almost the whole portfolio. The grouping criterion ensures a high level of information about liabilities.

The insured capital, for the contracts that are part of the segregated funds, were revalued over time based on the minimum guaranteed rate of the policy. All the estimated cash flows were discounted to present value using the Euro Swap curve in force at the measurement date, adjusted by an appropriate component for the purpose of taking into account the risk/return profile of the assets typically present in the connected funds.

The adequacy test was carried out using information technology and methodological supports that are currently used and developed by the Group for the measurement of the intrinsic deterministic value.

Non-life technical provisions
The technical provisions relative to non-life products are determined according to the criteria currently in force for the separate financial statements drawn up under Italian GAAP, in accordance with IFRS 4, with the exception of the equalisation and catastrophic provisions, which are not considered because they are not allowed by the IFRS.

The technical provisions of the non-life business include the premium provision, claims provision and ageing provision. Specifically:

- the premium provision includes the provision for unearned premiums and the provision for unexpired risks. The provision for unearned premiums consists of the amounts of the gross premiums recognised during the current year but belonging to future years. The calculation is made analytically, line by line, on a pro rata basis, deducting the acquisition costs that can be directly allocated. The provision for unexpired risks consists of the amount to be set aside to cover the risks incumbent on the group after the reporting date, to cover all the compensation and expenses coming from insurance contracts that gave rise to the creation of the provision for unearned premiums, in so far as the total amount of the estimated cost of the expected claims is higher than that of the provision for unearned premiums and the premiums that will be due under the terms of these contracts. The calculation is made by line of business, taking as the basis the ratio of claims to currently generated premiums on an accruals basis, also taking into account the indicator in the previous years. The premium provisions of the ceded business are computed by using the same criteria followed for the direct business;
- the claims provision is determined analytically, by using a prudent valuation of the damage based on objective elements and ultimate cost logic, to the extent necessary to cover the group's commitments for the payment of the claims and the relative direct and indirect settlement expenses. The provision is not discounted. It is also updated according to the "continuous provisioning" principle. Therefore, this means that any additional piece of information regarding the valuation of a claim necessarily causes a revisiting of the relative amount in the provision. The analytical valuation of the claims is followed by the actuarial analysis and check of the inventory data, through the examination of the results of the run-offs over time of the previous generations and the consequent check of the provision's future capacity to cover the generations still open. With regard to the MTPL business, for the purposes of calculating the amounts of the provision to be recognised, the provisions set forth under Presidential decrees nos. 973/1970 and 45/1981 have been taken into account. According to said regulations, the claims provision plus the amount of the claims paid and the relative settlement expenses, at the end of each year, can in no case whatsoever be less than 75% of the premiums recognisable for the year of occurrence of each of the last five generations. The claims provision also includes the estimate of the incurred but not reported (IBNR) claims, calculated according to the criteria established by ISVAP Regulation no. 16;
- The ageing provision is specifically made for the healthcare line in compliance with article 37 of Legislative decree no. 209/2005.

The criteria for the recognition of the provisions also takes into account those factors that could have an impact on the future cash flows, e.g. peaks of IBNR claims, any territorial inconsistencies in the valuation of the personal injury in the general and motor third party liability businesses.

The criteria for the technical provisioning based on Italian GAAP, with specific reference to "ultimate cost" for the claims provision and to the provision for unexpired risks, are consistent with those defined by the liability adequacy test, satisfying the requirements established by IFRS 4.

Liabilities

Direct and indirect insurance liabilities
Trade payables arising from direct and indirect insurance transactions are recognised at their nominal amounts.

Post-employment benefits
The liability for post-employment benefits is recognised based on its actuarial value, because it qualifies as a defined benefit plan pursuant to IAS 19. Benefits recognised before the legislative changes introduced with effect from 1 January 2007 are treated as a defined benefit plan and measured using actuarial techniques. Benefits accrued after this date are treated as a defined contribution plan as the employer's obligation solely consists of paying the contributions to the pension fund and/or INPS (the Italian social security institution).

Seniority bonuses
The liability for employee seniority bonuses is recognised, pursuant to IAS 19, based on its actuarial value, becau-

se it qualifies as an employee benefit based on a defined benefit plan. Recognition follows the criteria described above for the post-employment benefits.

Post-employment health benefits
The liability relative to health benefits granted to the group managers and their family members after the employment relationship ends, under a health scheme operated through specific agreements, is recognised based on its actuarial value, because it qualifies a post-employment benefit, pursuant to IAS 19.

The calculation of the present value of the group's obligations is carried out by an external actuary using the projected unit credit method, which considers each period of membership accrued in the health scheme as a unit of vested benefits.

Other financial statements captions and other information

Cash and cash equivalents
Cash and demand deposits are recognised at their nominal amount.

Deferred acquisition costs
They include the costs incurred to acquire a particular type of long-term insurance contracts, which are amortised over their term. As required by IFRS 4, these costs are recognised in accordance with Italian GAAP.

Deferred commission income and expense
Deferred commission income and expense refers, respectively, to loading and acquisition commissions connected to financial products without DPF, such as the index-linked policies and part of the unit-linked policies, classified, as established by IAS 39, among the financial liabilities at fair value through profit or loss. According to IAS 39 and IAS 18, loading and acquisition commissions relating to the above products are identified and separated into the following two components:

– *the financial instrument, to be recognised in the income statement when the product is issued;*
– *the investment management service, to be spread over the lives of the product, according to the stage of completion of the service rendered.*

The costs and revenue relative to the financial instrument component, theoretically attributable to the issuance of the investment contract [IAS 18.14 (a) and (b) (iii)] and, therefore, to be recognised in the income statement, were assumed to be nil, maintaining that this approximation is acceptable considering the fact that for standard contracts the issuing activities are minimal.

Up-front loading was attributed to the investment management services component as revenue, while the acquisition commissions are considered as an incremental cost and directly attributable to the acquisition of the contract. These costs give the basis for the recognition of an intangible asset that represents the contractual relationship established with the investor and the relative right of the group to debit the revenues for the future management of the investments. The amortisation of this asset is adequately covered with the initial loading and any future management fees. These costs, associated with the investment management services component, were capitalised (DAC) and amortised in accordance with IAS 18. The initial loading is recognised as a liability (deferred income) and taken to the income statement gradually as the management services are rendered.

Specifically, the costs to be capitalised are identified for all the single premium products and for the recurring single premium products with lump-sum commissions that are adequately covered by the future loading. Initial loading to be recognised as liabilities was only identified for the single premium products with an explicit loading on the premium.

In both cases, straight-line amortisation was applied, assuming, with a good approximation that the management service is supplied constantly over time.

For all the investment contracts that required the recognition of a deferred income reserve, the relative operating cost provision calculated according to Italian GAAP was reversed.

The acquisition commissions were deferred because, in agreement with the provisions set forth in IAS 36, they are recoverable through the initial loading and the future management fees.

For the purpose of checking the recoverability of the residual acquisition commissions, the group examines the cost risk as part of the tariff risk. The check of the recoverability was made a priori through a profit testing analysis and, afterwards, over the contract term by means of annual checks of the sustainability of the assumptions, at the time of the valuations of the embedded value.

The test is made by grouping the portfolio by tariff. In choosing the annual projection assumptions, it is checked that the revenue is no less than expected, for reasons such as the dissolution of contracts, or market movements different from those used in the profit testing. Lastly, the costs are examined to check that they are not higher than forecast. For this purpose, a detailed analytical model was designed that breaks down the costs by macro product category and by product life cycle.

Tax assets and liabilities

Income tax, calculated under domestic tax regulations, is accounted for as an expense on an accruals basis, in line with the method followed to recognise the costs and revenue that generated it. Therefore, it represents the balance of current and deferred taxes relating to the profit or loss for the year.

Due to participation in the national tax consolidation scheme and complying with both the tax consolidation agreement and the current relevant law and practice, the parent has calculated its "potential" IRES (corporate tax) expense, recognising a balancing entry as a payable or receivable for payments on account or withholding taxes incurred, with the consolidating company, which is the only partly required to settle taxes.

Current tax assets and liabilities, governed by IAS 12, represent the tax positions of the individual consolidated companies with the relevant taxation authorities. Specifically:

- current tax liabilities are calculated based on a prudent forecast of the tax expense due for the year, based on the relative legislation currently in force;
- current tax assets include payments on account and other tax assets, or other tax credits from previous years that the group can set off against the taxes of following years. These assets also include tax credits for which reimbursement has been claimed from the relevant tax authorities. Lastly, tax assets include the tax credit made up of the amounts paid to the tax authorities, pursuant to Legislative decree no. 209/2002 converted, with changes, by Law no. 265 of 22 November 2002 and Legislative decree no. 168/2004, converted by Law no. 191 of 30 July 2004. This credit was recognised at its nominal amount.

Deferred taxes are calculated, pursuant to IAS 12, according to the liability method, taking into account the tax effect of the temporary differences between the carrying amount of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. In particular:

- "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years;
- deferred tax liabilities are calculated by applying the enacted tax rates to taxable temporary differences that will probably generate a tax liability, and to the deductible temporary differences whose recoverability is reasonably certain;
- deferred tax assets and liabilities related to the same tax and due in the same period are offset. In the years where deductible temporary differences are greater than taxable temporary differences, the related deferred tax assets are included under assets. On the other hand, in the years where taxable temporary differences are greater than deductible temporary differences, the related deferred tax liabilities are included under liabilities;
- if deferred tax assets and liabilities refer to items affecting the income statement, the balancing entry is recognised under income taxes. Where deferred tax assets and liabilities relate to transactions that have been recorded in equity without affecting profit or loss (such as adjustments for IFRS first-time adoption, fair value changes in available-for-sale financial assets or of cash flow hedges), the balancing entry is made in equity, under specific reserves where so provided (e.g. fair value reserves).

Reinsurers' share of technical provisions

Obligations of the reinsurers, arising from reinsurance relationships regarding contracts governed by IFRS 4, are recognised and, except for any different measurement regarding the recoverability of the receivable, accounted for in line with the standards applicable to the underlying direct insurance contracts. Deposits paid by the reinsurance companies to the ceding companies are not included.

Direct and indirect insurance receivables

Premiums due from policyholders are measured at their fair value at the date of initial recognition which usually matches their nominal amount. For accounting purposes, no use is made of discounting methods, because these are short-term receivables and the related effects would not be material. They are subsequently measured at each reporting date, taking into account any impairment losses.

Provisions for risks and charges

The provisions for risks and charges are made up of liabilities of uncertain amounts or due dates that are recognised, because of the following:

- there is a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate of the amount of the obligation can be made.

If material, the provisions are discounted to present value using current market rates. Continuity of the above conditions is periodically reviewed.

Foreign currency transactions

Foreign currency transactions are translated into Euros using the spot rates in force at the transaction date. Monetary items are translated at the closing rate, while non-monetary items, that are not hedged for currency risk and not measured at fair value, are translated at the exchange rate in force at the date of their initial recognition. The realised exchange rate differences on monetary and non-monetary items are recognised in the income statement.

Exchange differences relative to the translation of monetary items using rates that are different from those of the initial recognition, or of the end of the preceding year, are recognised in the income statement.

Exchange differences relative to the translation of non-monetary items at exchange rates that are different from those of the initial recognition, when applicable based on the above criterion, are recognised as follows:

- in the income statement, when they are non-monetary items hedged for currency risk, to the extent the hedge is effective;
- alternatively, in the income statement or equity, when they are non-monetary items measured at fair value, following the rules for the recognition of the changes in fair value relative to them.

Cost and revenue recognition

Revenue from the sales of goods is recognised at the fair value of the payment received for them, when the following conditions are observed:

- the group has transferred to the buyer the risks and rewards of the ownership of the goods;
- the amount of the revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the group.

Commission income and other income on the providing of services are recognised in the years when the services are supplied, or with reference to the stage of completion of the service. Specifically, income from the sale of financial products that have no significant insurance risks are recognised over the term of the contracts. Costs relative to the acquisition of these contracts are accounted for in the income statement in the same year as when the income is recognised.

Other income is recognised on an accruals basis. Specifically:

- interest, inclusive of income and similar expense, is recognised using the effective interest method;
- dividends are recognised when the right to receive the relative payment has accrued, which means when the related resolution is passed;
- with respect to transactions in financial instruments, the difference between the fair value of the instruments compared to the amount paid, or cashed in, is recognised in profit or loss only in those cases when the fair value can be reliably measured, when valuation models are used that are based on market parameters and when observable prices exist for recent transactions in the same market where the instrument is traded.

In the absence of these conditions, the estimated difference is recognised in the income statement on an accruals basis over the transaction term.

Costs are recorded in the income statement in the year in which the related revenue is recognised. If matching can be attributed generally or indirectly, the costs are allocated to more than one year according to rational procedures and on a systematic basis. Those costs that cannot be matched with the related revenue are expensed immediately.

Regular way purchases and sales of financial assets

With respect to the recognition of regular way purchases and sales of financial assets - that are carried out based on contracts whose terms require the delivery of the asset within a timeframe established by regulations or market conventions - the Group decided to make reference to the settlement date.

Derecognition criteria

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or when the asset is sold, substantially transferring all the risks and rewards connected to the assets.

Financial liabilities are derecognised when they have expired or extinguished. Derecognition also occurs for repurchase of previously-issued securities.

Part B – Consolidation policies and scope

Consolidation policies

These consolidated financial statements of Intesa Sanpaolo Vita have been prepared in accordance with the provisions of article 96.2.a of Legislative decree no. 209/2005, which require that they be drawn up in the case of a group with insurance companies under common management and controlled by a company that is not required to prepare consolidated financial statements under the aforesaid Legislative decree.

Article 96.3 of the decree establishes that consolidated financial statements are to be prepared by the company that has the largest amount of total assets based on the figures for the most recently approved financial statements.

These consolidated financial statements include, as well as the financial statements of the parent, Intesa Sanpaolo Vita, those of the subsidiaries Intesa Sanpaolo Life and Intesa Sanpaolo Assicura.

Forty-nine percent held by the parent, Intesa Sanpaolo Vita, at 31 December 2017, Intesa Sanpaolo Smart Care is consolidated at equity. Reference should be made to the paragraph on Consolidation scope for information on changes in the consolidation scope during the year.

In compliance with IFRS 10, all the investments in subsidiaries, including those working in business sectors that are different to those of the parent, are consolidated with the line-by-line method, which establishes the following:

- the financial statements drawn up according to the IFRS of the parent and its subsidiaries are grouped line by line, summing all the carrying amounts of the assets, liabilities, equity, revenue and costs;
- the carrying amount of the parent's investments in each subsidiary and the corresponding part of their equity are eliminated and the non-controlling interest in the profit or loss for the year and in equity is shown separately;
- any positive differences between the carrying amount of the parent's investments in each subsidiary and the corresponding part of their equity are allocated to the subsidiary's relevant assets and, for the remaining part, to goodwill at the time of first consolidation and, afterwards, among the equity reserves. Any negative differences are recognised in profit or loss. In the case where the investments held by the parent come from transactions carried out with Intesa Sanpaolo Group companies, because they are transactions between entities under common control and in the absence of explicit information regarding this situation in the IFRS, the same carrying amount was maintained;
- intragroup balances and transactions, including revenue, costs and dividends, are eliminated.

All the financial statements of the companies included in the consolidation scope have the same reporting date and are expressed in euro.

Segment reporting by geographical segment is not presented because the Group mainly operates in Italy.

The financial statements used for consolidation are those at 31 December 2017 as they were approved by the relevant bodies of the subsidiaries, adjusted where necessary to comply with the parent's accounting policies. All the Group entities and companies use the Euro as their functional and presentation currency.

Segment reporting is based on the significant business segments in which the group operates as follows:

- Non-life insurance business;
- Life insurance business.

Details are given in the annexes to the notes "Statement of financial position by business segment" and "Income statement by business segment".

Consolidation scope

The consolidated financial statements include Intesa Sanpaolo Vita and the companies that it directly and indirectly controls – as specifically set out by IFRS – including the companies operating in dissimilar sectors from the parent.

Similarly, structured entities are included when the requisite of effective control is met, even if there is no stake in the company.

Companies are considered subsidiaries where Intesa Sanpaolo Vita is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entity in question. Control only exists if all of the following conditions are met:

– the power to direct the relevant activities of the subsidiary;
– the exposure, or rights, to variable returns from the involvement with the investee;
– the ability to use its power over the investee to affect the amount of the investor's returns.

In 2017, Intesa Sanpaolo Smart Care left the consolidation scope due to the capital increase in the Banca dei Territori division of Intesa Sanpaolo S.p.A. which acquired a controlling 51% share of the Company.

The transaction is part of the Banca dei Territori division's new service model which comprises expanding the business to the health segment by providing health services, both on a stand-alone basis and in combination with the insurance coverage of Intesa Sanpaolo Assicura.

Following such transaction, Intesa Sanpaolo Smart Care is considered an associate, i.e., subject to significant influence, as Intesa Sanpaolo Vita hold 49% of its voting rights (including "potential" voting rights). The company is consolidated at equity which entails initial recognition of the investment at cost and subsequent adjustment based on the attributable portion of the investee's equity. The difference between the value of the investment and the attributable portion of the investee's equity is included under the carrying amount of the investment.
The attributable portion of the investee's profit or loss for the year is recognised in the specific statement of profit or loss caption.

A list of the companies consolidated at 31 December 2017 is provided in the annex to the notes "Consolidation scope".

Part C – Notes to the statement of financial position

Intangible assets (caption 1)

They amount to €639,937 thousand (€635,544 thousand at 31 December 2016).

This caption mainly comprises goodwill and the expenses incurred for software acquired from third parties or developed internally. The table below provides a breakdown of the caption:

(in thousands of euro)

	Cost	Deemed cost or fair value	Carring amount at 31.12.2017	Cost	Deemed cost or fair value	Carring amount at 31.12.2016
Goodwill	634,580		634,580	634,580		634,580
Other intangible assets	5,357		5,357	964		964
Total	**639,937**	**-**	**639,937**	**635,544**	**-**	**635,544**

Goodwill of € 634,580 thousand, unchanged from 31 December 2016, refers to the non-recurring transactions in which the group was involved, especially the merger of Intesa Sanpaolo Vita (€ 596.3 million) and Sud Polo Vita (€ 35.3 million) into the parent on 31 December 2011 and the contribution of the Intesa Sanpaolo Previdenza SIM S.p.A. business unit (€ 2.9 million) on 1 December 2014.

Intesa Sanpaolo Vita as a whole was identified as a cash generating unit considering both the accounting origination of the goodwill recognised in the consolidated financial statements and the structure of the group's internal control and reporting systems, thus comparing the parent's future profitability to the carrying amount of the goodwill recognised in the group's consolidated financial statements.

The impairment test for goodwill was tested in line with IAS 36, by comparing the reference cash generating unit's carrying amount to its recoverable amount (the higher of fair value less costs to sell and its value in use). For the purposes of the consolidated financial statements, the parent deemed the analyses at value in use to be still suitable. It was determined using the appraisal value, which is the parent's value as a going concern, i.e., the sum of the embedded value (the present value of future profits generated by each policy net of the in-force value and adjusted net asset value) and the value of future business that the parent expects to realise in the next three years, the period of time used as reference under national and international best practice.

The discount rate used to calculate the intrinsic value was derived from the "risk neutral" approach, using the Euroswap curve adjusted by the volatility adjustment defined in the Solvency II regulation.

This measurement gives values considerably higher than goodwill. Moreover, it was supported by the elements characterising operations in 2017 and mainly:

– the positive trend of new business, recording significant amounts and products with relative profitability above the portfolio's average;
– the policy to contain operating costs, continued also in 2017, has also contributed to improve the future profitability of the existing portfolio;
– the financial market performance that maintained the positive balance of the fair value gains/losses on the segregated assets.

With regard to events after the reporting date, the good performance of new business in early 2018 and forecasts for the entire year are consistent with the 2017 results, without indicating subsequent events that may negatively affect measurement.

The measurement at 31 December 2017 results in a higher portfolio fair value compared to its carrying amount; therefore, no impairment losses were recognised.

The table below provides a breakdown of the changes during 2017:

(in thousands of euro)

	Goodwill	Other intangible assets: developed internally		Other intangible assets: other		Total 31.12.2017	Total 31.12.2016
		Finite life	Indefinite life	Finite life	Indefinite life		
Gross opening balance	634,580	-	-	9,085	-	643,665	659,273
Total net impairment losses	-	-	-	-8,121	-	-8,121	-23,727
Net opening balance	**634,580**	**-**	**-**	**964**	**-**	**635,544**	**635,546**
Increases	**-**	**-**	**-**	**5,287**	**-**	**5,287**	**191**
– Acquisitions	-	-	-	5,287	-	5,287	191
– New entities included in the consolidation scope	-		-	-	-	-	-
– Increases in internally developed assets	-	-	-	-	-	-	-
– Other increases	-	-	-	-	-	-	-
Decreases	**-**	**-**	**-**	**-894**	**-**	**-894**	**-193**
– Sales	-	-	-	-	-	-	-
– Amortisation	-	-	-	-894	-	-894	-193
– Impairment losses recognised in profit or loss	-	-	-	-	-	-	-
– Transfers to assets held for sale	-		-	-	-	-	-
– Other decreases	-	-	-	-	-	-	-
– Entities excluded from the consolidation scope	-		-	-	-	-	-
Closing balance	**634,580**	**-**	**-**	**5,357**	**-**	**639,937**	**635,544**
Total net impairment losses	-	-	-	-9,015		-9,015	-8,121
Gross closing balance	634,580	-	-	14,372		648,952	643,665

Other tangible assets (caption 2.2)
This caption amounts to € 1,616 thousand (€ 4,915 thousand at 31 December 2016). The decrease for the year is mostly attributable to Intesa Sanpaolo Smart Care leaving the consolidation scope, thus causing the "aCasa-ConMe" and "ViaggiaConMe" product boxes acquired by Smart Care S.r.l. to leave "Other assets".

The table below provides a breakdown of the changes that took place during 2017:

(in thousands of euro)

	Furniture and fittings	Electronic systems and equipment	Other assets	Total 31.12.2017	Total 31.12.2016
Gross opening balance	1,405	1,569	8,404	11,378	4,828
Total net impairment losses	-1,096	-1,554	-3,813	-6,463	-3,302
Net opening balance	**309**	**15**	**4,591**	**4,915**	**1,526**
Increases	**6**	**14**	**7,694**	**7,714**	**7,211**
– Acquisitions	6	14	3,416	3,436	4,985
– New entities included in the consolidation scope	-	-	-	-	-
– Other increases	-	-	4,278	4,278	2,226
Decreases	**-89**	**-6**	**-10,918**	**-11,013**	**-3,822**
– Sales	-	-	-	-	-
– Depreciation	-89	-6	-1,301	-1,396	-3,161
– Transfers to assets held for sale	-	-	-	-	-
– Other decreases	-	-	-9,617	-9,617	-661
– Entities excluded from the consolidation scope	-	-	-	-	-
Closing balance	**226**	**23**	**1,367**	**1,616**	**4,915**
Total net impairment losses	-1,185	-1,560	-14,731	-17,476	-6,463
Gross closing balance	1,411	1,583	16,098	19,092	11,378

Reinsurers' share of technical provisions (caption 3)

The balance amounts to € 15,762 thousand (€ 17,311 thousand at 31 December 2016), with a decrease of € 1,549 thousand compared to 31 December 2016. The breakdown by provision type is shown in the annex to the notes "Breakdown of reinsurers' share of technical provisions".

The reinsurance treaties are entered into with leading counterparties whose degree of solvency is supported by the high ratings assigned.

Investments (caption 4)

Total investments amount to €124,333,014 thousand (€117,892,199 thousand at 31 December 2016).

Investments in subsidiaries and associates and interests in joint ventures (caption 4.2)
This caption amounts to €2,312 thousand at 31 December 2017 and refers to the equity measurement of the 49% interest held in Intesa Sanpaolo Smart Care S.r.l. which recognised equity of €4,719 thousand at 31 December 2017.

Financial assets (captions 4.3, 4.4 , 4.5 and 4.6)
Financial assets amount to €124,330,702 thousand (€117,892,199 thousand at 31 December 2016). The related breakdown by classification category and investment type is given in the annex to the notes "Breakdown of financial assets".

Loans and receivables (caption 4.4)

They amount to € 19,339 thousand (€ 16,315 thousand at 31 December 2016) as follows:

(in thousands of euro)

	31.12.2017	31.12.2016
Loans and receivables with bank customers	14,533	16,048
Loans and receivables with banks	-	0
Deposit with ceding companies	-	0
Other loans and receivables	4,806	267
– loans on policies	262	267
– secured loans	-	0
– employee loans	-	0
– other	4,544	0
Total	**19,339**	**16,315**

The maximum exposure to the credit risk on loans and receivables is €19,339 thousand, i.e., the carrying amount of such assets.

Other loans and receivables include the €4,544 thousand loan granted by the parent, Intesa Sanpaolo Vita, to Intesa Sanpaolo Smart Care. Such company was fully consolidated at 31 December 2016.

A breakdown of the caption by fair value level is provided in the annex to the notes "Assets and liabilities not measured at fair value: breakdown by fair value level".

Available-for-sale financial assets (caption 4.5)

They amount to € 75,456,258 thousand (€ 78,056,921 thousand at 31 December 2016), mainly comprise bonds and may be broken down as follows:

(in thousands of euro)

	31.12.2017				31.12.2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	63,118,916	1,648,944	177,682	64,945,542	66,742,106	1,612,377	116,728	68,471,211
– Structured	4,069,978	290,015	417	4,360,410	3,744,660	252,998	4,568	4,002,226
– Other	59,048,938	1,358,929	177,265	60,585,132	62,997,446	1,359,379	112,160	64,468,985
Equity instruments	1,579,608	-	61	1,579,669	1,540,352	-	63	1,540,415
– Cost	-	-	61	61	-	-	63	63
– FVTPL	1,579,608	-	-	1,579,608	1,540,352	-	-	1,540,352
UCI units	8,088,831	40,000	802,216	8,931,047	7,498,721	12,361	534,213	8,045,295
Total	**72,787,355**	**1,688,944**	**979,959**	**75,456,258**	**75,781,179**	**1,624,738**	**651,004**	**78,056,921**

Changes in the Level 3 assets are presented in the annex to the notes "Changes in Level 3 financial assets and liabilities".

The impairment test of investments classified as available-for-sale, which was conducted in compliance with the criteria set out in detail in the section on the accounting policies, led to recognition of losses of € 8,264 thousand. This amount includes impairment losses on bonds (€ 2,178 thousand), equity instruments (€ 3,708 thousand) and OEIC units (€ 2,378 thousand).

The table below provides a breakdown of the changes that took place during 2017:

(in thousands of euro)

	Debt instruments	Equity instruments	UCI units	Total 31.12.2017	Total 31.12.2016
Opening balance	**68,471,211**	**1,540,415**	**8,045,295**	**78,056,921**	**75,268,127**
Increases	**9,049,802**	**450,335**	**3,327,157**	**12,827,294**	**20,055,441**
– Acquisitions	7,909,004	100,965	2,904,072	10,914,041	16,911,168
– New entities included in the consolidation scope	-	-	-	-	-
– Exchange rate gains	-	-	-	-	-
– Fair value gains recognised in equity	310,271	158,264	207,054	675,589	186,425
– Fair value gains recognised in profit or loss (hedges)	-	-	-	-	-
– Realised gains	251,798	-	109,748	361,546	495,891
– Transfers from other portfolios	-	-	-	-	-
– Other increases	578,729	191,106	106,283	876,118	2,461,957
Decreases	**-12,575,471**	**-411,081**	**-2,441,405**	**-15,427,957**	**-17,266,647**
– Sales	-5,527,261	-180,930	-2,106,462	-7,814,653	-9,798,236
– Repayments	-4,718,017	-	-	-4,718,017	-3,867,564
– New entities included in the consolidation scope	-	-	-	-	-
– Fair value losses recognised in profit or loss (impairment)	-2,178	-3,708	-2,378	-8,264	-59,791
– Fair value losses recognised in equity	-1,084,093	-49,835	-94,318	-1,228,246	-1,092,073
– Transfers to other portfolios	-	-	-	-	-
– Realised losses	-56,909	-	-13,584	-70,493	-85,747
– Transfers to impaired assets	-	-	-	-	-
– Hedging losses	-	-	-	-	-
– Exchange rate losses	-159,118	-528	-4,899	-164,545	-64,569
– Other decreases	-1,027,895	-176,080	-219,764	-1,423,739	-2,298,667
Closing balance	**64,945,542**	**1,579,669**	**8,931,047**	**75,456,258**	**78,056,921**

The following table shows the carrying amount of the Group's exposure to sovereign risk:

(in thousands of euro)

	DEBT INSTRUMENTS	
	Government bonds	Other
	Carrying amount	Carrying amount
Schengen countries	**47,816,054**	**12,308,921**
AUSTRIA	1,323	2,230
BELGIUM	2,959	177,615
BULGARIA	62,608	22,011
CROATIA	91,490	7,913
DENMARK	-	25,316
FINLAND	1,529	-
FRANCE	42,699	1,415,901
GERMANY	412,589	470,226
IRELAND	97,649	222,300
ITALY	45,654,113	6,039,064
LUXEMBOURG	11,499	265,551
NORWAY	-	78,042
NETHERLANDS	73,233	1,262,574
POLAND	19,565	-
PORTUGAL	-	8,464
UK	100,237	1,445,898
ROMANIA	167,405	-
SLOVENIA	6,921	-
SPAIN	1,038,641	864,240
SWEDEN	-	1,576
HUNGARY	31,594	-
JAPAN	-	69,803
Americas	**452,773**	**2,826,358**
Other countries	**250,591**	**1,221,042**
TOTAL	**48,519,418**	**16,426,124**

Financial assets at fair value through profit or loss (caption 4.6)
They amount to €48,855,105 thousand (€39,818,963 thousand at 31 December 2016) and include assets held for trading (€528,620 thousand) and assets designated at fair value through profit or loss (€48,326,485 thousand).

Financial assets held for trading
Financial assets held for trading amount to €528,620 thousand (€587,482 thousand at 31 December 2016).

Changes in Level 3 financial assets held for trading are set out in the annex to the notes "Changes in Level 3 financial assets and liabilities".

The breakdown of the caption at 31 December 2017 is set out below:

(in thousands of euro)

	31.12.2017				31.12.2016			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt instruments	215,980	11,342	2,928	230,250	223,155	33,447	-	256,602
– Structured	17,695	2,294	2,928	22,917	17,796	4,617	-	22,413
– Other	198,285	9,048	-	207,333	205,359	28,830	-	234,189
Equity instruments	-	-	-	-	-	-	-	-
UCI units	205,075	-	48,695	253,770	203,208	-	45,387	248,595
Derivatives	7,316	37,284	-	44,600	11,873	70,412	-	82,285
Total	**428,371**	**48,626**	**51,623**	**528,620**	**438,236**	**103,859**	**45,387**	**587,482**

The table below provides a breakdown of the changes in the caption, with the exclusion of derivatives, that took place during 2017:

(in thousands of euro)

	Debt instruments	**Equity instruments**	**UCI units**	**Total 31.12.2017**	**Total 31.12.2016**
Opening balance	**256,602**	**-**	**248,595**	**505,197**	**739,083**
Increases	**1,204**	**-**	**12,962**	**14,166**	**29,051**
– Acquisitions	-	-	-	-	14,939
– Other companies included in the consolidation scope				-	-
– Fair value gains recognised in profit or loss	1,191	-	10,440	11,631	6,574
– Realised gains	-	-	1,171	1,171	5,501
– Other increases	13	-	1,351	1,364	2,037
Decreases	**-27,556**	**-**	**-7,787**	**-35,343**	**-262,937**
– Sales	-20,072	-	-7,640	-27,712	-201,473
– Repayments	-	-	-	-	-46,925
– Fair value losses recognised in profit or loss	-7,270	-	-	-7,270	-10,281
– Realised losses	-7	-	-	-7	-4,252
– Other decreases	-207	-	-147	-354	-6
Closing balance	**230,250**	**-**	**253,770**	**484,020**	**505,197**

Assets designated at fair value through profit or loss

Assets designated at fair value through profit or loss amount to €48,326,485 thousand (€39,231,481 thousand at 31 December 2016).

The breakdown of the caption at 31 December 2017 is set out below:

(in thousands of euro)

	31.12.2017				31.12.2016			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt instruments	2,999,754	286,690	33,465	3,319,909	2,908,204	384,992	2,721	3,295,917
– Structured	-	-	-	-	117,472	160,812	-	278,284
– Other	2,999,754	286,690	33,465	3,319,909	2,790,732	224,180	2,721	3,017,633
Equity instruments	849,229	-	-	849,229	687,631	-	-	687,631
UCI units	43,711,674	-	19,080	43,730,754	34,651,678	-	19,565	34,671,243
Other financial investments	-	-	426,593	426,593	-	-	576,690	576,690
Derivatives	-	-	-	-	-	-	-	-
Total	**47,560,657**	**286,690**	**479,138**	**48,326,485**	**38,247,513**	**384,992**	**598,976**	**39,231,481**

Derivative instruments are associated with primary investments held by the Group or with derivative transactions aimed at the acquisition of primary investments. The associated derivatives are aimed at minimising the financial risks in the investment portfolio.

The table below provides a breakdown of the changes in the caption, with the exclusion of derivatives, that took place during 2017:

(in thousands of euro)

	Debt instruments	Equity instruments	UCI units	Other financial investmets	Total 31.12.2017	Total 31.12.2016
Opening balance	**3.295.917**	**687.631**	**34.671.243**	**576.690**	**39.231.481**	**30.369.779**
Increases	**3.141.991**	**786.556**	**15.178.463**	**103**	**19.107.113**	**15.107.187**
– Acquisitions	3.065.456	642.531	7.748.451	-	11.456.438	6.852.061
– Reversal of impairment losses recognised in profit or loss	-	-	-	-	-	-
– Fair value gains recognised in equity	-	-	-	-	-	-
– Fair value gains recognised in profit or loss	8.065	86.962	996.067	-	1.091.094	921.097
– Transfers from other portfolios	-	-	-	-	-	-
– Realised gains	53.974	37.540	1.240.625	103	1.332.242	521.863
– Other increases	14.496	19.523	5.193.320	-	5.227.339	6.812.166
Decreases	**-3.117.999**	**-624.958**	**-6.118.952**	**-150.200**	**-10.012.109**	**-6.245.485**
– Sales	-2.583.146	-543.168	-5.074.756	-20.353	-8.221.423	-4.600.556
– Repayments	-186.580	-	-	-	-186.580	-
– Impairment losses recognised in profit or loss	-	-	-	-	-	-
– Fair value losses recognised in equity	-	-	-	-	-	-
– Fair value losses recognised in profit or loss	-51.101	-12.956	-805.989	-	-870.046	-352.327
– Transfers to other portfolios	-	-	-	-	-	-
– Realised losses	-28.479	-12.812	-70.837	-3.439	-115.567	-240.418
– Other decreases	-268.693	-56.022	-167.370	-126.408	-618.493	-1.052.184
Closing balance	**3.319.909**	**849.229**	**43.730.754**	**426.593**	**48.326.485**	**39.231.481**

Changes in Level 3 assets designated at fair value through profit or loss are set out in the annex to the notes "Changes in Level 3 financial assets and liabilities".

The category also includes assets used to hedge contracts where the financial risk is borne by the policyholders, which amount to €47,582,735 thousand (€38,386,110 thousand at 31 December 2016).

The annex to the notes "Financial assets and liabilities relating to contracts issued by insurance companies where the investment risk is borne by policyholders and arising from pension fund management" shows a comparison with the group's commitments on behalf of policyholders.

Other receivables (caption 5)

They amount to €365,629 thousand (€403,616 thousand at 31 December 2016).

Sundry receivables include, in particular, receivables from the ultimate parent for payment of the IRES advance (€93,529 thousand), tax assets (€73,144 thousand), management commissions on unit-linked and index-linked policies (€103,576 thousand) and other receivables of €82,978 thousand, mainly consisting of hedges of the margins on derivatives agreed with Morgan Stanley, Credit Suisse and Deutsche Bank.

The following table sets out details of the caption at 31 December 2017:

(in thousands of euro)

	31.12.2017	31.12.2016
Direct insurance receivables (caption 5.1)	**8,892**	**15,623**
Premiums due from policy holders	4,525	9,857
Receivables from insurance brokers	1,078	2,677
Co-insurance receivables	1,406	1,454
Other	1,883	1,635
Reinsurance receivables (caption 5.2)	**3,510**	**649**
Sundry receivables (caption 5.3)	**353,227**	**387,344**
Tax assets	73,144	65,162
Management commissions on unit-linked policies	103,576	68,042
Receivables from the ultimate parent for tax payments on account	93,529	139,371
Other	82,978	114,769
Total	**365,629**	**403,616**

Other assets (caption 6)

They amount to €2,745,033 thousand (€2,299,860 thousand at 31 December 2016).

(in thousands of euro)

	31.12.2017	31.12.2016
Non-current assets held for sale and disposal groups	-	-
Deferred acquisition costs	-	-
Deferred tax assets	181,959	195,287
Current tax assets	2,041,458	1,697,988
Sundry assets	521,616	406,585
Deferred commission expense on investments contracts	*478,547*	*243,279*
Other	*43,069*	*163,306*
Total	**2,745,033**	**2,299,860**

Deferred tax assets (caption 6.3)

This caption includes deferred tax assets through profit or loss of €181,959 thousand and through equity of €211 thousand (€195,087 thousand at 31 December 2016).

(in thousands of euro)

	31.12.2017	31.12.2016
Deferred tax assets throught profit or loss	181,748	195,087
Deferred tax assets throught equity	211	200
Total	**181,959**	**195,287**

The table below shows the changes in this caption:

(in thousands of euro)

	Deferred tax assets through profit or loss	Deferred tax assets through equity	Total 31.12.2017	Total 31.12.2016
Opening balance	**195,087**	**200**	**195,287**	**193,520**
Increases	**30,320**	**11**	**30,331**	**37,157**
New entities included in the consolidation scope	-	-	-	-
Deferred tax assets recognised in the year	18,243	11	18,254	25,079
– related to previous years			-	-
– due to changes in accounting policies		-	-	-
– reversals of impairment losses		-	-	-
– other	*18,243*	*11*	*18,254*	*25,079*
New taxes or tax rate increases	-	-	-	-
Other increases	12,077	-	12,077	12,078
Decreases	**-43,659**	**-**	**-43,659**	**-35,390**
Deferred tax assets derecognised in the year			-	-
New taxes or tax rate increases			-	-
Reversals	-43,652	-	-43,652	-33,515
Tax rate reductions	-	-	-	-
Other decreases	-7	-	-7	-1,875
Closing balance	**181,748**	**211**	**181,959**	**195,287**

Deferred tax assets derive from deductible temporary differences, such as losses on securities, amortisation of insurance contract portfolios, accruals to provisions for risks and charges, amortisation of intangible assets and unused tax losses carried forward. The deferred tax assets were calculated using the tax rate deemed reasonable considering when they will reverse.

Current tax assets (caption 6.4)

Current tax assets amount to €2,041,458 thousand (€1,697,988 thousand at 31 December 2016). The caption includes payments on account and other tax receivables for withholdings or prior year tax assets that can be offset against taxes of subsequent years. The caption also comprises tax assets on mathematical provisions pursuant to article 1 of Legislative decree no. 209/2002 as converted by article 1 of Law no. 265/2002 and subsequent amendments.

The following table sets out details of the caption at 31 December 2017:

(in thousands of euro)

	31.12.2017	31.12.2016
Direct taxes	59,952	43,837
Tax on mathematical provisions	1,981,506	1,654,151
Total	**2,041,458**	**1,697,988**

Other assets (caption 6.5)

Sundry assets amount to €521,616 thousand (€406,585 thousand at 31 December 2016). The caption mainly comprises deferred commission costs of €478,547 thousand associated with products of a financial nature without DPF, such as index-linked and unit-linked policies.

The following table sets out details of the caption at 31 December 2017:

(in thousands of euro)

	31.12.2017	31.12.2016
Deferred commission expense on investment contracts	478,547	371,787
Other	43,069	34,798
Total	**521,616**	**406,585**

Other assets mainly comprise amounts related to units issued and repaid of unit-linked policies with a bank value date of January 2018 and an accounting value date of 31 December 2017. They also comprise other prepayments and accrued income.

Cash and cash equivalents (caption 7)

At 31 December 2017, cash and cash equivalents amount to €768,108 thousand (€1,495,047 thousand at 31 December 2016). The caption includes cash and cash equivalents and demand deposits, including treasury current accounts.

Equity (caption 1)

This caption includes equity instruments making up equity, in line with the rules laid down by the Italian Civil Code and the laws regulating the insurance sector, taking into account the necessary adjustments for consolidation. The table below provides a breakdown of the caption at 31 December 2017:

(in thousands of euro)

	31.12.2017	31.12.2016
Share capital	320,423	320,423
Capital reserves	1,328,097	1,328,097
Revenue reserves and other reserves	2,182,342	1,798,568
Own shares	-	-
Reserve for currency translation differences	-	-
Reserve for unrealized gains and losses on assets available for sale	397,957	480,023
Other gains or losses recognised directly in equity	2,257	- 409
Profit for the year attributable to the Group	587,119	638,710
Total equity attributable to the Group	**4,818,195**	**4,565,412**

The overall increase in equity is mainly due to the profit for the year, the income-related reserves and the fair value reserve.

Share capital (caption 1.1.1)
The share capital includes parent's share capital, that amounts to €320,423 thousand, divided into 655,157,496 ordinary registered shares with no nominal amount.

Equity-related reserves (caption 1.1.3)
These reserves of €1,328,097 thousand include the parent's share premium reserve.

Income-related and other reserves (caption 1.1.4)
The caption includes the legal reserve, the statutory reserve, the extraordinary reserve and other reserves. It also includes the IFRS FTA reserve. These reserves amount to €2,182,342 thousand compared to € 1,798,568 thousand at 31 December 2016.

The increase is mainly due to the allocation of the profit for the prior year and the parent's return of € 256 million to the ultimate parent resolved and paid in November 2017.

Fair value reserve (caption 1.1.7)
The caption includes fair value gains and losses deriving from the remeasurement of financial instruments classified as available-for-sale financial assets.

As a result of application of shadow accounting, the differences between the fair value and cost of the aforementioned instruments, net of the tax effects, are recognised in this reserve for the sole part pertaining to the Group. The policyholders' portion is included under the technical provisions.

The table below provides a breakdown of the caption at 31 December 2017:

(in thousands of euro)

	31.12.2017			31.12.2016		
	Unrealized gains	**Unrealized losses**	**Total**	**Unrealized gains**	**Unrealized losses**	**Total**
Total gross of shadow accounting	5,302,484	-214,237	5,088,247	6,238,495	-200,960	6,037,535
– Debt instruments	4,564,846	-81,641	4,483,205	5,666,685	-106,687	5,559,998
– Equity instruments	391,505	-35,720	355,785	302,905	-36,266	266,639
– UCI units	346,133	-96,876	249,257	268,905	-58,007	210,898
Shadow accounting	-4,704,873	189,959	-4,514,914	-5,527,537	181,798	-5,345,739
Total gross of income taxes	597,611	-24,278	573,333	710,958	-19,162	691,796
Tax effects	-184,188	8,812	-175,376	-219,181	7,408	-211,773
Total	**413,423**	**-15,466**	**397,957**	**491,777**	**-11,754**	**480,023**

The following table shows changes in the caption in the year:

(in thousands of euro)

	Debt instruments	Equity instruments	UCI shares	31.12.2017	31.12.2016
Opening balance	**440,100**	**22,097**	**17,826**	**480,023**	**648,895**
Increases	**24,744**	**15,558**	**18,659**	**58,961**	**-115,911**
Unrealized gains	25,963	13,946	18,063	57,972	25,190
Accruals	-1,463	-1,446	211	-2,698	5,316
Other increases	244	3,058	385	3,687	-146,417
Decreases	**-114,728**	**-8,420**	**-17,879**	**-141,027**	**-52,961**
Unrealized losses	-86,261	-4,277	-11,550	-102,088	-109,296
Impairment losses	-	207	129	336	-
Utilisations	-26,075	-1,120	-6,451	-33,646	4,792
Other decreases	-2,392	-3,230	-7	-5,629	51,543
Closing balance	**350,116**	**29,235**	**18,606**	**397,957**	**480,023**

Provisions (caption 2)

The caption amounts to €13,024 thousand at 31 December 2017 (€11,992 thousand at 31 December 2016). Other provisions mainly include accruals for future personnel expenses and for product disputes. The remainder relates to accruals made for tax purposes.

The following table shows changes in the caption in the year:

(in thousands of euro)

	Tax provisions	Other provisions	31.12.2017	31.12.2016
Opening balance	**36**	**11,956**	**11,992**	**13,922**
Increases	**-**	**6,101**	**6,101**	**5,829**
– Additions	-	5,714	5,714	-
– Accruals	-	305	305	726
– Other increases	-	82	82	5,103
Decreases	**-36**	**-5,033**	**-5,069**	**-7,759**
– Decrease	-	-4,232	-4,232	-
– Utilisations	-	-459	-459	-3,648
– Other decreases	-36	-342	-378	-4,111
Closing balance	**-**	**13,024**	**13,024**	**11,992**

Technical provisions (caption 3)

The table below provides a breakdown of the caption at 31 December 2017:

(in thousands of euro)

	Direct business	Indirect business	31.12.2017	31.12.2016
Non-life insurance provisions	**678,438**	**-**	**678,438**	**592,728**
Provision for unearned premiums	496,540	-	496,540	419,304
Provision for outstanding claims	180,488	-	180,488	172,044
Other insurance provisions	1,410	-	1,410	1,380
of which following the liability adequacy test	-	-	-	-
Life insurance provisions	**75,774,462**	**-**	**75,774,462**	**79,543,400**
Mathematical provisions	66,786,177	-	66,786,177	69,938,648
Provision for outstanding claims	297,766	-	297,766	303,578
Technical provisions where investment risk is borne by policyholders and provisions arising from pension fund management	4,094,744	-	4,094,744	3,803,754
Other insurance provisions	4,595,775	-	4,595,775	5,497,420
Total	**76,452,900**	**-**	**76,452,900**	**80,136,128**

The technical provisions of the life business fell by 4.7%. This change can be attributed to the portfolio's performance which records net cash inflows, the revaluation of benefits and the trend of the shadow accounting provision (included in the other provisions), which shows a slight decrease in line with the financial markets' performance.

The Group performed the liability adequacy test (LAT) to check that the net provisions are sufficient to meet its commitments with policyholders. The related results are shown in the technical provisions and amount to € 21.0 million (€ 32.5 million at 31 December 2016).

The table below shows the details of the mathematical provisions and the technical provisions where the investment risk is borne by the policyholders:

(in thousands of euro)

	Mathematical provisions	Insurance provisions where investment risk is borne by policyholders	Total 31.12.2017	Total 31.12.2016
Opening balance	**69,938,648**	**3,803,754**	**73,742,402**	**72,577,948**
New entities included in the consolidation scope	-	-	-	-
Change in premiums	5,244,029	453,500	5,697,529	7,437,283
Benefits and claims paid to policyholder	1,226,848	72,367	1,299,215	1,319,903
Exchange rate differences	-	-	-	-
Portfolio transactions	-	56,983	56,983	39,073
Change in payments	-9,527,208	-273,567	-9,800,775	-7,529,723
Other variations	-96,140	-18,293	-114,433	-102,082
Closing balance	**66,786,177**	**4,094,744**	**70,880,921**	**73,742,402**

Technical provisions and financial liabilities of the life business

Technical provisions and financial liabilities amount to €119,216,307 thousand (€ 114,076,033 thousand at 31 December 2016). Contracts falling within the scope of IFRS 4, insurance contracts and investment contracts with DPF account for roughly 88% of the life portfolio (92% at 31 December 2016), while the investment contracts falling within the scope of IAS 39 account for about 12% (8% at 31 December 2016).

Non-life technical provisions

In the non-life segment, the technical provisions increased from € 592.7 million at 31 December 2016 to € 678.4 million at 31 December 2017 (+14.5%). They mainly refer to the portfolio held by Intesa Sanpaolo Assicura.

The breakdown by line of business of the premium provisions at 31 December 2017 is detailed in the following table:

(in thousands of euro)

	Provisions for unearned premiums	Provision for unexpired risks	Total provisions for unearned premiums	Claims provisions	Other provisions
Accident	71,464	-	71,464	18,036	12
Health	123,739	-	123,739	27,259	1,398
Land vehicles	4,554	-	4,554	1,857	-
Railway	-	-	-	-	-
Aircraft	-	-	-	-	-
Ships	-	-	-	-	-
Goods in transit	1	-	1	4	-
Fire and natural events	121,466	-	121,466	7,615	-
Other damage to property	2,561	-	2,561	5,801	-
Credit	2,837	1,284	4,121	2,723	-
Surety	127	1,724	1,851	2,891	-
Motor third party liability	30,445	-	30,445	75,909	-
Aircraft third party liability	-	-	-	-	-
Ships third party liability	2	3	5	61	-
Legal protection	625	-	625	2,548	-
General third party liability	4,296	-	4,296	13,407	-
Pecuniary losses	128,698	-	128,698	21,476	-
Assistance	2,713	-	2,713	902	-
Total	**493,528**	**3,011**	**496,539**	**180,489**	**1,410**

The comparison of the premium provision by line of business with the previous year is detailed in the following table:

(in thousands of euro)

	Total 31.12.2017	Total 31.12.2016
Accident	71,464	57,474
Health	123,739	93,302
Land vehicles	4,554	4,585
Railway	-	-
Aircraft	-	-
Ships	-	-
Goods in transit	1	-
Fire and natural events	121,466	101,865
Other damage to property	2,561	2,566
Credit	4,121	8,820
Surety	1,851	688
Motor third party liability	30,445	30,863
Aircraft third party liability	-	-
Ships third party liability	5	5
Legal protection	625	564
General third party liability	4,296	3,832
Pecuniary losses	128,698	112,102
Assistance	2,713	2,637
Total	**496,539**	**419,303**

The comparison of the claims provision by line of business with the previous year is detailed in the following table:

(in thousands of euro)

	Total 31.12.2017	Total 31.12.2016
Accident	18,036	12,323
Health	27,259	26,939
Land vehicles	1,857	1,848
Railway	-	-
Aircraft	-	-
Ships	-	-
Goods in transit	4	-
Fire and natural events	7,615	6,216
Other damage to property	5,801	4,062
Credit	2,723	3,521
Surety	2,891	805
Motor third party liability	75,909	75,612
Aircraft third party liability	-	-
Ships third party liability	61	54
Legal protection	2,548	2,416
General third party liability	13,407	9,353
Pecuniary losses	21,476	27,193
Assistance	902	1,703
Total	**180,489**	**172,045**

With reference to the claims provision, the tables below show the triangular matrix of development of the claims for the main lines in which the group operates (gross of reinsurance) for the last five years from 2012 to 2017. The amounts are stated in thousands of Euros. Given the marginality of the parent's non-life portfolio, the report on the development of the claims is only detailed with reference to Intesa Sanpaolo Assicura S.p.A..

In order to gain a better understanding of the tables, the following is specified:

- the "Estimate of ultimate cumulative claims costs" is the result of the sum, by each accident year N, of the cumulative amounts paid and the residual claims provisions at the end of the development year N+t. The amounts thus obtained represent the revision over time of the estimated ultimate cost of the claims in the accident year N with the development of their run-off;
- the "Cumulative amounts paid to date" represent the cumulative amount of the payments made until 31 December 2016 on claims in accident year N;
- the "Claims provision at the reporting date" represents the amount, for each accident year, of the claims that are still provided for at 31 December 2017;
- the "Other claims provisions" identify the claims provision from accident years prior to 2013.

Accident insurance	**Year of generation/occurrence**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	4,358	5,213	5,562	7,910	11,450	
	at 31/12 of year N+1	3,749	2,964	3,561	5,572		
	at 31/12 of year N+2	2,813	2,928	3,138			
	at 31/12 of year N+3	2,568	2,855				
	at 31/12 of year N+4	2,308					
Cumulative amounts paid to date		2,154	2,129	2,086	2,832	675	9,876
Claims provision at the reporting date		154	726	1,052	2,740	10,775	15,447
Final claims provision for year before 2013							247
Total claims provision at 31.12.2017							**15,694**

Health insurance	**Year of generation/occurrence**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	18,733	21,030	21,701	20,759	20,100	
	at 31/12 of year N+1	17,174	16,078	15,494	14,087		
	at 31/12 of year N+2	15,562	15,125	15,129			
	at 31/12 of year N+3	14,327	15,239				
	at 31/12 of year N+4	14,425					
Cumulative amounts paid to date		13,225	13,066	12,339	10,480	5,436	54,546
Claims provision at the reporting date		1,200	2,173	2,790	3,607	14,664	24,434
Final claims provision for year before 2013							2,825
Total claims provision at 31.12.2017							**27,259**

Motor property damage	**Year of generation/occurrence**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	7,646	5,638	5,915	6,556	6,305	
	at 31/12 of year N+1	7,290	5,253	5,372	6,162		
	at 31/12 of year N+2	7,273	5,232	5,347			
	at 31/12 of year N+3	7,249	5,227				
	at 31/12 of year N+4	7,196					
Cumulative amounts paid to date		7,182	5,209	5,335	6,102	5,074	28,902
Claims provision at the reporting date		14	18	12	60	1,231	1,335
Final claims provision for year before 2013							522
Total claims provision at 31.12.2017							**1,857**

Fire	Year of generation/occurrence	2013	2014	2015	2016	2017	Total
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	4,548	4,043	4,695	5,763	6,628	
	at 31/12 of year N+1	2,964	2,919	2,936	4,870		
	at 31/12 of year N+2	2,819	2,840	2,724			
	at 31/12 of year N+3	2,710	2,809				
	at 31/12 of year N+4	2,687					
Cumulative amounts paid to date		2,558	2,476	2,378	3,140	1,965	12,517
Claims provision at the reporting date		129	333	346	1,730	4,663	7,201
Final claims provision for year before 2013							415
Total claims provision at 31.12.2017							**7,616**

Other damage to goods	Year of generation/occurrence	2013	2014	2015	2016	2017	Total
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	2,979	3,632	3,853	4,353	6,193	
	at 31/12 of year N+1	1,827	2,388	2,383	2,913		
	at 31/12 of year N+2	1,742	2,292	2,265			
	at 31/12 of year N+3	1,744	2,286				
	at 31/12 of year N+4	1,728					
Cumulative amounts paid to date		1,697	1,786	2,056	2,341	2,140	10,020
Claims provision at the reporting date		31	500	209	572	4,053	5,365
Final claims provision for year before 2013							436
Total claims provision at 31.12.2017							**5,801**

Motor vehicle third party liability	Year of generation/occurrence	2013	2014	2015	2016	2017	Total
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	46,001	52,603	51,320	56,519	53,611	
	at 31/12 of year N+1	50,031	45,974	45,514	54,956		
	at 31/12 of year N+2	49,695	43,995	45,300			
	at 31/12 of year N+3	49,601	42,670				
	at 31/12 of year N+4	49,485					
Cumulative amounts paid to date		41,315	37,113	40,988	38,431	23,064	180,911
Claims provision at the reporting date		8,170	5,557	4,312	16,525	30,547	65,111
Final claims provision for year before 2013							10,861
Total claims provision at 31.12.2017							**75,972**

GTPL	Year of generation/occurrence	2013	2014	2015	2016	2017	Total
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	3,487	3,588	4,792	5,311	8,626	
	at 31/12 of year N+1	2,065	2,745	3,321	4,130		
	at 31/12 of year N+2	1,890	2,500	3,225			
	at 31/12 of year N+3	1,830	2,469				
	at 31/12 of year N+4	1,884					
Cumulative amounts paid to date		1,647	1,901	2,007	1,908	863	8,326
Claims provision at the reporting date		237	568	1,218	2,222	7,763	12,008
Final claims provision for year before 2013							1,399
Total claims provision at 31.12.2017							**13,407**

Pecuniary losses	Year of generation/occurrence	2013	2014	2015	2016	2017	Total
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	24,342	23,469	17,292	14,360	11,064	
	at 31/12 of year N+1	21,312	19,088	13,069	10,326		
	at 31/12 of year N+2	21,588	19,172	13,039			
	at 31/12 of year N+3	21,491	18,951				
	at 31/12 of year N+4	20,837					
Cumulative amounts paid to date		17,757	15,617	10,884	7,394	2,394	54,046
Claims provision at the reporting date		3,080	3,334	2,155	2,932	8,670	20,171
Final claims provision for year before 2013							1,305
Total claims provision at 31.12.2017							**21,476**

Financial liabilities (caption 4)

Financial liabilities amount to € 45,790,456 thousand (€36,212,320 thousand at 31 December 2016). The related breakdown by category and investment type is given in the annex to the notes "Breakdown of financial liabilities".

Financial liabilities at fair value through profit or loss (caption 4.1)

They amount to € 43,509,555 thousand (€ 34,620,738 thousand at 31 December 2016) and include financial liabilities held for trading and financial liabilities at fair value through profit or loss. The breakdown by level is shown in the annex to the notes "*Breakdown of financial assets and liabilities by level*".

(in thousands of euro)

	Level 1	Level 2	Level 3	31.12.2017
Financial liabilities held for trading	-	66,692	-	66,692
Financial liabilities designates at fair value through profit or loss	-	43,442,863	-	43,442,863
Total	**-**	**43,509,555**	**-**	**43,509,555**

	Level 1	Level 2	Level 3	31.12.2016
Financial liabilities held for trading	-	88.105	-	88.105
Financial liabilities designates at fair value through profit or loss	-	34.532.633	-	34.532.633
Total	**-**	**34.620.738**	**-**	**34.620.738**

Financial liabilities held for trading

They amount to € 66,692 thousand at 31 December 2017 (€ 88,105 thousand at 31 December 2016) and include non-hedging derivatives with negative fair values.

Financial liabilities designated at fair value through profit or loss

This caption amounts to €43,442,863 thousand (€34,532,633 at 31 December 2016) and it is broken down as follows:

(in thousands of euro)

	31.12.2017	31.12.2016
Liabilities from index-linked and unit-linked contracts issued by the group	43,442,863	34,532,633
Non-hedging derivatives	-	-
Total	**43,442,863**	**34,532,633**

The caption includes the financial liabilities associated with index-linked and unit-linked investment contracts which do not present a significant insurance risk and, therefore, do not fall within the scope of IFRS 4 as well as hedging derivatives with negative fair values.

Since the fair value of the financial liabilities represented by index-linked and unit-linked product deposits is not tied to the creditworthiness of the issuing companies but rather to that of the hedging assets, reference is made to the section of the notes on the disclosure on risks for further information on this aspect.

Other financial liabilities (caption 4.2)

The caption includes subordinated liabilities, financial liabilities associated with investment contracts with eligible asset products, other financial liabilities and deposits from reinsurers. Other financial liabilities include sundry liabilities with policyholders of Intesa Sanpaolo Life.

The table below gives a breakdown of the caption:

(in thousands of euro)

	31.12.2017	31.12.2016
Subordinated liabilities	1,926,638	1,316,249
Financial liabilities associated with policies with eligible assets	-	-
Other financial liabilities	351,704	270,758
Deposits received from reinsurers	2,559	4,575
Total	**2,280,901**	**1,591,582**

Subordinated liabilities

The caption comprises financial liabilities, recognised at amortised cost, pertaining to the parent, the creditors' repayment of which is subordinated to the settlement of the senior debt in the case of liquidation.

Subordinated liabilities, amounting to € 1,926,638 thousand, are broken down as follows:

(in thousands of euro)

Issuer	Interest rate	Grant date	Maturity date	Carrying amount
Intesa Sanpaolo	Fixed rate 3.41%	21.07.2017	21.07.2027	609,193
Intesa Sanpaolo	For first 5 years 3-month Euribor + 300 bps	30.12.2008	30.12.2018	30,006
Intesa Sanpaolo	1-year Euribor + 150 bps	30.06.2011	not applicable	3,797
Intesa Sanpaolo	1-year Euribor + 170 bps	30.06.2011	not applicable	1,960
Intesa Sanpaolo	For first 10 years +4.80% - afterw ards 3-month Euribor 360 + 140 bps	30.06.2011	not applicable	4,901
Intesa Sanpaolo	For first ten years +4.86%	30.06.2011	not applicable	2,940
Intesa Sanpaolo	For first ten years +5.06%	30.06.2011	not applicable	2,450
Intesa Sanpaolo	For first ten years +5.06%	30.06.2011	not applicable	490
Cassa di Risparmio di Firenze	1-year Euribor + 150 bps	20.04.1999	not applicable	3,961
Cassa di Risparmio di Firenze	6 month Euribor + 170 bps	17/04/2000	not applicable	2,061
Cassa di Risparmio di Firenze	For first 10 years +4.80% - afterw ards 3-month Euribor 360 + 140 bps	15.05.2003	not applicable	5,106
Cassa di Risparmio di Firenze	For first 10 years +4.86% - afterw ards 3-month Euribor 360 + 1.70%	22.12.2004	not applicable	3,061
Cassa di Risparmio di Firenze	For first 10 years +5.06% - afterw ards 3-month Euribor 360 + 6.80%	26.10.2006	not applicable	2,556
Cassa di Risparmio di Firenze	For first 10 years +5.06% - afterw ards 3-month Euribor 360 + 6.80%	26.10.2006	not applicable	511
Intesa Sanpaolo Vita S.p.A.	Dated Subordinated Notes due 18 September 2018 5.35%	18.09.2013	18.09.2018	507,019
Intesa Sanpaolo Vita S.p.A.	Fixed-to-Floating Undated Subordinated Notes (first call 17/12/2024)	17.12.2014	not applicable	746,626
Total				**1,926,638**

They do not provide for early repayment or provisions allowing their conversion into equity or into another type of liability.

The two series of bonds placed by Intesa Sanpaolo Vita, recognised at amortised cost, include the issue costs of € 3,518 thousand and € 5,975 thousand, respectively, for the bonds issued in September 2013 (nominal amount of € 500 million) and December 2014 (€ 750 million).

Liabilities (caption 5)

The following table sets out details of the caption at 31 December 2017:

(in thousands of euro)

	31.12.2017	31.12.2016
Direct insurance liabilities	158,610	138,709
Reinsurance liabilities	3,869	1,710
Other liabilities	580,818	613,875
Total	**743,297**	**754,294**

The caption "Direct insurance liabilities" of €158,610 thousand mainly includes commissions payable to distribution networks, as well as items to be settled deriving from co-insurance agreements.

"Other liabilities" mainly include trade payables arising from direct and indirect insurance transactions of €236,738 thousand, tax liabilities of €47,331 thousand and investment management fees of €56,922 thousand. The caption also comprises the liability for post-employment benefits.

Post-employment benefits

This caption shows the following changes during the year:

(in thousands of euro)

	31.12.2017	31.12.2016
Opening balance	**3,063**	**2,886**
Increases	**104**	**284**
– New entities included in the consolidation scope	-	-
– Current service cost	-	-
– Transfers between group companies	-	-
– Interest cost	67	284
– Other increases	37	-
Decreases	**- 121**	**- 107**
– Benefits paid	-	-
– Current service cost	-	-
– Curtailments	-	-
– Other decreases	- 121	- 107
– Entities excluded from the consolidation scope	-	-
Closing balance	**3,046**	**3,063**

Other liabilities (caption 6)

Deferred tax liabilities (caption 6.2)

This caption includes deferred tax liabilities, as defined and regulated by IAS 12. The caption decreased during the year from € 494,084 thousand to € 488,244 thousand.

The following table sets out details of the caption at 31 December 2017:

(in thousands of euro)

	31.12.2017	31.12.2016
Deferred tax liabilities through profit or loss	311,492	282,132
Deferred tax liabilities through equity	176,752	211,952
Total	**488,244**	**494,084**

The table below shows the changes that took place during the year:

(in thousands of euro)

	Profit or loss	Equity	31.12.2017	31.12.2016
Opening balance	**282,132**	**211,952**	**494,084**	**634,352**
Increases	**67,949**	**249**	**68,198**	**31,650**
– Deferred tax liabilities recognised in the year	55,872	249	56,121	15,550
– New taxes or tax rate increases	-	-	-	-
– New entities included in the consolidation scope	-	-	-	-
– Other increases	12,077	-	12,077	16,100
Decreases	**- 38,589**	**- 35,449**	**- 74,038**	**- 171,918**
– Deferred tax liabilities derecognised in the year			-	-
– Reversals	- 38,589	- 33,301	- 71,890	- 170,660
– Tax rate reductions	-	-	-	-
– Other decreases	-	- 2,148	- 2,148	- 1,258
– Entities excluded from the consolidation scope			-	-
Closing balance	**311,492**	**176,752**	**488,244**	**494,084**

Current tax liabilities (caption 6.3)

The caption, amounting to € 373,390 thousand (€ 416,895 thousand at 31 December 2016), mainly comprises the accrual for the tax on the mathematical provisions (Law no. 265/2002) accrued at the reporting date which will be paid in 2018.

Other liabilities (caption 6.4)

The following table sets out details of this caption:

(in thousands of euro)

	31.12.2017	31.12.2016
Deferred liabilities relating to investment contracts	990	1,022
Pension funds	341	399
Seniority bonuses	2,765	2,534
Deferred operating costs	-	-
Other liabilities	185,497	153,412
Total	**189,593**	**157,367**

The caption mainly includes liabilities relating to deferred commission income associated with index and unit-linked investment contracts with an insurance risk considered to be not significant and to long-term employee benefits.

Deferred liabilities relating to investment contracts refer to unit-linked policies (€990 thousand, €1,022 thousand at 31 December 2016).

Deferred operating costs include the portion of the future expenses provision set aside for financial contracts in relation to which it was not necessary to defer the loading.

Other mainly includes the provision for retention commissions. These liabilities refer to the accrual for the cost of retention commissions accrued at the reporting date, even though the related obligation has not materialised since their payment is subject to the retention of the contracts in the portfolio on the renewal date.

Tax position

Intesa Sanpaolo Vita

On 31 January 2007, a partial tax inspection was commenced for the purposes of the direct income taxes, IRPEG - IRES and IRAP pertaining to 2003, 2004 and 2005, and for VAT purposes for 2003, 2004, 2005 and 2006, which ended with the notification of a preliminary assessment report on 29 March 2007.

The most significant findings raised by the Italian tax police referred to the alleged existence of services subject to VAT within the scope of co-insurance contracts entered into by the parent acting in the dual capacity of delegating and delegated company.

On 19 May 2007, the Turin Tax Office served two assessment reports for 2003 alone, containing five separate claims: four for VAT purposes and one for IRAP purposes, assessing an overall higher VAT amount of €3,700 thousand and a higher IRAP amount of €28.6 thousand, thereby imposing a fine of €6,638 thousand.

On 26 July 2007, the parent challenged the assessment reports and lodged appeals before the Provincial Tax Commission of Turin, which cancelled the aforesaid reports with judgments nos. 41 and 42, filed on 10 June 2008. In July 2009, the appeals were served, lodged by the Turin 1 Tax Office, , before the Piedmont Regional Tax Commission. The parent filed an entry of appearance with deeds and counterclaims on 5 November 2009.

The hearing for the discussion of the appeals took place on 1 February 2010 and, with judgment no. 32 filed on 11 May 2010, the Piedmont Regional Tax Commission upheld the full cancellation of the assessment reports referred to 2003.

During the first six months of 2011, the Tax Office lodged an appeal before the Supreme Court and the parent filed an entry of appearance before the court with a counter-appeal in September 2011. At the date of this report, no date has yet been scheduled for the hearing for the discussion of the dispute.

Again as a result of the aforesaid preliminary assessment report, on 30 August 2007, the Turin 1 Tax Office served two assessments reports for 2004 solely for VAT purposes, thereby assessing a higher VAT amount of €2,700 thousand and imposing a fine of €2,268 thousand.

On 8 November 2007, the parent challenged the assessment reports and lodged appeals before the Turin Provincial Tax Commission, which cancelled them with judgments no. 91 filed on 11 November 2008. The Turin 1 Tax Office lodged an appeal before the Piedmont Regional Tax Commission on 21 December 2009. The parent filed an entry of appearance before the court with deeds and counterclaims on 8 February 2010.

The hearing was scheduled for 10 November 2010, after which the Piedmont Regional Tax Commission, with judgment no. 45 filed on 17 February 2011, upheld the first level decision about the full cancellation of the assessment reports.

In April 2012, the Tax Office lodged an appeal before the Supreme Court. In September 2012, the parent lodged a counter-appeal. At the date of this report, the date of the hearing for the discussion of the dispute has not yet been scheduled.

On 21 December 2010, and again as a result of the aforesaid preliminary assessment report prepared by the Italian tax police on 29 March 2007, an assessment report was served to the parent which assessed, for 2005, a higher VAT amount of €360 thousand, a higher IRAP amount of €20 thousand and imposed fines of €654 thousand.

Similarly to the previous years, the aforesaid assessments arise from the aforementioned tax inspection conducted by the Italian tax police in 2007 and refer to the non-recognition of the exemption, for VAT purposes, of the delegation commissions in co-insurance contracts.

The parent challenged the assessment on 14 February 2011. The hearing before the Turin Provincial Tax Commission took place on 14 December 2011 and, with judgment no. 9 filed on 25 January 2012, the court fully cancelled the assessment report.

In July 2012, the Tax Office lodged an appeal before the Regional Tax Commission of Piedmont and the parent, in October 2012, filed counterclaims against the Tax Office's appeal. The hearing before the Piedmont Regional Tax Commission was scheduled to take place on 27 March 2014. The Commission rejected the Tax Office's appeal with its judgement no. 523 filed on 10 April 2014, confirming the full cancellation of the challenged assessment. The Tax Office presented an appeal to the Supreme Court notified on 27 November 2014 and the parent presented its counter-appeal in January 2015. The date of the hearing for the discussion of the dispute has not yet been scheduled.

On 7 December 2011, again as a result of the aforesaid preliminary assessment report prepared by the Italian tax police in March 2007, an assessment notice was served to the parent which assessed, for 2006, a higher VAT amount of €218 thousand and fines of €339 thousand.

On 31 January 2012, the parent lodged an appeal against the report before the Turin Provincial Tax Commission. The dispute was discussed on 14 February 2013 and the Provincial Tax Commission of Turin, with judgement no. 38 filed on 18 March 2013, partially rejected the appeal lodged by the parent. The decision was unfavourable with regard to the recognition of the VAT exemption for the delegation commissions, whereas it was favourable with regard to the inapplicability of the fines. On 9 September 2013, the parent lodged a second-level appeal before the Piedmont Regional Tax Commission.

The appeal hearing took place on 16 July 2015 before the Piedmont Regional Tax Commission. The commission reversed the first level ruling with its judgement no. 806 filed on 10 August 15, fully cancelling the assessment report about the non-recognition of the VAT exemption for the delegation commissions as well. Therefore, the tax authorities have been totally unsuccessful to date. On 29 February 2016, the tax authorities lodged an appeal before the Supreme Court. The parent presented its counter-appeal on 15 April 2016. The date of the hearing for the discussion of the dispute has not yet been scheduled.

On 20 June 2012, an assessment report was served to the parent in its role as the entity merging former Centrovita Assicurazioni S.p.A. (merged into it on 31 December 2011). The report disputed, for 2006, a higher VAT amount of €208 thousand and fines of €313 thousand.

On 23 September 2012, the parent lodged an appeal before the Florence Provincial Tax Commission.

On 28 November 2012, an assessment report was served to the parent in its role as the entity merging former Centrovita Assicurazioni S.p.A. (merged into it on 31 December 2011). The report assessed, for 2007, a higher VAT amount of €278 thousand and fines of €349 thousand.

On 22 January 2013, the parent lodged an appeal before the Florence Provincial Tax Commission.

On 14 January 2013, two assessment reports were served to the parent, again in its role as the entity merging former Centrovita Assicurazioni S.p.A.. The reports assessed, for 2008 and 2009, higher VAT amounts of €273 thousand and €239 thousand as well as fines of €342 thousand and €304 thousand.

The tax assessments addressed to former Centrovita Assicurazioni S.p.A. have a common basis and refer to the failure to recognise the exemption, for VAT purposes, of the delegation commissions in co-insurance contracts. As such, these same findings also concerned former Eurizon Vita with regard to the tax periods from 2003 to 2006, already described in the previous paragraphs.

Therefore, on 5 March 2013, the parent lodged appeals for 2008 and 2009 before the Florence Provincial Tax Commission.

The Provincial Tax Commission set a date to hear the four proceedings before its Third Section as requested by the Florence Provincial Tax Office. The first level hearing was held on 10 June 2014 and the Commission accepted the appeals made by the parent in its ruling no. 939 filed on 15 July 2014, after having grouped the proceedings. Accordingly, it fully cancelled the above four payment orders.

On 24 February 2015, the Florence Provincial Tax Office and the Tuscany Regional Tax Office jointly presented an appeal for 2006 and for 2007, 2008 and 2009, respectively. The parent appeared in court on 22 April 2015, presenting two separate briefs and counter-arguments to the Tuscany Regional Tax Commission.

The appeal hearing took place on 18 May 2017 before the Tuscany Regional Tax Commission. With ruling no. 2549 filed on 14 December 2017, the second-level judges rejected the appeals made by the Florence Provincial Tax Office and the Tuscany Regional Tax Office, confirming the full cancellation of the four assessment reports (2006-2009 tax years).

On 29 December 2015, the Lombardy Regional Tax Office notified the parent, as the merging company of the former Intesa Vita, of an assessment report for IRES purposes on 2010 which did not accept the deduction of the impairment losses recognised on two series of unlisted bonds of €22,899 thousand.

The valuation of the price of the unlisted bonds is based on the consistency of the measurement under the Italian Civil Code based on the reliability, truthfulness and correctness of the financial statements, which the Office does not question, before considering any tax issues. Therefore, the parent deems that the assessment report is without grounds and, therefore, may be cancelled. Accordingly, it appealed against it to the Milan provincial tax commission on 26 February 2016. The tax authorities lodged their counter-appeal on 26 April 2016.

The hearing before the Milan Regional Tax Commission was held on 14 March 2017. With its ruling no. 2478 filed on 28 March 2017, the Commission accepted the parent's appeal, cancelling the challenged assessment. Such ruling became final in October 2017 due to no appeals being lodged by the tax authorities, thus the tax dispute is definitively settled in the parent's favour.

On the basis of the current situation of the tax disputes, in financial terms, almost all of the pending litigation before tax courts turned out to have favourable outcomes for the parent at all stages of the proceedings.

The management of tax disputes with fully favourable outcomes has enabled contingent liabilities from pending tax disputes to be reclassified as possible but not probable, thus avoiding the obligation for the parent to provide for future tax risks.

Therefore, the group is confident that it will be able to continue with the management of the pending litigation without incurring significant tax liabilities.

Intesa Sanpaolo Assicura
Following the end of the inspection conducted by the Turin tax police squad relating to direct and indirect taxes for 2007 and 2008, as well as, limited to the co-insurance contracts, from 2004 to 2008, the tax police formalised the following:

– the correctness of the accruals made to the claims provision pursuant to article 111 of Presidential decree no. 917/86;

– the correctness of the tax treatment for VAT purposes of the expenses incurred by way of delegation commissions within the scope of the co-insurance contracts.

With reference to the first issue, on 26 July 2013, the Piedmont Regional Tax Office cancelled by internal review the assessment reports relating to direct IRES and IRAP taxes for 2007. In December, the same tax office served assessment reports for 2008 assessing a tax base higher by €422 thousand. The company lodged an appeal in February 2014. The Piedmont Regional Tax Office cancelled by internal review the finding in June while the appeal for the proxy commission worth approximately €2 thousand is still pending.

With regard to the second issue, on 12 July 2010, the Turin 1 Revenue Office upheld the company's grounds and ruled on the cancellation of the proceedings under way for 2004, 2005 and 2006. For the same dispute, on 24 October 2012, the Regional Department of Piedmont - Large Taxpayers' Office issued an assessment report for 2007. The company lodged an appeal against the report and the court cancelled it with the judgement filed on 24 July 2013. The Regional Tax Office presented a counter-appeal in February 2014 and the Regional Tax Commission handed down ruling no. 425/36/15 on 10 March 2015 allowing its appeal. On 29 October 2015, the company appealed to the Supreme Court. The amount in question is about €10 thousand.

On 15 December 2016, the Turin tax police squad commenced an inspection into the correct calculation of IRES and IRAP and VAT in 2014 and 2015. The inspection was resumed on 29 November 2017 after being suspended for roughly 10 months (since 14 February 2017) and is currently underway.

Other companies included in the consolidation scope
The other companies included in the scope of consolidation do not present any tax disputes.

Part D – Notes to the income statement

Revenue

Net premiums (caption 1.1)

The net premiums for the year amount to €6,195,016 thousand, showing a decrease of 22% compared to 2016 (€7,902,618 thousand).

(in thousands of euro)

	31.12.2017			31.12.2016		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-life gross earned premiums	354,331	- 9,351	344,980	310,083	- 8,771	301,312
Gross written premiums	*431,566*	*- 7,096*	*424,470*	*393,757*	*- 6,311*	*387,446*
Change in provision for unearned premiums	*- 77,235*	*- 2,255*	*- 79,490*	*- 83,674*	*- 2,460*	*- 86,134*
Life gross written premiums	5,850,559	- 523	5,850,036	7,601,806	- 500	7,601,306
Total	**6,204,890**	**- 9,874**	**6,195,016**	**7,911,889**	**- 9,271**	**7,902,618**

Commission Income (caption 1.2)

Commissions refer to financial contracts which do not have a significant insurance risk and do not include DPF, such as index-linked and unit-linked policies.

Commission income includes premium loading and, for the unit-linked policies, the management commissions on contracts with investments in an internal fund. Other commission income includes the management commissions retroceded by the managers to the companies for unit-linked products.

The following table shows the details of commission income for the year:

(in thousands of euro)

	31.12.2017	31.12.2016
Unit-linked financial products	743,692	530,165
Index-linked financial products	-	468
Other commission income	48,122	34,646
Total	**791,814**	**565,279**

Net fair value gains or losses on financial instruments at fair value through profit or loss (caption 1.3)

This caption is a net gain of €98,776 thousand (€23,863 thousand for 2016). It is broken down in the annex "Gains and losses on financial instruments and investments".

The larger net gains on financial instruments at fair value through profit or loss are due to the change in fair value observed on financial markets compared to the previous year which affected both instruments designated at fair value through profit or loss and investments held for trading.

Gains on other financial instruments and investment property (caption 1.5)

This caption amounts to €2,403,430 thousand (€2,586,412 thousand for 2016). The decrease is substantially due to the rise in volumes managed on average, partially offset by lower disposals compared to 2016. A breakdown of the caption is given in the annex to the notes "Gains and losses on financial instruments and investments".

Other income (caption 1.6)

This item amounts to €118,678 thousand (€198,153 thousand for 2016) and mainly consists of other technical income (€106,674 thousand), mostly relating to the management commissions for unit-linked products and exchange rate gains on investments (€4,149 thousand).

COSTS

Net charges relating to claims (caption 2.1)

The caption amounts to €6,992,972 thousand (€8,851,004 thousand for 2016) as follows:

(in thousands of euro)

	31.12.2017			31.12.2016		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-life net insurance benefits and claims	**-103,160**	**4,844**	**-98,316**	**-97,931**	**2,629**	**-95,302**
Claims paid	-96,277	4,069	-92,208	-94,807	3,906	-90,901
Change in provision for outstanding claims	-8,443	775	-7,668	-4,120	-1,277	-5,397
Change in recoveries	1,590	-	1,590	1,506	-	1,506
Change in other insurance provisions	-30	-	-30	-510	-	-510
Life net insurance benefits and claims	**-6,895,018**	**362**	**-6,894,656**	**-8,754,557**	**-1,145**	**-8,755,702**
Claims paid	-9,719,960	162	-9,719,798	-7,526,372	190	-7,526,182
Change in provision for outstanding claims	5,810	204	6,014	77,704	-1,005	76,699
Change in mathematical provisions	3,039,305	-4	3,039,301	-1,047,813	-330	-1,048,143
Change in insurance provisions where investment risk is borne by policy holders and provisions arising from pension fund management	-290,990	-	-290,990	-151,291	-	-151,291
Change in other insurance provisions	70,817	-	70,817	-106,785	-	-106,785
Total	**-6,998,178**	**5,206**	**-6,992,972**	**-8,852,488**	**1,484**	**-8,851,004**

Fee and commission expense (caption 2.2)

Fee and commission expense includes the commissions for the acquisition of contracts classified as financial and, for the unit-linked policies, the management commissions retroceded to placement agents.

The following table gives a breakdown of the caption for the year:

(in thousands of euro)

	31.12.2017	31.12.2016
Commission expense for management and dealing services	2,381	1,687
Unit-linked financial products	565,231	353,381
Index-linked financial products	-	37,129
Retroceded commission income on unit-linked funds	5,835	5,178
Other commission expense	963	784
Total	**574,410**	**398,159**

Expenses from losses on other financial instruments and investment property (caption 2.4)

The caption amounts to €181,781 thousand (€205,781 thousand for 2016).

Its breakdown is provided in the annex to the notes "Gains and losses on financial instruments and investments". The caption mainly consists of realised losses of €84,618 thousand on available-for-sale investments and interest expense of €81,799 thousand.

Operating costs (caption 2.5)

The following table gives a breakdown of the costs in question:

(in thousands of euro)

	31.12.2017	31.12.2016
Gross commissions and other acquisition costs	**304,937**	**319,785**
Acquisition commissions	234,553	250,880
Other acquisition costs	27,469	30,483
Change in deferred acquisition costs	- 7	- 10
Premium collection commissions	42,922	38,432
Profit participation and other commissions received from reinsurers	**- 943**	**- 825**
Investment management costs	**55,077**	**51,017**
Other administrative costs	**88,740**	**84,169**
Total	**447,811**	**454,146**

The investment management costs mainly consist of costs of financial instruments and investment management commissions and custody expenses (€43,187 thousand).

The change in other administrative costs is due - mainly referred to the parent - to the decrease in outsourcing costs, the supervisory contribution and the lack of costs of the "Vicino a Te" project in 2017; these were offset by the rise in personnel expense.

Other costs (caption 2.6)

This caption, equal to €594,992 thousand (€436,564 thousand for 2016), includes, inter alia, the net accruals to the provisions for risks and charges (€305 thousand), exchange rate losses (€158,457 thousand) and other technical costs (€416,446 thousand). The latter amount mostly consists of retention commissions paid to the sales network.

Income taxes (caption 3)

This caption represents the consolidated tax expense calculated in compliance with the rules in force in the different countries where the Group companies operate, taking into account the effects of deferred tax assets and liabilities.

The following table sets out details of this caption:

(in thousands of euro)

	31.12.2017	31.12.2016
Current taxes	185,544	348,986
Change in current taxes of previous years	-	-
Change in deferred tax assets	25,409	8,497
Change in deferred tax liabilities	17,283	-65,522
Total	**228,236**	**291,961**

The following table shows the reconciliation of the theoretical tax charge and the total income tax expense:

(in thousands of euro)

	31.12.2017	31.12.2016
Profit before taxes	*815,355*	*930,671*
Theoretical tax expense	*251,292*	*319,406*
Ordinary rate applicable	30.82%	34.32%
Tax impacts relating to:	*-23,056*	*-27,445*
Different tax rates for foreign subsidiaries	-23,331	-19,027
Effect of realignment of reversal due to reduction in IRES rate to 24%	-	3,580
Effect of increase (decrease) compared to ordinary rate	-6,641	-20,498
Other	6,915	8,500
Effective tax expense	**228,236**	**291,961**
Effective rate	**27.99%**	**31.37%**

Fees of the independent auditors

In compliance with article 149-duodecies of Consob's Issuer Regulation, as amended with resolutions nos. 15915 dated 3 May 2007 and 15960 dated 30 May 2007, the following table discloses the fees for 2017 for the audit services and other services provided by the independent auditors and companies belonging to its network. The amounts are shown in thousands of Euro (not including VAT) and do not include costs:

(in thousands of euro)

Type of service	Party providing the service	Beneficiary	Note	Fees
Audit	KPMG S.p.A.	Intesa Sanpaolo Vita		1,324
Attestation services	KPMG S.p.A.	Intesa Sanpaolo Vita	(1)	1,225
Other services	KPMG S.p.A.	Intesa Sanpaolo Vita	(2)	98
Audit	KPMG S.p.A.	Subsidiaries/related companies		466
Attestation services	KPMG S.p.A.	Subsidiaries/related companies	(1)	25
Other services	KPMG S.p.A.	Subsidiaries/related companies	(2)	35
Total				**3,173**

(1) Fees for the review of the financial statements of the separately-managed businesses, internal funds, open-ended pension funds, Solvency II procedures
(2) Agreed-upon procedures

Part F – Related parties

The group companies have performed transactions with companies of the Intesa Sanpaolo Group as part of their normal operations, which are summarised below. These transactions were carried out at normal market conditions and to both parties' mutual advantage. The Group companies did not carry out atypical and/or unusual transactions during the year, either intragroup, with related parties or third parties.

(in thousands of euro)

	Parent	Entities controlled by the ultimate parent	Other related parties	Total
Loans and receivables	0	0	0	0
Available-for-sale financial assets	2,969,672	50,083	0	3,019,755
Financial assets at fair value through profit or loss	233,008	39,614	0	272,622
Other receivables	94,532	2,864	0	97,396
Other assets	863,767	169,732	0	1,033,499
Cash and cash equivalents	528,518	29,604	0	558,122
ASSETS	**4,689,497**	**291,897**	**0**	**4,981,394**
Technical provisions	0	0	6,105	6,105
Financial liabilities	655,736	17,256	0	672,992
Fair value reserve	207,313	41	0	207,354
Payables	232,592	126,036	0	358,628
Other liabilities	29,644	24,020	0	53,664
LIABILITIES	**1,125,285**	**167,353**	**6,105**	**1,298,743**
Net premiums	0	0	558	558
Commission income	0	5,756	0	5,756
Net gains on investments	7,634	19,415	0	27,049
Net gains on AFS securities	86,249	155	0	86,404
Other income	17,903	20,975	18	38,896
Net charges (income) relating to claims	743,546	-1,345	-328	741,873
Commission expense	-215,804	-216,300	0	-432,104
Commissions and other acquisition costs	-154,180	-103,621	0	-257,801
Investment management costs	0	-30,337	0	-30,337
Other administrative costs	-5,716	-6,568	0	-12,284
Other costs	-161,906	-137,082	0	-298,988
INCOME STATEMENT	**317,726**	**-448,952**	**248**	**-130,978**

Assets and liabilities mainly refer to:

- ownership of bonds issued by the ultimate parent, Intesa Sanpaolo, or its subsidiaries;
- ownership of OEIC units managed by Intesa Sanpaolo Group companies;
- financial protection arrangements for unit-linked products;
- receivables and payables relating to personnel secondment or recharging of costs for the use of equipped space made available by the group;
- commission expense which is deferred and relates to contracts which do not fall under the scope of application of IFRS 4;
- deposits on current accounts opened with group banks;
- security deposits with Intesa Sanpaolo and its subsidiaries;
- liabilities for investment contracts which do not fall under the scope of application of IFRS 4;

- subordinated loans;
- commissions payable to the Intesa Sanpaolo networks accrued by the latter for the placement of products of insurance companies;
- receivables and payables with the ultimate parent Intesa Sanpaolo for the tax consolidation scheme for IRES purposes;
- payables to Intesa Sanpaolo group companies that provide IT services.

Income and expense refer mainly to:

- net gains on the financial instruments issued by group companies;
- fees that have accrued on current accounts opened with banks;
- costs and income from existing service contracts involving the reciprocal secondment of personnel or making available equipped spaces;
- net expenses from awarding insurance benefits to group companies and the change in the technical provisions;
- interest expense on subordinated loans;
- the cost of commission fees and commission expense to the network for the placement of insurance or investment contracts;
- management commissions recognised to group companies that manage the securities portfolios;
- expenses for IT services supplied by the outsourcer of the Intesa Sanpaolo Group.

Significant non-recurring events and transactions

Please see the “Other information” section of the Directors’ report for information on significant non-recurring events and transactions.

Part G – Information on risks

Insurance risks

1. Introduction

Intesa Sanpaolo Vita acknowledges the strategic importance of a system of risk management and internal controls as these are:

- a fundamental part of the Group's governance system, designed to ensure that its operations comply with strategies and internal rules and based on effective and prudent management principles;
- essential to provide the company bodies with information so that they are fully cognisant of the situation, efficiently manage risks and their interaction, amend strategies and policies and adapt the Group's organisation appropriately;
- important to ensure compliance with general and sector regulations, especially those issued by the supervisory authority and to encourage the adoption of a valid control culture

2. General

The parent has provided the Group with the tools (methodological, organisational and procedural, etc.) to protect and guarantee to all stakeholders that the individual group companies and the insurance group as a whole operate(s) correctly.

Specifically, the parent has:

- issued instructions about the internal controls, appropriate to the scope, nature and complexity of existing and potential business risks and those of the group; it updates such instructions to comply with the IVASS regulations ruling from time to time;
- formalised the internal audit, compliance, AML and risk management units, establishing their duties, powers and responsibilities and how they are to report to the board of directors.

In addition, the parent has:

- a suitable system of unambiguous powers and proxies to ensure the normal performance of its operations; this system provides for independent decision-making powers of the various internal units to allow them to carry out their duties, in line with the organisational delegation and control principles;
- an organisational structure that ensures segregation of duties and responsibilities among the operating units and control units, as well as the latters' independence.

The internal controls include the rules, procedures and organisational structures designed to ensure efficiency and effectiveness of the internal processes, containment of risks to within the established limits set to determine the group's risk appetite, to protect company assets and manage them on behalf of its customers over the medium to long-term, the reliability and integrity of financial and management reporting, the timeliness of reporting and compliance with the law, supervisory regulations, self-regulations and internal rules.

The internal controls include controls over all types of business risk, as defined in ISVAP Regulation no. 20, including on a forward-looking basis and to protect the Group's assets. Internal controls are structured according to the guidelines set out below:

- proportionality: the activities that ensure implementation of company orders are proportionate to the nature, scope and complexity of its inherent risks;

– segregation of duties and responsibilities: duties and responsibilities are divided among company bodies in a clear manner;
– formalisation: the actions of the boards of directors and delegated parties are always documented;
– independence of controls: the necessary independence of the control structures from the operational units is assured.

The players involved to different degrees in the internal controls are:

– guidance and control bodies, entrusted with directing and monitoring risks and internal controls of the parent:
– Board of Directors, which, as required by ISVAP Regulation no. 20 and specific rules, checks that its members meet the eligibility requirements. It has ultimate responsibility for defining strategies and guidelines for risk management and internal controls. It ensures their adequacy and continued existence over time, in terms of completeness, functionality and effectiveness considering the size and operations of the parent and the group as well as the nature and intensity of the related risks;
– Senior Management, responsible for the implementation, maintenance and monitoring of the internal controls and risk management system of the parent and the group, in line with the rules laid down by the board of directors;
– Board of Statutory Auditors, which, as required by ISVAP Regulation no. 20 and specific rules, checks that its members meet the eligibility requirements and the adequacy of the parent's organisational, administrative and accounting structure and such structure's working;
– committees, that advise on the internal controls. They are:
    - risk committee;
    - investment committee;
    - AML committee;
    - strategic committee;
    - control coordination committee.
– control units, which play a central role in supervising the correct working of the parent's and Group's internal functions. They also form part of the corporate governance structure as they check that the rules and procedures adopted by the parent and the Group are sufficient to monitor the previously identified risks and are, therefore, suitable to protect the stakeholders' interests. This control function is carried out by the internal audit, compliance, AML and risk management units, the latter three which are coordinated by the Chief Risk Officer;
– other control units, such as:
    - supervisory body (as per Legislative decree no. 231/2001), which has three standing members who have the specific expertise and characteristics set by the Organisational, management and control model and two alternate members. This body monitors the adequacy of, and compliance with the model, receives communications from internal or third parties, receives the information required by the relevant procedure and assesses the adequacy of the mapping of sensitive areas, compliance of operations with the model and the suitability of the relevant training programme;
    - individuals in charge of the open-ended funds and the independent auditors, which are involved in implementing the internal controls via ongoing liaising with the various control units and the Board of Statutory Auditors;
– risk observer organisational units, which monitor risks and/or weaknesses that are relevant for the parent's and Group's solvency and/or reputation by carrying out specific tests. They monitor any identified risks in line with the relevant rules approved by the board of directors. They inform senior management of any critical issues using the methods and timeframe established for regular reporting.

3. Identification

Intesa Sanpaolo Vita identifies risks using a risk assessment process, the chief elements of which are set out below:

– identification of the risks to which each Group company and the Group as a whole are exposed;
– identification of the internal areas exposed to these risks and identification of the risk owners;
– assessment of the impact of each risk;
– definition of the controls to be implemented by each Group company for these risks and those for risks faced by the group;
– assessment of the adequacy of these controls;
– definition of any mitigation actions.

The results of the risk assessment give senior management of each Group company and the parent an immediate picture of their risk exposure and they can thus use these results when taking decisions and prioritising actions, including at strategic level. The risk assessment tool is the starting point to assess each Group company's risk profile and that of the group as a whole and for the internal risk assessment (own risk and solvency assessment). The process has five stages: risk identification, census of information collection, valuation of the collected information, validation of the analyses and reporting, which includes the internal reporting about the individual company and group's exposure to risk.

The risk management unit identifies risks using a risk map which is updated at least once a year.

Risks are allocated to the following categories:

– Market, which includes the main financial risks that could impact each Group company's portfolio (interest rates, currency rates, credit spreads, share prices, real estate market performance, liquidity risk and issuer default risk);
– Legislative, which includes non-compliance with existing or future expected laws;
– Operational, which includes all those events that could cause losses for the group companies due to errors, malfunctions and damage caused by processes, systems and resources;
– Product, which includes risks related to product development (e.g., price risks, technological risks due to non-compliance with the electronic device regulations);
– Reputation, which includes all those events that could damage the group companies' reputation or image.
– Strategic, which includes the risk of losses due to erroneous strategic decisions and includes subcategories (financial, management, logistics, product). It also includes group risks arising from intragroup transactions, risks of contagion and risks due to the provision of insurance services by different companies and in different jurisdictions.
– Technical, which includes insurance risks (underwriting risk, risk of catastrophic events and provisioning risks).

4. Governance

The Group has policies (directives, rules and resolutions) to govern business risks:

– Internal control directives

  The directives were drawn up in accordance with article 5.2.d).i)/j) of ISVAP Regulation no. 20 to illustrate:

  - the fundamental principles of the internal controls, i.e., the tools (methodological, organisational, procedural, etc.) designed by the parent, incorporating the integrated internal controls regulation issued by Intesa Sanpaolo, as ultimate parent, to safeguard and ensure the proper working of the group and the parent;
  - the directives and criteria to circulate and collect the data and information useful for the supplementary supervisory exercise;
  - the duties and responsibilities of the company bodies and risk management, compliance and audit units and the exchange of information among the units, the board committees and company bodies, especially as regards coordination among the control functions; the information flows have been reorganised and greater importance has been given to the role of each organisation unit in notifying irregularities, which could

substantially damage the parent and the group's effective and prudent management, to the control bodies that report to the boards of directors and statutory auditors;

- the role of the other organisational units involved in internal controls, both for the first level checks and as risk observers; specifically, the roles of the planning and control unit and the technical-actuarial supervision were specified in more detail and with respect to the instructions for the distribution of data useful for supplementary supervisory purposes, the scope of the companies required to provide such data was clarified;
- the role of Intesa Sanpaolo Vita as parent of the insurance Group in the internal controls system.

– Risk Appetite Framework (RAF rules)

  These rules were drawn up to define the risk appetite framework of the parent and the Group as a whole and considering each group company. Their objective is to protect the companies' assets, formalising the duties and responsibilities of the company bodies and organisational units involved in the various stages and/or activities making up the RAF.

– Risk assessment rules (ORSA)

  These rules comply with article 5.2.e) of ISVAP Regulation no. 20, designed to describe the guidelines, roles and responsibilities of the company bodies and units involved and the activities carried out as part of the parent's own risk and solvency assessment (ORSA).

– Risk management rules and contingency plan

  These rules and the plan comply with article 5.2.g) of ISVAP Regulation no. 20. Their aim is to define how the parent and the Group identify, assess and monitor all business risks to which they are exposed.

– Investment master resolution

  This resolution regulates the parent's and group's policies about investments, how they are managed, selected, their ceilings and monitoring.

– Rules for operational risk, reinsurance risk, underwriting risk and provisioning risk

  These rules were drawn up in compliance with article 5.2.h) of ISVAP Regulation no. 20. Their purpose is to establish guidelines for the group companies as to how to manage underwriting, provisioning, reinsurance and operational risks in line with the Own risk and solvency assessment rules (ORSA) and the Risk Appetite Framework (RAF) rules for the Group and the Risk management rules.

– Outsourcing rules

  These rules define how the group companies, the parent and the group as a whole decide to outsource certain activities, select suppliers and check them. The new version of the rules includes the ethical requirements for suppliers, the selection criteria and guidelines about how to decide whether a procedure is essential or important.

– Rules for the valuation of eligibility

  These rules describe the procedures to ascertain that the directors and statutory auditors of the Group companies meet the eligibility requirements for their positions and those related to their professionalism, reputation and independence for the members of the control bodies.

– Reporting rules

  They describe the processes and checks to be put in place to ensure the reliability and completeness of the information provided to the supervisory authority, the related procedures to be complied with and the rules to be followed during the regular meetings with the supervisory authorities.

– ALM and liquidity management rules

  These rules comply with Annex 1 to ISVAP Regulation no. 20, the objective of which is to establish the guidelines to be followed by the Group companies for the management of assets and liabilities (ALM) and liquidity risk.

– Capital management rules

  The rules were drawn up to comply with the Solvency II Directive and the guidance provided by IVASS (Letter to the market dated 15 April 2014 on Solvency II - application of the EIOPA guidelines on the system of governance, the forward-looking assessment of own risks based on the ORSA principles, the submission of information to the competent national authorities and the pre-application process for internal models) and describe:

  - how to calculate own funds, especially as regards tiering and assessments about transferability and feasibility;

   - the rules for the efficient management of own funds and capital planning;
   - the principles underlying capital volatility measurement and containment;
   - the main aspects of dividend distribution policies;
   - the organisational and governance model, which encompasses the definition of the roles and responsibilities of internal bodies, departments and units involved in capital management;
   - the main monitoring and reporting activities.
- Data quality rules

  These rules were prepared to define the data governance standard for data used to calculate Solvency II ratios to ensure that the data filed are always complete and correct as is the related information to allow the internal bodies to reconstruct the activities performed and identify the related responsibilities.
- Group regulation

  This regulation was prepared in accordance with article 27 of ISVAP Regulation no. 20 to:
   - describe the group's organisational structure;
   - define its operational guidelines;
   - specify the guidance and coordination mechanisms and tools of the group as a whole and the subsidiaries' obligations.

The regulation also reflects that set out in the Intesa Sanpaolo Group's regulation for its subsidiaries.

5. Monitoring

Market risk: this risk derives from the level or volatility of the market prices of financial instruments that affect the carrying amounts of assets and liabilities. The parent has identified the following risk factors:

- interest rate risk: this affects assets and liabilities, whose carrying amount is affected by changes in forward interest rates or interest rate volatility;
- equity risk: this derives from the level or volatility of the market prices of shares and impacts assets and liabilities whose carrying amount is affected by changes in share prices;
- real estate risk: this derives from the level or volatility of the market price of real estate and impacts assets and liabilities whose carrying amount is affected by such changes;
- currency risk: this derives from changes in the level or volatility of exchange rates;
- spread risk: this impacts assets and liabilities whose carrying amount is affected by adverse changes in credit spreads;
- concentration risk: this reflects the risk of holding high percentages of financial assets with the same counterparty;
- liquidity risk: this derives from the Group's inability to monetise investments and other assets to meet its financial commitments when they fall due.

Investment portfolios

At 31 December 2017, the carrying amount of investment portfolios relating to financial assets amounted to €124,154 million. Of these, the part regarding traditional revaluable life policies, the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on segregated assets are determined, non-life policies and unrestricted capital amounted to €76,931 million. The other component, whose risk is borne solely by the policyholders, mainly consists of investments related to index-linked policies, unit-linked policies and pension funds and amounted to €47,404 million.

Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the financial assets allocated to traditional revaluable life policies, non-life policies and unrestricted capital.

Financial assets in segregated assets, non-life policies and unrestricted capital

In terms of breakdown by asset class, net of derivatives (-€57 million) detailed below, 85.24% of the assets (€65,460 million) consisted of bonds, whereas assets subject to equity price risk represented 2.06% of the total and amounted to €1,583 million. The remainder (12.70%, €9,752 million) consisted of investments relating to OEIC, private equity and hedge fund units.

Investments relating to the unrestricted capital of Intesa Sanpaolo Vita amounted to €1,353 million (fair values, net of current account balances) and had a risk level in terms of Value at Risk (99% confidence level, 10-day holding period) of approximately €32 million.

Interest rate risk exposure

The breakdown by maturity of bonds showed 6.61% short-term (under one year), 31.74% medium-term and 46.89% long-term (over five years).

(in thousands of euro)

	Carrying amount	%	Duration
Fixed rate bonds	**60,551,107**	**78.85%**	**6.00**
within one year	4,339,846	5.65%	
from 1 to 5 years	22,402,740	29.17%	
after 5 years	33,808,521	44.02%	
Floating rate/indexed bonds	**4,909,168**	**6.39%**	
within one year	734,790	0.96%	390.2%
from 1 to 5 years	1,972,550	2.57%	
after 5 years	2,201,828	2.87%	
Sub Total	**65,460,274**	**85.24%**	
Equity investments	**1,583,332**	**2.06%**	
UCI, Private Equity, Hedge Fund	**9,751,563**	**12.70%**	
Total	**76,795,169**	**100.00%**	

The modified duration of the bond portfolio, or the synthetic financial term of assets, is roughly 6.0 years.

The sensitivity of the fair value of the portfolio of financial assets to interest rate movements is summarised in the table below which highlights both exposure of the securities portfolio and the effect of positions represented by hedging derivatives which reduce its sensitivity. For example, a parallel shift in the yield curve of +100 basis points leads to a fair value loss on the bond portfolios of €3,589 million.

(in thousands of euro)

	Carrying amount	%	Fair value gains (losses)	
			+100 bps	**-100 bps**
Fixed rate bonds	60,551,107	92.50%	-3,425,273	3,800,132
Floating rate/indexed bonds	4,909,168	7.50%	-163,273	178,745
Sub Total	**65,460,274**	**100.00%**	**-3,588,546**	**3,978,877**
Effect of interest rate hedges	0		0	0
Total	**65,460,274**		**-3,588,546**	**3,978,877**

Credit risk exposure

The table below sets forth the distribution of the bond portfolio by rating class: AAA/AA bonds represented 2.83% of total investments and single A bonds represented 5.27%. Low investment grade securities (BBB) were 75.12% of the total, while the portion of speculative grade or unrated was minimal (2.01%).

Breakdown of financial assets by rating of the issuer

(in thousands of euro)

	Carrying amount	%
Bonds	**65,460,274**	**85.24%**
AAA	1,346,254	1.75%
AA	830,504	1.08%
A	4,050,461	5.27%
BBB	57,686,380	75.12%
Speculative grade	1,424,033	1.85%
Unrated	122,642	0.16%
Equity investments	**1,583,332**	**2.06%**
UCI, Private Equity, Hedge Fund	**9,751,563**	**12.70%**
Total	**76,795,169**	**100.00%**

The analysis of the exposure in terms of the issuers/counterparties produced the following results: bonds issued by governments, central banks and other public entities made up 75.20% of the total bonds, whereas the bonds of corporate issuers contributed around 24.80%.

The sensitivity of the fair value of the bonds with respect to a variation in the creditworthiness of the issuers, namely a market credit spread shock of ±100 basis points, at the end of 2017, are shown in the table below:

(in thousands of euro)

	Carrying amount	%	Fair value gains (losses)	
			+100 bps	-100 bps
Government bonds	49,225,202	75.20%	-2,832,654	3,171,356
Corporate bonds	16,235,072	24.80%	-793,217	838,207
Sub total	**65,460,274**	**100.00%**	**-3,625,871**	**4,009,563**
Effect of credit risk hedges	0		0	0
Total	**65,460,274**		**-3,625,871**	**4,009,563**

Equity risk exposure

The sensitivity of the equity portfolio to a hypothetical deterioration in share prices of 10% amounts to €158 million, as shown in the table below:

(in thousands of euro)

	Carrying amount	%	Fair value gains (losses) due to changes in share prices
			-10%
Shares of financial companies	192,999	12.19%	-19,300
Shares of non-financial and other companies	1,390,333	87.81%	-139,021
Effect share price risk hedge	-		-
Total	**1,583,332**	**100.00%**	**-158,321**

Currency risk exposure

The investment portfolio is residually exposed to currency risk: approximately 97% of investments are made up of assets denominated in Euro. Against the residual exposure to currency risk, positions in derivatives, above all domestic currency swaps, in the same currency, were entered into.

Derivatives

Derivatives are used to hedge the financial risks of the investment portfolio or for effective management.

Liquidity risk associated with derivatives is primarily attributable to plain vanilla derivatives (chiefly interest rate swaps, constant-maturity swaps and credit default swaps) traded on OTC markets with significant liquidity characteristics and sizes. These instruments are thus also liquid and easily liquidable both with the counterparty with which they were traded and with other market operators.

The following table shows the carrying amounts of derivatives at 31 December 2017 (derivatives with negative fair value are included):

(in thousands of euro)

	Carrying amount					
	Interest rates		Equity instruments, indices and exchange rates		Total	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Hedging derivatives	-	3,809	-	-	-	3,809
Effective operating hedges	-	-66,561	5,465	-	5,465	-66,561
Total	**-**	**-62,752**	**5,465**	**-**	**5,465**	**-62,752**

Financial assets allocated to unit-linked and index-linked policies

The financial assets at fair value through profit or loss include the assets allocated to meet obligations assumed for the issue of unit-linked and index-linked policies whose investment risks are borne by the policyholders; fair value changes in the financial liabilities for these contracts mirrors those of the assets allocated to them.

The following table shows the carrying amounts of the index-linked policy portfolio classified by rating of the issuer/guarantor or issuer:

(in thousands of euro)

	Intesa Sanpaolo Vita		Intesa Sanpaolo Life		Total	
	Fair value	%	Fair value	%	Fair value	%
Aaa/AAA/AAA	-	0.00%	-	0.00%	-	0.00%
Aa1/AA+/AA+	-	0.00%	-	0.00%	-	0.00%
Aa2/AA/AA	-	0.00%	-	0.00%	-	0.00%
Aa3/AA-/AA-	-	0.00%	-	0.00%	-	0.00%
A1/A+/A+	-	0.00%	-	0.00%	-	0.00%
A2/A/A	-	0.00%	-	0.00%	-	0.00%
A3/A-/A-	-	0.00%	-	0.00%	-	0.00%
Baa1/BBB+/BBB+	-	0.00%	776	100.00%	776	100.00%
Baa2/BBB/BBB	-	0.00%	-	0.00%	-	0.00%
Baa3/BBB-/BBB-	-	0.00%	-	0.00%	-	0.00%
Ba1/BB+/BB+	-	0.00%	-	0.00%	-	0.00%
Ba2/BB/BB	-	0.00%	-	0.00%	-	0.00%
Ba3/BB-/BB-	-	0.00%	-	0.00%	-	0.00%
B1/B+/B+	-	0.00%	-	0.00%	-	0.00%
B2/B/B	-	0.00%	-	0.00%	-	0.00%
B3/B-/B-	-	0.00%	-	0.00%	-	0.00%
Not rate	-	0.00%	-	0.00%	-	0.00%
Total	**-**	**0.00%**	**776**	**100.00%**	**776**	**100.00%**
of which guaranteed	-		-		-	0.00%

In the case of investments for unit-linked policies, however, the fair values amount to €42,973 million at 31 December 2017.

Their classification by risk profile shows a concentration of investments in medium and medium-high risk funds (approximately 63.7%).

(in thousands of euro)

	Intesa Sanpaolo Vita			Intesa Sanpaolo Life			Total		
	No. of funds	**Fair value of funds**	**%**	**No. of funds**	**Fair value of funds**	**%**	**No. of funds**	**Fair value of funds**	**%**
Low	5	39,436	0.37%	7	53,732	0.17%	12	93,168	0.22%
Medium low	16	61,601	0.57%	32	730,888	2.27%	48	792,490	1.84%
Medium	37	3,087,374	28.62%	77	10,515,016	32.67%	114	13,602,390	31.65%
Medium high	31	5,689,990	52.74%	79	8,084,190	25.12%	110	13,774,180	32.05%
High	30	1,906,945	17.68%	118	3,618,057	11.24%	148	5,525,002	12.86%
Very high	1	3,358	0.03%	1	40,595	0.13%	2	43,952	0.10%
Protected	-	-	0.00%	10	9,142,315	28.41%	10	9,142,315	21.27%
Guaranteed	-	-	0.00%			0.00%	-	-	0.00%
Not defined	-	-	0.00%			0.00%	-	-	0.00%
Total	**120**	**10,788,704**	**100.00%**	**324**	**32,184,793**	**100.00%**	**444**	**42,973,497**	**100.00%**

The following table gives the breakdown of internal funds according to the ANIA classification.

(in thousands of euro)

	Intesa Sanpaolo Vita			Intesa Sanpaolo Life			Total		
	No. of funds	**Fair value of funds**	**%**	**No. of funds**	**Fair value of funds**	**%**	**No. of funds**	**Fair value of funds**	**%**
Total equities	**27**	**393,613**	**3.65%**	**85**	**1,161,506**	**3.61%**	**112**	**1,555,119**	**3.62%**
of which Italian equities	1	13,180	0.12%	8	53,155	0.17%	9	66,336	0.15%
of which European equities	8	68,465	0.63%	15	322,487	1.00%	23	390,952	0.91%
of which North American equities	3	42,908	0.40%	16	248,985	0.77%	19	291,893	0.68%
of which Pacific equities	3	16,214	0.15%	11	105,811	0.33%	14	122,025	0.28%
of which global equities	11	232,351	2.15%	20	251,216	0.78%	31	483,567	1.13%
of which specialised equities	1	20,495	0.19%	15	179,852	0.56%	16	200,347	0.47%
Total balanced	**28**	**2,213,885**	**20.52%**	**41**	**1,382,776**	**4.30%**	**69**	**3,596,660**	**8.37%**
of which balanced-equities	2	1,725	0.02%	8	71,168	0.22%	10	72,893	0.17%
of which balanced	13	212,377	1.97%	27	1,238,783	3.85%	40	1,451,160	3.38%
of which balanced-bonds	13	1,999,783	18.54%	6	72,825	0.23%	19	2,072,608	4.82%
Total bonds	**29**	**688,709**	**6.38%**	**89**	**8,768,864**	**27.25%**	**118**	**9,457,573**	**22.01%**
of which pure Euro short-term government bonds	-	-	0.00%	1	9,774	0.03%	1	9,774	0.02%
of which pure Euro medium to long-term government bonds	9	62,874	0.58%	9	223,565	0.69%	18	286,439	0.67%
of which pure Euro corporate bonds	1	44,092	0.41%	6	222,034	0.69%	7	266,126	0.62%
of which pure international short-term government bonds	-	-	0.00%	-	-	0.00%	-	-	0.00%
of which pure international medium to long-term government bonds	1	16,327	0.15%	28	306,701	0.95%	29	323,028	0.75%
of which pure international corporate bonds	-	-	0.00%	5	375,843	1.17%	5	375,843	0.87%
of which mixed Eurozone bonds	7	29,572	0.27%	7	170,945	0.53%	14	200,516	0.47%
of which mixed international bonds	11	535,844	4.97%	33	7,460,003	23.18%	44	7,995,847	18.61%
Total liquidity	**3**	**26,313**	**0.24%**	**10**	**327,735**	**1.02%**	**13**	**354,048**	**0.82%**
of which Eurozone liquidity	2	25,803	0.24%	9	324,232	1.01%	11	350,036	0.81%
of which other currency liquidity	1	510	0.00%	1	3,502	0.01%	2	4,012	0.01%
Total flexible	**25**	**7,318,281**	**67.83%**	**89**	**11,401,598**	**35.43%**	**114**	**18,719,879**	**43.56%**
Total protected	**8**	**147,903**	**1.37%**	**10**	**9,142,315**	**28.41%**	**18**	**9,290,218**	**21.62%**
Total guaranteed	**-**	**-**	**0.00%**			**0.00%**	**-**	**-**	**0.00%**
N/D	**-**	**-**	**0.00%**			**0.00%**	**-**	**-**	**0.00%**
Total	**120**	**10,788,704**	**100.00%**	**324**	**32,184,793**	**100.00%**	**444**	**42,973,497**	**100.00%**

Technical risk

Life business

The typical risks of the life insurance portfolio (managed by Intesa Sanpaolo Vita and Intesa Sanpaolo Life) may be divided into three main categories: price risks, actuarial and demographic risks and provisioning risks.

The following tables give a presentation of the structure by maturities of the mathematical provisions and the structure for the minimum guaranteed return at 31 December 2017.

(in thousands of euro)

	Mathematical provision	%
up to 1 year	17,977	0.03%
from 1 to 5 years	4,952,493	6.99%
from 6 to 10 years	799,414	1.13%
from 11 to 20 years	607,224	0.86%
after 20 years	64,503,813	91.00%
Total	**70,880,921**	**100.00%**

(in thousands of euro)

	Total provisions	%
Insurance and investment products with annual return quarantee		
0% -1%	14,007,022	18.59%
from 1% to 3%	47,208,262	62.66%
from 3% to 5%	5,570,893	7.39%
Insurance products	4,094,744	5.44%
Shadow accounting provision	4,454,206	5.91%
Total	**75,335,127**	**100.00%**

The mathematical provisions are calculated on almost the entire portfolio on a contract-by-contract basis and the provisioning methodology takes into account all the group's future obligations.

The following table shows a breakdown of financial liabilities by maturity, represented by assets allocated to obligations arising under unit-linked and index-linked policies and subordinated liabilities.

(in thousands of euro)

	Due within one year	Due after one year	31.12.2017	31.12.2016
Unit-linked	-	43,442,088	43,442,088	34,531,827
Index-linked	-	776	776	806
Subordinated liabilities	536,815	1,389,823	1,926,638	1,316,249
Total	**536,815**	**44,832,686**	**45,369,501**	**35,848,882**

Non-life business

The typical risks of the non-life insurance portfolio (managed through Intesa Sanpaolo Assicura and Intesa Sanpaolo Vita) mainly relate to price and provisioning risks.

Price risks are monitored initially during definition of the technical features and product pricing, and over the life of the product by means of periodic checks of sustainability and profitability (both at product level and at portfolio level of liabilities).

The provisioning risk is monitored when the technical provisions are accurately determined. In particular, for companies that run the non-life business, the technical provisions may be broken down into: premium provisions, claims provisions, provisions for profit sharing and reversals and other technical provisions.

Risk underwriting policies provide that contracts are checked when acquired through an automatic system aimed at detecting the underwriting parameters associated with the applicable price. The check is thus not only formal, but also substantive, and in particular allows the identification of exposures in terms of capital and sums insured, in order to verify that the portfolio matches the technical and pricing scheme agreed upon with the sales network.

Subsequently, statistical checks are carried out to verify potentially irregular situations (such as concentration by area or by type of risk) and to monitor accumulation at the level of individual persons (with particular reference to policies that provide cover in the accident and health classes). This is also carried out in order to provide the reinsurance department with suitable indications of the portfolio characteristics in order to prepare the annual reinsurance plan.

The following table shows claims by generation at 31 December 2017:

(in thousands of euro)

Year of generation/occurrence		2013	2014	2015	2016	2017	Total
Provision:							
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	117,792	124,447	122,160	128,009	132,612	-
	at 31/12 of year N+1	111,110	102,222	98,828	107,851		-
	at 31/12 of year N+2	108,375	99,126	97,029			-
	at 31/12 of year N+3	106,431	97,412				-
	at 31/12 of year N+4	105,487					-
Cumulative amounts paid to date		91,645	83,704	83,714	76,060	43,430	378,553
Claims provision at the reporting date		13,856	13,711	13,319	31,792	89,182	161,861
Final claims provision for years before 2013		-	-	-	-	-	18,627
Total claims provision at 31.12.2017		**-**	**-**	**-**	**-**	**-**	**180,488**

Operational risk

Qualitative information

Operational risk is defined as the risk of incurring losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual, out-of-contract responsibilities or other disputes, ICT risk, penalties and losses associated with the risk of non-compliance and model risk; strategic and reputational risks are not included.

Following approval by Banca d’Italia, the Intesa Sanpaolo Group introduced an internal Model (AMA, Advanced Measurement Approach).

Control of the group’s operational risks was attributed to the board of directors, which identifies risk management policies, and to the management control committee, which is in charge of their approval and verification, as well as ensuring the functionality, efficiency and effectiveness of the risk management and control system.

Furthermore, the tasks of the Intesa Sanpaolo Group’s control coordination and operational risk committee include, inter alia, periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

Intesa Sanpaolo Group has a centralised function within the risk management department for the management of the group’s operational risks.

This department is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, verification of mitigation effectiveness and reporting to senior management. In compliance with current banking requirements, the individual organisational units have been assigned the responsibility of identifying, assessing, managing and mitigating risks: the functions responsible for the operational risk management processes for the relevant unit have been appointed within the same.

The process is entrusted to decentralised units to which specific activities for the management of operational risks have been assigned. These activities are carried out with the support of the competent departments of the Intesa Sanpaolo Group, in particular, the operational and reputational risk service.

The activities consist essentially of gathering and carrying out a structured survey of information relating to operational events, and in implementing the self-diagnosis process.

The self-diagnosis process consists of two stages:

– evaluation of the operational context (EOC), which is the qualitative analysis of the current exposure to operational risks, carried out by evaluating the risk factors in terms of "importance" and "control", in order to identify areas of vulnerability and any mitigation measures to resolve the same, thus promoting "proactive" risk management (risk ownership);
– scenario analysis (SA) whose scope is to identify the operational risks in a forward-looking perspective, measuring exposure in terms of frequency, average impact and worst case. The consistency analysis is used to verify any discrepancies between historical and future loss data.

The self-diagnosis process has helped to foster a corporate culture focused on continuously controlling operational risks.

Intesa Sanpaolo Group implements a traditional policy of operational risk transfer (insurance) with the aim of mitigating the impact of any unexpected losses, thus helping to reduce the risk capital.

Operational risks are monitored by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.

In order to support the operational risk management process on a continuous basis, a structured training programme was defined for employees actively involved in the process of managing and mitigating operational risk.

In particular, Intesa Sanpaolo Vita S.p.A. follows the directives of the ultimate parent on operational risks and, at the same time, continues its checks of the adequacy of the full process in accordance with specific, and not only regulatory, developments for insurance companies, both at an international level (ORX Insurance Sector Database consortium) and at a European (Solvency II) and national (IVASS and CROFI) level.

6. Assessment

Risks are monitored using an assessment process using methods that comply with the ORSA process. This latter process is the tool designed to make the governance and operations of the parent and the group efficient and effectively create value considering the risk taken on and the available capital.

The method applied to calculate economic capital absorption for risks identified by the group is compliant with the parameters and modules defined by the Solvency II regulations.

The risk assessment process includes ongoing stress tests. They comprise a number of techniques used by the group to:

– measure its vulnerability to exceptional but plausible events;
– allow the board of directors and senior management to understand the link between risk taken on and the risk appetite and the adequacy of the available capital.

The parent's risk committee approves the stress test methods.

The risk management unit presents the stress test results to the risk committee and to the board of directors of each Group company at least once a year.

Parte H – Share-based payment

Description of share-based payments

1. Incentive plan

The supervisory regulations about remuneration and incentive policies and practices for banks and banking groups issued on 30 March 2011 prescribe, inter alia, that part of the bonus granted to "Risk Takers" (50%) is to consist of financial instruments, to be assigned over several years.

Therefore:

– with respect to the 2011 results and the resolution taken by the shareholders on 28 May 2012, the Group acquired (through Banca IMI, appointed as the programme agent) 12,894,692 ordinary Intesa Sanpaolo shares on 26 June 2012 (equal to roughly 0.08% of its ordinary shares) for an average price per share of €0.97969 and a total of €12,632,743;

– with respect to the 2012 results and the resolution taken by the shareholders on 22 April 2013, the Group acquired (through Banca IMI, appointed as the programme agent) 8,920,413 ordinary Intesa Sanpaolo shares on 8 October 2013 (equal to roughly 0.06% of its ordinary shares) for an average price per share of €1.72775 and a total of €15,412,287;

– with respect to the 2014 results and to implement the resolutions taken by the shareholders on 8 May 2014 and 27 April 2015, the Group acquired (through Banca IMI, appointed as the programme agent) 6,885,565 ordinary Intesa Sanpaolo shares on 9 October 2015 (equal to roughly 0.04% of its ordinary shares) for an average price per share of €3.197 and a total of €22,012,769;

– with respect to the 2015 results and the resolution taken by the shareholders on 27 April 2016, the Group acquired (through Banca IMI, appointed as the programme agent) 8,440,911 ordinary Intesa Sanpaolo shares on 17 November 2016 (equal to roughly 0.05% of its ordinary shares) for an average price per share of €2.149 and a total of €18,139,446;

– with respect to the 2016 results and the resolution taken by the shareholders on 27 April 2017, the Group acquired (through Banca IMI, appointed as the programme agent) 8,091,160 ordinary Intesa Sanpaolo shares on 18 September 2017 (equal to roughly 0.05% of its ordinary shares) for an average price per share of €2.937 and a total of €12,520,115.

On the same dates, the shareholders also authorised the sale of shares in excess of the Group's actual requirements on the market or their retention to serve possible future incentive plans.

These shares will be assigned to the beneficiaries in line with the regulations for the incentive systems which usually require that the beneficiary to be with the company up until the effective assignment of the shares and subject each deferred part of the incentive (cash or financial instruments) to an ex post correction mechanism (malus condition), whereby the amount paid and the shares assigned may be decreased depending on whether specific financial-equity objectives, which measure the sustainability of the results achieved over time, are met in the year to which the deferred part relates.

Given the 2013 results, the share-based incentive plan was not activated and the group did not purchase shares for this purpose in 2014.

In line with the remuneration policies approved by the shareholders of the Italian group companies pursuant to ISVAP Regulation no. 39 of 9 June 2011, the Group purchased 290,033 Intesa Sanpaolo shares during the year at an average unit price of €2.149 to serve the deferred variable component tied to management's attainment of its 2016 targets. If the targets are met, the shares will be made available to the eligible beneficiaries.

2. Employee benefit plans

The long-term share-based payment plans are designed to motivate and encourage the loyalty of all group employees, alongside introduction of the 2014-2017 business plan. Specifically, the plan has the aim of encouraging identification with the group, pursuit of medium to long-term objectives and sharing value created over time.

The Group offers two long-term plans to its employees: a stock option plan (PAD) and leveraged employee co-investment plans - LECOIP. They were developed to strengthen identification with the group (PAD) and involve the employees in the pursuit of value objectives set out in the business plan (LECOIP).

The share-based payment plan has two stages:

1. launch of a stock option plan which allows each employee to share in the parent's value (ownership) and, hence, increase their sense of belonging to the Group;
2. allow each employee to decide what to do with the shares received and:
   - keep them in their securities account to sell them at a later date, or sell them immediately;
   - invest them in the leveraged employee co-investment plans (the LECOIP certificates) for a period equal to that of the business plan.

These financial instruments were both purchased on the market and are the result of capital increases.

The free assignment of ordinary Intesa Sanpaolo shares (PAD) entailed their purchase on the market (free shares) while the LECOIP certificates, issued by a third party financial company, have additional newly issued ordinary Intesa Sanpaolo shares as their underlying assignable to employees as part of a bonus capital increase (matching shares) and the employees' subscription of newly issued ordinary Intesa Sanpaolo shares arising from a capital increase against payment reserved to the employees at a discounted price compared to the market prices (discounted shares).

The LECOIP certificates are divided into three categories and have different characteristics depending on whether they are attributable to Risk Taker employees, managers or other employees. These certificates include:

– the right to receive a cash amount (or ordinary Intesa Sanpaolo shares) upon their maturity, equal to their original reference value (the average market price for November 2014) of the free shares and the matching shares ("protected capital"); and
– the right to receive, again upon maturity, a portion of the appreciation of the shares' value (free shares, matching shares and discounted shares) compared to the above original reference value.

The employees did not have to pay cash to join the plans. Rather, concurrently with subscription of the certificates, the employees agreed a forward sales contract for the free shares, the matching shares and the discounted shares with the certificate issuer. The sales price was used by the employees to subscribe the discounted shares and, for the remainder, to purchase the certificates.

The shareholders of Intesa Sanpaolo approved the co-investment plans in their ordinary meeting on 8 May 2014. The ultimate parent's shareholders also authorised the repurchase of own shares (pursuant to article 2357.2 of the Italian Civil Code), needed to assign the free shares. On the same day, Intesa Sanpaolo's shareholders resolved in their extraordinary meeting to authorise the management board to:

– increase share capital (bonus issue) to assign matching shares to the employees; and
– increase share capital against consideration for the employees, excluding options, by issuing shares at a discounted price compared to the market price for ordinary Intesa Sanpaolo shares.

The insurance group companies were authorised by their shareholders to purchase ordinary Intesa Sanpaolo shares to service the free share assignment plan for their employees.

Bank of Italy authorised the co-investment plans on 30 September 2014, after which the management board took the necessary resolutions to implement the plans on 2 October 2014.

The offering period for the co-investment plan closed on 31 October 2014. The shares were assigned to the employees on 1 December 2014, which is the start date of the vesting period that will end in April 2018.

Under IFRS 2, the PAD and LECOIP are presented using two different methods:

- as a cash-settled share-based payment transaction for the free shares: the insurance group companies purchased ordinary Intesa Sanpaolo shares directly on the market to assign their employees;
- as an equity-settled share-based payment transaction for the discounted and matching shares: Intesa Sanpaolo took on the obligation to assign shares to the employee beneficiaries of the Group companies. The insurance group companies recognised an increase in equity, balancing the cost of the service received, being the ultimate parent's contribution for this component.

Given the impossibility of estimating the fair value of the services received from employees reliably, the cost of the benefit for the employees is the fair value of the assigned shares, calculated at the assignment date, to be recognised in profit or loss as "Other administrative costs". The fair value of the free shares and the matching shares was calculated based on the market price of the shares on the assignment date. The fair value of the subscription discount of the discounted shares was calculated based on the market price of the shares on the assignment date. The market price of the shares assigned to the Risk Takers was adjusted to reflect the obligation to transfer the shares after the holding period.

The cost was fully expensed for those employees who only joined the stock option plan and not the LECOIP investment plans (i.e., who only received the free shares) as these shares are not subject to vesting conditions.

The employees who joined the LECOIPs are required to remain in service for the plan's term and there are additional performance objectives for the Risk Takers and managers (attainment of specific objectives related to the company's capitalisation and results). If the vesting conditions are not met, Intesa Sanpaolo takes over the rights that would have been recognised to the employees as per the certificates and the amounts of these rights are retroceded to the group companies. The financial effects of the plan, estimated by weighing the defined vesting conditions (including the probability that an employee will remain with the group over the plan term), will be recognised over the vesting period, i.e., over the plan term.

The quantitative elements of the above plans are set out below.

As a result of the decisions taken by each employee, on 1 December 2014, the employee beneficiaries were assigned and delivered ordinary Intesa Sanpaolo shares as part of the PAD or LECOIP. The shares assigned for the PAD do not have vesting conditions (although the Risk Takers are required to hold them for two years) while the benefit from participation in the LECOIP plans will vest when the 40-month vesting period ends (April 2018). The Risk Takers are required to hold them for another year.

The cost of the LECOIP in 2017 was roughly €1.8 million (12/40 of the plan's total value).

The group has not recognised liabilities for the cash-settled payments to employees under the plan's operating mechanism.

Annexes to the notes to the consolidated financial statements

STATEMENT OF FINANCIAL POSITION BY SEGMENT

(value in euro)

		Non-life segment		Life segment		Consolidation adjustements		Total	
		Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016
1	**INTANGIBLE ASSETS**	**3,137,000**	**205,000**	**636,800,000**	**635,339,000**	**0**	**0**	**639,937,000**	**635,544,000**
2	**TANGIBLE ASSETS**	**23,000**	**38,000**	**1,593,000**	**4,877,000**	**0**	**0**	**1,616,000**	**4,915,000**
3	**AMOUNT CEDED TO REINSURERS FROM INSURANCE PROVISIONS**	**14,905,000**	**16,654,000**	**857,000**	**657,000**	**0**	**0**	**15,762,000**	**17,311,000**
4	**INVESTMENTS**	**933,057,000**	**798,739,000**	**123,483,820,000**	**117,177,323,000**	**-83,863,000**	**-83,863,000**	**124,333,014,000**	**117,892,199,000**
4.1	Lands and buildings (investment properties)	0	0	0	0	0	0	0	0
4.2	Investments in subsidiaries, associates and joint ventures	0	0	86,175,000	83,863,000	-83,863,000	-83,863,000	2,312,000	0
4.3	Investments held to maturity	0	0	0	0	0	0	0	0
4.4	Loans and receivables	0	0	19,339,000	16,315,000	0	0	19,339,000	16,315,000
4.5	Financial assets available for sale	923,774,000	789,694,000	74,532,484,000	77,267,227,000	0	0	75,456,258,000	78,056,921,000
4.6	Financial assets at fair value through profit and loss	9,283,000	9,045,000	48,845,822,000	39,809,918,000	0	0	48,855,105,000	39,818,963,000
5	**RECEIVABLES**	**23,051,000**	**24,788,000**	**347,408,000**	**381,824,000**	**-4,830,000**	**-2,996,000**	**365,629,000**	**403,616,000**
6	**OTHER ASSETS**	**21,342,000**	**19,087,000**	**2,723,691,000**	**2,281,897,000**	**0**	**-1,124,000**	**2,745,033,000**	**2,299,860,000**
6.1	Deferred acquisition costs	0	0	0	0	0	0	0	0
6.2	Other assets	21,342,000	19,087,000	2,723,691,000	2,281,897,000	0	-1,124,000	2,745,033,000	2,299,860,000
7	**CASH AND CASH EQUIVALENTS**	**46,565,000**	**53,732,000**	**721,543,000**	**1,441,315,000**	**0**	**0**	**768,108,000**	**1,495,047,000**
TOTAL ASSETS		**1,042,080,000**	**913,243,000**	**127,915,712,000**	**121,923,232,000**	**-88,693,000**	**-87,983,000**	**128,869,099,000**	**122,748,492,000**
1	**SHAREHOLDERS' EQUITY**	**0**	**0**	**0**	**0**	**0**	**0**	**4,818,195,000**	**4,565,412,000**
2	**OTHER PROVISIONS**	**76,000**	**5,000**	**12,948,000**	**11,987,000**	**0**	**0**	**13,024,000**	**11,992,000**
3	**INSURANCE PROVISIONS**	**678,438,000**	**592,728,000**	**75,774,462,000**	**79,543,400,000**	**0**	**0**	**76,452,900,000**	**80,136,128,000**
4	**FINANCIAL LIABILITIES**	**3,560,000**	**5,576,000**	**45,786,896,000**	**36,206,744,000**	**0**	**0**	**45,790,456,000**	**36,212,320,000**
4.1	Financial liabilities at fair value through profit or loss	0	0	43,509,555,000	34,620,738,000	0	0	43,509,555,000	34,620,738,000
4.2	Other financial liabilities	3,560,000	5,576,000	2,277,341,000	1,586,006,000	0	0	2,280,901,000	1,591,582,000
5	**PAYABLES**	**53,176,000**	**44,842,000**	**695,878,000**	**712,863,000**	**-5,757,000**	**-3,411,000**	**743,297,000**	**754,294,000**
6	**OTHER LIABILITIES**	**8,767,000**	**14,981,000**	**1,042,460,000**	**1,054,155,000**	**0**	**-790,000**	**1,051,227,000**	**1,068,346,000**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**0**	**0**	**0**	**0**	**0**	**0**	**128,869,099,000**	**122,748,492,000**

INCOME STATEMENT BY SEGMENT

(value in euro)

		Non-life segment		Life segment		Consolidation adjustements		Total	
		Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016
1.1	Net earned premiums	344,980,000	301,312,000	5,850,036,000	7,601,306,000	0	0	6,195,016,000	7,902,618,000
1.1.1	*Gross earned premiums*	*354,331,000*	*310,083,000*	*5,850,559,000*	*7,601,806,000*	*0*	*0*	*6,204,890,000*	*7,911,889,000*
1.1.2	*Earned premiums ceded*	*-9,351,000*	*-8,771,000*	*-523,000*	*-500,000*	*0*	*0*	*-9,874,000*	*-9,271,000*
1.2	Commission income	0	0	791,814,000	565,279,000	0	0	791,814,000	565,279,000
1.3	Gains (losses) on financial instruments at fair value through profit and loss	220,000	245,000	98,556,000	23,618,000	0	0	98,776,000	23,863,000
1.4	Income from investments in subsidiaries, associates and joint ventures	0	0	0	0	0	0	0	0
1.5	Income from other financial instruments and lands and buildings	13,043,000	28,041,000	2,390,387,000	2,558,371,000	0	0	2,403,430,000	2,586,412,000
1.6	Other income	24,116,000	19,769,000	102,047,000	185,752,000	-7,485,000	-7,368,000	118,678,000	198,153,000
1	**TOTAL INCOME**	**382,359,000**	**349,367,000**	**9,232,840,000**	**10,934,326,000**	**-7,485,000**	**-7,368,000**	**9,607,714,000**	**11,276,325,000**
2.1	Net insurance benefits and claims	-98,316,000	-95,302,000	-6,894,656,000	-8,755,702,000	0	0	-6,992,972,000	-8,851,004,000
2.1.2	*Claims paid and change in insurance provisions*	*-103,160,000*	*-97,931,000*	*-6,895,018,000*	*-8,754,557,000*	*0*	*0*	*-6,998,178,000*	*-8,852,488,000*
2.1.3	*Reinsurers' share*	*4,844,000*	*2,629,000*	*362,000*	*-1,145,000*	*0*	*0*	*5,206,000*	*1,484,000*
2.2	Fee and commission expense	0	0	-574,410,000	-398,159,000	0	0	-574,410,000	-398,159,000
2.3	Expenses from investments in subsidiaries, associates and joint ventures	0	0	-393,000	0	0	0	-393,000	0
2.4	Expenses from other financial instruments and lands and buildings	-851,000	-2,401,000	-180,930,000	-203,380,000	0	0	-181,781,000	-205,781,000
2.5	Operating expenses	-141,450,000	-130,375,000	-313,882,000	-331,955,000	7,521,000	8,184,000	-447,811,000	-454,146,000
2.6	Other expenses	-74,251,000	-55,621,000	-521,632,000	-380,208,000	891,000	-735,000	-594,992,000	-436,564,000
2	**TOTAL EXPENSES**	**-314,868,000**	**-283,699,000**	**-8,485,903,000**	**-10,069,404,000**	**8,412,000**	**7,449,000**	**-8,792,359,000**	**-10,345,654,000**
	PROFIT (LOSS) BEFORE TAXES FOR THE PERIOD	**67,491,000**	**65,668,000**	**746,937,000**	**864,922,000**	**927,000**	**81,000**	**815,355,000**	**930,671,000**

CONSOLIDATION AREA

Company	Country of registered office	Country of operating office (5)	Method (1)	Activity (2)	Shareholding Direct %	% Total stake (3)	% Available voting rights at ordinary shareholders' meeting (4)	% of consolidation
INTESA SANPAOLO VITA S.p.A.	086		G	1	0.00%	0.00%		100.00%
INTESA SANPAOLO LIFE DAC	040		G	2	100.00%	100.00%		100.00%
INTESA SANPAOLO ASSICURA S.p.A.	086		G	1	100.00%	100.00%		100.00%

(1) Consolidation method: Line-by-line =L, Proportionate =P, Line-by-line by common control =C
(2) 1=Italian insurance; 2=EU insurance; 3=non-EU insurance; 4=insurance holding; 5=EU reinsurance; 6=non-EU reinsurance; 7=banking; 8=fund management; 9=other holding; 10=real estate 11=other
(3) the sum of the investments of all the companies that along the investment chain lie between the company preparing the consolidated financial statements and the company being consolidated. If more than one subsidiary has an investment in the latter company, the single amounts should be summed.
(4) total voting rights percentage available in ordinary meetings if different from the direct or indirect investment percentage.
(5) this information is required only when the Country of operating office is different from the Country of registered office

CONSOLIDATION SCOPE: EQUITY INVESTMENTS IN COMPANIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

					Financial highlights							
Name	Non-controlling interests investment %	Voting rights % available at ordinary share/ quotaholders' meetings to non-controlling interests	Profit (loss) for the year attributable to non-controlling interests	Equity attributable to non-controlling interests	Total assets	Investments	Technical provisions	Financial liabilities	Equity	Profit (loss) for the year	Dividends distributed to third parties	Gross premiums
INTESA SANPAOLO SMART CARE S.r.l.	51%		410,000	2,407,000	14,762,000				4,719,000	-1,650,000		

NON-CONSOLIDATED EQUITY INVESTMENTS

Name	Country of registered office	Country of operating office (5)	Business (1)	Type (2)	Direct investment %	Total investment % (3)	Voting rights % available at ordinary share/ quotaholders' meetings (4)	Carrying amount
INTESA SANPAOLO SMART CARE S.r.l.	086		11	b	49%			2,312,000

(1) 1=Italian insurance; 2=EU insurance; 3=non-EU insurance; 4=insurance holding; 5=EU reinsurance; 6=non-EU reinsurance; 7=banking; 8=fund management; 9=other holding; 10=real estate 11=other
(2) a=subsidiary (IAS 27) ; b=associate (IAS 28); c=joint venture (IAS 31); indicate with an asterisk (*) investments classified as held for sale pursuant to IFRS 5 and show the key at the foot of the table
(3) the sum of the investments of all the companies that along the investment chain lie between the company preparing the consolidated financial statements and the company being consolidated. If more than one subsidiary has an investment in the latter company, the single amounts should be summed.
(4) total voting rights percentage available in ordinary meetings if different from the direct or indirect investment percentage.
(5) this information is required only when the Country of operating office is different from the Country of registered office

INTERESTS IN NON-CONSOLIDATED STRUCTURED ENTITIES

(value in euro)

Name	Revenue received from the structured entity during the year	Carrying amount (at the transfer date) of the assets transferred to the structured entity during the year	Carrying amount of the assets recognised by the reporting entity related to the structured entity	Matching statement of financial position asset caption	Carrying amount of liabilities recognised by the reporting entity related to the structured entity	Matching statement of financial position liability caption	Maximum exposure to risk of losses
FIPF 1 A2 10/01/2023	10,908	-	1,368,306	A4.5	-	-	1,224,142
GERMAN POST PENS 3,75 18/01/2021	3,750	-	115,103	A4.5	-	-	103,484
E-MAC NL05-3 A 25/07/2038	22,251	-	4,007,892	A4.5	-	-	3,839,718
AVOND 2007-1 A2 0 30/07/2032	10,634	-	0	A4.5	-	-	0

BREAKDOWN OF TANGIBLE AND INTANGIBLE ASSETS

(value in euro)

	Cost	Deemed cost or fair value	Book value
Lands and buildings (investment properties)	0		0
Lands and buildings (self used)	0		0
Other tangible assets	1,616,000		1,616,000
Other intangible assets	5,357,000		5,357,000

BREAKDOWN OF FINANCIAL ASSETS

(value in euro)

	Held to maturity investments		Loans and receivables		Financial assets available for sale		Financial assets at fair value through profit and loss				Total Book value	
							Financial assets held for trading		Financial assets designated at fair value through profit and loss			
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Equity securities and derivatives measured at cost	0	0	0	0	61,000	63,000	0	0	0	0	61,000	63,000
Equity securities at fair value	0	0	0	0	1,579,608,000	1,540,352,000	0	0	849,229,000	687,631,000	2,428,837,000	2,227,983,000
of which listed securities	*0*	*0*	*0*	*0*	*1,579,608,000*	*1,540,352,000*	*0*	*0*	*849,229,000*	*687,631,000*	*2,428,837,000*	*2,227,983,000*
Debt securities	0	0	0	0	64,945,542,000	68,471,211,000	230,250,000	256,602,000	3,319,909,000	3,295,917,000	68,495,701,000	72,023,730,000
of which listed securities	*0*	*0*	*0*	*0*	*64,767,860,000*	*68,354,483,000*	*227,322,000*	*256,602,000*	*3,286,444,000*	*3,293,196,000*	*68,281,626,000*	*71,904,281,000*
UCI shares	0	0	0	0	8,931,047,000	8,045,295,000	253,770,000	248,595,000	43,730,754,000	34,671,243,000	52,915,571,000	42,965,133,000
Loans and receivables from banking customers	0	0	14,533,000	16,048,000	0	0	0	0	0	0	14,533,000	16,048,000
Interbank loans and receivables	0	0	0	0	0	0	0	0	0	0	0	0
Deposits under reinsurance business	0	0	0	0	0	0	0	0	0	0	0	0
Financial asset components of insurance contracts	0	0	0	0	0	0	0	0	0	0	0	0
Other loans and receivables	0	0	4,806,000	267,000	0	0	0	0	0	0	4,806,000	267,000
Non-hedging derivatives	0	0	0	0	0	0	44,600,000	82,285,000	0	0	44,600,000	82,285,000
Hedging derivatives	0	0	0	0	0	0	0	0	0	0	0	0
Other financial investments	0	0	0	0	0	0	0	0	426,593,000	576,690,000	426,593,000	576,690,000
Total	**0**	**0**	**19,339,000**	**16,315,000**	**75,456,258,000**	**78,056,921,000**	**528,620,000**	**587,482,000**	**48,326,485,000**	**39,231,481,000**	**124,330,702,000**	**117,892,199,000**

BREAKDOWN OF ASSETS AND LIABILITIES RELATED TO POLICIES WHERE THE INVESTMENT RISKS IS BORNE BY THE POLICYHOLDERS AND TO PENSION FUND

(value in euro)

	Policies where the investment risk is borne by policyholders		Policies related to pension funds		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets in the balance sheet	43,967,685,000	35,123,668,000	3,615,050,000	3,262,442,000	47,582,735,000	38,386,110,000
Intercompany assets *	0	0	0	0	0	0
Total Assets	**43,967,685,000**	**35,123,668,000**	**3,615,050,000**	**3,262,442,000**	**47,582,735,000**	**38,386,110,000**
Financial liabilities in the balance sheet	43,441,845,000	34,532,633,000	0	0	43,441,845,000	34,532,633,000
Insurance provisions in the balance sheet	479,694,000	541,312,000	3,615,050,000	3,262,442,000	4,094,744,000	3,803,754,000
Intercompany liabilities *	0	0	0	0	0	0
Total Liabilities	**43,921,539,000**	**35,073,945,000**	**3,615,050,000**	**3,262,442,000**	**47,536,589,000**	**38,336,387,000**

* Assets and liabilities adjusted in the consolidation process

BREAKDOWN OF AMOUNT CEDED TO REINSURERS FROM INSURANCE PROVISIONS

(value in euro)

	Direct business		Indirect business		Total (book value)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Non-life insurance provisions	**14,905,000**	**16,654,000**	**0**	**0**	**14,905,000**	**16,654,000**
Provision for unearned premiums	4,775,000	7,300,000	0	0	4,775,000	7,300,000
Provisions for outstanding claims	10,130,000	9,354,000	0	0	10,130,000	9,354,000
Other insurance provisions	0	0	0	0	0	0
Life insurance provisions	**857,000**	**657,000**	**0**	**0**	**857,000**	**657,000**
Provisions for outstanding claims	856,000	652,000	0	0	856,000	652,000
Mathematical provisions	1,000	5,000	0	0	1,000	5,000
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension fund	0	0	0	0	0	0
Other insurance provisions	0	0	0	0	0	0
Total amount ceded to reinsurers from insurance provisions	**15,762,000**	**17,311,000**	**0**	**0**	**15,762,000**	**17,311,000**

BREAKDOWN OF INSURANCE PROVISIONS

(value in euro)

	Direct business		Indirect business		Total (book value)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Non-life insurance provisions	**678,438,000**	**592,728,000**	**0**	**0**	**678,438,000**	**592,728,000**
Provision for unearned premiums	496,540,000	419,304,000	0	0	496,540,000	419,304,000
Provisions for outstanding claims	180,488,000	172,044,000	0	0	180,488,000	172,044,000
Other insurance provisions	1,410,000	1,380,000	0	0	1,410,000	1,380,000
– of which reserves posted following liability adequacy test	*0*	*0*	*0*	*0*	*0*	*0*
Life insurance provisions	**75,774,462,000**	**79,543,400,000**	**0**	**0**	**75,774,462,000**	**79,543,400,000**
Provisions for outstanding claims	297,766,000	303,578,000	0	0	297,766,000	303,578,000
Mathematical provisions	66,786,177,000	69,938,648,000	0	0	66,786,177,000	69,938,648,000
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension fund	4,094,744,000	3,803,754,000	0	0	4,094,744,000	3,803,754,000
Other insurance provisions	4,595,775,000	5,497,420,000	0	0	4,595,775,000	5,497,420,000
– of which reserves posted following liability adequacy test	*21,000,000*	*32,500,000*	*0*	*0*	*21,000,000*	*32,500,000*
– of which deferred liabilities due to policyholders	*4,433,206,000*	*5,334,579,000*	*0*	*0*	*4,433,206,000*	*5,334,579,000*
Total insurance provisions	**76,452,900,000**	**80,136,128,000**	**0**	**0**	**76,452,900,000**	**80,136,128,000**

BREAKDOWN OF FINANCIAL LIABILITIES

(value in euro)

	Financial liabilities at fair value through profit and loss				Other financial liabilities		Total Book value	
	Financial liabilities held for trading		Financial liabilities designated at fair value through profit and loss					
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Financial equity instruments	0	0	0	0	0	0	0	0
Subordinated liabilities	0	0	0	0	1,926,638,000	1,316,249,000	1,926,638,000	1,316,249,000
Liabilities related to investment contracts from:	0	0	43,442,863,000	34,532,633,000	0	0	43,442,863,000	34,532,633,000
policies where the investment risk is borne by the policyholders	*0*	*0*	*43,442,863,000*	*34,532,633,000*	*0*	*0*	*43,442,863,000*	*34,532,633,000*
pension funds	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
other contracts	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Deposits under reinsurance business	0	0	0	0	2,559,000	4,575,000	2,559,000	4,575,000
Financial liability components of insurance contracts	0	0	0	0	351,704,000	270,758,000	351,704,000	270,758,000
Issued debt securities	0	0	0	0	0	0	0	0
Payables to banking customers	0	0	0	0	0	0	0	0
Interbank payables	0	0	0	0	0	0	0	0
Other financing and loans payable	0	0	0	0	0	0	0	0
Non-hedging derivatives	66,692,000	88,105,000	0	0	0	0	66,692,000	88,105,000
Hedging derivatives	0	0	0	0	0	0	0	0
Other financial liabilities	0	0	0	0	0	0	0	0
Total	**66,692,000**	**88,105,000**	**43,442,863,000**	**34,532,633,000**	**2,280,901,000**	**1,591,582,000**	**45,790,456,000**	**36,212,320,000**

BREAKDOWN OF INSURANCE TECHNICAL CAPTIONS

(value in euro)

		31.12.2017			31.12.2016		
		Gross amount	Reinsurers' share	Net Amount	Gross amount	Reinsurers' share	Net Amount
Non-life business							
NET PREMIUMS		**354,331,000**	**-9,351,000**	**344,980,000**	**310,083,000**	**-8,771,000**	**301,312,000**
a	Recognised premiums	431,566,000	-7,096,000	424,470,000	393,757,000	-6,311,000	387,446,000
b	Change in premiums provision	-77,235,000	-2,255,000	-79,490,000	-83,674,000	-2,460,000	-86,134,000
NET CHARGES RELATING TO CLAIMS		**-103,160,000**	**4,844,000**	**-98,316,000**	**-97,931,000**	**2,629,000**	**-95,302,000**
a	Amounts paid	-96,277,000	4,069,000	-92,208,000	-94,807,000	3,906,000	-90,901,000
b	Change in claims provision	-8,443,000	775,000	-7,668,000	-4,120,000	-1,277,000	-5,397,000
c	Change in recoveries	1,590,000	0	1,590,000	1,506,000	0	1,506,000
d	Changes in other technical provisions	-30,000	0	-30,000	-510,000	0	-510,000
Life business							
NET PREMIUMS		**5,850,559,000**	**-523,000**	**5,850,036,000**	**7,601,806,000**	**-500,000**	**7,601,306,000**
NET CHARGES RELATING TO CLAIMS		**-6,895,018,000**	**362,000**	**-6,894,656,000**	**-8,754,557,000**	**-1,145,000**	**-8,755,702,000**
a	Amounts paid	-9,719,960,000	162,000	-9,719,798,000	-7,526,372,000	190,000	-7,526,182,000
b	Change in provision for payable amounts	5,810,000	204,000	6,014,000	77,704,000	-1,005,000	76,699,000
c	Change in mathematical provisions	3,039,305,000	-4,000	3,039,301,000	-1,047,813,000	-330,000	-1,048,143,000
d	Change in technical provisions where investment risk is borne by policyholders and provisions arising from pension fund management	-290,990,000	0	-290,990,000	-151,291,000	0	-151,291,000
e	Change in other technical provisions	70,817,000	0	70,817,000	-106,785,000	0	-106,785,000

INCOME AND EXPENSES FROM FINANCIAL ASSETS

(value in euro)

	Interests	Other income	Other expenses	Gain on disposal	Losses on disposal	Total realised income and expenses	Unrealized gains		Unrealized losses		Total unrealised gains and losses	Total income and expenses 31.12.2017	Total income and expenses 31.12.2016
							Unrealized gains	Reversal of impairment losses	Unrealized losses	Impairment losses			
Result of investments	**1,884,742,000**	**275,408,000**	**-702,286,000**	**1,715,265,000**	**-280,576,000**	**2,892,553,000**	**1,129,454,000**	**0**	**-947,011,000**	**-8,264,000**	**174,179,000**	**3,066,732,000**	**2,882,516,000**
a From land and buildings (investment properties)	0	0	0	0	0	0	0	0	0	0	0	0	22,453,000
b From investments in subsidiaries, associates and joint ventures	0	0	-393,000	0	0	-393,000	0	0	0	0	0	-393,000	0
c From investments held to maturity	0	0	0	0	0	0	0	0	0	0	0	0	0
d From loans and receivables	423,000	0	0	2,372,000	-7,095,000	-4,300,000	0	0	0	0	0	-4,300,000	9,638,000
e From available for sale financial assets	1,824,007,000	186,158,000	-2,000	390,172,000	-84,618,000	2,315,717,000	0	0	0	-8,264,000	-8,264,000	2,307,453,000	2,418,364,000
f From financial assets held for trading	10,008,000	0	-3,040,000	51,582,000	-43,303,000	15,247,000	34,222,000	0	-28,419,000	0	5,803,000	21,050,000	19,321,000
g From financial assets designated at fair value through profit and loss	50,304,000	89,250,000	-698,851,000	1,271,139,000	-145,560,000	566,282,000	1,095,232,000	0	-918,592,000	0	176,640,000	742,922,000	412,740,000
Result of receivables	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Result of cash and cash equivalents	**296,000**	**0**	**0**	**0**	**0**	**296,000**	**0**	**0**	**0**	**0**	**0**	**296,000**	**1,129,000**
Result of financial liabilities	**-92,713,000**	**0**	**-35,000**	**28,987,000**	**-48,556,000**	**-112,317,000**	**18,504,000**	**0**	**-653,183,000**	**0**	**-634,679,000**	**-746,996,000**	**-479,151,000**
a From financial liabilities held for trading	-10,914,000	0	-35,000	28,985,000	-47,925,000	-29,889,000	18,504,000	0	-2,965,000	0	15,539,000	-14,350,000	-90,266,000
b From financial liabilities designated at fair value through income statement	0	0	0	0	-628,000	-628,000	0	0	-650,218,000	0	-650,218,000	-650,846,000	-317,932,000
c From other financial liabilities	-81,799,000	0	0	2,000	-3,000	-81,800,000	0	0	0	0	0	-81,800,000	-70,953,000
Result of payables	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**1,792,325,000**	**275,408,000**	**-702,321,000**	**1,744,252,000**	**-329,132,000**	**2,780,532,000**	**1,147,958,000**	**0**	**-1,600,194,000**	**-8,264,000**	**-460,500,000**	**2,320,032,000**	**2,404,494,000**

BREAKDOWN OF INSURANCE EXPENSES

(value in euro)

	Non-life segment		Life segment	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Gross commissions and other acquisition costs	-118,486,000	-110,578,000	-186,451,000	-209,207,000
a Acquisition commissions	-108,271,000	-99,370,000	-126,282,000	-151,510,000
b Other acquisition expenses	-9,640,000	-10,485,000	-17,829,000	-19,998,000
c Change in deferred acquisition costs	7,000	10,000	0	0
d Collection commissions	-582,000	-733,000	-42,340,000	-37,699,000
Commissions and profit sharing from reinsurers	911,000	736,000	32,000	89,000
Investment management expenses	-472,000	-498,000	-54,605,000	-50,519,000
Other administrative expenses	-23,403,000	-20,035,000	-72,858,000	-72,318,000
Total	**-141,450,000**	**-130,375,000**	**-313,882,000**	**-331,955,000**

BREAKDOWN OF OTHER COMPREHENSIVE INCOME

(value in euro)

	Allocations		Reclassification adjustments to Income statement		Other changes		Total changes		Taxes		Balance	
	Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016	Total 31.12.2017	Total 31.12.2016
Other comprehensive income after taxes without reclassification in the income statement	**31,000**	**-103,000**	**-**	**-**	**-**	**-**	**31,000**	**-103,000**	**-**	**-**	**-378,000**	**-409,000**
Change in shareholders' equity of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the revaluation reserve of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the revaluation reserve of tangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Gains (losses) of non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
Actuarial gains (losses) arising from defined benefit plans	**31,000**	**-103,000**	**-**	**-**	**-**	**-**	**31,000**	**-103,000**	**-**	**-**	**-378,000**	**-409,000**
Other items	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income after taxes with reclassification in the income statement	**2,635,000**	**-**	**-36,008,000**	**10,108,000**	**-46,058,000**	**-178,980,000**	**-79,431,000**	**-168,872,000**	**-**	**-**	**-**	**-**
Foreign currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-
Net unrealised gains (losses) on available for sale financial assets	-	-	-36,008,000	10,108,000	-46,058,000	-178,980,000	-82,066,000	-168,872,000	-	-	397,957,000	480,023,000
Net unrealised gains (losses) on cash flow hedging derivatives	2,635,000	-	-	-	-	-	2,635,000	-	-	-	2,635,000	-
Net unrealised gains (losses) on hedges of net investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-
Change in shareholders' equity of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Gains (losses) of non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL OF OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME	**2,666,000**	**-103,000**	**-36,008,000**	**10,108,000**	**-46,058,000**	**-178,980,000**	**-79,400,000**	**-168,975,000**			**400,214,000**	**479,614,000**

BREAKDOWN OF RECLASSIFIED FINANCIAL ASSETS AND EFFECTS ON PROFIT OR LOSS AND COMPREHENSIVE INCOME

(value in euro)

Reclassified financial asset categories		Type of asset	Amount of assets reclassified in the period at the reclassification date	Carrying amount at 31.12.2017 of the reclassified assets		Fair value at 31.12.2017 of the reclassified assets		Assets reclassified in 2017		Assets reclassified up to 2017		Assets reclassified in 2017		Assets reclassified up to 2017	
from	to			Assets reclassified in 2017	Assets reclassified up to 2017	Assets reclassified in 2017	Assets reclassified up to 2017	Gain or loss recognised in profit or loss	Gain or loss recognised in other comprehensive income	Gain or loss recognised in profit or los	Gain or loss recognised in other comprehensive income	Gain or loss that would have been recognised in profit or loss if the reclassification had not been made	Gain or loss that would have been recognised in other comprehensive income if the reclassification had not been made	Gain or loss that would have been recognised in profit or loss if the reclassification had not been made	Gain or loss that would have been recognised in other comprehensive income if the reclassification had not been made
Total			**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

ASSETS AND LIABILITIES AT FAIR VALUE ON A RECURRING AND NON-RECURRING BASIS: BREAKDOWN BY FAIR VALUE LEVELS

(value in euro)

		Level 1		Level 2		Level 3		Total	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets and liabilities at fair value on a recurring basis									
Financial assets available for sale		72,787,355,000	75,781,179,000	1,688,944,000	1,624,738,000	979,959,000	651,004,000	75,456,258,000	78,056,921,000
Financial assets at fair value through profit and loss	Financial assets held for trading	428,371,000	438,236,000	48,626,000	103,859,000	51,623,000	45,387,000	528,620,000	587,482,000
	Financial assets designated at fair value through profit and loss	47,560,657,000	38,247,513,000	286,690,000	384,992,000	479,138,000	598,976,000	48,326,485,000	39,231,481,000
Lands and buildings (investment properties)		0	0	0	0	0	0	0	0
Tangible assets		0	0	0	0	0	0	0	0
Intangible assets		0	0	0	0	0	0	0	0
Total assets at fair value on a recurring basis		**120,776,383,000**	**114,466,928,000**	**2,024,260,000**	**2,113,589,000**	**1,510,720,000**	**1,295,367,000**	**124,311,363,000**	**117,875,884,000**
Financial liabilities at fair value through profit and loss	Financial liabilities held for trading	0	0	66,692,000	88,105,000	0	0	66,692,000	88,105,000
	Financial liabilities designate at fair value through profit and loss	0	0	43,442,863,000	34,532,633,000	0	0	43,442,863,000	34,532,633,000
Total liabilities at fair value on a recurring basis		**0**	**0**	**43,509,555,000**	**34,620,738,000**	**0**	**0**	**43,509,555,000**	**34,620,738,000**
Assets and liabilities at fair value on a non-recurring basis		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Non-current assets held for sale and discontinued operations		0	0	0	0	0	0	0	0
Liabilities of non-current assets held for sale and discontinued operations		0	0	0	0	0	0	0	0

BREAKDOWN OF CHANGES TO ASSETS AND LIABILITIES OF LEVEL 3, AT FAIR VALUE ON A RECURRING BASIS

(value in euro)

	Financial assets available for sale	Financial assets at fair value through profit and loss		Land and buildings (investment properties)	Tangible assets	Intangible assets	Financial liabilities at fair value through profit and loss	
		Financial assets held for trading	Financial assets designated at fair value through profit and loss				Financial liabilities held for trading	Financial liabilities designated at fair value through profit and loss
Initial amount	**651,004,000**	**45,387,000**	**598,976,000**	**0**	**0**	**0**	**0**	**0**
Purchases/Issues	286,485,000	0	0	0	0	0	0	0
Sales/Repurchases	-32,398,000	0	-20,353,000	0	0	0	0	0
Refunds	0	0	0	0	0	0	0	0
Profit (loss) income statement	-2,697,000	3,312,000	-529,000	0	0	0	0	0
– of which unrealized gains/losses	*-2,378,000*	*3,312,000*	*-529,000*	*0*	*0*	*0*	*0*	*0*
Profit (loss) in other components of comprehensive income statement	44,902,000	0	0	0	0	0	0	0
Transfers to level 3	77,883,000	2,927,000	30,788,000	0	0	0	0	0
Transfers to other levels	-4,192,000	0	0	0	0	0	0	0
Other changes	-41,028,000	-3,000	-129,744,000	0	0	0	0	0
Final amount	**979,959,000**	**51,623,000**	**479,138,000**	**0**	**0**	**0**	**0**	**0**

ASSETS AND LIABILITIES NOT AT FAIR VALUE: BREAKDOWN BY FAIR VALUE LEVELS

(value in euro)

	Book value		Fair value							
			Level 1		Level 2		Level 3		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets										
Financial assets held to maturity	-	-	-	-	-	-	-	-	-	-
Loans and receivables	19,339,000	16,315,000	-	-	-	-	19,339,000	16,315,000	19,339,000	16,315,000
Investments in subsidiaries, associates and joint ventures	2,312,000	-	-	-	-	-	-	-	-	-
Land and buildings (investment properties)	-	-	-	-	-	-	-	-	-	-
Tangible assets	1,616,000	4,915,000	-	-	-	-	1,616,000	4,915,000	1,616,000	4,915,000
Total Assets	**23,267,000**	**21,230,000**	**-**	**-**	**-**	**-**	**20,955,000**	**21,230,000**	**20,955,000**	**21,230,000**
Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial liabilities	2,280,901,000	1,591,582,000	-	-	1,939,748,000	1,342,914,000	-	-	1,939,953,253	1,342,914,000

The undersigned states that the above is true and consistent with the accounting records.

The parent's legal representatives (*)

The Chairman - Luigi Maranzana .... (**)
(signed on the original)

(*) For foreign companies, the signature of the general representative for Italy is required.
(**) Specify the position held by the signatory representative.

Report of the Board of Statutory Auditors

Intesa Sanpaolo Vita S.p.A.

Sede in Torino, Corso Inghilterra n. 3
Capitale Sociale 320.422.508,00 euro i.v.
Iscritta presso il Registro delle Imprese di Torino, n. 02505650370

Società soggetta all'attività di direzione e coordinamento
di Intesa Sanpaolo S.p.A.

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Relazione del collegio sindacale al bilancio consolidato del Gruppo Assicurativo Intesa Sanpaolo Vita chiuso al 31/12/2017 (riferito alle sole società soggette a controllo partecipativo)

Il bilancio consolidato al 31 dicembre 2017 è costituito dallo stato patrimoniale, dal conto economico, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario e dalla nota integrativa, ed espone un utile consolidato di 587,1 milioni di euro, interamente di pertinenza del gruppo, e un patrimonio complessivo di 4.818,2 milioni di euro.

Esso risulta redatto in conformità ai principi contabili internazionali e secondo gli schemi e le istruzioni previsti dal Regolamento ISVAP n. 7 del 13/07/2007 e successive modifiche ed integrazioni ed include oltre alla situazione contabile della controllante Intesa Sanpaolo Vita, quella delle società controllate Intesa Sanpaolo Life e Intesa Sanpaolo Assicura. La società Intesa Sanpaolo Smart Care, detenuta al 31/12/ 2017 dalla Capogruppo Intesa Sanpaolo Vita al 49%, è consolidata al metodo del patrimonio netto.

La Relazione sulla gestione al Bilancio consolidato illustra adeguatamente l'andamento della gestione del Gruppo in particolare con riferimento agli aspetti di rilievo caratterizzanti le principali grandezze patrimoniali e finanziarie e la loro evoluzione nell'esercizio.

Il perimetro del Gruppo Assicurativo è composto da Intesa Sanpaolo Vita quale capogruppo assicurativa, dalle controllate Intesa Sanpaolo Assicura e Intesa Sanpaolo Life. Intesa Sanpaolo Smart Care è uscita dal perimetro del Gruppo assicurativo il 1° dicembre 2017 a seguito dell'aumento del capitale sociale deliberato dall'assemblea straordinaria in data 27 novembre 2017 e contestualmente anche sottoscritto da Intesa Sanpaolo S.p.A. che ne ha quindi acquisito il 51% del suo capitale sociale.

L'esercizio delle funzioni di vigilanza sul gruppo da parte del Collegio sindacale è avvenuto attraverso lo scambio di informazioni con l'alta direzione e le funzioni di controllo e con il Presidente del Collegio sindacale delle società controllate oltre che con la società di revisione. Mediante l'informativa acquisita in sede consiliare ai sensi dell'art. 2381 comma 5 C.C. da parte degli Organi delegati nonché per il tramite delle funzioni aziendali di controllo abbiamo altresì preso atto di tutte le operazioni di particolare rilevanza condotte nell'esercizio.

Nel corso dell'anno è stata acquisita evidenza delle attività di direzione e controllo svolte nell'anno 2017 da parte delle funzioni di controllo della Capogruppo assicurativa che confluiranno nella relazione predisposta dalla Capogruppo ai sensi dell'art. 28 bis del Regolamento ISVAP n. 20/2008. Si ricorda come la maggior parte delle principali funzioni di controllo delle società appartenenti al Gruppo Assicurativo, sono svolte in outsourcing da parte delle omologhe funzioni della capogruppo, assicurando in tal modo una positiva complessiva analisi dei rischi e dei controlli a livello di gruppo con altresì uniformità di processi, metodologie e procedure.

Il Collegio sindacale dà atto che la Nota integrativa riporta le indicazioni richieste dalle norme e contiene tra l'altro l'informativa sulle operazioni con parti correlate e sulla gestione dei rischi. Con particolare riferimento a questi ultimi all'interno della Nota integrativa sono evidenziati in particolare la natura e l'entità dei rischi finanziari cui il Gruppo è esposto nonché i rischi legati ai portafogli d'investimento. Il Collegio rileva a tal fine che gli stessi sono oggetto di periodico controllo e monitoraggio da parte della funzione Risk Management a livello di Gruppo.

Per quanto attiene alla controllata IS Life il Collegio ha periodicamente incontrato l'Amministratore Delegato e preso atto - nell'ambito della Relazione semestrale della funzione Audit della Capogruppo – degli esiti degli interventi condotti dalla e sulla controllata, approfondendo i punti di miglioramento emersi e le relative azioni di mitigazione individuate e tempo per tempo implementate.

Il Collegio ha preso positivamente atto del progressivo avanzamento delle importanti attività in materia di mappatura dei controlli ed in particolare dell'avvio della seconda fase del progetto e delle attività prodromiche al rafforzamento dei presidi del sistema dei controlli interni. Diamo altresì atto dell'assessment quali-quantitativo delle funzioni di controllo pianificato dalla controllata e finalizzato, unitamente alla mappatura dei controlli in essere, a raggiungere l'obiettivo del definitivo complessivo rafforzamento del sistema dei controlli interni. In ambito AML abbiamo preliminarmente preso atto della complessiva adeguatezza dell'attuale presidio antiriciclaggio della controllata, seppur con alcuni punti di miglioramento le cui azioni correttive, individuate e correttamente indirizzate, sono in corso di attuazione. Abbiamo approfondito le azioni di mitigazione tempo per tempo implementate ad esito delle criticità emerse nel periodo giugno 2011 – aprile 2014 ed oggetto di sanzione nel corso dell'esercizio 2017 da parte della Central Bank of Ireland, prendendo positivamente atto di come le stesse risultino ad oggi in fase di definitivo superamento. In ambito ICT e presidi di cyber security abbiamo preso atto dell'assessment in corso da parte di una primaria società di consulenza avviato ad esito dell'intenzione della Central Bank of Ireland di condurre un'indagine in materia sulle società classificate "High Impact" (in termini di volumi e rilevanza), tra cui IS Life risulta la principale.

Per quanto attiene alla controllata Intesa Sanpaolo Assicura, abbiamo preso atto - nell'ambito della Relazione semestrale della funzione Audit della Capogruppo – degli esiti degli interventi condotti dalla e sulla controllata, rilevando l'assenza di criticità. Abbiamo altresì incontrato periodicamente il Presidente del Collegio Sindacale dal cui scambio di informazioni non sono emerse criticità. In funzione della positiva crescita prevista con l'implementazione del Piano di impresa 2018-2020, abbiamo raccomandato un'attenta pianificazione e gestione del rafforzamento di assetti, processi e presidi.

In relazione ad Intesa Sanpaolo Smart Care - controllata fino al 01/12/2017 - abbiamo approfondito nel corso dell'anno i punti di attenzione emersi sui presidi delle attività esternalizzate ed abbiamo raccomandato il mantenimento dei presidi di monitoraggio dell'outsourcer, vista l'importanza del servizio per il ramo danni, facente capo ad Intesa Sanpaolo Assicura.

Abbiamo complessivamente preso atto della progressiva crescita delle attività e dei controlli di Intesa Sanpaolo Vita nel ruolo di capogruppo assicurativa raccomandando la implementazione anche in tutte le società appartenenti al Gruppo Assicurativo di un sistema dei controlli interni - nel complesso e per quanto concretamente o normativamente compatibile - progressivamente uniforme con gli assetti organizzativi, procedure e livelli di presidio della capogruppo assicurativa.

* * * * *

Sulla base delle informative dirette e delle informazioni assunte diamo atto di quanto segue:

- Il Collegio non ha riscontrato, nell'ambito della propria attività, elementi di criticità in relazione all'assetto organizzativo della Capogruppo confermando l'adeguatezza anche con riferimento ai flussi informativi provenienti dalle società rientranti nel perimetro di consolidamento e con riferimento alle operazioni di consolidamento stesse.
- Le situazioni patrimoniali ed economiche prese a base del processo di consolidamento integrale sono quelle riferite al 31 dicembre 2017 come approvate dai competenti organi delle società controllate, eventualmente rettificate ove necessario per adeguarli ai principi contabili omogenei della Capogruppo.
- Il bilancio consolidato (riferito alle sole società a controllo partecipativo) consta di tre società controllate direttamente. La società Intesa Sanpaolo Smart Care, detenuta al 31 dicembre 2017 dalla Capogruppo Intesa Sanpaolo Vita al 49%, è consolidata al metodo del patrimonio netto.
- Il consolidamento è stato attuato con il metodo di integrazione globale per le controllate e con il metodo del patrimonio netto per la società Intesa Sanpaolo Smart Care della quale la Compagnia detiene il 49% del capitale sociale.
- Il perimetro, i criteri di valutazione e i principi di consolidamento adottati sono esaurientemente illustrati dagli Amministratori nella Nota integrativa e conformi alle prescrizioni di legge.
- La Nota integrativa e la Relazione sulla gestione contengono tutte le informazioni richieste dalla legge e sono congruenti con i dati del bilancio.
- Il Collegio ha preso visione della relazione resa dalla Società di Revisione ex art. 14 D.Lgs 39/2010 e della Relazione ex art. 11 del Reg. UE 537/2014 e a tale riguardo osserva l'assenza di rilievi o richiami d'informativa. Per un approfondimento in merito alle attività svolte dalla Società di revisione si rimanda ai cap. 3 e 8 della Relazione del collegio al bilancio d'esercizio.

- Il Collegio, in qualità di Comitato per il Controllo Interno e la revisione contabile, ha ricevuto la relazione ex art. 11 del Reg- UE 537/2014 che ha trasmesso ex art. 19 del D.Lgs 39/2010 co. 1 lett. a) unitamente alle proprie osservazioni all'organo amministrativo.

Diamo atto che tutta l'informativa inerente il bilancio consolidato al 31 dicembre 2017 viene presentata agli Azionisti unitamente a quella inerente il bilancio di esercizio a tale data.

Torino lì, 1° marzo 2018

Il Collegio sindacale

Massimo Broccio: Massimo Broccio

Paolo Mazzi:

Riccardo Ranalli:

Independent auditors' report

KPMG

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010, article 10 of Regulation (EU) no. 537 of 16 April 2014 and article 102 of Legislative decree no. 209 of 7 September 2005

To the shareholders of
Intesa Sanpaolo Vita S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Intesa Sanpaolo Vita Insurance Group (the "Group"), which comprise the statement of financial position as at 31 December 2017, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Intesa Sanpaolo Vita Insurance Group as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian Regulation implementing article 90 of Legislative decree no. 209 of 7 September 2005.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Intesa Sanpaolo Vita S.p.A. (the "Company") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of goodwill

Notes to the consolidated financial statements:

Part A – Basis of preparation and accounting policies: "Goodwill";

Part C - Notes to the statement of financial position: "Intangible assets (caption 1)"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2017 include goodwill of €634.6 million. The Group calculated the recoverable amount of goodwill by estimating its value in use, using the appraisal value method that calculates the Company's value as a going concern as the sum of the embedded value and the value of future business. This method is very complex and use valuation methods that require estimates, which, by their very nature, are uncertain and subjective, of the calculation of the expected cash flows and the discount rates. For the above reasons, we believe that the recoverability of goodwill is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment test; — understanding the process adopted to calculate the embedded value, which includes the present value of future profits generated by the policies in portfolio, and the value of future business that the Company expects to realise in the next three years; — analysing the reasonableness of the assumptions used by the directors to determine the present value of future profits generated by the policies in portfolio and the value of future business; — checking the reasonableness of the model adopted for impairment testing and the related assumptions, including by means of comparison with external data and information; we carried out these procedures with the assistance of experts of the KPMG network; — tracing the amounts of certain key components used in the embedded value calculation model to the amounts included in the Solvency II report prepared by the directors for supervisory reporting purposes; — assessing the appropriateness of the disclosures about goodwill and the related impairment test.

Measurement of financial instruments

Notes to the consolidated financial statements:

Part A – Basis of preparation and accounting policies: "Investments";

Part C - Notes to the statement of financial position: "Investments (caption 4)"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2017 include financial instruments of €124,333.0 million, accounting for about 96% of total assets. Measuring financial instruments, particularly those unquoted on active markets or illiquid (classified at "level 2" or "level 3"), requires estimates, including by using specific valuation methods, which may present a high level of judgement and are, by their very nature, uncertain and subjective. For the above reasons, we believe that the measurement of financial instruments is a key audit matter.	Our audit procedures included: — understanding the process for the measurement of financial instruments and the related IT environment and assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls; — analysing the significant changes in financial instruments and related income statement items compared to the previous years' figures and discussing the results with the relevant group departments; — checking the measurement of all quoted financial instruments in portfolio at 31 December 2017; — checking, on a sample basis, the measurement of unquoted financial instruments ("level 2" and "level 3"), by analysing the reasonableness of input data and parameters used; we carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures about financial instruments.

Measurement of technical provisions

Notes to the consolidated financial statements:

Part A – Basis of preparation and accounting policies: "Technical provisions";

Part C - Notes to the statement of financial position: "Technical provisions (caption 3)"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2017 include technical provisions of €76,452.9 million, accounting for about 59% of total liabilities.	Our audit procedures included: — understanding the process for the measurement of technical provisions and the related IT environment and

The Group measures this caption using appropriate actuarial valuation techniques which entail, in certain instances, a high level of complex and subjective judgement relating to past and future internal and external variables with respect to which any changes in the underlying assumptions may have a significant impact on the measurements of these liabilities. For the above reasons, we believe that the measurement of technical provisions is a key audit matter.	assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls; — analysing the significant changes in technical provisions compared to the previous years' figures and discussing the results with the relevant group departments; — checking, on a sample basis, the valuation models adopted and the reasonableness of the input data and parameters used. This activity includes checking the appropriateness of the methods used to calculate the shadow accounting liability included in the technical provisions and to check the adequacy of the technical provisions using the liability adequacy test (LAT). We carried out these procedures with the assistance of experts of the KPMG network; — checking the compliance of the calculation of the overall technical provisions with the applicable laws and regulations and correct actuarial techniques. We carried out this procedure with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures about technical provisions.

Responsibilities of the directors and board of statutory auditors of Intesa Sanpaolo Vita S.p.A. for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian Regulation implementing article 90 of Legislative decree no. 209 of 7 September 2005 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537 of 16 April 2014

On 19 March 2013, the shareholders of Intesa Sanpaolo Vita S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2013 to 31 December 2021.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/ of 16 April 2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The directors of Intesa Sanpaolo Vita S.p.A. are responsible for the preparation of the Group's directors' report at 31 December 2017 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Group's consolidated financial statements at 31 December 2017 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the consolidated financial statements of the Intesa Sanpaolo Vita Insurance Group at 31 December 2017 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Exemption from preparation of the non-financial statement

As disclosed in the directors' report, the directors of Intesa Sanpaolo Vita S.p.A. availed of the exemption from the preparation of the non-financial statement pursuant to article 6.2 of Legislative decree no. 254/16.

Milan, 28 February 2018

KPMG S.p.A.

(signed on the original)

Maurizio Guzzi
Director of Audit

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GALLERIE D'ITALIA.
THREE MUSEUM VENUES: AN ITALIAN CULTURAL NETWORK.

Through the Gallerie d'Italia project, Intesa Sanpaolo intends to share its artistic and architectural heritage with the public at large: 1,000 works of art displayed in historic palazzi in three cities creating a unique museum network.

Set in an architectural context of great value, **Gallerie d'Italia - Piazza Scala in Milan** displays a selection of two hundred nineteenth-century works of the Lombard school of painting, along with a collection representative of twentieth-century Italian art. **Gallerie d'Italia - Palazzo Leoni Montanari in Vicenza** holds the most important western collection of Russian icons, examples of eighteenth-century Veneto art, and a collection of Attic and Magna Graecia pottery.

Gallerie d'Italia - Palazzo Zevallos Stigliano in Naples houses The *Martyrdom of Saint Ursula*, Caravaggio's last documented painting, as well as a collection of over one hundred and twenty artworks representative of Neapolitan artistic output from the early seventeenth century to the beginning of the twentieth century.

Cover photo:

CARLO BRANCACCIO (Naples 1861–1920)
Napoli, Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression c. 1888-1889
oil on canvas, 40 x 80 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Palazzo Zevallos Stigliano, Naples

Napoli, *Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression* by Carlo Brancaccio depicts an outdoor daily-life scene with a lively narrative style. The artist is particularly renowned for his radiant depictions of the most famous streets and sites in Naples, as well as for his seascapes and landscapes.

This picture is part of the permanent collection on display at Gallerie d'Italia - Palazzo Zevallos Stigliano, Intesa Sanpaolo's museum venue in Via Toledo, Naples. This collection of nineteenth-century paintings offers a remarkable overview of landscape painting, a genre that experienced an incredible season in Naples, on a par with the most advanced figurations developed in the rest of Europe.