2018 Annual Report of the Intesa Sanpaolo Vita Insurance Group

(only including the companies over which the parent has control)

Company of INTESA SANPAOLO

(Translation from the Italian original which remains the definitive version)

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only including the companies over which the parent has control

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	Giuseppe ATTANÀ Paolo BAESSATO Anna Maria FELLEGARA Andrea PANOZZO Eugenio ROSSETTI Anna TORRIERO

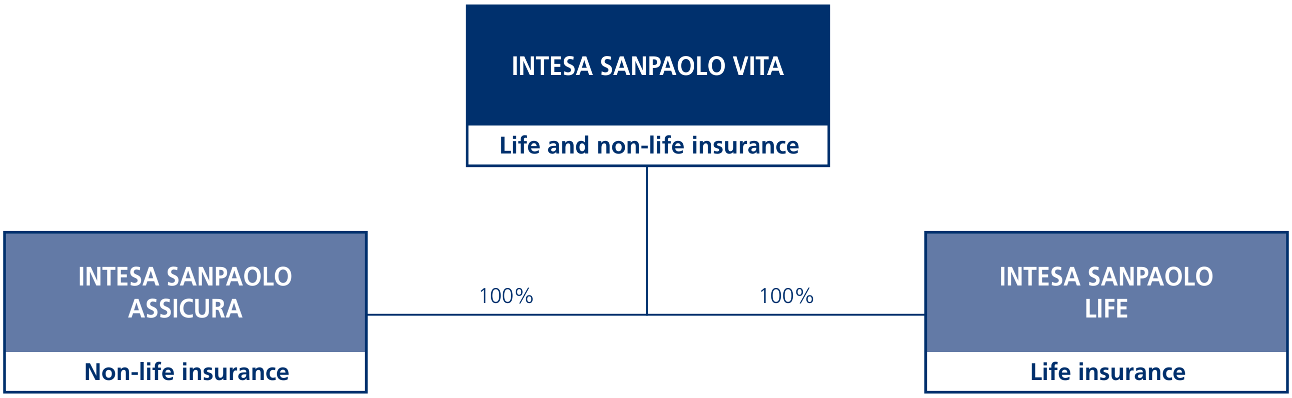
Board of statutory auditors

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



Key consolidated figures

(in millions of euro)

Operational figures	2018	2017	Variation %	
Gross collection	16,156.8	18,171.0	-2,014.2	-11.1%
- Premiums of life insurance products	906.7	873.5	33.2	3.8%
- Premiums of life financial products with DPF	5,936.1	4,977.1	959.0	19.3%
- Gross collection of life financial products without DPF	8,806.9	11,888.9	-3,082.0	-25.9%
- Non-life premiums	507.1	431.6	75.5	17.5%
Life new business	15,478.9	17,562.8	-2,083.9	-11.9%
Life contracts (no.)	3,878,174	3,720,638	157,536	4.2%
Non-life contracts (no.)	2,817,748	2,360,252	457,496	19.4%
Human resources (no.)	668	601	67	11.1%
Statement of financial position highlights	**31.12.2018**	**31.12.2017**		
Investments	122,227.7	124,333.0	-2,105.3	-1.7%
- Available-for-sale financial assets	72,122.7	75,456.3	-3,333.6	-4.4%
- Financial assets at fair value through profit or loss	50,083.9	48,855.1	1,228.8	2.5%
- Other investments	21.1	21.7	-0.6	-2.7%
Insurance provisions	73,962.8	76,452.9	-2,490.1	-3.3%
- Life insurance contracts	7,942.3	7,740.7	201.6	2.6%
- Life financial contracts with DPF	63,343.3	63,600.5	-257.2	-0.4%
- Shadow accounting provision	1,888.8	4,433.2	-2,544.4	-57.4%
- Non-life insurance policies	788.3	678.4	109.9	16.2%
Financial liabilities	46,684.0	45,790.5	893.5	2.0%
- Unit-linked financial policies	44,885.2	43,442.1	1,443.2	3.3%
- Index-linked financial policies	-	0.8	-0.8	-100%
- Subordinated liabilities	1,390.4	1,926.6	-536.3	-27.8%
- Other liabilities	408.4	421.0	-12.6	-3.0%
Shareholders' Equity	4,586.9	4,818.2	-231.3	-4.8%
Income statement highlights	**2018**	**2017**		
Net earned premiums	7,243.0	6,195.0	1,048.0	16.9%
Net insurance benefits and claims	7,711.8	6,993.0	718.8	10.3%
Net fee and commission income	249.3	217.4	31.9	14.7%
Net income from financial instruments and investments	1,858.5	2,320.4	-461.9	-19.9%
Commissions and other acquisition costs	324.8	304.0	20.8	6.8%
Consolidated profit	620.4	587.1	33.3	5.7%
Ratios	**31.12.2018**	**31.12.2017**		
Expense ratio	31.5%	32.8%	-1.3%	-3.9%
Non-life loss ratio	28.9%	29.1%	-0.2%	-0.6%
Gross collection/insurance provisions and financial liabilities	13.4%	14.9%	-1.5%	-9.9%
Non-life combined ratio	60.4%	61.9%	-1.5%	-2.4%
Net fees and commissions/financial liabilities (index- and unit-linked)	0.6%	0.5%	0.1%	11.0%

Reclassified consolidated financial statements

Reclassified statement of financial position and income statement

(in millions of euro)

	31.12.2018	31.12.2017	Variation	
ASSETS				
Intangible assets	**648.6**	**639.9**	**8.6**	**1.4%**
Property, plant and equipment	**1.3**	**1.6**	**-0.4**	**-21.9%**
Reinsurers' share of technical provisions	**19.7**	**15.8**	**3.9**	**24.7%**
Investments	**122,227.7**	**124,333.0**	**-2,105.3**	**-1.7%**
- Investments in subsidiaries and associates and interests in joint ventures	2.1	2.3	-0.2	-10.3%
- Loans and receivables	19.0	19.3	-0.4	-1.8%
- Available-for-sale financial assets	72,122.7	75,456.3	-3,333.6	-4.4%
- Financial assets at fair value through profit or loss	50,083.9	48,855.1	1,228.8	2.5%
Other receivables	**340.6**	**365.6**	**-25.0**	**-6.8%**
Other assets	**2,770.1**	**2,745.0**	**25.1**	**0.9%**
Cash and cash equivalents	**823.9**	**768.1**	**55.8**	**7.3%**
Total assets	**126,831.8**	**128,869.1**	**-2,037.3**	**-1.6%**
LIABILITIES				
Equity	**4,586.9**	**4,818.2**	**-231.3**	**-4.8%**
- attributable to the owners of the parent	4,586.9	4,818.2	-231.3	-4.8%
- attributable to non-controlling interests	-	-	-	n.a.
Provisions	**14.1**	**13.0**	**1.1**	**8.6%**
Technical provisions	**73,962.8**	**76,452.9**	**-2,490.1**	**-3.3%**
- Life insurance products	7,942.3	7,740.7	201.6	2.6%
- Life financial products with DPF	63,343.3	63,600.5	-257.2	-0.4%
- Shadow accounting provision	1,888.8	4,433.2	-2,544.4	-57.4%
- Non-life insurance policies	788.3	678.4	109.9	16.2%
Financial liabilities	**46,684.0**	**45,790.5**	**893.5**	**2.0%**
- Index-linked financial products	-	0.8	-0.8	-100.0%
- Unit-linked financial products	44,885.2	43,442.1	1,443.2	3.3%
- Subordinated liabilities	1,390.4	1,926.6	-536.3	-27.8%
- Sundry liabilities	408.4	421.0	-12.6	-3.0%
Liabilities	**739.4**	**743.3**	**-3.9**	**-0.5%**
Other liabilities	**844.5**	**1,051.2**	**-206.7**	**-19.7%**
Total liabilities	**126,831.8**	**128,869.1**	**-2,037.3**	**-1.6%**

(in millions of euro)

	2018	2017	Variation	
Net premiums	**7,243.0**	**6,195.0**	**1,048.0**	**16.9%**
- Life business	6,842.3	5,850.0	992.3	17.0%
- Non-life business	400.7	345.0	55.7	16.1%
Net charges relating to claims and change in technical provisions	**-7,711.8**	**-6,993.0**	**-718.8**	**10.3%**
Net commission income	**249.3**	**217.4**	**31.9**	**14.7%**
Net gains on financial instruments and investments	**1,858.6**	**2,320.4**	**-461.9**	**-19.9%**
- Net fair value gains (losses) on financial instruments at fair value through profit or loss	-162.3	98.8	-261.1	-264.3%
- Other net income	2,020.8	2,221.6	-200.8	-9.0%
Commissions and management costs	**-466.7**	**-447.8**	**-18.9**	**4.2%**
- Commissions and other acquisition costs	-324.8	-304.0	-20.8	6.8%
- Other costs	-142.0	-143.8	1.8	-1.3%
Other net costs	**-326.9**	**-476.3**	**149.4**	**-31.4%**
Profit before taxes	**845.1**	**815.4**	**29.8**	**3.7%**
- Income taxes	-224.7	-228.2	3.5	-1.5%
Profit for the year	**620.4**	**587.1**	**33.3**	**5.7%**
- attributable to the owners of the parent	620.4	587.1	33.3	5.7%

Statement of comprehensive income

(in thousands of euro)

	2018	2017
PROFIT FOR THE YEAR	**620,380**	**587,119**
Other items, net of tax, that will not be reclassified subsequently to profit or loss	**-44**	**31**
Change in equity of investees	-	-
Change in the revaluation reserve of intangible assets	-	-
Change in the revaluation reserve of property, plant and equipment	-	-
Gains (losses) on non-current assets held for sale and disposal groups	-	-
Net actuarial gains (losses) and adjustments to defined benefit plans	-44	31
Other items	-	-
Other items, net of tax, that will be reclassified subsequently to profit or loss	**-400,260**	**-79,431**
Change in the translation reserve	-	-
Net fair value losses on AFS financial assets	-397,723	-82,066
Gains (losses) on cash flow hedges	-2,537	2,635
Gains (losses) on hedges of net investments in foreign operations	-	-
Change in equity of investees	-	-
Gains (losses) on non-current assets held for sale and disposal groups	-	-
Other items	-	-
OTHER COMPREHENSIVE EXPENSE	**-400,304**	**-79,400**
COMPREHENSIVE INCOME	**220,076**	**507,719**
attributable to the owners of the parent	**220,076**	**507,719**
attributable to non-controlling interests	**-**	**-**

Statement of changes in equity

(in thousands of euro)

		31.12.2016	Adjustment to closing balance	Allocations	Reclassifications to profit or loss	Transfers	Change in investment percentage	31.12.2017
Equity attributable to the owners of the parent	Share capital	320,423	-	-		-		320,423
	Other equity instruments	-	-	-		-		-
	Equity-related reserves	1,328,097	-	-		-		1,328,097
	Income-related and other reserves	1,798,568	-	639,285		-255,511	-	2,182,342
	(Treasury shares)	-	-	-		-		-
	Profit for the year	638,710	-	-51,591		-		587,119
	Other comprehensive income	479,614	-	2,666	-36,008	-46,058	-	400,214
	Total attributable to the owners of the parent	**4,565,412**	**-**	**590,360**	**-36,008**	**-301,569**	**-**	**4,818,195**
Equity attributable to non-controlling interests	Share capital and reserves attributable to non-controlling interests	-	-	-		-	-	-
	Profit for the year	-	-	-		-		-
	Other comprehensive income	-	-	-	-	-	-	-
	Total attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,565,412**	**-**	**590,360**	**-36,008**	**-301,569**	**-**	**4,818,195**

(in thousands of euro)

		31.12.2017	Adjustment to closing balance	Allocations	Reclassifications to profit or loss	Transfers	Change in investment percentage	31.12.2018
Equity attributable to the owners of the parent	Share capital	320,423	-	-	-	-		320,423
	Other equity instruments	-	-	-	-	-		-
	Equity-related reserves	1,328,097	-	-	-	-		1,328,098
	Income-related and other reserves	2,182,342	-	586,220	-	-450,444	-	2,318,117
	(Treasury shares)	-	-	-	-	-		-
	Profit for the year	587,119	-	33,261	-	-		620,380
	Other comprehensive income	400,214	-	-2,581	-15,578	-382,146	-	-90
	Total attributable to the owners of the parent	**4,818,195**	**-**	**616,900**	**-15,578**	**-832,590**	**-**	**4,586,928**
Equity attributable to non-controlling interests	Share capital and reserves attributable to non-controlling interests	-	-	-		-	-	-
	Profit for the year	-	-	-		-		-
	Other comprehensive income	-	-	-	-	-	-	-
	Total attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,818,195**	**-**	**616,900**	**-15,578**	**-832,590**	**-**	**4,586,928**

Statement of cash flows (indirect method)

(in thousands of euro)

	2018	2017
PROFIT BEFORE TAXES	**845,126**	**815,355**
Change in non-monetary items	**-2,445,419**	**-2,683,143**
Change in non-life premium provision	91,519	79,761
Change in claims provision and other non-life technical provisions	13,784	7,698
Change in mathematical provisions and other life technical provisions	-2,999,265	-3,851,204
Change in deferred acquisition costs	-	-
Change in provisions	1,114	1,032
Non-monetary gains and losses on financial instruments, investment property and equity investments	511,575	1,073,176
Other changes	-64,145	6,394
Change in assets and liabilities arising from operating activities	**-154,773**	**-442,790**
Change in direct insurance and reinsurance receivables and liabilities	-28,875	25,930
Change in other assets and liabilities	-125,898	-468,720
Taxes paid	**-224,746**	**-228,236**
Net cash flows used for monetary items from investing and financing activities	**-822,567**	**-522,918**
Liabilities from financial contracts issued by insurance companies	893,524	9,578,136
Liabilities with bank customers and banks	-	-
Loans and receivables with bank customers and banks	-	-
Other financial instruments at fair value through profit or loss	-1,716,090	-10,101,054
NET CASH FLOWS USED FOR OPERATING ACTIVITIES	**-2,802,378**	**-3,061,732**
Net cash flows generated by/used for investment property	-	-
Net cash flows generated by/used for investments in subsidiaries and associates and interests in joint ventures	239	-2,312
Net cash flows generated by/used for loans and receivables	351	-3,024
Net cash flows generated by/used for held-to-maturity investments	-	-
Net cash flows generated by available-for-sale financial assets	3,309,269	2,592,399
Net cash flows generated by/used for property, plant and equipment and intangible assets	-	-
Other net cash flows generated by/used for investing activities	-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	**3,309,859**	**2,587,063**
Net cash flows used for equity instruments attributable to the owners of the parent	-451,719	-252,270
Net cash flows generated by/used for treasury shares	-	-
Dividends distributed to the owners of the parent	-	-
Net cash flows generated by/used for share capital and reserves attributable to non-controlling interests	-	-
Net cash flows generated by/used for subordinated liabilities and participating financial instruments	-	-
Net cash flows generated by/used for other financial liabilities	-	-
NET CASH FLOWS USED FOR FINANCING ACTIVITIES	**-451,719**	**-252,270**
Effect of exchange rate gains (losses) on cash and cash equivalents	**-**	**-**
OPENING CASH AND CASH EQUIVALENTS	768,108	1,495,047
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**55,762**	**-726,939**
CLOSING CASH AND CASH EQUIVALENTS	823,870	768,108

Reference context and group performance

The economic and financial context

The macroeconomic scenario

The long period of global economic growth continued at a moderate pace in 2018. However, signs of weakening of the global economy, previously seen in the first quarter economic indicators, became stronger in the second half of the year. Concerns over the protectionist offensive by the United States became a reality with the imposition of duties on steel, aluminium and, thus, on a wide range of Chinese products, which were followed by the adoption of countermeasures by China that have already reduced bilateral trade between the two countries. In China, economic growth has slowed down, as well as the demand for goods manufactured abroad.

The US economy is currently experiencing robust growth. In 2018, the average annual change in GDP was slightly less than 3%. Domestic demand was driven by the short-term effects of the tax reform and continued favourable fiscal conditions. Unemployment fell to 3.9%, but signs of wage pressure are still confined. Inflation returned to 2%, but is a long way from raising concerns for the Federal Reserve. The central bank has continued to gradually increase official rates, raising its Fed funds target rate three times by a total of 75 basis points and continuing to reduce its securities portfolio, not reinvesting the entire amounts of maturities.

On the contrary, there was a very sharp slowdown in growth in the Eurozone. In addition to the slowdown in foreign demand, the economy was impacted by a significant drop in demand for motor vehicles in the second half, also connected with the change in emissions standards. The year-on-year growth slowed down in the third quarter to 1.6%, and the economic indicators report that an additional slowdown occurred in the fourth quarter. Despite this, employment continued to rise, reducing unemployment to 7.9% of the workforce in November. Inflation remained at modest levels, lower than the targets of the European Central Bank. In June, the European Central Bank announced its intention to end net purchases of securities as part of its asset purchase programme at the end of December, after a reduction in the fourth quarter to € 15 billion per month. However, re-investment of maturities will also continue in 2019. The ECB also indicated that it expects official rates to remain unchanged at least through the summer of 2019. For the time being, short-term interest rates are still negative and stable. The 10-year Bund yield peaked at 0.76% in February, when the market was already expecting official interest rate rises in spring 2019. Subsequently, medium- and long-term market rates fell back to below their December 2017 lows.

As regards the negotiations for the United Kingdom to leave the European Union (Brexit), in November the parties reached an agreement on the withdrawal treaty and on a political statement regarding relations once withdrawal is completed, Nonetheless, the agreement is facing sharp opposition in the UK Parliament, which has made it impossible to ratify it to date.

Italian debt was subject to significant financial strains in May-June, coinciding with the negotiations for the formation of the new government and then again between October and November, in connection with the finalisation of the 2019 budget act. In May, spreads with German debt rose quickly on all maturities. On 29 May, in conjunction with end-month auctions characterised by low demand, short-term spreads were even higher than long-term spreads, which is typical in exceptional periods of financial stress. Financial tensions reflected investor concerns about the new government's willingness to keep public debt on a downward path, which in certain phases led the investors to price in also a significant redenomination risk. At the end of the year, however, the draft budget was significantly revised, with amendments considered sufficient by the European Commission to avoid the immediate opening of infringement proceedings due to the excessive deficit and to return the deficit to levels that could calm investors. This was followed by a rapid drop in the BTP-Bund spread from the highs of over 320 basis points to 280. Nonetheless, the levels of yield spreads remain well above the January-April average and are consistent with a risk of a downgrade in the country's credit rating.

The real economy of Italy, just as that of other European countries, also lost ground. The year-on-year growth of the GDP slowed to 0.7% in the third quarter, decreasing (-0.1%) on the previous quarter. This slowdown is reflected in the zeroing of growth in the industrial sector, due to the slowdown in exports and household consumption, and, from the third quarter of 2018, also to the reduction in fix investments. In November, industrial production was down sharply on an annual basis. Business confidence indices continued to deteriorate throughout the fourth quarter. However, though clearly slowing, the pace of economic growth was still sufficient to ensure modest growth in employment and a further fall in the unemployment rate, to 10.5% in November. The year-on-year change in the consumer price index was still small (1.2% in December).

On the foreign exchange markets, the Euro initially strengthened against the dollar, reaching a high of 1.25 in February and then fell back to levels even lower than those at the beginning of the year, between 1.2 and 1.18. From March to April, the Euro also temporarily strengthened against the Swiss franc, reaching almost 1.20. It then returned to its level at the beginning of the year, closing the year below 1.13.

Stock markets

In the international equity markets, 2018 saw generalised negative trends and a progressive increase in volatility, in a situation of greater investor aversion to risk.

In the first half of the year, the equity markets were initially supported by the performance of company profits. In particular, the announcements of 4Q17 and 1Q18 results provided positive signals to investors, with numerous results above expectations and the frequent confirmation or improvement of guidance for the current year. Subsequently, the gradual intensification of tensions in international trade between the United States and China, and the consequent imposition of duties, also put a brake on economic growth.

Instead, the second half of the year saw a combination of macroeconomic uncertainties (with numerous indicators reporting a slowdown in growth in Italy and, more generally, in the Eurozone), as well as monetary (linked to the end of the ECB's quantitative easing programme) and political uncertainties (growing tensions between Italy and the European Union linked to the approval of the 2019 Budget Act and the uncertainties relating to Brexit). This triggered a sharp, extensive adjustment of stock prices, which was more marked in the financial segment.

The Euro Stoxx index closed 2018 down by 14.8%, the CAC 40 recorded a downturn of 11% at the end of the year and the Dax 30 underperformed the main Eurozone benchmarks (-18.3%), while the IBEX 35 closed the year down by 15%. Outside the Eurozone, the Swiss market index SMI dropped by 10.2%, while the United Kingdom's FTSE 100 index ended 2018 down 12.5%.

In the US equity market, the S&P 500 index closed the year down (-6.2%), while the Nasdaq Composite technology stocks index slightly outperformed it, closing at -3.9%. The main equity markets in Asia showed negative performance: the Nikkei 225 index closed 2018 with a drop of 12.1%, while the Chinese benchmark index SSE A-Share fell even further (-24.6%).

All segments of the Italian stock market performed negatively, in line with the other benchmarks in the Eurozone, but with extensive volatility during the year. The FTSE MIB index closed 2018 at -16.2%, after first rising by +12.3% (7 May), then subsequently decreasing by 25.3% from the peaks reached. The FTSE Italia All Share index showed similar performance (-16.7%). Mid-cap stocks closed the year at -16.6%, in line with the main index, after closing the first half substantially unchanged.

Corporate bond markets

The European corporate bond markets ended 2018 negatively, with risk premiums (measured as asset swap spread - ASW) down sharply compared to the beginning of the year. The year was marked by sharp volatility, with markets that were negatively impacted by the combination of a set of elements including: signs of slowdown in growth (especially in the Eurozone), tensions in trade between China and the United States and new critical issues for several emerging countries. These factors were then joined by the uncertainties linked to the future moves of the US Federal Reserve, and, above all, the announced end of the European Central Bank's securities purchase programme. After a positive beginning of the year and in line with 2017, from February the markets showed a progressive widening of spreads, which continued until the end of the year, with high volatility and sporadic short periods of renewed purchases by traders, which however did not change the underlying negative trend. In the summer months, spreads were affected by the significant slowdown in purchases by the ECB, as well as by the trade tensions and crises in several countries such as Turkey and Argentina.

At sector level, 2018 ended with underperformance of investment grade securities compared to the high yield segment, also penalised by their greater sensitivity to the performance of risk-free rates. The very small spreads recorded at the beginning of the year contributed to sharpen the negative performance. During the year, financial securities showed greater weakness than industrial ones, probably due to a closer link between banks and country risk, especially in Italy, as well as the lack of technical support provided by the corporate sector purchase programme. In this regard, at the end of December 2018, (non-financial) corporate bonds held by the central bank amounted to approximately € 178 billion. Also based on the data provided by the central bank, in October 2018, around 12% of the ECB's corporate bond portfolio was comprised of securities from Italian issuers. At its last meeting of the year, the ECB confirmed that it would end QE in December 2018, but also confirmed its intention to continue reinvesting maturities for an extended period of time, even past the date when it starts raising interest rates.

With regard to the primary market, 2018 saw a generalised decrease in issues compared to 2017 (e.g., around -15% for non-financial corporate issues, source: Thompson One) also as a result of the pre-funding actions implemented by companies in the previous years. The performance was characterised by high volumes at the beginning of the year, with issuers willing to anticipate probable moves by the ECB, while the subsequent increase in volatility and rates turned into a more wait-and-see approach, with issuers attempting to exploit the sporadic phases of tightening of the spreads.

Emerging economies

Economic cycle and inflation

In 2018, following significant growth in the first half, the year-on-year growth of the GDP in emerging countries lost ground. With regard to a sample of countries that covers 75% of the GDP of emerging countries, year-on-year growth decreased from 5.1% in the first half to 4.8% in the third quarter. For all of 2018, according to the preliminary IMF estimates of January 2019, the GDP of emerging countries is expected to increase by 4.6%, compared to 4.7% in 2017. Though the Chinese economy is slowing, due to greater growth of India, Asia maintained growth estimated at 6.5% (as in 2017), confirming its position as the most dynamic global area. On the contrary, the estimates of the IMF see Latin America as the area with the weakest regional growth (+1.1%).

In the countries where ISP subsidiaries are located, the economy continued to show robust performance overall in the first three quarters of 2018, amounting to 3.1%, the same growth rate recorded in 2017. In CEE countries growth accelerated further (4.6% in the first three quarters of 2018 compared to 4.3% in all of 2017), but slowed in SEE countries (to 3.8% from 5.3%) due to the slowdown in the Romanian economy, which returned to a more sustainable level following the peak it reached in 2017 (+6.9%). As regards the other countries where ISP subsidiaries are located, growth slowed, though slightly, in Moldova, while it accelerated slightly in Russia and Ukraine, and significantly in Egypt. Indeed, in the fiscal year ended in June 2018 the country was among the most dynamic ones in the MENA region, with a growth rate exceeding 5%.

In 2018, year-on-year inflation in the sample that represents 75% of the GDP of emerging countries reached a peak of 4.4% in October, then slowed in the last few months of the year, due to the decrease in food and hydrocarbon prices, closing the year at 3.6%, substantially unchanged compared to the end of 2017.

Among the countries where ISP subsidiaries are located, in the CEE and SEE countries the most recent figures on price trends showed a slowdown in the last few months of 2018 as a result of the drop in energy prices, despite a positive output gap and sustained growth in wages. In December, the year-on-year performance of inflation fluctuated between 1.1% in Poland and 2.7% in Hungary in the CEE area and between 0.8% in Croatia and 3.3% in Romania in the SEE region. In most cases, inflation remained within the targets set by the respective central banks, with the sole exception of Poland, where it fell below the lower limit of the target range. In the CIS area, inflation ended the year increasing to 4.3% in Russia, above the target value, while it ended the year decreasing by a single decimal place (9.8%) in Ukraine. Inflation slowed significantly in Egypt (12% at the end of 2018), with the gradual elimination of the effects of the sharp depreciation of the exchange rate and the review of subsidies.

Monetary policy

In 2018, several emerging country central banks raised their key interest rates. In some cases (Argentina and Turkey) the authorities had to combat a currency crisis with sharp increases in the cost of money. In others, such as certain Asian countries (India, Indonesia, the Philippines and Malaysia) the restrictive measures were a response to the increase in inflation. Also in Asia, the Chinese central bank left interest rates unchanged, but reduced its mandatory reserve rate to support credit demand. In Latin America, in the first half of the year, the strength of the US dollar led the central banks (including those of Brazil and Peru) to close the bearish phase that had begun at the end of 2016.

Among the countries where ISP subsidiaries are located, in CEE and SEE countries, interest rates rose in the Czech Republic and in Romania, in response to the increase in inflation, while – faced with substantially stable inflation and a continuing prudent monetary position of the ECB – the monetary policy conditions remained accommodating elsewhere. In the CIS countries, in Russia the central bank cut the benchmark rate by 50 basis points in the first part of the year, in response to inflation that dropped below the target. However, in the second half, due to the weakening of the rouble and in order to combat inflationary pressures linked to the announced VAT increase, it raised the benchmark rate by 25 basis points, bringing it back to 7.5%. In Ukraine as well, to combat an inflation rate above the target, the central bank implemented increases totalling 350 basis points, bringing the benchmark rate to 18%.

The financial markets

In 2018, the increase in dollar rates and the currency difficulties that affected several stock markets favoured an appreciation of the US dollar against emerging countries (OITP index 9.4%), specifically against Argentina and Turkey, but also against Brazil, South Africa, India and Indonesia. In countries where ISP subsidiaries are located, the main currencies followed the Euro, which depreciated by 5% on the US dollar, with the Polish zloty and Hungarian forint specifically weak even against the Euro. In the CIS area, the Russian rouble depreciated by 16.3%, penalised by the recovery in oil prices and the additional sanctions. Lastly, the new agreement for financial support from the IMF favoured a slight appreciation of the Ukrainian hryvnia (+1.3%). The Egyptian pound even depreciated slightly (0.9%), despite an inflation rate that remains high, supported by the high premium paid on interest rates.

The concerns of a slowdown in the global economy – along with the uncertainties linked to the trade dispute between the United States and China and local geopolitical tensions – weighed on the various stock markets. The MSCI composite index of emerging countries' stocks dropped by 15.5%, following the indices of advanced countries downwards. The drops were particularly large on the Asian stock markets (Shanghai -24.5%) and in Gulf oil countries (Dubai -24.9%). With regard to countries where ISP subsidiaries are located, numerous stock markets in CEE and SEE countries outperformed the EuroStoxx, specifically Serbia (+5%) and Slovakia (+2%). In the CIS area, in Russia the stock index dropped by 7.6%, while the Ukrainian stock market was stronger (-2.4%). In the MENA area, the Egyptian stock market also declined (-13.2%), despite the strong performance of the economy.

The political tensions in numerous countries, along with the financial risks linked to the rise in US interest rates, resulted in an increase in the EMBI+ spread (average figure +116 basis points). The greatest expansion regarded the EMBI+ spread of Latin American countries (around 150 basis points), which was impacted by the crises in Argentina and Venezuela. With regard to countries where ISP subsidiaries are located, the spread rose by over 150 basis points in Ukraine (to 600 basis points) and by 40 basis points in Russia (to 170 basis points), as well as by 60 basis points in Egypt (to 360 basis points), while it decreased slightly in Croatia and Serbia and remained at low levels in the CEE area.

The improvement in its fiscal and external positions allowed Russia to reconquer an investment grade rating (which it lost between 2015 and 2016) from all three leading rating agencies. Even Egypt benefited from an upgrade in its sovereign debt rating (B for Fitch and S&P and B3 for Moody's). Also regarding ISP subsidiaries, rating upgrades were obtained by Ukraine (Caa1 for Moody's) following a new agreement with the IMF, Czech Republic (now AA- for Fitch), Poland (now A+ for S&P) and Croatia (now BB+ or equivalent).

The domestic insurance market

The life market

Premiums of the domestic life market in the first nine months of 2018 came to € 87.9 billion (+2.2% on the corresponding period of 2017).

New business for unit-linked policies decreased due to the more volatile financial markets and the growth in business of the traditional products, perceived as a more secure investment in difficult times.

Unit-linked products earned premiums of € 33.3 billion in the first nine months of the year (January to September 2018), down 6.9% on a year-on-year basis. Sales of classes I and V products gained growth, up 8.7% to € 53.0 billion, equal to 60.0% of total premiums. The multi-line products also performed well.

Net premiums grew throughout the year, driven by the rise in classes I and V premiums and the concurrent contraction in payments.

The agents/brokers and banking distribution channels both increased their production during the nine months, mainly as a result of the upturn in sales of class I policies, while financial advisors recorded a drop in their business due to the difficulties in placing risky products.

The EU introduced several laws affecting the insurance sector in 2018. In January 2018, the EU Regulation on Packaged Retail and Insurance-based Investment Products Regulation ("PRIIPs Regulation") became applicable. It introduces the obligation for insurance companies to provide customers with key information documents ("KID") about the product's costs and performance. In October, the Insurance Distribution Directive ("IDD") was enacted to encourage transparency and greater protection of policyholders.

The pensions market

At 30 September 2018, supplementary pension plans counted 8.6 million members, up 5.7% on 30 September 2017.

During the period (January to September 2018), members of open pension plans rose 7.1% to 1.4 million compared to the corresponding period of 2017, while workers who joined revised individual pension plans increased by 6.4% to 3.2 million at 30 September 2018 on a year-on-year basis. Members of negotiated pension plans came to 3.0 million, up 8.3% on 30 September 2017. This increase led to the launch of the contractual membership mechanism for the pension fund for the environmental hygiene sector (Previambiente).

Supplementary pension plan assets continue to increase and amounted to € 167.2 billion at 30 September 2018, up 6.2% on 30 Septemer 2017. The market's top product continues to be the individual pension plans, which grew by 15.5% on 30 September 2017, followed by the open pension plans (+8.1% on 30 September 2017) and the negotiated pension plans (+5.5% on 30 September 2017).

Rationalisation of the pension products to achieve operating efficiency continued and the range of products with a guaranteed minimum return was decreased in favour of those that only provide for the return of capital.

The non-life market

The Italian non-life market's premiums increased by 2.4% to € 26.2 billion in the first nine months of 2018 compared to the corresponding period of 2017. This trend was assisted by a slight increase in the motor insurance premiums and the positive performance of the non-motor insurance products reflecting product innovation.

The non-motor insurance segment's contribution to the business mix increased to 52.1% of the non-life premiums for the first nine months of 2018.

Specifically, the motor insurance segment recorded premiums of € 12.5 billion, up 1.5% on the same nine months of 2017. The non-mandatory covers increased by 5.7% while the motor property damage premiums grew 0.5% on the first nine months of 2017, due to the rise in new vehicle registrations (1.9 million new vehicles were registered in the first three quarters of 2018). The non-motor vehicle premiums increased by 3.2% to € 13.6 billion for the first nine months of 2018 on a year-on-year basis. Specifically, the health insurance, support and assistance, credit insurance, legal protection and other damage to goods classes all recorded above average growth.

The agency channel confirmed its role as the main distribution network in terms of market share, with 71.7% of the total non-life business volumes, down 0.9% on the corresponding period of 2017. With a 7.0% share, the banking channel grew 0.2% on the same period of the previous year. Finally, direct sales accounted for an overall 8.6%.

The bancassurance channel increased its share of the market led by Intesa Sanpaolo Assicura at 18.7%.

The insurance market is increasingly focused on the non-life segment with modular products that offer various covers and services within the one product that can vary over time to respond to the customer's changed requirements.

The sector has also changed the way that it interacts with customers with the move towards technology, such as instantaneous policies.

Products are also being designed for the SMEs to meet their specific protection requirements and to provide supplementary health and welfare insurance cover.

Overall, the non-life market is expected to have recorded a 2.1% increase in premiums in 2018. The MTPL premiums are forecast not to have changed while the other non-life classes should have seen an increase of 3.6% in their premiums.

Action plans and business development

The Intesa Sanpaolo Vita Group ended the year with a strong commercial performance and improved profits. These positive results were achieved thanks to the contribution of the more than 600 people who are part of the group and the ultimate parent's distribution networks and despite the financial market volatility seen for most of the year.

The financial markets were affected by the following factors during the year:

– significant financial strain due to Italy's debt in May and June, during negotiations to form a new government, and then again in October and November when the 2019 budget act was being prepared;
– the widened spread with the German bund, which exceeded 320 basis points in November to then return to around 260 basis points. This was more than 100 basis points higher than the end of 2017;
– Italy's economy lost impetus, in line with the other European countries. Domestic third quarter GDP was 0.7%, down on the previous quarter by 0.1%.

The group achieved its strong commercial performance despite external influences although its gross life production decreased by around 12% on the previous year. This was part of the strategic decision made in 2015 to rebalance premiums between classes I and III while concurrently launching a small number of pure class I products designed for specific customer segments.

Thanks to the group's sound management of insurance and financial risks, its solvency ratio was 211%[1] at 31 December 2018, which was very positive.

During the year, the group concentrated on the goals set in the ultimate parent's 2018-2021 business plan designed to maintain solid and the sustainable value creation and distribution for shareholders and to build the number 1 bank in Europe.

The pillars of the 2018-2021 business plan are:

– significant de-risking at no cost to shareholders;
– cost reduction through further simplification of the operating model;
– revenue growth capturing new business opportunities.

The enablers are our people, who continue to be Intesa Sanpaolo's most important resource, and the completion of the digital transformation.

With respect to revenue growth, particular attention is given to the Intesa Sanpaolo Vita Group which, with the subsidiary Intesa Sanpaolo Assicura, has the objective of becoming one of the top four Italian non-life insurance companies and the first in retail non-motor sector. Accordingly, Intesa Sanpaolo Assicura started the implementation of the strategies aimed at improving the products and services offered to customers. A new multichannel offering was launched in 2018. "XME Protezione" offers multiple non-motor insurance cover for customers and their families. The product has a modular approach providing the possibility of customising the cover also based on the prioritisation of areas of need, both during the initial sale and over the life of the contract. In addition, in 2018, the offering for SMEs was enhanced with the launch of the new "Tutela Business Manifattura" product and additional services were launched with "XME Salute". Lastly, during 2018, the use of Data Analytics methods was initiated to more effectively identify customer needs and offer personalised financial conditions.

The development of skills and the improvement of the level of service offered by the relationship managers of the Banca dei Territori was enabled by the addition of around 220 Protection Specialists, the completion of the

[1] Related to the fourth quarter of 2018.

IVASS qualification by around 30,000 employees and the mentoring of over 9,000 relationship managers. Lastly, the Communication Plan for the P&C offering was launched and the brand identity was strengthened, with the placement of "Banca Assicurazione" window stickers on the branches of the Intesa Sanpaolo Group banks.

In terms of after-sales services, in 2018, Intesa Sanpaolo Assicura again provided high standards for settlement times and strengthened its after-sales and claims management structures with around 60 employees (with the aim of having 500 additional FTEs by 2021).

Many activities took place to facilitate the greater efficiency of processes and to comply with the changes in the legislative framework. The guidelines for the activities performed during the year focused on the following aspects:

- modify the organisational structure to comply with the changed requirements of the expected business development and changed legislative and market scenario;
- develop internal processes to comply with the European laws (i.e., the IDD and GDPR);
- ensure adoption of the IVASS Regulations within the established timeframe for the corporate governance and insurance product advertising and transparency issues and product distribution;
- foster development of the ultimate parent's integrated multi-channel approach by introducing new commercial assistance for the network and facilitate interaction with customers;
- guarantee the technological upgrade of the base infrastructure and application platform of the group's information system, adopting targeted solutions for the entire insurance group, to be applied by the subsidiaries as well.

With respect to risk management, the parent's board of directors' committee set up in October 2017 was fully operational during the year and met once a month on average, providing great input to the issue. Its duties include supervision of the governance and management of financial, technical and operating risks.

The parent implemented the protocol to integrate the first level agreements and negotiate the second level agreements for the insurance group, signed in December 2017 with the trade unions. It also coordinated the protocol's application by the subsidiaries.

With special reference to the non-life business, the group focused on the activities to facilitate achievement of the business plan goal set by the Intesa Sanpaolo Group for Intesa Sanpaolo Assicura, namely to become the market leader in the retail non-motor sector. The training of specialists to assist the sales network was completed and an advertising campaign on protection was launched for several channels. Other activities were commenced for product strategies, such as the launch of the new XME Protezione modular product, as well as the internal strengthening of after-sales and claims management activities to make them more efficient.

At the date of approval of the consolidated financial statements, the Intesa Sanpaolo Vita Group:

- has maintained its leadership position in the domestic life and pension markets;
- has reduced the costs of premium collection and cover levels in portfolios through specific product policies compared to previous years;
- has continued its policy to mitigate risks and improve its internal controls.

Performance

Overall performance

The profit for the year came to € 620.4 million, an increase compared to 2017 (€ 587.1 million) as a result of:

- a € 1,048 million increase in net premiums (+17%, € 7,243.0 million compared to € 6,195.0 million for 2017), mainly due to the greater volume of traditional products sold. Specifically, Intesa Sanpaolo Vita completed its sale of the new "Scelta Sicura" product for the Banca dei Territori customers with a balance of at least € 40,000 in their current accounts;
- higher net commission income up € 31.9 million (+15%, € 249.3 million compared to € 217.4 million for 2017);
- net gains on financial instruments of € 1,858.3 million compared to € 2,320.4 million for 2017, affected by the turbulent markets;
- management costs of € 466.7 million, more or less in line with 31 December 2017 (€ 447.8 million);
- other net costs of € 326.9 million compared to € 476.3 million for 2017, reflecting the small unrealised exchange losses;
- comprehensive income attributable to the owners of the parent decreased to € 220.1 million from € 507.7 million for 2017. This is principally the effect of the larger fair value losses recognised under other comprehensive income which amounted to € 399.9 million (€ 82.1 million for 2017).

Income taxes came to € 224.7 million for the year (tax rate of 26.6%) against € 228.2 million for 2017 (tax rate of 28.0%).

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 their 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 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 persons (line managers, risk management officers, actuaries, internal auditors, senior management, board of statutory auditors, independent auditors, pension fund managers (open pension funds and individual pension plans), the board of directors' risk committee 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 corporate 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 internal audit unit 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 their 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.

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 policyholders compared to the old generation products;
– as part of the management of interest rate risk, the duration mismatch was decreased by both aligning the investment maturities with the profiles of the liabilities and by using bond forwards, also to reduce the reinvestment risk;
– 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, Spanish 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 lapse 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 accordance with the guidelines of the investments framework resolution, the parent operated as a matter of preference on derivatives to mitigate interest rate risks (IRSs, futures and forwards), currency risks (DCSs and forwards), equities risks (options) 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 principal new products

In 2018, the parent continued to focus on multi-line products. The key product designed for the retail and personal banking customers, launched in the first half of 2017, is “InFondi StabilitàInsurance”, which is a multi-line product that offers the possibility to combine free financial portfolios with a segregated funds component up to 50% of the premium paid by the customer. The key product for the private banking customers of Intesa Sanpaolo Private Banking is the multi-line “Synthesis” which is continuously improved as a result of the periodic checks and updating of the investment options offered.

The parent’s strategy for traditional class I products is to target specific customers. With respect to products that are always on offer like those for minors or mentally incompetent people, authorised by a judge supervising a guardianship, have been accompanied by new products specifically designed for defined needs.

Intesa Sanpaolo Assicura modified the tariffs for the “Tutela Famiglia” and “Malattie Gravi” products in February to include discounts for Intesa Sanpaolo Group employees.

With respect to the retail products, the group launched “XME Protezione” at the end of July, emphasising its focus on the protection project designed to meet customers’ needs for covering the non-life elementary lines of business.

This new modular product allows the manager to include highly personalised cover for the customers and their family members and different homes in one policy.

Customers have up to 18 covers to protect themselves against risks affecting their homes (including those arising from natural disasters), their families and health.

XME Protezione has lifecycle functionalities to allow the relationship manager to modify the policy to reflect changes in the customer’s needs, such as the inclusion of new forms or insured “objects” or an increase or decrease in the cover levels.

With respect to personal cover, Intesa Sanpaolo Assicura modified the tariffs of products designed for group employees.

The ProteggiMutuo product of the credit protection insurance product line was revised during the year with its dematerialisation along with some other products of the same line (ProteggiPrestito, BusinessSempre, “Business5” and ProteggiConMe) to comply with the new requirements as per the IVASS letter of 2018.

Developments in the motor insurance products were completed during the year to ensure their compliance with management of the risk certificate. Specific trade discounts were introduced for the “Auto Viaggia Con Me” product calculated by combining the bank and insurance data while discounts were also offered for motor vehicle third party liability products when the car owner has a black box as provided for by IVASS Regulation no. 37.

A new product, Tutela Business - Manifattura, was launched in the third quarter of the year for manufacturing, processing and maintenance SMEs (that also engage in sales activities). This innovative product is characterised by its modular nature and wide range of covers, as well as a guided risk profiling and identification system.

With respect to business corporate products, the activities covered by the scouting partnership agreement with AON were continued for business customers (based mainly in Piedmont and Lombardy) with the parent providing coinsurance services to selected corporate business customers.

Performance

During the year, the group reported gross premiums of € 16,156.8 million for both the life and the non-life businesses compared to € 18,171.0 million for 2017 and, in relation to the former, both products classified as insurance products and financial products.

Gross life premiums amounted to € 15,649.8 million, down 11.8% on the € 17,739.4 million for the previous year.

Gross non-life premiums amounted to € 507.1 million, up 17.5% on the € 431.6 million for 2017.

Traditional product premiums increased (19.0%), partly offset by the decrease in class III products (-25.8%) and class VI products (-6.7%).

(in millions of euro)

	2018	2017	Variation	
Income from insurance and financial products with DPF	**6,842.8**	**5,850.6**	**992.3**	**17.0%**
- Traditional (Class I)	6,341.4	5,329.1	1,012.3	19.0%
- Capitalisation (Class V)	0.8	0.8	0.1	7.6%
- Unit-linked (Class III)	18.2	3.5	14.7	421.8%
- Pension funds (Class VI)	482.4	517.2	-34.8	-6.7%
Income from financial products without DPF	**8,806.9**	**11,888.9**	**-3,082.0**	**-25.9%**
- Unit-linked (Class III)	8,806.9	11,888.9	-3,082.0	-25.9%
Total life business	**15,649.8**	**17,739.4**	**-2,089.7**	**-11.8%**

New life business in 2018, including income from financial products without discretionary participation features (DPF), came to € 15,478.9 million (-11.8%) compared to € 17,562.8 million for 2017.

The distribution structure

The parent, Intesa Sanpaolo Vita, uses the banking network of 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 Intesa Sanpaolo Group's sales network for its home and family, motor, health, lifestyle, cards, financing and business (CPI) products.

Focus on the banking network's Tutela product was bolstered by the introduction of more than 200 specialists during the year. These professionals provide prompt and specialised assistance to the Banca dei Territori branch managers and were provided with intensive training courses by Intesa Sanpaolo Assicura to give them the relevant insurance and technical expertise.

The subsidiary also avails of the financial advisors network of Fideuram - Intesa Sanpaolo Private Banking Group to distribute the Salute Fideuram product on an exclusive basis. Finally, it has management only agreements with non-group banks.

Reinsurance policy

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.

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

Intesa Sanpaolo Assicura's current policy protects the portfolio 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 support and assistance guarantees, legal protection and health insurance (dread disease).

The excess of loss treaties protect the subsidiary's retention and the main reinsured products refer to the MTPL and motor vehicle property damage classes (ViaggiaConMe), fire, other damage to goods and TPL, illness/accident products (XME Protezione Famiglia, Salute e Casa) and CPI.

During the year, the subsidiary agreed proportionate coinsurance polices and concurrently transferred them under optional reinsurance treaties with high risk transfer percentages that are not applicable to the current reinsurance treaties.

All its treaties are signed with leading operators and comply with the Solvency II Directive. The reinsurer with the lowest rating is in line with the subsidiary's reinsurance policy which provides for a minimum rating of A- (Standard & Poor's) for long tail business.

In addition, 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

2018 saw conclusion of the IT transition project which affected the base infrastructure, application architecture, improvement of the processes and better performance. Specifically, the project allowed the group to:

- launch the multi-channel service for Intesa Sanpaolo customers and achieve policy dematerialisation;
- include a non-group bank network in its network of sales agents;
- speed up products' time to market;
- align systems with new legislative requirements;
- increase IT security levels.

The technological upgrade also allowed Intesa Sanpaolo Vita to ready itself for and comply with the new requirements of the GDPR and Network and Information Security (NIS) Directive as well as, especially, to commence the insurance group's digitalisation.

The use of technology makes it possible to define a new "open" multi-channel and data-driven architecture, which facilitated a platform-centric business model to develop new products and services and speed up the number of users and transactions.

In order to keep up with the technological and digital evolution, which has made the development of new applications faster, the group introduced an IT governance model to monitor and check releases and their quality.

The projects are provided for in the systems plan and are classified in line with previous plans, increased by all the cyber security activities and the preliminary actions to converge and merge the insurance group's shared applications:

- **Commercial** - meet the needs of customers and the distribution networks, and enable new service models in line with the ultimate parent's projects;
- **Legislative/regulatory** - fine-tune new capital and risk measurement tools, and implement and complete processes and tools to assist legislative compliance;
- **Process efficiency and completion** - reduce operational risks, increase process efficiency and service levels;
- **Technological** - design an application infrastructure to support the other areas, reduce IT risks, contain development costs for project management and software maintenance;
- **Digital** - introduce a new dimension to embrace new technologies and internal and external customers' new contact and service requirements;
- **Information assets management and quality** - develop a central internal data centralised management system subject to quality checks that provides combined information to the insurance division users or makes information available to be used individually.

With respect to Intesa Sanpaolo Assicura, the IT systems are one of its main drivers of change, merging the new technologies and business development. The actions taken match the new business plan's objectives which include a large increase in premiums and volumes by 2021.

During the second half of the year, the subsidiary focused on consolidating the functionalities of the new XMeProtezione product. It also launched the new project concurrently with the parent's information systems to ultimately replace the entire current information system with a market solution that has a multi-channel approach and allows process digitalisation together with a review of the target processes (customer journey).

The subsidiary also introduced projects to ensure the scalability of its technology and processes and internal tools.

The objectives of the development areas are set out below:

- **Commercial:** meet the needs of customers and the distribution networks, and enable new service models in line with the ultimate parent's projects;
- **Legislative/regulatory:** implement and complete processes and tools to assist legislative compliance;

- **Process efficiency and completion:** reduce operational risks, increase process efficiency and service levels;
- **Technological:** reduce IT risks and development costs for project management, update the application infrastructure and integrate the business processes.

The main project releases for the commercial area related to:

- the XMeProtezione product to fine-tune the after-sales service and introduce natural disaster covers;
- the discount campaigns for the Proteggi Mutuo, XMeProtezione and Piccole Medie Imprese products.

The main releases for the legislative and regulatory area affected:

- implementation of IVASS Regulation no. 41/2018 and the IDD (Insurance Distribution Directive - review of pre-contractual and contractual information to be provided to customers for non-life and protection products, specifically, the insurance conditions for all policies) for all products;
- completion of the procedures to comply with the GDPR (General Data Protection Regulation - introduction of the data masking for tests and inspections of the management system and DWH, management of the new data reporting process for past due policies and authorisation profiles, review of the claims letters with different formats, alignment of the information dossiers);
- alignment of the motor insurance products with IVASS Regulation no. 36/2018;
- introduction of the new customer due diligence process for anti-money laundering purposes using the Gianos 4D IT application (introduction of a new insured person/beneficiary and policyholder/beneficiary link as part of the dialogue process with the Banca eBaas/ABC systems).

The main releases for the process efficiency and completion projects related to:

- completion of the Monitoring Outsourcers project (introduction of automated control tools to ensure the monitoring of delegated services to check their compliance with the contract KPIs and SLAs);
- dematerialisation of the claims procedure documentation management process;
- completion of the project to introduce an IT application to manage outwards reinsurance activities;
- completion of the new customer communications management process;
- introduction of claims tracking for the non-life elementary lines of business on the ABC portal to give the Banca dei Territori network managers a better view of the settlement process.

With respect to the development of technological activities, the premium settlement processes were made more efficient for the non-life elementary lines of business and motor lines of business.

Staff

At 31 December 2018, the parent and subsidiaries had 596 employees, 37 more than at 31 December 2017 (559). The group has 135 resources seconded from other companies of the Intesa Sanpaolo Group and has seconded 65 employees to other companies of the Intesa Sanpaolo Group.

	Intesa Sanpaolo Vita	Intesa Sanpaolo Life	Intesa Sanpaolo Assicura	Total
Employees	385	76	135	596
- Managers	9	4	5	18
- Officers	195	15	51	261
- Other employees	181	57	79	317
Staff seconded from other companies of Intesa Sanpaolo Group	97	6	32	135
Staff seconded to other companies of Intesa Sanpaolo Group	43	-	22	65
Total	**439**	**82**	**145**	**666**
Other contractual forms	2	-	-	2
Total	**441**	**82**	**145**	**668**

During the year and especially in February and August, organisational changes were made to create a more functional structure to achieve the business plan objectives.

In August, the HR area underwent considerable change with the set-up of three HR management units, each of which manages and develops the employees of the insurance group's Italian companies, and two second level HR development and enhancement units, as well as a new focal point initiative and events unit to facilitate and enhance internal and external communication and the employees' participation in the insurance business culture.

In February, the securities and treasury portfolio administration function of the administration, financial reporting, planning and management control area was split into two units and, in August, the data office and analytics function was set up, comprising two units. The operations and organisation area set up a new cyber security unit and transferred its customer operations to ISA and the portfolio processing checks to the technical operations.

The group also strengthened and increased its management team with the transfer of managers from Intesa Sanpaolo. It also appointed new department heads as part of the plan to develop internal talent.

To achieve an optimal organisational structure, including non-management positions, the group continued to recruit specialists both from within the Intesa Sanpaolo Group and on the market. It also maintained its temporary task force set up to monitor anti-money laundering issues.

The conditions for activation of the reward system were met again at both group and parent level 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. As for the specific provisions of the group's remuneration policies, 12 risk takers received bonuses.

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

Industrial relations

As the parent of the insurance group, Intesa Sanpaolo Vita took action early in the year to ensure application of the agreement to integrate the first and second level contracts for the insurance division signed with the trade unions on 18 December 2017.

Given the complexity and range of this agreement, it has been extended to all the insurance companies, including for technical and administrative reasons.

As provided for by the agreement of 18 December 2017, the agreement to establish the parameters for calculation of the variable additional bonus over the business plan period was signed on 4 May 2018.

The group analysed the possibilities offered by the legislation about favourable tax treatments introduced by Law no. 208 of 28 December 2015, as subsequently amended and integrated, Law no. 205 of 27 December 2017 and the Interministerial decree of 25 March 2016, as well as the clarifications provided by the taxation authorities in their circulars.

On **4 May 2018**, as the ultimate parent, Intesa Sanpaolo signed the 2018-2021 **Lecoip 2.0 long-term incentive plan agreement**, applicable to all the insurance companies. In order to encourage application of this plan, the variable additional bonus agreement provides for payment of an advance of € 1,200 to be used to purchase ordinary Intesa Sanpaolo shares (free shares) for Lecoip 2.0, to be integrated by additional ordinary Intesa Sanpaolo shares (matching shares) purchased by the group insurance companies. This plan is open to all employees with open-ended employment contracts excluding those with seniority 6 positions (management).

On **9 July 2018**, minutes of the meeting between Intesa Sanpaolo, as parent, and the trade union representatives of the group insurance companies were written up, stating that the conditions for payment of an advance on the variable additional bonus to be taxed at favourable rates had been met as at least one of the measurement indicators identified in the agreement of 4 May 2018 had shown improvement.

On **2 July 2018**, ANIA (the Italian Association of Insurance Companies) signed the agreement to renew the legal and financial terms of the collective national employment contract for managers of insurance companies signed on 7 June 2013 which expired on 30 June 2018.

The insurance companies had already informed ANIA that, pursuant to article 2 of its by-laws, they would renegotiate the contract separately.

During the year, the group companies complied with the disclosure requirements of the collective national employment contract regularly and provided the trade unions with information once every four months on overtime as well as all the other significant details required by article 10 of this contract during a specific meeting.

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's training courses comply with the guidelines for the ongoing specialisation and training of employees, which include, specifically:

- courses on operating processes and "job" characteristics led by internal personnel from the various structures and professional areas;
- ongoing, regular courses as part of organic programmes in line with the group's annual training plan;
- tailored courses based on roles and responsibilities;
- specific analyses of the training needs of the individual functions.

During the year, 52 classroom courses and 19 e-learning courses (webinar/e-learning/educast) were held for the parent's employees.

The most significant projects included:

- the "Focus Nuovi mestieri in Action" course held in May for actuaries to discuss market changes that will most affect this profession. After the course, a number of internal and external projects were planned to strengthen their core professional skills and have their training credits acknowledged by the National Actuaries Profession;
- "La Divisione Insurance si presenta" workshop was held for new hires to introduce the insurance group as part of the wider onboarding project designed specifically for new hires;
- "Focus HR-Pedia", to analyse changes in contracts introduced by the agreement to integrate first and second level contracts signed on 18 December 2017.

The group also carried out the following projects to respond to the specific refresher requirements of individual functions:

- a refresher course on anti-money laundering after introduction of Legislative decree no. 90/2017, "Le novità in materia di antiriciclaggio a seguito dell'introduzione del D.lgs. 90/2017";
- a course on the GDPR, tailored separately for controllers and data officers;
- specific courses on cyber security in addition to the on-line learning courses required by the group's plan (one for managers and another for all IT personnel).

Managerial training
The insurance division managers used the "Scuola dei Capi" app to access the digital content made available by the parent. In February 2018, the "Manager in Insurance" course was rolled out to concentrate on certain key skills to facilitate achievement of the new business plan's objectives.

Mandatory training
The group continued to provide and monitor mandatory courses.

In compliance with ISVAP regulation no. 20/2008, the parent's directors attended a training course given by various lecturers from both inside (managers) and outside the group (academics and professionals).

Corporate Social Responsibility
Attention to people's difficulties, the local communities and tragic events that affect them is fundamental to develop positive relations with stakeholders over time which contributes added value to the group.

Together with the ultimate parent, Intesa Sanpaolo Vita agreed to sponsor specific projects to assist the families affected by the collapse of the Morandi Bridge in a concrete and tangible manner.

Specifically with effect from 30 November 2018, the parent set up a life insurance policy, Vicino a Te, for minors who have lost one or both of their parents due to the bridge's collapse. This policy is tied up until they reach 18 and has an initial capital of € 200 thousand for minors who have lost both parents and € 100 thousand if they have lost one parent.

Intesa Sanpaolo Vita also sponsors the TogetherToGo Foundation, a non-profit organisation that has set up a centre in Milan for free rehabilitation for 114 children with complex neurological diseases. The project covers in particular around 30 children with nutritional deficiencies and their specific rehabilitation by specialists who work directly with the children and can teach the children's parents how to help them.

For Intesa Sanpaolo Vita, social responsibility goes well beyond abstract statements of principles and values, by translating them into a daily and credible commitment, including with projects that help families who have lost those they most held dear.

Communication
The myinsurance portal is updated using an "editor" model that defines content on a weekly basis, balancing the different areas covered. It publishes information to update employees on its topics and sections. It also posts news about the parent and the group as well as content promoting initiatives in which people can directly participate, putting themselves to the test and taking part in project designed for them.

During the year, the communication campaign continued for three key projects:

- "Il Fiore dei Valori": a corporate storytelling project;
- "Mywell-being": a project that offers a number of cyclical activities to improve office life. These activities are divided into three groups: Fit - physical wellbeing; Food - information about how to eat healthily; Culture - information about the art world and culture;
- "Agoràlive": cultural events to fully enhance the mywell-being Culture group and encourage group employees to have an open mind through discussions and inspiration from third party guests.

Since November 2018, the insurance group has a new official page on LinkedIn. An integrated area in the parent's company page presents the group's organisational model and business, which is unique to the insurance market. The linked Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura and Intesa Sanpaolo Life pages are live and promote the group's brands, business lines and strategies of its 2018-2021 business plan.

The group also participated in the "Children at work with their parents" project in 2018. This was sponsored by the newspaper Corriere della Sera and the office of the Prime Minister. Employees of the Milan office brought their children to work on 1 June to participate in the "cinema game".

In order to promote and share the 2018-2021 business plan objectives, seven "Allinsurance on site" meetings with the managing director, Nicola Maria Fioravanti, were held in October and November. They involved the various internal functions and were held to encourage employees to exchange ideas and projects. On 10 December, all the group insurance companies' employees meet for their traditional Allinsurance conference to share the strategic values permeating individual positions and the group's social and economic role with the head of the insurance group.

Employer Branding

Activities to develop employer branding continued in 2018. Specifically:

- "Stage Day": the insurance group and other banks, insurance companies, consultancy companies and fund managers took part in this event of 19 March sponsored by the board of the banking, financial and insurance sciences faculty of Università Cattolica del Sacro Cuore;
- "Fintech Lab": in March 2018, the parent contributed to CeTIF's "Ditigal Innovation & Fintech" master's degree final experience laboratory. The parent was involved in Intesa Sanpaolo's Innovation observatory;
- "Open Division": an open day for students of the data science for management master's course from Università Cattolica del Sacro Cuore held on 14 May. The project brought together business people and researchers to create a mutual learning experience.

On 15 November 2018, the international seminar organised by MIB Trieste on IDD and Insurtech was held at the parent's offices in Viale Stelvio, Milan. This event demonstrates the parent's active involvement in the network including most of the Italian insurance companies by participating and hosting meetings to discuss issues of importance to the insurance sector.

Health and safety in the workplace

The insurance group 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 and the organisational model).

Specifically, the organisational and management model implemented by the group 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, workplace, 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.

The group's health and safety policy is set out in its risk assessment document approved by the Employer on **13 April 2018** and updated on **3 October 2018**. It will be updated again before 30 June 2019 in line with the ultimate parent's document approved in **December 2018**. The planned meeting with the safety representatives will take place before 30 June 2019.

The document complies with the requirements of Legislative decree no. 81/2008 (articles 28 and 29) and was prepared with the assistance of the ultimate parent's central prevention and protection unit and the competent doctor. It assesses the residual risk as **negligible**.

Risk factors are monitored constantly and the activities required to eliminate, contain and minimise them are planned. During 2018, four safety meetings were held, attended by the designated officer and prevention and protection officer as well as the functions involved. On **20 June 2018**, the evacuation drill was **successfully** carried out. The emergency plan is updated to **January 2019**.

In December 2018, just five risk factors were identified for the parent's offices in Viale Stelvio 55/57 and the parent has already received the related cost estimates.

As part of its focus on risk prevention, the parent continued its environmental monitoring programme and research into the Legionella bacteria with negative results during the year. This demonstrates the effectiveness of the preventative maintenance activities. The vending service and food trolleys were also checked and the findings were positive.

Risk management activities also covered the parent's suppliers with the ongoing, scrupulous updating of the legal requirements to ensure maximum safety when assigning works, services and supplies.

Based on the above updates, the parent's health and safety management system is efficient and complies with the legal requirements of article 30 of Legislative decree no. 81/08. Therefore, the model as per Legislative decree no. 231/01 approved by the parent is effective.

The results confirmed the qualitative opinion of the internal management system as "**excellent**", i.e., the internal management system applies best practices and is a reference benchmark, the risks are acceptable and/or remote.

Together with the prevention and protection officer, the competent manager presented their specific report to the supervisory body on **26 November 2018**.

The parent adopted an approach to risk management some years ago that is **not limited** to compliance with the law but also to the creation of work conditions that encourage and improve overall productivity.

During 2018, it developed and adapted some projects designed and rolled out in the previous year to promote occupational safety. Specifically, they included:

– prevention of seasonal flu;
– introduction of the workplace health promotion (WHP) project;
– the occupational health and safety and environmental certification programme.

Prevention of seasonal flu
Again in 2018, in agreement with the competent doctor, the group encouraged its employees to take the flu vaccine. This project consisted of activities to increase awareness about prevention and vaccination in the workplace on a voluntary basis. The number of employees who have the flu vaccine increases steadily from year to year.

WHP (Workplace Health Promotion) project
For the fourth year, the group confirmed its membership of the European network of companies that promote occupational health, which is coordinated at regional level by the health protection agencies. These agencies assist the companies through their contact persons. The project is managed within the group by an interdepartmental team which includes the competent manager, the ultimate parent's HR functions and insurance division, as well as the prevention and protection service manager and the competent doctor.

During the year, the group continued to introduce good practices shared with the contact person of the Milan city health protection agency.

It started up projects to encourage physical activity in the workplace and promoted the programmes for 2019.

The parent received the "**company that promotes occupational health**" certification for the **fourth consecutive year**. This is an important award given to a limited number of private sector companies.

The occupational health and safety and environmental certification programme

The plan for 2019 includes commencement of the process to obtain the integrated certification for the parent's health and safety management system in line with ISO 14001:2015 and ISO 45001:2018, in line with the project recently commenced by the ultimate parent. The certification scope will include Intesa Sanpaolo Assicura.

Administrative and financial governance

Assisted by the ultimate parent's administrative and financial governance unit, which assists the banking group's manager in charge of financial reporting as per article 154-bis of the Consolidated Finance Act, the group has carried out tests to check the adequacy and effective application of its administrative and accounting procedures during the year and the efficiency of its internal control over financial reporting.

Principal regulatory changes in the year

Sector regulations

The supervisory authority published the following regulations in 2018 that affect the group:

- **IVASS Regulation no. 37** of 27 March 2018 "Regulation establishing criteria and methods for the mandatory motor vehicle third party liability discounts to be applied by insurance companies" was issued to implement article 132-ter.2/4 of the Italian Private Insurance Code (the "code"), introduced by article 1.6 of Law no. 124 of 4 August 2017, based on the "Annual market and competition law", which regulates large mandatory discounts for MTPL policies when certain conditions are met. The regulation is designed to achieve the primary legislation's objective which tends, for discounts as per paragraph a), to guarantee policyholders a discount on their premiums based on the reduction in the risk borne by the insurance company when one or more of the conditions set out in article 132-ter.1 are met, and, for discounts as per paragraph b), the steady elimination of differences in MTPL premiums applied in Italy with the same risk level to policyholders that meet the conditions as per article 132-ter.4 ("virtuous" policyholders resident in provinces with higher claims ratios and a higher average premium);
- **IVASS Regulation no. 38** of 3 July 2018 "Regulation laying down provisions on the system of governance", which sets out the rules for the corporate governance system of companies and groups, implementing articles 29-bis to 30-septies and article 215.bis of Legislative decree no. 209/2005 introducing the Italian Private Insurance Code (the "code") as amended by Legislative decree no. 74/2015 implementing Directive 2009/138/EC (the Solvency II Directive) and articles 258 to 275 of the Commission Delegated Regulation (EU) no. 35/2015 (the "Delegating acts"). The regulatory provisions implement the guidelines issued by EIOPA on system of governance and reiterate the requirements of ISVAP regulation no. 20 of 26 March 2008, which include the new primary legislative framework, about internal controls, risk management, compliance and delegation, of ISVAP regulation no. 39 of 9 June 2011 about remuneration policies, and ISVAP circular no. 574/2005 on outwards reinsurance that were repealed accordingly (the endorsement of the regulation meant that this circular is only applicable to local companies as per Title IV, Chapter II of the code);
- **IVASS Regulation no. 39** of 2 August 2018 "Regulation concerning the procedure for applying administrative sanctions and implementing provisions (applicable from 1 October 2018)", which redefines the procedure for applying administrative sanctions by IVASS based on the complete overhaul of the disciplinary system of the Italian Private Insurance Code (Title XVIII) included in Legislative decree no. 68 of 21 May 2018 issued to implement Directive (EU) 2016/97 on insurance distribution (the IDD) and Legislative decree no. 90 of 25 May 2017, which amended and integrated Legislative decree no. 231 of 21 November 2007 about the prevention of the use of the financial system for money laundering and the financing of terrorism. The new regulatory provisions are applicable to violations committed after 1 October 2018. The previous IVASS Regulations no. 1/2013 and no. 2/2013 continue to apply to violations committed before that date (covering fines and disciplinary measures for brokers, respectively).
- **IVASS Regulation no. 40** of 2 August 2018 "Regulation laying down provisions on insurance and reinsurance distribution (applicable from 1 October 2018)" which covers insurance and reinsurance distribution carried out in accordance with article 106 of the Italian Private Insurance Code in a uniform manner. The review and streamlining of the sector regulations, set out in ISVAP Regulations no. 5 of 16 October 2006 and no. 34 of 19 March 2010 and IVASS Regulations no. 6 of 2 December 2014 and no. 8 of 3 March 2015, were based on the new requirements of the IDD about insurance and reinsurance, transposed into Italian law by Legislative decree no. 68 of 21 May 2018 which amended the Italian Private Insurance Code in accordance with article 5 of Law no. 163 of 25 October 2017 (the European delegation law 2016-2017);

- **ISVASS Regulation no. 41** of 2 August 2018 "Regulation on transparency, disclosure and design of insurance products (applicable from 1 January 2019) which aligns the pre-contractual information with the legislation. Accordingly, a suitable pre-contractual information system was prepared for the life and non-life lines of business based on the preparation of three standard pre-contractual documents (IPID - insurance product information document - for non-life products, as required by the EU regulations; DIP Vita - Life insurance information document - for the "pure risk" life products, as provided for by the Italian Private Insurance Code as they are specific to Italy; and KID - key information document - for insurance investment products in line with the EU regulations). Each base document is accompanied by a specific "additional insurance information document" as per article 185 of the Italian Private Insurance Code which, together with the DIP Vita (not specifically covered by European regulations), is regulated by IVASS. The additional pre-contractual document provides additional, complementary information to that contained in the base documents to provide more details about the product and assist the customer to make an informed decision about their contractual rights and obligations. This document also includes information about claims or the law applicable as per the Solvency II Directive that are deemed of use to the customer;
- **IVASS Regulation no. 42** of 2 August 2018 "Regulation laying down provisions on the external audit of public disclosure "SFCR") issued to implement article 47-septies.7 and article 191.1.b).2/3 of Legislative decree no. 209 of 7 September 2005 introducing the Italian Private Insurance Code (the "code") to define the information to be included in the solvency and financial condition report ("SFCR") of companies and groups that has to be audited by independent auditors and the related audit methods (independent audit). The regulation's main aim is to increase the confidence level of potential users about the quality and reliability of an important part of the information included in the SFCR.

Measures issued by IVASS include:

- **Measure no. 68** of 14 February 2018 "Measure for amendments to ISVAP regulations nos. 14/2008, 22/2008 and 38/2011 on segregated funds". New instructions for the calculation of the average rate of return on segregated funds have been introduced which:
  - allow insurance companies to use a method for new contracts to calculate the average rate of return that considers the allocation of net realised gains to a specific undistributed returns provision; this provision is a mathematical provision and is included in the calculation of the average rate of return over a maximum of eight years from the date on which the net gains are recognised. The new rules will also be introduced for segregated funds existing at the date of enactment of this measure. However, they will only apply to contracts agreed after the amendments to the segregated funds' regulations. Therefore, an individual segregated fund may have contracts to which two different methods are applied to calculate the average rate of return (depending on whether their contractual terms provide for the undistributed returns provision). If a segregated fund has "groups" of policyholders whose benefits are revalued using rates calculated with different rules (with and without the undistributed returns provision), the regulation establishes the methods to be used to calculate the net realised gains that can be recognised in this provision;
  - introduce an accounting departure to defer recognition of gains and losses on periodic trading (usually infra-annual) of certain types of derivatives. The net gains are recognised as an adjustment to the net financial income or expense of each observation period of the segregated fund until the transaction has been completed. The departure allows combining the use of derivatives for securities recognised as part of the segregated fund with the effects of the returns thereon as part of the same business, tied to the length of time of the strategy applied rather than the derivative's maturity, when the derivative is part of a documented strategy approved by the board of directors.
- **Measure no. 71** of 16 April 2018 "Measures for the dynamic risk certification". This measure completes the broader dematerialisation process for risk certificates launched with the issue of IVASS Regulation no. 9 of 19 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. Thanks to the new IT process, insurance companies can update the risk positions of policyholders to include all claims, including those paid in part and those paid outside the observation period or after the policy's expiry and when the policyholder changed insurance company upon maturity of the contract (so-called late claims). It involves use of the unique risk identifier, which is a code matching the owner, or those parties authorised to use the vehicle as per article 6.1 of IVASS Regulation no. 9 of 19 May 2015, to each vehicle owned or held under finance lease, usufruct or reserved domain name agreement.

- **Measure no. 72** of 16 April 2018 "Identification criteria and rules for the universal conversion of the third party liability motor insurance by merit class" was issued to implement article 3.3 of IVASS Regulation no. 9 of 19 May 2015 on the risk certification database and risk status certification as per article 134 of Legislative decree no. 209 of 7 September 2005 (the Italian Private Insurance Code) on the dematerialisation of the risk certification.
- **Measure no. 74** of 8 May 2018 "Amendments to ISVAP regulation no. 7/2007 on IFRS financial statements following enactment of IFRS 9" presents the amendments necessary to comply with IFRS 9 (Financial instruments) which is now applicable and replaces IAS 39 (Financial instruments) starting from 1 January 2018. Due to the introduction of this new standard and the related amendments to other IFRS (including IFRS 7), the modifications set out below had to be made to ISVAP regulation no. 7/2007. This regulation was amended to ensure appropriate comparability of insurance companies' financial statements prepared under the IFRS. Companies with temporary exemption from application of IFRS 9 will continue to use the current templates and apply the provisions of IAS 39.
- **Measure no. 76** of 2 August 2018 "IVASS measure setting out amendments and integrations to Regulations no. 92/2007 and 24/2008 (applicable from 1 October 2018)" which presents the amendments necessary as a result of the enactment of Directive (EU) 2016/97 (the IDD) on insurance and reinsurance distribution, transposed into Italian law by Legislative decree no. 68 of 21 May 2018, amending Legislative decree no. 209 of 7 September 2005, introducing the Italian Private Insurance Code, in accordance with article 5 of Law no. 163 of 25 October 2017 (European delegation law 2016-2017), and adoption of IVASS Regulation no. 40 of 2 August 2018 on insurance and reinsurance distribution as per Title IX (General guidelines about distribution) and article 191 (regulatory powers) of the Italian Private Insurance Code and IVASS Regulation no. 41 of 2 August 2018 on transparency, disclosure and design of insurance products.

Finally, regulations under public consultation include:

- **Document no. 4** of 22 May 2018 which sets out the draft regulation implementing the instructions to comply with Legislative decree no. 231 of 21 November 2017 amended by Legislative decree no. 90 of 25 May 2017 implementing Directive (EU) 2015/849 on organisation, procedures, internal controls and customer due diligences into Italian law. It reflects the joint guidance of the European supervisory authorities on the customer simplified and enhanced due diligence measures and the factors to be considered when assessing money laundering and terrorist financing risks in connection with continuous relationships and occasional transactions.
- **Document no. 8** of 2 August 2018 which includes the draft measure of the calculation of costs and any excess to define settlements between insurance companies for direct compensation.
- **Document no. 9** of 31 December 2018 which sets out the draft regulation for application of the measures introduced by Decree law no. 119 of 23 October 2018 including urgent tax and financial measures, converted into Law no. 136 of 17 December 2018, and specifically the exercise of the extraordinary departure option from the accounting policies for securities held for trading in local GAAP financial statements. The measures introduced by Decree law no. 119 of 23 October 2018 allow the temporary departure from the Italian Civil Code requirements given the turbulent financial markets in 2018. Accordingly, companies that recognise losses on securities held for trading at 31 December 2018 may measure them at the carrying amounts shown in the 2017 financial statements or at acquisition cost for securities not held in their portfolios at 31 December 2017. This option is not applicable in the case of impairment. Companies that avail of the departure option shall provide IVASS with additional information, shall recognise the related gains in an unavailable reserve and shall comply with disclosure requirements (in the directors' report and the notes to the financial statements) with specific mention of the accounting policies and balances of the captions affected by exercise of the option. The Regulation also provides for governance measures: the departure option shall be authorised by the company's board of directors based on a specific report signed by the heads of the risk management and actuarial units. This report shall be sent to the manager in charge of financial reporting, when provided for by the company's by-laws. The document was issued on 12 February 2019 (IVASS Regulation no. 43/2019).

The group 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 2019.

International Financial Reporting Standards

The group companies contribute 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 was 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 profit or loss.

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.

IFRS 16
IFRS 16, issued by the IASB in January 2016 and endorsed by the European Commission through Commission Regulation (EU) 2017/1986, replaced IAS 17 - Leases, IFRIC 4 - Determining whether an arrangement contains a lease, SIC 15 - Operating leases - Incentives and SIC 27 - Evaluating the substance of transactions that involve the legal form of a lease, with effect from 1 January 2019, and established the requirements for accounting for lease contracts.

In accordance with the new standard, entities are required to decide whether a contract is (or contains) a lease, based on the concept of control of the use of an identified asset for a period of time. As a result, rental, hire or free loans, previously not considered as leases, may now also come under the scope of IFRS 16.

In view of the above, significant changes have been made to the accounting for lease transactions in the financial statements of the lessee/user, with the introduction of a single accounting model for lease contracts for the lessee, based on the right-of-use model. Specifically, the main change consists of the elimination of the distinction between operating and finance leases, established by IAS 17: all leases shall therefore be accounted for in the same way with recognition of an asset and a liability. Unlike the current standards, the new model envisages the recognition of a right-of-use asset and the liabilities for the lease payments not yet paid to the lessor under liabilities. The recognition of the lease in profit or loss has also changed. Under IAS 17, lease payments are presented under administrative expenses whereas the amortisation of the right-of-use asset and interest expense on the lease liability will now be recognised as required by IFRS 16.

The minimum disclosure required of a lessee includes, inter alia:
– a breakdown of the leased assets by class;
– an analysis of the lease liabilities by due date;
– information that is potentially helpful for a better understanding of the entity's business with regard to the leases (for example, options to terminate or extend the lease).

However, there are no substantial changes, other than some additional disclosure requirements, for the accounting for leases by the lessors, where the current distinction is maintained between operating and finance leases.

In addition, in accordance with the requirements of IFRS 16 and the IFRIC clarifications ("Cloud Computing Arrangements" of September 2018), software has been excluded from the scope of IFRS 16 and will, therefore, be accounted for in accordance with IAS 38.

From 1 January 2019, the effects on the financial statements resulting from adoption of IFRS 16 can be identified for the lessee – on a constant profit and cash flows basis – as an increase in the assets recognised in the financial statements (leased assets), an increase in the liabilities (the liability for the leased assets), a reduction in administrative expenses (lease payments) and an accompanying increase in interest expense (on the liability) and amortisation (of the right-of-use asset). When the entire term of the contracts is considered, the impact on profit or loss does not change over the lease term, both when the former IAS 17 or the new IFRS 16 are applied, but its distribution over time is different.

In 2018, the Intesa Sanpaolo Group carried out a specific project for the implementation of IFRS 16 aimed at examining and defining its qualitative and quantitative impacts and identifying and implementing the practical and organisational measures required for consistent, systematic and efficient adoption within the group as a whole and for each of its companies. From a procedural perspective, a specific application has been implemented at group level (except for some companies located abroad, which have adopted a solution specific to their circumstances) for the determination of the carrying amounts under IFRS 16.

Standards not yet endorsed by 31 December 2018

In this context, given its significance, details are provided regarding IFRS 17 - Insurance contracts, published by the IASB in May 2017 and still not yet endorsed by the European Commission.

Once it has been endorsed 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. Accordingly, the significance of the impacts will vary according to the "distance" between the current practices – in each jurisdiction – compared to the model adopted by the new standard. In any event, the main impacts will be on insurance companies operating in the life business.

IFRS 17 is expected to be applicable from 1 January 2021. Due to the complexity of the standard, the IASB has recently proposed to postpone the date of first-time adoption by one year to 1 January 2022. It has also proposed to extend the deadline for the temporary deferral of the application of IFRS 9 for insurance companies (i.e., the deferral approach) by one year – again to 2022 – in order to bring it into line with the application of IFRS 17. The proposed deferral will be subject to a public consultation scheduled for 2019 and should also provide more time to assess possible changes to the standard.

The main elements of IFRS 17 are described below:

- 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"[1] and the remaining contracts;

[1] Contracts where the costs on exit are greater than the estimated benefits.

- measurement of the insurance revenue: IFRS 17 requires the presentation in profit or loss of the insurance revenue earned over the life of the policies based on the contractual service margin, i.e., when the entity actually earns the profits estimated with respect to the recognition of the insurance premiums received by the insurance company;
- 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 profits of insurance entities: 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.);
- contract modifications: if the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, and the modified terms had been included at contract inception, IFRS 17 requires the derecognition of the original contract and recognition of the modified contract as a new contract, applying the related accounting treatment;
- 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, according to which the entities have the option of recognising those changes in liabilities (due to variations in the yields of the hedging assets, and therefore essentially related to the variable component of revenue) in equity.

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 insurance group has initiated a project for the introduction of IFRS 17 whose objective is to ensure both the management of the insurance business and an operating and accounting model that fully adopts this standard.

The choices made by the Intesa Sanpaolo Group

Some of the "general" choices made by the Intesa Sanpaolo Group regarding the presentation of the effects of first-time adoption of the standard, as well as some rules applied upon full adoption for the accounting for lease contracts are described below.

The group has chosen to carry out the first-time adoption (FTA) through the modified retrospective approach, which provides the option, established by IFRS 16, of recognising the cumulative effect of the adoption of the standard at the date of first-time adoption and not restating the comparative information. As a result, the figures for 2019 will not be comparable with regard to the recognition of the right-of-use asset and the corresponding lease liability.

Upon first-time adoption, the group has used some of the practical expedients provided for in paragraph C10 and following paragraphs of the standard. In particular:

- it measured existing onerous leases under IAS 37. The group has not made any provisions for onerous leases measured pursuant to IAS 37 and recognised at 31 December 2018;
- it excluded leases with a remaining lease term of 12 months or less.

With regard to the lease term, the group has decided to consider only the first renewal period as reasonably certain at the date of first-time adoption (and after full adoption for new contracts), unless there are particular contractual terms, facts or circumstances that suggest that additional renewals should be considered or that determine the end of the lease.

The group has also decided not to apply the new standard to contracts with a term of 12 months or less and to contracts with a value of the underlying asset, when new, of € 5,000 or less.

With regard to the discount rate, the group has decided to adopt the Funds Transfer Pricing (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments that are typically constant over the lease term, rather than a single payment upon maturity. An interest rate was defined for a limited number of group companies that do not have a FTP method that takes into account the creditworthiness of the lessee, the lease term, the country in which the contract is agreed and the contract's currency.

The group has also decided not to separate the service components from the lease components and to consequently recognise the entire contract as a lease, because the service components are not significant.

With regard to the sale and leaseback agreements outstanding at the date of first-time adoption, the Intesa Sanpaolo Group has applied the same transition model used for the other leases to the leases resulting from these transactions, which were classified as operating leases under IAS 17 requirements, as required by the standard.

Premiums and net payments relating to insurance contracts

Premiums recognised in the year for the life and non-life business, including reinsurance, amounted to € 7,349.9 million, up 15.1% on the previous year. This increase mainly referred to the life business and principally to premiums for financial products with DPF.

(in millions of euro)

	2018				2017			
	First year	**Subsequent years**	**Single premiums**	**Total**	**First year**	**Subsequent years**	**Single premiums**	**Total**
Insurance products without DPF	3.8	20.6	837.4	**861.9**	2.2	21.6	799.9	**823.7**
Insurance products with DPF	-	28.1	16.7	**44.8**	-	32.9	16.9	**49.8**
Financial products with DPF	6.2	109.6	5,820.3	**5,936.1**	17.2	108.7	4,851.2	**4,977.1**
Non-life insurance products (*)				**507.1**				**431.6**
Total	**9.9**	**158.4**	**6,674.5**	**7,349.9**	**19.4**	**163.2**	**5,668.0**	**6,282.2**

(*) Gross earned premiums

The amounts paid in the life business decreased by 20.0% from € 9,720.1 million in 2017 to € 7,739.5 million in 2018. The amounts paid in the non-life business increased by 9.2% from 96.3 million in 2017 to € 105.2 million in 2018.

The increase in the non-life business is due to the growth in the size of the policy portfolio, which reported a slight improvement in the loss ratio in relative terms (from 29.1% to 28.9%).

The reinsurers' share (of amounts paid) amount to € 0.3 million for the life business and € 5.4 million for the non-life business.

(in millions of euro)

	Claims	**Annuities**	**Surrenders**	**Maturities**	**Liquidation costs**	**Total**
Insurance products without DPF	-84.9	-0.1	-264.5	-12.9	-7.0	-369.4
Insurance products with DPF	-31.3	-7.5	-43.1	-54.2	-	-136.2
Financial products with DPF	-1,790.9	-0.1	-5,278.0	-164.9	-	-7,233.9
Non-life business insurance products						-105.2
2018	**-1,907.1**	**-7.7**	**-5,585.6**	**-232.1**	**-7.0**	**-7,844.70**
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
2017	**-1,964.5**	**-7.0**	**-7,399.3**	**-339.2**	**-10.0**	**-9,816.3**

Commissions

Net commissions on financial products without DPF, comprised of financial unit-linked policies, amounted to € 249.3 million, up 14.7% on 2017 (€ 217.4 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 € 1,858.3 million compared to € 2,320.4 million for 2017. The € 461.7 million decrease is mainly due to:

- smaller gains on financial instruments at fair value through profit or loss for the main part related to assets hedging the unit-linked and pension product provisions (-€ 150.2 million);
- smaller realised and unrealised gains on the trading and measurement of available-for-sale financial instruments (-€ 78.3 million);
- smaller net interest, mostly on AFS securities and smaller gains and losses (-€ 125.4 million and -€ 64.2 million, respectively).

Commissions and management costs

Commissions and management costs amount to € 466.7 million for the year, up 4.2% compared to € 447.8 million for 2017.

Investment management costs of € 50.9 million decreased by 7.6% over the previous year (€ 55.1 million). Other administrative costs increased by 2.7% from € 88.7 million for 2017 to € 91.1 million. Other administrative costs as a percentage of total net premiums were 1.3% compared to 1.4% for the previous year.

Commissions and other acquisition costs as a percentage of net premiums came to 4.5% compared to 4.9% for 2017, following the change in the distribution mix.

Other revenue and costs

Other net costs went from € 476.3 million for 2017 to € 325.8 million. The decrease is mostly due to the repayment of term life and CPI premiums (as a result of the Bersani decree) and exchange rate trends.

Statement of financial position

Investments

The financial investments portfolio amounts to € 122,227.7 million (down 1.7% compared to 31 December 2017) and comprises available-for-sale securities (59.0%), securities at fair value through profit or loss (41.0%) with the remainder mostly consisting of financial assets held for trading and loans and receivables.

(in millions of euro)

	31.12.2018		31.12.2017		Variation	
Investments in subsidiaries and associates and interests in joint ventures	2.1	0.0%	2.3	0.0%	-0.2	-10.3%
Loans and receivables	19.0	0.0%	19.3	0.0%	-0.3	-1.8%
Available-for-sale financial assets	72,122.7	59.0%	75,456.3	60.7%	-3,333.6	-4.4%
Financial assets at fair value through profit or loss	50,083.9	41.0%	48,855.1	39.3%	1,228.8	2.5%
Total	**122,227.7**	**100.0%**	**124,333.0**	**100.0%**	**2,105.3**	**-1.7%**

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.

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 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

At 31 December 2018, the group reported equity of € 4,586.9 million, including the profit for the year of € 620.4 million, compared to equity at the start of the year of € 4,818.2 million.

(in millions of euro)

	31.12.2018	31.12.2017
Capital and reserves attributable to the Group	**4,586.9**	**4,818.2**
Group capital and reserves	3,968.5	3,833.1
Gains (losses) on financial assets available for sale	2.0	398.0
Profit (loss)	620.4	587.1

The group recognised € 2.0 million net fair value losses in the fair value reserve under equity compared to net fair value gains of € 398.0 million recognised at 31 December 2017 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 thousands of euro)

Solvency requirements	SCR	MCR
Solvency capital requirement	2,915,606	
Minimum capital requirement		1,516,090
Eligible own funds	6,152,195	5,835,934
Eligibility level of own funds		
Tier 1 - unrestricted	4,739,382	4,739,382
Tier 1 - restricted	793,334	793,334
Tier 2	619,479	303,218
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 2018.

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, decreased by 0.9% from € 119,895.8 million at 31 December 2017 to € 118,848.0 million at the reporting date.

(in millions of euro)

	31.12.2018	31.12.2017	Variation
Liabilities due to policyholders for life segment	**118,059.7**	**119,217.3**	**-1.0%**
Insurance provisions and financial liabilities:	116,170.9	114,784.1	1.2%
traditional	66,969.8	67,246.5	-0.4%
- of which financial liabilities	-	-	*n.d.*
- of which insurance provisions	*66,969.8*	*67,246.5*	*-0.4%*
unit/index-linked	49,201.0	47,536.7	3.5%
- of which financial liabilities	*44,885.2*	*43,442.9*	*3.3%*
- of which insurance provisions	*4,315.8*	*4,094.7*	*5.4%*
Deferred liabilities with policyholders	1,888.8	4,433.2	-57.4%
Insurance provisions of the non-life segment	**788.3**	**678.4**	**16.2%**
Provisions for unearned premiums	590.7	496.5	19.0%
Provisions for outstanding claims	194.6	180.5	7.8%
Other insurance provisions	2.9	1.4	109.1%
Liabilities with policyholders	**118,848.0**	**119,895.8**	**-0.9%**

Technical provisions and financial liabilities, considering deferred liabilities with policyholders as well, of the life business went from € 119,217.3 million at 31 December 2017 to € 118,059.7 million at 31 December 2018 (-1.0%).

Technical provisions

The life business' technical provisions decreased by 3.4%.

The increase in the non-life business technical provisions was 16.2% from € 678.4 million at the end of 2017 to € 788.3 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 € 4,433.2 million at 31 December 2017 to € 1,888.8 million at the reporting date.

Financial liabilities

Financial liabilities decreased by 3.3% from € 43,442.9 million at the end of 2017 to € 44,887.3 million at the reporting date. This decrease is principally attributable to production. It also incorporates fair value gains and losses on investments to which those liabilities are associated.

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 unobservable 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 unobservable 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
Structured securities	Two-factor model		-73	83	%	2,791	-2,031

(in thousands of euro)

Financial assets/liabilities	Main non-observable inputs	Sensitivity	Variation in non-observable parameter
Securities held for trading and available for sale	Correlation	-103	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”.

(in thousands of euro)

	31.12.2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Debt instruments	3,510,700	87,419	32,031	3,630,150
Equity instruments	976,836	-	-	976,836
OEIC units	44,746,129	-	65,711	44,811,840
Other financial investments and derivatives	325,192	29,491	310,429	665,112
Total	**49,558,857**	**116,910**	**408,171**	**50,083,938**

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

(in thousands of euro)

	Transfers at 31.12.2018					
	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	1,162	-	579	-	-	-
Financial assets at fair value through profit or loss	22,008	184	420	184	184	184
Available-for-sale financial assets	1,233,864	1,099,771	2,683,026	1,199,740	1,165,869	1,111,013
Hedging derivatives	-	-	-	-	-	-
Financial assets measured at fair value	**1,257,034**	**1,099,955**	**2,684,025**	**1,199,924**	**1,166,053**	**1,111,197**
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities at fair value	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-
Financial liabilities measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**

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
Available-for-sale financial assets	4,033	30,065	34,098
Financial assets held for trading	-2,261	-	-2,261
Financial assets held for trading / Financial assets designated at fair value through profit or loss	-4,456	-	-4,456
Loans and receivables	-	-	-
Equity investments	-	295	295
Total	**-2,684**	**30,360**	**27,676**

(in thousands of euro)

	AFS	HFT	FVTPL (FVO)
Opening balance	**979,959**	**51,623**	**479,138**
Increases	**938,695**	**25**	**127,306**
Acquisitions	-	-	-
Fair value gains recognised in equity	51,056	-	-
Fair value gains recognised in profit or loss	5,384	-	-
Transfers from L1 to L3 - increases	-	-	-
Transfers from L2 to L3 - increases	11,242	-	-
Realised gains	-	-	-
Other increases	871,014	25	127,306
Decreases	**-576,365**	**-2,261**	**-247,660**
Sales and repayments	-116,044	-	-
Fair value losses recognised in equity	-21,295	-	-
Transfers from L3 to L1 - decreases	-66,098	-	-
Transfers from L3 to L2 - decreases	-99,969	-	-
Fair value losses recognised in profit or loss	-1,352	-2,261	-281
Realised losses	-	-	-
Other decreases	-271,607	-	-247,379
Foreign currency	-	-	-
Closing balance	**1,342,289**	**49,387**	**358,784**

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 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 position and results of operations of the two life and non-life segments, reference should be made to the annexes to the notes to the consolidated financial statements while the performance of the two segments during the year is commented on below.

Life business

Insurance operations

The group recorded gross premiums of € 15,649.8 million, relating to both premiums on insurance products and financial products with DPF, as well as gross inflows from financial products without DPF. During the second half of the year, the gross premiums of unit-linked products were adversely affected by the negative market scenario while traditional product premiums increased. Given customers' reduced risk appetite, the group introduced new class I products during the year: Scelta Sicura for the Banca dei Territori customers and Programma Dedicato and Progetto Dedicato for the customers of the former Veneto Banks, now part of the ultimate parent's banking network. Gross premiums decreased by roughly 11.8% compared to the previous year.

(in millions of euro)

	2018	2017	Variation	
Collection of contracts classified as insurance and investment with DPF	**6,842.8**	**5,850.6**	**992.4**	**17.0%**
- Traditional (Class I)	6,341.3	5,329.1	1,012.2	19.0%
- Capitalisation (Class V)	0.8	0.8	0.1	7.6%
- Unit-linked (Class III)	18.2	3.5	14.7	421.8%
- Pension funds (Class VI)	482.4	517.2	-34.8	-6.7%
Collection of contracts classified as investments without DPF	**8,806.9**	**11,888.9**	**-3,082.0**	**-25.9%**
- Unit-linked (Class III)	8,806.9	11,888.9	-3,082.0	-25.9%
Total life business	**15,649.8**	**17,739.4**	**-2,089.7**	**-11.8%**

Changes in the life insurance contracts are set out below:

	31.12.2017	New contracts	Other inflows	Payments and maturities	Other outflows	31.12.2018
Contracts under the scope of IFRS 4	**3,281,780**	**504,134**	**1,122**	**-287,100**	**-148,549**	**3,351,387**
Traditional	1,074,609	62,342	576	-125,968	-4,686	1,006,873
Capitalisation	2,097	3	4	-145	-	1,959
Unit-linked	498,482	80,828	-	-45,914	-	533,396
Pension	124,446	14,380	-	-1,007	-1,305	136,514
Individual pension funds	26,375	-	6	-679	-963	24,739
Term life	1,192,924	302,820	530	-108,804	-138,429	1,249,041
Index-linked	22	-	6	-6	-	22
Open pension plans	362,825	43,761	-	-4,577	-3,166	398,843
Contracts under the scope of IAS 39	**438,858**	**131,003**	**46**	**-30,875**	**-12,245**	**526,787**
Unit-linked	41,215	-	2	-6,865	-	34,352
Multi-class	397,643	131,003	44	-24,010	-12,245	492,435
Total	**3,720,638**	**635,137**	**1,168**	**-317,975**	**-160,794**	**3,878,174**

The net charges relating to claims, including the adjustment to the technical provisions, amount to € 7,599.3 million, showing a 10.2% increase on the € 6,894.7 million recognised for 2017.

With regard to amounts paid, charges due to claims decreased by 2.9%, to surrenders by 24.5% and to maturities by 31.6% compared to the previous year.

The provision for payable amounts decreased by € 458.9 million. The reduction in mathematical provisions, after accounting for the reinsurers' share, amounts to € 850.0 million, whilst provisions resulting from pension fund management where the investment risk is borne by the policyholders decreased by € 221.0 million. The other technical provisions at 31 December 2018, net of the reinsurers' share, decreased by € 30.5 million.

Commissions and other acquisition costs, net of profit participation and other commissions received from reinsurers, amount to € 195.5 million compared to € 186.5 million for 2017. They include acquisition costs relating to insurance contracts and investment contracts with DPF. In particular, the caption includes acquisition commissions of € 117.8 million (-6.7%), other acquisition costs of € 12.8 million (28.5%) and collection commissions of € 64.9 million (53.4%). The large increase in collection commissions is mostly due to the sale of the INFondi Stabilità and Scelta Sicura products.

Investment management costs amount to € 50.3 million for 2018 (€ 55 million for 2017) and include general costs and personnel expenses related to the management of investment property and equity investments.

Administrative costs amount to € 69.1 million, up from € 73 million for 2017.

Non-life business

The Intesa Sanpaolo Vita Group is also 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 € 507.1 million, up on the previous year (€ 431.6 million). In line with the contribution to the Intesa Sanpaolo Group's business plan, the non-life business saw growth in its non-motor line of business, especially the home and healthcare products due to the strong focus on retail and SME customers. The quality of the new products developed by the insurance group and the banking network's distribution strategy are clearly successful. The penetration rate of the non-motor policies sold to Intesa Sanpaolo customers increased from 5% in 2017 to 8% in 2018.

A breakdown by distribution channel is as follows:

(in thousands of euro)

	2018	%	2017	%	Change %
Credit protection	236,330	46.6%	252,788	58.6%	-6.5%
Home and family	81,985	16.2%	51,577	12.0%	59.0%
Motor	101,476	20.0%	89,816	20.8%	13.0%
Health and accident	67,436	13.3%	24,516	5.7%	100.0%
Other	19,855	3.9%	12,871	3.0%	54.3%
Total	**507,081**	**100.0%**	**431,566**	**100.0%**	**17.5%**

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

(in thousands of euro)

	2018	2017
Accident insurance (Class 1)	6,189	8,258
Health insurance (Class 2)	13,846	12,900
Motor vehicle property damage (Class 3)	6,043	5,700
Railway property damage (Class 4)	-	-
Aircraft property damage (Class 5)	-	-
Seacraft property damage (Class 6)	-	-
Goods transportation (Class 7)	-	-
Fire (Class 8)	4,906	5,400
Other damage to goods (Class 9)	5,429	4,600
Motor third party liability (Class 10)	53,589	49,900
Aircraft third party liability (Class 11)	-	-
Seacraft third party liability (Class 12)	8	-
General third-party liability (Class 13)	3,660	5,419
Credit insurance (Class 14)	1,602	100
Bonds (Class 15)	336	1,300
Pecuniary losses (Class 16)	7,467	2,100
Legal protection (Class 17)	334	100
Support and assistance (Class 18)	1,811	500
Total	**105,220**	**96,277**

At 31 December 2018, non-life policies numbered 2,817,748.

Commissions and other acquisition costs, net of profit participation and other commissions received from reinsurers, amount to € 131.4 million (€ 118.5 million for 2017).

Investment management costs amount to € 0.6 million for the year (€ 0.5 million for 2017) and include general costs and personnel expenses related to the management of investment property and equity investments. Administrative costs amount to € 22.0 million, down from € 23.4 million for 2017.

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 unit 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 2018.

ALM and capital management

During the year, the insurance group consolidated the results achieved after completion of the plan to upgrade its assessment and analysis of insurance risks and financial mismatching, begun in 2016 and completed in 2017, with the implementation of the new ALM application. This new management framework 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 fund 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 individual asset allocation policies for each segregated fund, 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 (in normal and stress conditions), cash flows and effective duration as well as using passive immunisation metrics (PV01 and gamma/convexity) and defines the future management measures to be included in the model used to project the liability's future cash flows. The measures are adapted to different economic scenarios used for forward-looking simulations to guarantee the prospective measurement of portfolios in line with the management strategies normally adopted in comparable market conditions.

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. The related objectives are set out in the capital management policy designed to bolster the group companies' growth and meet shareholders' expectations while concurrently ensuring an adequate equity base in line with the regulations and solvency requirements applicable to the group.

The parent has identified specific own fund distribution limits and the appropriate capital quality constraints to be met in different solvency scenarios.

It manages its capital, based on the RAF, as follows:

- monitoring its capital position on an ongoing basis by performing sensitivity analyses using various risk factors;
- contribution to the definition of commercial strategies, evaluating in particular the capital absorption of products and the creation of value;
- assessment of the impact of new products in terms of current and future capital;
- maintenance of an adequate capital quality level considering its operations and especially its membership of the Intesa Sanpaolo Group and the risk appetite of the insurance group and the individual group companies and the capital targets set for management purposes;
- LME (Liability Management Exercise) assumptions about debt instruments issued or to be issued in different forms and in different economic scenarios and coordination of the activities necessary to collect capital.

Capital management transactions

The 2018 performance on the Luxembourg stock exchange of the two series of subordinated bonds issued in 2013 and 2014 is set out below (the figures in brackets relate to the closing prices of the day):

- Five-year non-convertible subordinated bonds issued on 18 September 2013 for € 500 million (XS0972240997), duly redeemed on 18 September 2018. The bond price was € 103,835 and € 100.202 at 1 January 2018 and 13 September 2018 (the last date available), respectively. The lowest price was € 100,162 on 12 September while the highest price quoted was € 103,835 on 2 January. The 5.35% coupon was paid on 18 September 2018 (€ 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 € 111,167 and € 94,528 at 1 January 2018 and 31 December 2018, respectively. The lowest price was € 92,342 on 20 November while the highest price quoted was € 111,695 on 24 January. The 4.75% coupon was paid on 17 December 2018 (€ 35,625 thousand).

Furthermore, on 21 July 2017, the parent was granted a ten-year subordinated loan by its ultimate parent, Intesa Sanpaolo, eligible for Tier 2 classification for solvency purposes, 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.

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 planned the actions to resolve the issues raised by the inspectors.

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.

On 7 March 2018, IVASS filed the proceeding as the grounds for imposing a fine did not exist.

On 14 September 2017, COVIP commenced an inspection of the parent covering the individual pension plans it manages (Il mio futuro, Progetto Pensione and Vita & Previdenza Sanpaolo Più).

The supervisory authority completed its inspection on 2 March 2018 and provided the parent with its report attesting receipt of the documentation. The parent received official communication that the inspection had been concluded on 17 September 2018.

At year end, the 90-day period allowed for the adoption of measures arising from the inspection by the supervisory authority had expired.

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 2018, Intesa Sanpaolo Vita Group held 693,351 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 2014, 2015, 2016 and 2017 and the LECOIP 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 € 1.3 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	31.12.2018
INTESA SANPAOLO VITA S.p.A.	446,950	867
INTESA SANPAOLO ASSICURA S.p.A.	94,818	184
INTESA SANPAOLO LIFE LIMITED	151,583	294
Total	**693,351**	**1,345**

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 statutory 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 effect on the group's financial position, financial performance or cash flows.

The growth phase of the global economy will extend to 2019, but with a further slowdown. Furthermore, this time the projections are characterised by high uncertainty, due to the slowdown in demand in all the main economies, the trade tensions between the United States and China, and other factors that are making the economic data at the beginning of the year more volatile. In addition, a no-deal exit of the United Kingdom from the European Union could also have short-term negative repercussions on the Eurozone and on Italy, in terms of trade.

The drive to reduce monetary stimulus will fade in the United States. Very short-term rates will remain unchanged and negative on the euro, as the European Central Bank has already indicated that official rates will not be moved at least until the end of the summer.

In general, the average annual growth of the Eurozone is expected to slow further, but the deterioration should stop during the year. GDP growth will also slow down in Italy, with consensus estimates now hovering around half a percentage point.

Uncertainty about Italian budgetary policies could fuel further turbulence in the financial markets, particularly at domestic level, and a possible deterioration of the sovereign rating. The slowdown in growth makes it more difficult to achieve a reduction in the debt-to-GDP ratio in 2019. There may be a further widening of risk premiums on Italian debt if the 2020 fiscal package does not meet the condition of ensuring a decrease in the debt-to-GDP ratio. However, if there is a reduction in the debt-to-GDP ratio and the fiscal consolidation continues, risk premiums could start to fall again and the negative rating outlooks may not translate into actual downgrades.

The emerging economies are expected to see a slight reduction in growth in 2019 compared to 2018, as a result of the slowdown in the advanced economies, particularly the United States and the Eurozone. The forecasts in the IMF's January 2019 World Economic Outlook update indicate an average real GDP growth of 4.5% in 2019 (compared to 4.6% in 2018), with a slowdown in particular in Asia and Emerging Europe only partly offset by an acceleration in the Latin American and Sub-Saharan African commodity producing countries.

In the countries with ISP subsidiaries, GDP growth is expected to slow in both the CEE and SEE countries, mainly due to lower exports to Eurozone partners. We expect growth to be close to the potential, estimated by the European Commission at around 3.3% in 2019.

In the CIS area, growth is expected to be only slightly lower in Russia in 2019, with domestic demand for consumer goods initially penalised by the announced increase in VAT and investment demand penalised by sanctions and uncertain prospects in the commodities market. GDP growth is also expected to slow down in Ukraine in 2019, as a result of fiscal consolidation measures agreed with the IMF and the continued high cost of money. In the MENA region, during the current year, Egypt's economic growth is expected to maintain the strong momentum seen last year.

Downside risks to the growth of emerging countries stem from the persistent geopolitical and trade tensions at the international level, the slowdown in the economy of the advanced countries and a scenario that has been less favourable for the energy commodities market.

In the Italian banking system, in 2019 lending to businesses will remain lacklustre, conditioned by the weakness of the economy and the continued climate of uncertainty, factors that tend to reduce demand. In addition, in support of bank lending, the favourable rates applied by banks and the lower appeal of corporate bond issues continue, in the face of the increase in returns demanded by the market due to the high premium for sovereign risk. For households, the lending scenario remains positive, but with a slight slowdown in 2019. Residential loans will continue to be favoured by very low rates for most of 2019 and by the prospects of a resilient real estate market.

On the other hand, the persistence of continued overall weak house prices will put a brake on the growth of the stock of loans.

As regards funding, the net redemption of bonds in the retail segment and the growth in deposits will continue. Low market yields, the climate of uncertainty and the significant liquidity available will continue to fuel the balances on current accounts. However, in an overall situation that is still favourable for customer deposits, some critical issues related to the medium-term funding will become more evident, including the impact of the higher sovereign risk premium on the rates of new bond issues, which makes refinancing on the market more difficult and costly. In any event, in 2019, the average cost of funding will continue to benefit from the recomposition of the aggregate towards less costly forms and should rise very slowly. Current account interest rates are expected to remain at record lows for much of 2019, with a small recovery only in the last few months. Despite the start of a gradual repricing already in 2018, conditions for loan interest rates will remain relaxed and increases will be moderate in 2019. At the same time, competition will continue on loans to the best customers.

Milan, 21 February 2019

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

Consolidated financial statements

Statement of financial position

(in thousands of euro)

		31.12.2018	31.12.2017
1	**INTANGIBLE ASSETS**	**648,578**	**639,937**
1.1	Goodwill	634,580	634,580
1.2	Other intangible assets	13,998	5,357
2	**TANGIBLE ASSETS**	**1,262**	**1,616**
2.1	Lands and buildings (self used)	-	-
2.2	Other tangible assets	1,262	1,616
3	**AMOUNTS CEDED TO REINSURERS FROM INSURANCE PROVISIONS**	**19,653**	**15,762**
4	**INVESTMENTS**	**122,227,671**	**124,333,014**
4.1	Lands and buildings (Investment properties)	-	-
4.2	Investments in subsidiaries and associates and joint ventures	2,073	2,312
4.3	Held-to-maturity investments	-	-
4.4	Loans and receivables	18,988	19,339
4.5	Available-for-sale financial assets	72,122,673	75,456,258
4.6	Financial assets at fair value through profit or loss	50,083,938	48,855,105
5	**RECEIVABLES**	**340,626**	**365,629**
5.1	Receivables arising from direct insurance operations	44,272	8,892
5.2	Receivables arising from reinsurance operations	3,108	3,510
5.3	Other receivables	293,246	353,227
6	**OTHER ASSETS**	**2,770,115**	**2,745,033**
6.1	Non-current assets held for sale and discontinued operations	-	-
6.2	Deferred acquisition costs	-	-
6.3	Deferred tax assets	182,854	181,959
6.4	Current tax assets	2,054,590	2,041,458
6.5	Other assets	532,671	521,616
7	**CASH AND CASH EQUIVALENTS**	**823,870**	**768,108**
TOTAL ASSETS		**126,831,775**	**128,869,099**

(in thousands of euro)

		31.12.2018	31.12.2017
1	**SHAREHOLDERS' EQUITY**	**4,586,928**	**4,818,195**
1.1	**attributable to the Group**	**4,586,928**	**4,818,195**
1.1.1	Share capital	320,423	320,423
1.1.2	Other equity instruments	-	-
1.1.3	Capital reserves	1,328,098	1,328,097
1.1.4	Retained earnings and other equity reserves	2,318,117	2,182,342
1.1.5	(Treasury shares)	-	-
1.1.6	Exchange difference reserves	-	-
1.1.7	Gains or losses on available for sale financial assets	-1,972	397,957
1.1.8	Reserve for other unrealized gains (losses) through equity	1,882	2,257
1.1.9	Result of the period	620,380	587,119
1.2	**attributable to minority interests**	**-**	**-**
1.2.1	Capital and reserves attributable to minority interests	-	-
1.2.2	Reserve for other unrealized gains (losses) through equity	-	-
1.2.3	Net profit (loss) for the year attributable to minority interests	-	-
2	**PROVISIONS**	**14,138**	**13,024**
3	**TECHNICAL PROVISIONS**	**73,962,758**	**76,452,900**
4	**FINANCIAL LIABILITIES**	**46,683,980**	**45,790,456**
4.1	Financial liabilities at fair value through profit or loss	44,938,273	43,509,555
4.2	Other financial liabilities	1,745,707	2,280,901
5	**PAYABLES**	**739,428**	**743,297**
5.1	Arising out of direct insurance business	160,507	158,610
5.2	Arising out of reinsurance business	8,075	3,869
5.3	Other payables	570,845	580,818
6	**OTHER LIABILITIES**	**844,545**	**1,051,227**
6.1	Liabilities of disposal groups held for sale	-	-
6.2	Deferred tax liabilities	433,281	488,244
6.3	Current tax liabilities	240,900	373,390
6.4	Sundry liabilities	170,364	189,593
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**126,831,775**	**128,869,099**

Income statement

(in thousands of euro)

		2018	2017
1.1	Net earned premiums	7,243,003	6,195,016
1.1.1	*Gross premiums written*	*7,255,737*	*6,204,890*
1.1.2	*Reinsurance premiums*	*-12,734*	*-9,874*
1.2	Commission income	940,291	791,814
1.3	Net fair value gains or losses on financial instruments at FVTPL	-162,296	98,776
1.4	Incomes on investments in subsidiaries and associates and interests in joint ventures	-	-
1.5	Incomes on other financial instruments and investment property	2,260,118	2,403,430
1.5.1	*Interest income*	*1,706,374*	*1,824,726*
1.5.2	*Other income*	*186,409*	*186,158*
1.5.3	*Realised gains*	*367,335*	*392,546*
1.5.4	*Unrealised gains*	-	-
1.6	Other revenues	156,540	118,678
1	**TOTAL REVENUE**	**10,437,657**	**9,607,714**
2.1	Net insurance benefits and claims	-7,711,790	-6,992,972
2.1.1	*Amounts paid and change in technical reserves*	*-7,718,808*	*-6,998,178*
2.1.2	*Reinsurers' share*	*7,018*	*5,206*
2.2	Commission expense	-691,023	-574,410
2.3	Losses on investments in subsidiaries and associates and interests in joint ventures	-239	-393
2.4	Losses on other financial instruments and investment property	-239,274	-181,781
2.4.1	*Interest expense*	*-86,169*	*-81,799*
2.4.2	*Other expense*	*-13*	*-2*
2.4.3	*Realised losses*	*-128,775*	*-91,716*
2.4.4	*Unrealised losses*	*-24,317*	*-8,264*
2.5	Operating expenses	-466,748	-447,811
2.5.1	*Commissions and other acquisition costs*	*-324,773*	*-303,994*
2.5.2	*Investment management expenses*	*-50,872*	*-55,077*
2.5.3	*Other administrative costs*	*-91,103*	*-88,740*
2.6	Other costs	-483,457	-594,992
2	**TOTAL EXPENSES**	**-9,592,531**	**-8,792,359**
	PROFIT (LOSS) BEFORE TAXES FOR THE PERIOD	**845,126**	**815,355**
3	Income taxes	-224,746	-228,236
	PROFIT (LOSS) AFTER TAX FOR THE PERIOD	**620,380**	**587,119**
4	**PROFIT (LOSS) FROM DISCONTINUED OPERATIONS**	**-**	**-**
	CONSOLIDATED NET PROFIT (LOSS) FOR THE PERIOD	**620,380**	**587,119**
	of which attributable to the group	620,380	587,119
	of which attributable to the minority interests	-	-

Statement of comprehensive income

(in thousands of euro)

	2018	2017
CONSOLIDATED NET PROFIT (LOSS) FOR THE PERIOD	**620,380**	**587,119**
Other items of income after taxes without reclassification to profit or loss	**-44**	**31**
Share of other comprehensive income of associates	-	-
Reserve for revaluation model on intangible assets	-	-
Reserve for revaluation model on tangible assets	-	-
Results of discount operations	-	-
Acturial gains or losses arising from defined benefits plan	-44	31
Other items	-	-
Other items of income after taxes with reclassification to profit or loss	**-400,260**	**-79,431**
Foreign currency translation differences	-	-
Reserve for unrealized gains and losses on available for sale financial assets	-397,723	-82,066
Net unrealized gains and losses on cash flows hedging derivatives	-2,537	2,635
Net unrealized gains and losses on hedge of a net investment in foreign operations	-	-
Share of other comprehensive income of associates	-	-
Results of discount operations	-	-
Other items	-	-
OTHER COMPREHENSIVE EXPENSE	**-400,304**	**-79,400**
COMPREHENSIVE INCOME	**220,076**	**507,719**
Of which attributable to the group	**220,076**	**507,719**
Of which from minority interest	**-**	**-**

Statement of changes in equity

(in thousands of euro)

		31.12.2016	Adjustment to closing balance	Allocations	Reclassification adjustments to income statement	Transfers	Change in profit sharing	31.12.2017
Equity attributable to the owners of the parent	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
	(Treasury shares)	-	-	-	-	-	-	-
	Results 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**
Equity attributable to non-controlling interests	Shareholder capital and reserves	-	-	-	-	-	-	-
	Results for the period	-	-	-	-	-	-	-
	Other comprehensive income	-	-	-	-	-	-	-
	Total attributable to minority interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,565,412**	**-**	**590,360**	**-36,008**	**-301,569**	**-**	**4,818,195**

(in thousands of euro)

		31.12.2017	Adjustment to closing balance	Allocations	Reclassification adjustments to income statement	Transfers	Change in profit sharing	31.12.2018
Equity attributable to the owners of the parent	Share capital	320,423	-	-	-	-	-	320,423
	Other equity instruments	-	-	-	-	-	-	-
	Capital reserves	1,328,097	-	-	-	-	-	1,328,098
	Revenue reserves and other reserves	2,182,342	-	586,220	-	-450,444	-	2,318,117
	(Treasury shares)	-	-	-	-	-	-	-
	Results for the period	587,119	-	33,261	-	-	-	620,380
	Other comprehensive income	400,214	-	-2,581	-15,578	-382,146	-	-90
	Total attributable to the Group	**4,818,195**	**-**	**616,900**	**-15,578**	**-832,590**	**-**	**4,586,928**
Equity attributable to non-controlling interests	Shareholder capital and reserves	-	-	-	-	-	-	-
	Results for the period	-	-	-	-	-	-	-
	Other comprehensive income	-	-	-	-	-	-	-
	Total attributable to minority interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,818,195**	**-**	**616,900**	**-15,578**	**-832,590**	**-**	**4,586,928**

Statement of cash flows (indirect method)

(in thousands of euro)

	2018	2017
PROFIT BEFORE TAXES	**845,126**	**815,355**
Change in non-monetary items	**-2,445,419**	**-2,683,143**
Change in non-life premium provision	91,519	79,761
Change in claims provision and other non-life technical provisions	13,784	7,698
Change in mathematical provisions and other life technical provisions	-2,999,265	-3,851,204
Change in deferred acquisition costs	-	-
Change in provisions	1,114	1,032
Non-monetary gains and losses on financial instruments, investment property and equity investments	511,575	1,073,176
Other changes	-64,145	6,394
Change in assets and liabilities arising from operating activities	**-154,773**	**-442,790**
Change in direct insurance and reinsurance receivables and liabilities	-28,875	25,930
Change in other assets and liabilities	-125,898	-468,720
Taxes paid	**-224,746**	**-228,236**
Net cash flows used for monetary items from investing and financing activities	**-822,567**	**-522,918**
Liabilities from financial contracts issued by insurance companies	893,524	9,578,136
Liabilities with bank customers and banks	-	-
Loans and receivables with bank customers and banks	-	-
Other financial instruments at fair value through profit or loss	-1,716,090	-10,101,054
NET CASH FLOWS USED FOR OPERATING ACTIVITIES	**-2,802,378**	**-3,061,732**
Net cash flows generated by/used for investment property	-	-
Net cash flows generated by/used for investments in subsidiaries and associates and interests in joint ventures	239	-2,312
Net cash flows generated by/used for loans and receivables	351	-3,024
Net cash flows generated by/used for held-to-maturity investments	-	-
Net cash flows generated by available-for-sale financial assets	3,309,269	2,592,399
Net cash flows generated by/used for property, plant and equipment and intangible assets	-	-
Other net cash flows generated by/used for investing activities	-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	**3,309,859**	**2,587,063**
Net cash flows used for equity instruments attributable to the owners of the parent	-451,719	-252,270
Net cash flows generated by/used for treasury shares	-	-
Dividends distributed to the owners of the parent	-	-
Net cash flows generated by/used for share capital and reserves attributable to non-controlling interests	-	-
Net cash flows generated by/used for subordinated liabilities and participating financial instruments	-	-
Net cash flows generated by/used for other financial liabilities	-	-
NET CASH FLOWS USED FOR FINANCING ACTIVITIES	**-451,719**	**-252,270**
Effect of exchange gains (losses) on cash and cash equivalents	**-**	**-**
OPENING CASH AND CASH EQUIVALENTS	768,108	1,495,047
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**55,762**	**-726,939**
CLOSING CASH AND CASH EQUIVALENTS	823,870	768,108

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" (the Italian private insurance code), 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, has replaced IAS 39, which governed 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 has been adopted by the Intesa Sanpaolo Vita Group, as well as the Intesa Sanpaolo Group, as of such date.

IFRS 17 will become applicable from 1 January 2021. Due to the complexity of the standard, the IASB has recently proposed to postpone the date of first-time adoption by one year to 1 January 2022. It has also proposed to extend the deadline for the temporary deferral of the application of IFRS 9 for insurance companies (i.e., the deferral approach) by one year – again to 2022 – in order to bring it into line with the application of IFRS 17. The proposed deferral will be subject to a public consultation scheduled for 2019 and should also provide more time to assess possible changes to the standard.

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

- "IASB framework for the preparation and presentation of financial statements";
- "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.

The group checked its compliance with the requirements to apply the temporary exemption and, specifically, that the carrying amount of insurance liabilities as a percentage of total liabilities exceeded 90% (predominance ratio).

As required by the law, the quantitative disclosure required of entities that postpone the application of the standard to 1 January 2022 is provided below:

(in thousands of euro)

	Fair value at 31.12.2018	Fair value gains (losses)	Other changes (3)	Fair value at 31.12.2017
Insurance companies' financial assets at fair value under IAS 39	**72,953,050**	**-2,749,763**	**-1,025,912**	**76,728,725**
of which:				
Financial assets whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) (1)	**59,735,721**	**-2,278,033**	**-2,426,327**	**64,440,081**
Debt instruments	59,735,721	-2,278,033	-2,426,327	64,440,081
Structured	365,361	-29,208	-3,363,239	3,757,808
Other	59,370,360	-2,248,825	936,912	60,682,273
Loans	-	-	-	-
Other financial assets		-	-	-
Financial assets other than those whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) (2)	**13,217,329**	**-471,730**	**1,400,415**	**12,288,644**
Debt instruments	701,582	-49,771	-254,307	1,005,660
Structured	461,722	-28,538	-505,074	995,334
Other	239,860	-21,233	250,767	10,326
Equity instruments	953,726	-85,895	-541,400	1,581,021
OEIC units	11,490,975	-367,164	2,165,529	9,692,610
Loans	-	-	-	-
Derivatives	71,046	31,100	30,593	9,353
Other financial assets	-	-	-	-

The above table does not include investments where the risk is fully borne by policyholders, which are not SPPI tested under their business model.

(in thousands of euro)

	Fair value at 31.12.2018	Fair value gains (losses)	Other changes (3)	Fair value at 31.12.2017
Insurance companies' financial assets at amortised cost under IAS 39	**16,519**	**241**	**3,107**	**13,171**
of which:				
Financial assets whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) (1)	**14,373**	**-**	**1,264**	**13,109**
Debt instruments	14,373	-	1,264	13,109
Structured	*0*	-	*0*	*0*
Other	*14,373*	-	*1,264*	*13,109*
Loans	-	-	-	-
Other financial assets	-	-	-	-
Financial assets other than those whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) (2)	**2,146**	**241**	**1,843**	**62**
Debt instruments	-	-	-	-
Structured	-	-	-	-
Other	-	-	-	-
Equity instruments	2,146	241	**1,843**	62
OEIC units	-	-	-	-
Loans	-	-	-	-
Derivatives	-	-	-	-
Other financial assets	-	-	-	-

(1) excludes financial assets that meet the IFRS 9 definition of "held for trading" or that are managed and their performance is evaluated on a fair value basis;
(2) includes all other financial assets, i.e., any financial asset:
i) whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
ii) that meets the IFRS 9 definition of "held for trading"; or
iii) that is managed and its performance is evaluated on a fair value basis;
(3) optional column that includes changes that are not attributable to fair value gains or losses (purchases, sales, repayments, etc.).

The group's exposure to credit risk in relation to its financial assets that passed the SPPI test is as follows:

(in thousands of euro)

Financial assets whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) (1)	Credit risk rating	Carrying amount (2) 31.12.2018	Carrying amount (2) 31.12.2017
Debt instruments		58,379,716	62,956,852
Structured	*Investment grade*	-	-
Other		*58,379,716*	*62,956,852*
Loans		-	-
Other financial assets		-	-

(in thousands of euro)

Financial assets whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (1) and which do not have a low credit risk	Credit risk rating	Carrying amount (2) 31.12.2018	Fair value 31.12.2018	Carrying amount (2) 31.12.2017
Debt instruments		1,370,173	1,370,378	1,497,762
Structured		-	-	-
Other	*Non-investment grade*	*1,370,173*	*1,370,378*	*1,497,762*
Loans		-	-	-
Other financial assets		-	-	-

(1) excludes financial assets that meet the IFRS 9 definition of "held for trading" or that are managed and their performance is evaluated on a fair value basis.
(2) in the case of financial assets at amortised cost, before any impairment losses.

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 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, pursuant to article 96 of Legislative Decree 209/2005 (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 systems of governance, the prospective valuation of risks using the ORSA (own risk and solvency assessment) guidance, 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 € 2,915,606 thousand and the minimum capital requirement amounts to € 1,516,090 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 € 6,152,195 thousand and the eligible own funds covering the MCR (minimum capital requirement) amount to € 5,835,934 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 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) has been mandatory from 1 January 2014. The new requirements about consolidation 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 (the activities that significantly affect the investee's returns);
- 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 and 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 (within the 5% to 10% range), 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 commission income - including loadings and management commissions - and surrender gains, as well as the cost items, consisting of other expense and 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 management costs. The group maintained that it could approximate the net effect of deferred income and DAC by keeping the management 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 income statement 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 funds 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 cost, 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, at postponing the reimbursement of the positions, at the replacement of the financial instruments with others before the due date.

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

Hedging transactions

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 hedge. The hedge's effectiveness is checked both at the inception of the hedge and over the hedge term. Generally, a hedging transaction is considered effective if, both at its inception 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.

Investment property and property, plant and equipment

Investment property includes all properties held and owned by the group to earn rentals or for capital appreciation or both. They are measured at cost.

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.

In the case of property, the land and buildings are separate assets for accounting purposes and are recognised separately at the time of their acquisition. Land has an indefinite useful life and, therefore, is not depreciated.

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 and the exclusive distribution agreement with Banca Fideuram for the open Fideuram pension fund.

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.

The exclusive distribution agreement is amortised systematically over its term (six years).

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

Technical provisions of the life business

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 payable amounts

The provision for payable amounts 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 performed 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 grouping the contracts portfolio into model points that represented almost the whole portfolio. The grouping criterion ensures a high level of information about liabilities.

The capital insured, 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.

Technical provisions of the non-life business

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 thereto. 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 arising 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, because 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 as 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 management 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 party 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 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

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 been extinguished. Derecognition also occurs for repurchases of previously-issued securities.

Part B - Consolidation policies and scope

Consolidation policies

These consolidated financial statements 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 e Intesa Sanpaolo Assicura as it is an insurance company under the common management of Intesa Sanpaolo.

Forty-nine percent held by the parent, Intesa Sanpaolo Vita, at 31 December 2018, Intesa Sanpaolo Smart Care is measured using the equity method.

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 on a line-by-line basis, as follows:

– the IFRS financial statements 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 Euros.

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 2018 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 SmartCare 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.

Following such transaction, Intesa Sanpaolo SmartCare 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 measured using the equity method which entails initial recognition of the investment at cost and subsequent adjustment based on the parent's share of the investee's equity. The difference between the fair value of the investment and the parent's share of the investee's equity is included under the investment's carrying amount.

The parent's share of the investee's profit or loss for the year is recognised in the specific income statement caption.

The annex "Consolidation scope" hereto lists consolidated entities at the reporting date.

Part C - Notes to the statement of financial position

Intangible assets (caption 1)

The caption amounts to € 648,578 thousand (€ 639,937 thousand at 31 December 2017).

This caption, which mainly comprises goodwill and the expenses incurred for software acquired from third parties or developed internally, is broken down below:

(in thousands of euro)

	31.12.2018			31.12.2017		
	Cost	Deemed cost or fair value	Total	Cost	Deemed cost or fair value	Total
Goodwill	634,580	-	634,580	634,580	-	634,580
Other intangible assets	13,998	-	13,998	5,357	-	5,357
Total	**648,578**	**-**	**648,578**	**639,937**	**-**	**639,937**

Goodwill of € 634,580 thousand, unchanged from 31 December 2017, 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.

Goodwill was tested for impairment 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 Directive.

This measurement gives values considerably higher than goodwill. Moreover, it was supported by the elements characterising operations in 2018 and mainly:

- the trend of new business, recording significant amounts and products with relative profitability above the portfolio's average;
- the policy to contain management costs, continued again in 2018, has also contributed to improving the future profitability of the existing portfolio;
- the financial market performance maintained the positive balance of the fair value gains/losses on the segregated funds.

With regard to events after the reporting date, the good performance of new business in early 2019 and forecasts for the entire year are consistent with the 2018 results, without indicating subsequent events that may negatively affect measurement.

The table below provides a breakdown of the changes during 2018:

(in thousands of euro)

	Goodwill	Other intangible assets: developed internally		Other intangible assets: other		2018	2017
		Finite life	Indefinite life	Finite life	Indefinite life		
Gross opening balance	**634,580**	**-**	**-**	**14,372**	**-**	**648,952**	**643,665**
Total net impairment losses	-	-	-	-9,015	-	-9,015	-8,121
Net opening balance	**634,580**	**-**	**-**	**5,357**	**-**	**639,937**	**635,544**
Increases	**-**	**-**	**-**	**13,675**	**-**	**13,675**	**5,287**
- Acquisitions	-	-	-	13,675	-	13,675	5,287
- New entities included in the consolidation scope	-	-	-	-	-	-	-
- Increases in internally developed assets	-	-	-	-	-	-	-
- Other increases	-	-	-	-	-	-	-
C. Exchange differences	-	-	-	-	-	-	-
Decreases	**-**	**-**	**-**	**-5,034**	**-**	**-5,034**	**-894**
- Sales	-	-	-	-	-	-	-
- Amortisation	-	-	-	-5,034	-	-5,034	-894
- Value adjustments charged to profit and loss	-	-	-	-	-	-	-
- Transfers to assets held for sale	-	-	-	-	-	-	-
- Other decreases	-	-	-	-	-	-	-
- Entities excluded from the consolidation scope	-	-	-	-	-	-	-
Closing balance	**634,580**	**-**	**-**	**13,998**	**-**	**648,578**	**639,937**
Total net impairment losses	-	-	-	-14,049	-	-14,049	-9,015
Gross closing balance	**634,580**	**-**	**-**	**28,047**	**-**	**662,627**	**648,952**

Other items of property, plant and equipment (caption 2.2)

The caption amounts to € 1,262 thousand (€ 1,616 thousand at 31 December 2017).

The table below provides a breakdown of the changes that took place during 2018:

(in thousands of euro)

	Furniture and fittings	Electronic systems and equipment	Other assets	2018	2017
Gross opening balance	1,411	1,583	16,098	19,092	11,378
Total net impairment losses	-1,185	-1,560	-14,731	-17,476	-6,463
Net opening balance	**226**	**23**	**1,367**	**1,616**	**4,915**
Increases	**85**	**27**	**5**	**116**	**7,714**
- Acquisitions	85	27	5	116	3,436
- Other increases	-	-	-	-	4,278
Foreign currency	**-**	**-**	**-**	**-**	**-**
Decreases	**-96**	**-10**	**-365**	**-471**	**-11,013**
- Sales	-	-	-	-	-
- Amortizations	-96	-9	-365	-470	-1,396
- Other decreases	-	-	-	-	-9,617
Closing balance	**215**	**40**	**1,007**	**1,262**	**1,616**
Total net impairment losses	-	-	-	-	-17,476
Gross closing balance	215	40	1,007	1,262	19,092

Reinsurers’ share of technical provisions (caption 3)

The caption amounts to € 19,653 thousand (€ 15,762 thousand at 31 December 2017), with an increase of € 3,890 thousand compared to 31 December 2017. It is broken down in the annex “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 € 122,227,671 thousand (€ 124,333,014 thousand at 31 December 2017).

Investments in subsidiaries and associates and interests in joint ventures (caption 4.2)

This caption amounts to € 2,073 thousand at 31 December 2018 and refers to the equity measurement of the 49% interest held in Intesa Sanpaolo Smart Care S.r.l. which recognised equity of € 4,231 thousand at 31 December 2018.

Financial assets (captions 4.3, 4.4, 4.5 and 4.6)

Financial assets amount to € 122,225,598 thousand (€ 124,333,014 thousand at 31 December 2017). They are broken down in the annex “Breakdown of financial assets”.

Loans and receivables (caption 4.4)

They amount to € 18,988 thousand (€ 19,339 thousand at 31 December 2017) as follows:

(in thousands of euro)

	31.12.2018	31.12.2017
Loans and receivables with bank customers	14,168	14,533
Loans and receivables with banks	-	-
Deposits with ceding companies	-	-
Financial component of insurance contracts	-	-
Other loans and receivables	4,820	4,806
- loans on policies	247	262
- secured loans	-	-
- employee loans	-	-
- other	4,573	4,544
Total	**18,988**	**19,339**

The maximum exposure to the credit risk on loans and receivables is € 18,988 thousand, i.e., the carrying amount of such assets.

Other loans and receivables include the € 4,573 thousand loan granted by the parent, Intesa Sanpaolo Vita, to Intesa Sanpaolo Smart Care. Such company was fully consolidated at 31 December 2017.

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

Available-for-sale financial assets (caption 4.5)

They amount to € 72,122,672.7 thousand (€ 75,456,258.0 thousand at 31 December 2017), mainly comprise bonds and may be broken down as follows:

(in thousands of euro)

	31.12.2018				31.12.2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	57,202,099	2,895,007	292	60,097,398	63,118,916	1,648,944	177,682	64,945,542
- Structured	619,256	3,482	291	623,029	4,069,978	290,015	417	4,360,410
- Other	56,582,842	2,891,526	1	59,474,369	59,048,938	1,358,929	177,265	60,585,132
Equity instruments	952,675	1	73	952,749	1,579,608	-	61	1,579,669
- Cost	-	-	73	73	-	-	61	61
- FVTPL	952,675	1	-	952,676	1,579,608	-	-	1,579,608
OEIC units	9,730,602	-	1,341,924	11,072,526	8,088,831	40,000	802,216	8,931,047
Total	**67,885,375**	**2,895,008**	**1,342,289**	**72,122,673**	**72,787,355**	**1,688,944**	**979,959**	**75,456,258**

Changes in the Level 3 assets are presented in the annex "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 detailed in the accounting policies section, led to recognition of impairment losses of € 24,305 thousand. This amount includes impairment losses on bonds (€ 296 thousand), equity instruments (€ 23,732 thousand) and OEIC units (€ 277 thousand).

The table below provides a breakdown of the changes that took place during 2018:

(in thousands of euro)

	Debt instruments	Equity instruments	OEIC units	2018	2017
Opening balance	**64,945,542**	**1,579,669**	**8,931,047**	**75,456,258**	**78,056,921**
Increases	**10,460,686**	**336,901**	**6,933,909**	**17,731,496**	**12,827,294**
- Acquisitions	9,603,476	143,773	5,840,816	15,588,065	10,914,041
- Fair value gains recognised in equity	70,705	26,836	67,844	165,384	675,589
- Realised gains	188,007	94,497	74,478	356,981	361,546
- Other increases	598,499	71,795	950,772	1,621,066	876,118
Foreign currency	**9,665**	**2,634**	**1**	**12,300**	**-379,410**
Decreases	**-15,318,495**	**-966,455**	**-4,792,432**	**-21,077,382**	**-15,263,412**
- Sales	-7,479,457	-643,876	-3,364,658	-11,487,990	-7,814,653
- Repayments	-4,278,098	-	-	-4,278,098	-4,718,017
- Fair value losses recognised in profit or loss	-307	-23,732	-277	-24,317	-8,264
- Fair value losses recognised in equity	-2,511,217	-112,993	-409,344	-3,033,553	-1,228,246
- Realised losses	-43,400	-32,760	-47,908	-124,068	-70,493
- Other decreases	-1,006,017	-153,094	-970,246	-2,129,356	-1,423,739
Closing balance	**60,097,398**	**952,749**	**11,072,526**	**72,122,673**	**75,456,258**

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	44,914,325	10,616,968
AUSTRIA	2,202	2,164
BELGIUM	4,047	170,681
BULGARIA	61,157	10,682
CROATIA	92,531	10,244
DENMARK	-	24,794
FINLAND	3,023	-
FRANCE	55,027	1,359,400
GERMANY	320,543	425,918
GREECE	-	-
IRELAND	91,940	160,125
ITALY	42,681,982	4,919,729
LUXEMBOURG	-	205,021
NORWAY	-	76,926
NETHERLANDS	70,040	1,137,053
POLAND	30,155	-
PORTUGAL	-	7,568
UK	101,950	1,328,224
ROMANIA	197,385	-
SLOVENIA	7,058	-
SPAIN	1,163,224	778,440
SWEDEN	-	-
HUNGARY	32,061	-
JAPAN	-	64,878
North Africa	14,270	-
Americas	6,815	1,419,997
Other countries	538,266	2,521,880
TOTAL	**45,473,675**	**14,623,723**

Financial assets at fair value through profit or loss (caption 4.6)

They amount to € 50,083,938 thousand (€ 48,855,105 thousand at 31 December 2017) and include assets held for trading (€ 320,640 thousand) and assets designated at fair value through profit or loss (€ 49,763,297 thousand).

Financial assets held for trading

Financial assets held for trading amount to € 320,640 thousand (€ 528,620 thousand at 31 December 2017).

The breakdown of the caption at 31 December 2018 is set out below:

(in thousands of euro)

	31.12.2018				31.12.2017			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt instruments	120,990	9,541	2,556	133,087	215,980	11,342	2,928	230,250
- *Structured securities*	*2,557*	*1,638*	*2,556*	*6,751*	*17,695*	*2,294*	*2,928*	*22,917*
- *Other debt instruments*	*118,433*	*7,903*	-	*126,336*	*198,285*	*9,048*	-	*207,333*
Equity instruments	-	-	-	-	-	-	-	-
OEIC units	61,017	-	46,831	107,848	205,075	-	48,695	253,770
Derivatives	48,914	30,792	-	79,705	7,316	37,284	-	44,600
Total	**230,921**	**40,333**	**49,387**	**320,640**	**428,371**	**48,626**	**51,623**	**528,620**

The table below provides a breakdown of the changes in the caption, with the exclusion of derivatives, that took place during 2018:

(in thousands of euro)

	Debt instruments	**Equity instruments**	**OEIC units**	**2018**	**2017**
Opening balance	**230,250**	**-**	**253,770**	**484,020**	**505,197**
Increases	**26**	**-**	**26,368**	**26,394**	**14,166**
- Acquisitions	-	-	26,000	26,000	-
- Fair value gains recognised in profit or loss	-	-	105	105	11,631
- Realised gains	-	-	143	143	1,171
- Other increases	26	-	120	146	1,364
Exchange differences	**-**	**-**	**-**	**-**	**-**
Decreases	**-97,188**	**-**	**-172,291**	**-269,479**	**-35,343**
- Sales	-84,183	-	-163,993	-248,176	-27,712
- Repayments	-350	-	-	-350	-
- Fair value losses recognised in profit or loss	-9,850	-	-4,889	-14,739	-7,270
- Realised losses	-1,244	-	-3,390	-4,635	-7
- Other decreases	-1,561	-	-19	-1,580	-354
Closing balance	**133,087**	**-**	**107,848**	**240,935**	**484,020**

Changes in Level 3 financial assets held for trading are set out in the annex “Changes in Level 3 financial assets and liabilities”.

Assets designated at fair value through profit or loss

Assets designated at fair value through profit or loss amount to € 49,763,297 thousand (€ 48,326,485 thousand at 31 December 2017). The breakdown of the caption at 31 December 2018 is set out below:

(in thousands of euro)

	31.12.2018				31.12.2017			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt instruments	3,389,710	77,878	29,475	3,497,063	2,999,754	286,690	33,465	3,319,909
- *Structured*	*101,948*	*67,878*	*29,475*	*199,302*	-	-	-	-
- *Other*	*3,287,762*	*10,000*	-	*3,297,762*	*2,999,754*	*286,690*	*33,465*	*3,319,909*
Equity instruments	976,836	-	-	976,836	849,229	-	-	849,229
OEIC units	44,685,112	-	18,880	44,703,992	43,711,674	-	19,080	43,730,754
Other financial investments	276,277	-	310,429	586,706	-	-	426,593	426,593
Non-hedging derivatives	-	-1,300	-	-1,300	-	-	-	-
Total	**49,327,936**	**76,578**	**358,784**	**49,763,297**	**47,560,657**	**286,690**	**479,138**	**48,326,485**

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 consolidated companies do not present any hedging derivatives.

Changes in Level 3 assets designated at fair value through profit or loss are set out in the annex "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 € 49,191,989 thousand.

The annex "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 vis-à-vis policyholders.

The table below provides a breakdown of the changes in the caption, with the exclusion of derivatives, that took place during 2018:

(in thousands of euro)

	Debt instruments	Equity instruments	OEIC units	Other financial investments	2018	2017
Opening balance	**3,319,909**	**849,229**	**43,730,754**	**426,593**	**48,326,485**	**39,231,481**
Increases	**2,937,730**	**784,159**	**10,298,596**	**31,149**	**14,051,634**	**19,107,113**
Acquisitions	2,721,931	715,585	7,198,076	-	10,635,592	11,456,438
Reversals of impairment losses recognised in profit or loss	-	-	17,555	-	17,555	-
Fair value gains recognised in equity	-	-	-	-	-	-
Fair value gains recognised in profit or loss	10,178	20,722	64,550	-	95,450	1,091,094
Realised gains	36,790	18,995	837,796	96	893,677	1,332,242
Other increases	168,832	28,857	2,180,618	31,053	2,409,360	5,227,339
Exchange differences	**5,957**	**17,272**	**8,293**	**131,215**	**162,737**	**-**
Decreases	**-2,766,532**	**-673,824**	**-9,333,651**	**-3,551**	**-12,777,559**	**-10,012,109**
Sales	-1,799,602	-473,057	-5,755,192	-	-8,027,851	-8,221,423
Repayments	-857,704	-	-	-	-857,704	-186,580
Impairment losses recognised in profit or loss	-	-	-	-	-	-
Fair value losses recognised in equity	-	-	-	-	-	-
Fair value losses recognised in profit or loss	-62,881	-144,819	-2,903,708	-	-3,111,408	870,046
Realised losses	-41,807	-36,001	-459,932	-3,551	-541,291	-115,567
Other decreases	-4,539	-19,947	-214,819	-	-239,305	-618,493
Closing balance	**3,497,063**	**976,836**	**44,703,992**	**585,406**	**49,763,297**	**48,326,485**

Other receivables (caption 5)

They amount to € 340,626 thousand (€ 365,629 thousand at 31 December 2017).

Sundry receivables include, in particular, receivables from the ultimate parent for payment of the IRES advance (€ 443 thousand), tax assets (€ 73,816 thousand), management commissions on unit-linked and index-linked policies (€ 100,082 thousand) and other receivables of € 118,906 thousand, mainly consisting of hedges of the margins on derivatives agreed with Morgan Stanley, Credit Suisse and Deutsche Bank.

The caption at 31 December 2018 is broken down below:

(in thousands of euro)

	31.12.2018	31.12.2017
Direct insurance receivables (caption 5.1)	**44,272**	**8,892**
Premiums due from policyholders	36,643	4,525
Receivables from insurance brokers	347	1,078
Co-insurance receivables	4,952	1,406
Other	2,331	1,883
Reinsurance receivables (caption 5.2)	**3,108**	**3,510**
Sundry receivables (caption 5.3)	**293,246**	**353,227**
Total	**340,626**	**365,629**

Other assets (caption 6)

They amount to € 2,770,115 thousand (€ 2,745,033 thousand at 31 December 2017).

(in thousands of euro)

	31.12.2018	31.12.2017
Non-current assets held for sale and disposal groups	-	-
Deferred acquisition costs	-	-
Deferred tax assets	182,854	181,959
Current tax assets	2,054,590	2,041,458
Sundry assets	532,671	521,616
Deferred commission expense on investment contracts	*492,177*	*478,547*
Other	*40,494*	*43,069*
Total	**2,770,115**	**2,745,033**

Deferred tax assets (caption 6.3)

This caption includes deferred tax assets through profit or loss of € 179,218 thousand and through equity of € 3,637 thousand (€ 181,959 thousand at 31 December 2017).

(in thousands of euro)

	31.12.2018	31.12.2017
Deferred tax assets through profit or loss	179,218	181,748
Deferred tax assets through equity	3,637	211
Total	**182,854**	**181,959**

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	2018	2017
Opening balance	**181,748**	**211**	**181,959**	**195,287**
Increases	**18,304**	**4,522**	**22,826**	**30,331**
New entities included in the consolidation scope	-	-	-	-
Deferred tax assets recognised in the year	17,829	4,522	22,351	18,254
- related to previous years	-	-	-	-
- due to changes in accounting policies	-	-	-	-
- reversals of impairment losses	*160*	*4,460*	*4,620*	-
- other	*17,669*	*62*	*17,731*	*18,254*
New taxes or tax rate increases	-	-	-	-
Other increases	476	-	476	12,077
Decreases	**-20,835**	**-1,096**	**-21,931**	**-43,659**
Deferred tax assets derecognised in the year	-2	-1,096	-1,098	-
New taxes or tax rate increases	-	-	-	-
Reversals	-20,833	-	-20,833	-43,652
Tax rate reductions	-	-	-	-
Other decreases	-1	-	-1	-7
Closing balance	**179,218**	**3,637**	**182,854**	**181,959**

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 € 2,054,590 thousand (€ 2,041,458 thousand at 31 December 2017). 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 1.2 of Legislative decree no. 209/2002 as converted by article 1 of Law no. 265/2002 and subsequent amendments.

The caption at 31 December 2018 is broken down below:

(in thousands of euro)

	31.12.2018	31.12.2017
Direct taxes	35,193	59,952
Tax on mathematical provisions	2,019,397	1,981,506
Total	**2,054,590**	**2,041,458**

Sundry assets (caption 6.5)

Sundry assets amount to € 532,671 thousand (€ 521,616 thousand at 31 December 2017). The caption mainly comprises deferred commission costs of € 492,177 thousand associated with products of a financial nature without DPF, such as index-linked and unit-linked policies.

The caption at 31 December 2018 is broken down below:

(in thousands of euro)

	31.12.2018	31.12.2017
Deferred commission expense on investment contracts	492,177	478,547
Other	40,494	43,069
Total	**532,671**	**521,616**

"Other" mainly comprises amounts relating to premiums that will be issued in January 2019 but that the distribution networks have already transferred to the current accounts with value dates before 31 December 2018. It also comprises amounts relating to units issued and repaid of unit-linked policies with a bank value date of January 2019 and an accounting value date of 31 December 2018 and other prepayments and accrued income.

Cash and cash equivalents (caption 7)

Cash and cash equivalents amount to € 823,870 thousand at the reporting date (€ 768,108 thousand at 31 December 2017). 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 2018:

(in thousands of euro)

	31.12.2018	31.12.2017
Share capital	320,423	320,423
Capital reserves	1,328,097	1,328,097
Revenue reserves and other reserves	2,318,117	2,182,342
Own shares	-	-
Reserve for currency translation differences	-	-
Reserve for unrealized gains and losses on assets	-1,972	397,957
Other gains or losses recognised directly in equity	1,882	2,257
Profit for the period/year attributable to the owners	620,380	587,119
Total Shareholders' Equity	**4,586,928**	**4,818,195**

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

Share capital (caption 1.1.1)
Share capital comprises:

the parent's share capital of € 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 € 2,318,117 thousand compared to € 2,182,342 thousand at 31 December 2017.

The increase is mainly due to the allocation of the profit for the prior year and the parent's distribution of reserves of € 452 million to the ultimate parent resolved and paid in November 2018.

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 2018:

(in thousands of euro)

	31.12.2018			31.12.2017		
	Unrealized gains	**Unrealized losses**	**Total**	**Unrealized gains**	**Unrealized losses**	**Total**
Total gross of shadow accounting	**2,676,323**	**-744,770**	**1,931,552**	**5,302,484**	**-214,237**	**5,088,247**
- Debt instruments	2,293,410	-444,145	1,849,265	4,564,846	-81,641	4,483,205
- Equity instruments	226,293	-30,157	196,136	391,505	-35,720	355,785
- OEIC units	156,619	-270,468	-113,849	346,133	-96,876	249,257
Shadow accounting	-2,658,605	724,756	-1,933,849	-4,704,873	189,959	-4,514,914
Total gross of income taxes	**17,717**	**-20,014**	**-2,297**	**597,611**	**-24,278**	**573,333**
Tax effects	-5,083	5,408	325	-184,188	8,812	-175,376
Total	**12,635**	**-14,607**	**-1,972**	**413,423**	**-15,466**	**397,957**

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

(in thousands of euro)

	Debt instruments	**Equity instruments**	**OEIC units**	**2018**	**2017**
Opening balance	**350,116**	**29,235**	**18,606**	**397,957**	**480,023**
Increases	**35,432**	**21,416**	**15,508**	**72,356**	**58,961**
- Fair value gains	12,213	4,046	9,465	25,723	57,972
- Accruals	74	15,727	1,996	17,797	-2,698
- Other increases	23,144	1,644	4,047	28,836	3,687
Decreases	**-381,103**	**-49,900**	**-41,282**	**-472,285**	**-141,027**
- Fair value losses	-306,525	-24,620	-23,337	-354,482	-102,088
- Impairment losses	-15	-	-	-15	336
- Utilisations	-54,015	-23,438	-12,526	-89,979	-33,646
- Other decreases	-20,548	-1,842	-5,419	-27,809	-5,629
Closing balance	**4,444**	**752**	**-7,168**	**-1,972**	**397,957**

Provisions (caption 2)

The caption amounts to € 14,138 thousand at 31 December 2018 (€ 13,024 thousand at 31 December 2017). Other provisions mainly include accruals for future personnel expense and for product disputes.

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

(in thousands of euro)

	Tax provisions	Other provisions	2018	2017
Opening balance	**-**	**13,024**	**13,024**	**11,992**
Increases	**-**	**8,511**	**8,511**	**6,101**
- Additions	-	-	-	5,714
- Accruals	-	7,227	7,227	305
- Other increases	-	1,284	1,284	82
Exchange differences	**-**	**-**	**-**	**-**
Decreases	**-**	**-7,398**	**-7,398**	**-5,069**
- Decreases	-	-583	-583	-4,232
- Utilisations	-	-5,858	-5,858	-459
- Other decreases	-	-956	-956	-378
Closing balance	**-**	**14,138**	**14,138**	**13,024**

Technical provisions (caption 3)

The table below provides a breakdown of the caption at 31 December 2018:

(in thousands of euro)

	Direct		Indirect		Total	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Non-life insurance provisions	**788,303**	**678,438**	**-**	**-**	**788,303**	**678,438**
Provisions for unearned premiums	590,708	496,540	-	-	590,708	496,540
Provisions for outstanding claims	194,646	180,488	-	-	194,646	180,488
Other insurance provisions	2,948	1,410	-	-	2,948	1,410
of which reserves posted following liability adeguacy test	-	-	-	-	-	-
Life insurance provisions	**73,174,455**	**75,774,462**	**-**	**-**	**73,174,455**	**75,774,462**
Provisions for outstanding claims	756,005	297,766	-	-	756,005	297,766
Mathematical provisions	66,039,995	66,786,177	-	-	66,039,995	66,786,177
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension fund	4,315,786	4,094,744	-	-	4,315,786	4,094,744
Other insurance provisions	2,062,670	4,595,775	-	-	2,062,670	4,595,775
Total	**73,962,758**	**76,452,900**	**-**	**-**	**73,962,758**	**76,452,900**

The technical provisions of the life business fell by 3.4%. This decrease 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 € 22.5 million (€ 21.0 million at 31 December 2017).

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	Technical provisions where investment risk is borne by policyholders	2018	2017
Opening balance	**66,786,177**	**4,094,744**	**70,880,921**	**73,742,402**
New entities included in the consolidation scope	-	-	-	-
Change in premiums	6,198,141	500,618	6,698,759	5,697,529
Benefits and claims paid to policyholders	1,182,428	-167,055	1,015,373	1,299,215
Foreign currency	-	-	-	-
Portfolio transactions	-	192,946	192,946	56,983
Change in payments	-7,998,622	-285,838	-8,284,461	-9,800,775
Other variations	-128,129	-19,629	-147,758	-114,433
Closing balance	**66,039,995**	**4,315,786**	**70,355,781**	**70,880,921**

Technical provisions and financial liabilities of the life business

Technical provisions and financial liabilities amount to € 120,664,199 thousand (€ 119,216,307 thousand at 31 December 2017). Contracts falling within the scope of IFRS 4, insurance contracts and investment contracts with DPF account for roughly 88% of the life portfolio (88% at 31 December 2017), while the investment contracts falling within the scope of IAS 39 account for about 12% (12% at 31 December 2017).

Non-life technical provisions

In the non-life segment, the technical provisions are substantially in line with the previous year end (+16% at 31 December 2017). They mainly refer to the portfolio held by Intesa Sanpaolo Assicura.

A breakdown of the premium provisions by line of business is as follows:

(in thousands of euro)

	Premium provision	Provision for unexpired risks	Total premium provision	Claims provisions	Other provisions
Accident insurance (Class 1)	90,060	-	90,060	30,219	171
Health insurance (Class 2)	151,949	-	151,949	22,023	2,778
Motor vehicle property damage (Class 3)	5,280	-	5,280	1,678	-
Railway property damage (Class 4)	-	-	-	-	-
Aircraft property damage (Class 5)	-	-	-	-	-
Seacraft property damage (Class 6)	-	-	-	-	-
Goods transportation (Class 7)	6	-	6	13	-
Fire (Class 8)	140,592	-	140,592	9,855	-
Other damage to goods (Class 9)	6,096	-	6,096	6,318	-
Motor third party liability (Class 10)	35,391	-	35,391	81,384	-
Aircraft third party liability (Class 11)	-	-	-	-	-
Seacraft third party liability (Class 12)	2	4	6	49	-
General third-party liability (Class 13)	8,483	-	8,483	14,549	-
Credit insurance (Class 14)	1,751	2,070	3,821	3,264	-
Bonds (Class 15)	95	123	218	1,999	-
Pecuniary losses (Class 16)	143,320	-	143,320	18,585	-
Legal protection (Class 17)	1,440	-	1,440	3,670	-
Support and assistance (Class 18)	4,047	-	4,047	1,040	-
Total	**588,512**	**2,196**	**590,708**	**194,646**	**2,948**

The breakdown of the premium provisions by line of business is compared to the previous year-end figures in the following table:

(in thousands of euro)

	31.12.2018	31.12.2017
Accident insurance (Class 1)	90,060	71,464
Health insurance (Class 2)	151,949	123,739
Motor vehicle property damage (Class 3)	5,280	4,554
Railway property damage (Class 4)	-	-
Aircraft property damage (Class 5)	-	-
Seacraft property damage (Class 6)	-	-
Goods transportation (Class 7)	6	1
Fire (Class 8)	140,592	121,466
Other damage to goods (Class 9)	6,096	2,561
Motor third party liability (Class 10)	35,391	30,445
Aircraft third party liability (Class 11)	-	-
Seacraft third party liability (Class 12)	2	2
General third-party liability (Class 13)	8,483	4,296
Credit insurance (Class 14)	1,751	2,837
Bonds (Class 15)	95	127
Pecuniary losses (Class 16)	143,320	128,698
Legal protection (Class 17)	1,440	625
Support and assistance (Class 18)	4,047	2,713
Total	**588,512**	**493,528**

The breakdown of the claims provisions by line of business is compared to the previous year-end figures in the following table:

(in thousands of euro)

	31.12.2018	31.12.2017
Accident insurance (Class 1)	30,219	18,036
Health insurance (Class 2)	22,023	27,259
Motor vehicle property damage (Class 3)	1,678	1,857
Railway property damage (Class 4)	-	-
Aircraft property damage (Class 5)	-	-
Seacraft property damage (Class 6)	-	-
Goods transportation (Class 7)	13	4
Fire (Class 8)	9,855	7,615
Other damage to goods (Class 9)	6,318	5,801
Motor third party liability (Class 10)	81,384	75,909
Aircraft third party liability (Class 11)	-	-
Seacraft third party liability (Class 12)	49	61
General third-party liability (Class 13)	14,549	13,407
Credit insurance (Class 14)	3,264	2,723
Bonds (Class 15)	1,999	2,891
Pecuniary losses (Class 16)	18,585	21,476
Legal protection (Class 17)	3,670	2,548
Support and assistance (Class 18)	1,040	902
Total	**194,646**	**180,489**

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 2014 to 2018. 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 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 2018 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 2018;

– the "Other claims provisions" identify the claims provision from accident years prior to 2014.

Accident	**Year of generation/occurrence**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	5,213	5,562	7,910	11,450	23,450	
	at 31/12 of year N+1	2,964	3,561	5,572	7,890		
	at 31/12 of year N+2	2,928	3,138	4,688			
	at 31/12 of year N+3	2,855	2,497				
	at 31/12 of year N+4	2,660					
Cumulative amounts paid to date		2,131	2,193	3,755	3,939	1,771	13,789
Claims provision at the reporting date		529	304	933	3,951	21,679	27,396
Final claims provision for year before 2014							405
Total claims provision at 31.12.2018							**27,801**

Health	**Year of generation/occurrence**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	21,030	21,701	20,759	20,100	17,185	
	at 31/12 of year N+1	16,078	15,494	14,087	15,923		
	at 31/12 of year N+2	15,125	15,129	13,275			
	at 31/12 of year N+3	15,239	14,115				
	at 31/12 of year N+4	13,646					
Cumulative amounts paid to date		13,147	12,959	11,780	11,481	5,538	54,905
Claims provision at the reporting date		499	1,156	1,495	4,442	11,647	19,239
Final claims provision for year before 2014							2,784
Total claims provision at 31.12.2018							**22,023**

MPD	**Year of generation/occurrence**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	5,638	5,915	6,556	6,305	6,348	
	at 31/12 of year N+1	5,253	5,372	6,162	5,892		
	at 31/12 of year N+2	5,232	5,347	6,145			
	at 31/12 of year N+3	5,227	5,341				
	at 31/12 of year N+4	5,221					
Cumulative amounts paid to date		5,209	5,339	6,103	5,819	5,264	27,734
Claims provision at the reporting date		12	2	42	73	1,084	1,213
Final claims provision for year before 2014							465
Total claims provision at 31.12.2018							**1,678**

Fire	**Year of generation/occurrence**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	4,043	4,695	5,763	6,628	9,137	
	at 31/12 of year N+1	2,919	2,936	4,870	5,199		
	at 31/12 of year N+2	2,840	2,724	4,510			
	at 31/12 of year N+3	2,809	2,623				
	at 31/12 of year N+4	2,711					
Cumulative amounts paid to date		2,501	2,383	3,655	3,808	2,489	14,836
Claims provision at the reporting date		210	240	855	1,391	6,648	9,344
Final claims provision for year before 2014							511
Total claims provision at 31.12.2018							**9,855**

Other damage to goods	**Year of generation/occurrence**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	3,632	3,853	4,353	6,193	8,535	
	at 31/12 of year N+1	2,388	2,383	2,913	3,978		
	at 31/12 of year N+2	2,292	2,265	2,775			
	at 31/12 of year N+3	2,286	2,326				
	at 31/12 of year N+4	2,008					
Cumulative amounts paid to date		1,851	2,073	2,393	3,183	4,148	13,648
Claims provision at the reporting date		157	253	382	795	4,387	5,974
Final claims provision for year before 2014							344
Total claims provision at 31.12.2018							**6,318**

MTPL	**Year of generation/occurrence**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	52,603	51,320	56,519	53,611	62,087	
	at 31/12 of year N+1	45,974	45,514	54,956	49,794		
	at 31/12 of year N+2	43,995	45,300	55,703			
	at 31/12 of year N+3	42,670	44,690				
	at 31/12 of year N+4	42,578					
Cumulative amounts paid to date		38,118	41,958	46,780	36,949	24,826	188,701
Claims provision at the reporting date		4,390	2,732	8,923	12,845	37,261	66,151
Final claims provision for year before 2014							15,282
Total claims provision at 31.12.2018							**81,433**

GTPL	**Year of generation/occurrence**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	3,588	4,792	5,311	8,626	7,486	
	at 31/12 of year N+1	2,745	3,321	4,130	6,688		
	at 31/12 of year N+2	2,500	3,225	3,760			
	at 31/12 of year N+3	2,469	2,945				
	at 31/12 of year N+4	2,494					
Cumulative amounts paid to date		1,919	2,236	2,312	2,300	1,402	10,169
Claims provision at the reporting date		575	709	1,448	4,388	6,084	13,204
Final claims provision for year before 2014							1,345
Total claims provision at 31.12.2018							**14,549**

Pecuniary losses	Year of generation/occurrence	2014	2015	2016	2017	2018	Total
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	23,469	17,292	14,360	11,064	10,113	
	at 31/12 of year N+1	19,088	13,069	10,326	8,985		
	at 31/12 of year N+2	19,172	13,039	10,414			
	at 31/12 of year N+3	18,951	12,701				
	at 31/12 of year N+4	18,255					
Cumulative amounts paid to date		15,745	11,011	8,395	6,357	2,122	43,632
Claims provision at the reporting date		2,508	1,690	2,019	2,628	7,991	16,836
Final claims provision for year before 2014							1,749
Total claims provision at 31.12.2018							**18,585**

Financial liabilities (caption 4)

Financial liabilities amount to € 46,683,980 thousand (€ 45,790,456 thousand at 31 December 2017). They are broken down in the annex “Breakdown of financial liabilities”.

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

They amount to € 44,938,273 thousand (€ 43,509,555 thousand at 31 December 2017) and include financial liabilities held for trading and financial liabilities at fair value through profit or loss. They are broken down by level in the annex *“Assets and liabilities measured at fair value on a recurring and non-recurring basis: breakdown by fair value level”*.

(in thousands of euro)

	Level 1	Level 2	Level 3	31.12.2018
Financial liabilities held for trading	3,415	47,514	-	50,928
Financial liabilities designated at fair value through profit or loss	-	44,886,345	1,000	44,887,345
Total	**3,415**	**44,933,859**	**1,000**	**44,938,273**

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

Financial liabilities held for trading

They amount to € 50,928 thousand at 31 December 2018 (€ 66,692 thousand at 31 December 2017) and relate to effective hedging derivatives with negative fair values.

Financial liabilities designated at fair value through profit or loss

This caption amounts to € 44,887,345 thousand (€ 43,442,863 at 31 December 2017).

Specifically, 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)

	31.12.2018	31.12.2017
Subordinated liabilities	1,390,361	1,926,638
Other financial liabilities	353,809	351,704
Deposits received from reinsurers	1,538	2,559
Total	**1,745,707**	**2,280,901**

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 € 1,390,360 thousand (€ 1,926,638 thousand at 31 December 2017), are broken down as follows:

(in thousands of euro)

Issuer	Interest rate	Carrying amount	Grant date	Maturity date
Intesa Sanpaolo	Fixed rate 3.41%	609,192	21/07/17	21/07/27
Intesa Sanpaolo	1-year Euribor + 150 bps	3,796	30/06/11	not applicable
Intesa Sanpaolo	1-year Euribor + 170 bps	1,960	30/06/11	not applicable
Intesa Sanpaolo	For first 10 years +4.80% - afterwards 3-month Euribor 360 + 140 bps	4,900	30/06/11	not applicable
Intesa Sanpaolo	For first ten years +4.86%	2,940	30/06/11	not applicable
Intesa Sanpaolo	For first ten years +5.06%	2,450	30/06/11	not applicable
Intesa Sanpaolo	For first ten years +5.06%	490	30/06/11	not applicable
Cassa di Risparmio di Firenze	1-year Euribor + 150 bps	3,961	20/04/99	not applicable
Cassa di Risparmio di Firenze	6-month Euribor + 170 bps	2,045	17/04/00	not applicable
Cassa di Risparmio di Firenze	For first 10 years +4.80% - afterwards 3-month Euribor 360 + 140 bps	5,106	15/05/03	not applicable
Cassa di Risparmio di Firenze	For first 10 years +4.86% - afterwards 3-month Euribor 360 + 1.70%	3,061	22/12/04	not applicable
Cassa di Risparmio di Firenze	For first 10 years +5.06% - afterwards 3-month Euribor 360 + 6.80%	2,556	26/10/06	not applicable
Cassa di Risparmio di Firenze	For first 10 years +5.06% - afterwards 3-month Euribor 360 + 6.80%	511	26/10/06	not applicable
Intesa Sanpaolo Vita	Fixed-to-Floating Undated Subordinated Notes (first call 17/12/2024)	747,389	17/12/14	not applicable
Total		**1,390,360**		

They do not provide for early repayment or provisions allowing their conversion into equity or into another type of liability. The notes placed by Intesa Sanpaolo Vita, recognised at amortised cost, include the issue costs of € 5,975 thousand.

Liabilities (caption 5)

The following table sets out details of the caption at 31 December 2018:

(in thousands of euro)

	31.12.2018	31.12.2017
Direct insurance liabilities	160,507	158,610
Reinsurance liabilities	8,075	3,869
Other	570,845	580,818
Total	**739,428**	**743,297**

The caption "Direct insurance liabilities" of € 160,507 thousand mainly includes commissions payable to distribution networks, as well as items to be settled deriving from co-insurance agreements. "Other" mainly includes amounts to be repaid to customers of € 249,268 thousand, tax liabilities of € 49,474 thousand and investment management fees of € 62,949 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)

	2018	2017
Opening balance	**3,046**	**3,063**
Increases	**109**	**104**
- New entities included in the consolidation scope	-	-
- Current service cost	-	-
- Transfers between group companies	-	-
- Interest cost	37	67
- Other increases	72	37
Decreases	**-141**	**-121**
- Benefits paid	-	-
- Current service cost	-	-
- Curtailments	-28	-
- Other decreases	-114	-121
- Entities excluded from the consolidation scope	-	-
Closing balance	**3,014**	**3,046**

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 € 488,244 thousand to € 433,281 thousand. It is broken down below:

(in thousands of euro)

	31.12.2018	31.12.2017
Deferred tax liabilities through profit or loss	428,715	311,492
Deferred tax liabilities through equity	4,566	176,752
Total	**433,281**	**488,244**

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

(in thousands of euro)

	Profit or loss	Equity	2018	2017
Opening balance	**311,492**	**176,752**	**488,244**	**494,084**
Increases	**124,810**	**207**	**125,017**	**68,198**
- Deferred tax assets recognised in the year	124,809	10	124,819	56,121
- New taxes or tax rate increases	-	-	-	-
- New entities included in the consolidation scope	-	-	-	-
- Other increases	-	197	198	12,077
Decreases	**-7,586**	**-172,394**	**-179,980**	**-74,038**
- Deferred tax assets derecognised in the year	-	-1,096	-1,096	-
- Reversals	-7,586	-170,197	-177,784	-71,890
- Tax rate reductions	-	-	-	-2,148
- Other decreases	-	-1,100	-1,100	-
- Entities excluded from the consolidation scope	-	-	-	-
Closing balance	**428,715**	**4,566**	**433,281**	**488,244**

Reference should be made to the note to "Other assets" for information about the tax rate reductions.

Current tax liabilities (caption 6.3)

The caption 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 2019.

Sundry liabilities (caption 6.4)

The following table sets out details of this caption:

(in thousands of euro)

	31.12.2018	31.12.2017
Deferred liabilities relating to investment contracts	1,075	990
Pension funds	353	341
Seniority bonuses	3,035	2,765
Accrued actuarial losses on post-employment benefits	-	35
Other	165,901	185,462
Total	**170,364**	**189,593**

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 solely refer to index-linked policies (€ 1,075 thousand at 31 December 2018; € 990 thousand at 31 December 2017).

Deferred management 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 Turing Provincial Tax Commission, which cancelled the aforesaid reports with judgements 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 judgement no. 32 filed on 11 May 2010, the Piedmont Regional Tax Court 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. The case was heard on 18 May 2018 and, through its judgement no. 18425 filed on 12 July 2018, the Supreme Court cancelled the second-level judgement, referring the case to another section of the Turin Provincial Tax Commission in a different formation, since it noted flawed reasoning in the second-level ruling that imposed another formation of the court.

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 judgement 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. The case was heard on 18 May 2018 and, through its judgement no. 18427 filed on 12 July 2018, the Supreme Court cancelled the second-level judgement, referring the case to another section of the Turin Provincial Tax Commission in a different formation, since it again noted flawed reasoning in the second-level ruling that imposed another formation of the court.

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 VAT exemption for 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 judgement 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 Turin Provincial Tax Commission, 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 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 2015, fully cancelling the assessment report about 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 VAT exemption for 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 14 June 2018, the tax authorities lodged an appeal before the Supreme Court. The parent appeared in court and presented its counter-appeal in July 2018. The date of the hearing for the discussion of the dispute has not yet been scheduled.

On 21 December 2018, the Regional Department of Piedmont - Large Taxpayers' Office notified the parent of an assessment report again alleging the applicability of VAT on the delegation commissions for 2013.

Assessed VAT amounts to € 104 thousand, plus fines of € 118 thousand. The parent will lodge an appeal before the Turin Provincial Tax Commission before the deadline (19 February 2019).

The management of tax disputes shows an overall favourable outcome and 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.

Moreover, the tax disputes relating to 2003-2009 were all pending on 24 October 2018, when Law decree no. 118/2018 was issued, introducing the "tax peace" procedure. Therefore, considering the possibility expressly provided for by article 60.3 of Presidential decree no. 633/73 to recharge the tax to the customers that received the services, the parent is carefully considering the opportunity to settle the pending tax disputes in 2019 applying for the settlement procedure provided for by article 6 of Law decree no. 119/2018.

Intesa Sanpaolo Assicura

Following the end of the checks 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 company was notified of assessment reports relating to 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 annulled 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 higher tax base of € 422 thousand.

The company lodged an appeal in February 2014. The Piedmont Regional Tax Office cancelled by internal review the first assessment in June 2014, while the appeal for the second assessment (worth approximately € 2 thousand) was allowed by the Turin Provincial Tax Commission with its ruling no. 280/18. The Tax Office lodged an appeal against the first-level ruling.

With regard to the second issue, on 12 July 2010, the Turin 1 Revenue Office upheld the company's grounds and ruled on the annulment 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 before the Turin Provincial Tax Commission, which cancelled the assessment report with 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. The date of the hearing for the discussion of the dispute has not yet been scheduled.

On 15 December 2016, the Turin tax police squad commenced an inspection into the correct calculation of IRES and IRAP and VAT in 2013, 2014 and 2015. The inspection was completed on 21 May 2018 with a preliminary assessment report, which was fully accepted by the Regional Department of Piedmont - Large Taxpayers' Office that notified the company of six assessment reports for each year and individual tax (IRES and IRAP) on 14 December 2018. The assessments relate to the alleged non-deductibility of premium cancellations on uncollected premiums and the costs provided for at the end of the year, which allegedly exceed the actual costs.

The assessed IRES and IRAP total € 596 thousand, plus fines of € 181 thousand and interest of € 75 thousand. However, since the issues solely relate to the timing of the deductibility, rather than the deductibility itself, the company's liability should be limited to fines and interest, since the assessed taxes are recoverable in future years.

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 € 7,243,003 thousand, showing an increase of 17% compared to the previous year (€ 6,195,016 thousand).

(in thousands of euro)

	2018			2017		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-Life business						
Non-life gross earned premiums	412,912	-12,223	400,689	354,331	-9,351	344,980
Gross written premiums	*507,081*	*-14,871*	*492,210*	*431,566*	*-7,096*	*424,470*
Change in provision for unearned premiums	*-94,169*	*2,648*	*-91,521*	*-77,235*	*-2,255*	*-79,490*
Life business						
Life gross written premiums	6,842,825	-511	6,842,314	5,850,559	-523	5,850,036
Total	**7,255,737**	**-12,734**	**7,243,003**	**6,204,890**	**-9,874**	**6,195,016**

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.

Commission income is broken down below:

(in thousands of euro)

	2018	2017
Unit-linked financial products	898,358	743,692
Other commission income	41,933	48,122
Total	**940,291**	**791,814**

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

This caption is a net loss of € 162,295 thousand (net loss of € 98,776 thousand for 2017). It is broken down in the annex "Gains and losses on financial instruments and investments".

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

This caption amounts to € 2,260,118 thousand (€ 2,403,430 thousand for 2017). The decrease over the previous year is principally due to the fall in realised gains and interest income from € 392,546 thousand to € 367,335 thousand and from € 1,824,726 thousand to € 1,706,374 thousand, respectively.

A breakdown of the caption is given in the annex "Gains and losses on financial instruments and investments".

Other income (caption 1.6)

This caption amounts to € 156,540 thousand (€ 118,678 thousand for 2017) and mainly consists of other technical income (€ 106,384 thousand), mostly relating to the management commissions for unit-linked products and exchange gains on investments (€ 45,324 thousand).

Costs

Charges relating to claims (caption 2.1)

The caption amounts to € 7,711,790 thousand (€ 6,992,972 thousand for 2017 as follows:

(in thousands of euro)

	2018			2017		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Net charges relating to claims - Non-life business	**-119,531**	**7,310**	**-112,221**	**-103,160**	**4,844**	**-98,316**
Amounts paid	-105,220	5,396	-99,823	-96,277	4,069	-92,208
Change in claims provision	-14,158	1,913	-12,245	-8,443	775	-7,668
Change in recoveries	1,386	-	1,386	1,590	-	1,590
Change in other technical provisions	-1,539	-	-1,539	-30	-	-30
Net charges relating to claims - Life business	**-7,599,277**	**-292**	**-7,599,569**	**-6,895,018**	**362**	**-6,894,656**
Amounts paid	-7,739,524	379	-7,739,144	-9,719,960	162	-9,719,798
Change in provision for payable amounts	-458,238	-671	-458,909	5,810	204	6,014
Change in mathematical provisions	850,037	-	850,037	3,039,305	-4	3,039,301
Change in technical provisions where investment risk is borne by policyholders and provisions arising from pension fund management	-221,042		-221,042	-290,990	-	-290,990
Change in other technical provisions	-30,511	-	-30,511	70,817	-	70,817
Total	**-7,718,808**	**7,018**	**-7,711,790**	**-6,998,178**	**5,206**	**-6,992,972**

Commission expense (caption 2.2)

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)

	2018	2017
Commission expense for management and brokerage services	-2,728	-2,381
Unit-linked financial products	-606,945	-565,231
Retroceded commission income on unit-linked funds	-79,780	-5,835
Other commission expense	-1,570	-963
Total	**-691,023**	**-574,410**

Losses on other financial instruments and investment property (caption 2.4)

The caption amounts to € 239,274 thousand (€ 181,781 thousand for 2017).

A breakdown of the caption is given in the annex "Gains and losses on financial instruments and investments".

The caption mainly consists of interest expense of € 86,169 thousand, realised losses of € 128,774 thousand and unrealised losses of € 24,317 thousand, mainly impairment losses.

Management costs (caption 2.5)

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

(in thousands of euro)

	2018	2017
Commissions and other acquisition costs	**326,880**	**304,937**
Deffered commissions	236,946	234,553
Other acquisitions expenses	24,477	27,469
Change in deffered acquisition costs	-8	-7
Acquisition commissions	65,465	42,922
Profit participation and other commissions received from reinsurers	**-2,108**	**-943**
Investment management costs	**50,872**	**55,077**
Other administrative costs	**91,103**	**88,740**
Total	**466,748**	**447,811**

The investment management costs mainly consist of costs of financial instruments and investment management commissions and custody expenses (€ 50,872 thousand).

Other costs (caption 2.6)

This caption, equal to € 483,457 thousand (€ 594,992 thousand for 2017), includes, inter alia, the net accruals to the provisions for risks and charges (€ 504 thousand), depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets (€ 3,230 thousand), exchange losses (€ 40,731 thousand) and other technical costs (€ 419,151 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)

	2018	2017
Current taxes	104,284	185,544
Change in current taxes of previous years	-	-
Decrease in current taxes	-	-
Change in deferred tax assets	3,237	25,409
Change in deferred tax liabilities	117,225	17,283
Total	**224,746**	**228,236**

The following table shows the reconciliation between the theoretical and effective tax expense:

(in thousands of euro)

	2018	2017
Profit before taxes	*845,126*	*815,355*
Theoretical tax expense	*260,468*	*251,292*
Ordinary rate applicable	30.82%	30.82%
Tax impacts relating to:	*-35,722*	*-23,056*
Different tax rates for foreign subsidiaries	-18,179	-23,331
Effect of realignment of reversal due to reduction in IRES rate to 24%	-	-
Effect of increase (decrease) compared to ordinary rate	-24,457	-6,641
Other	7,914	6,915
Effective tax expense	**224,746**	**228,236**
Effective rate	**26.6%**	**28.0%**

Part E – Other information

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 2018 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	-	1,656
Attestation services	KPMG S.p.A.	Intesa Sanpaolo Vita	(1)	1,124
Other services	KPMG S.p.A.	Intesa Sanpaolo Vita	(2)	98
Audit	KPMG S.p.A.	Subsidiaries/related companies	-	529
Attestation services	KPMG S.p.A.	Subsidiaries/related companies	(1)	35
Other services	KPMG S.p.A.	Subsidiaries/related companies	(2)	36
Total				**3,479**

(1) Fees for the audit of the financial statements of the segregated funds, internal funds, open-ended pension funds and Solvency II agreed-upon procedures.
(2) Agreed-upon procedures.

Government grants

As required by Law no. 124/2017 (the "Market and competition law"), it is noted that the insurance group received government grants of € 60 thousand for personnel training.

Part F – Related parties

The group companies have performed transactions with companies of 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 benefit. The parent 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	-	4,573	-	4,573
Available-for-sale financial assets	2,498,362	63	-	2,498,425
Financial assets at fair value through profit or loss	103,801	-34,001	5,768	75,568
Other receivables	1,250	11,293	-	12,543
Other assets	994,592	14,803	63,567	1,072,962
Cash and cash equivalents	55,961	13,643	866	70,470
ASSETS	**3,653,967**	**10,374**	**70,200**	**3,734,541**
Technical provisions	-	-	-	-
Financial liabilities	625,730	24,892	-	650,621
Fair value reserve	58,671	-	-	58,671
Liabilities	120,262	50,987	37,230	208,479
Other liabilities	30,393	16,252	-	46,645
LIABILITIES	**835,056**	**92,131**	**37,230**	**964,416**
Net premiums	-	-	-	-
Commission income	-	-	3,999	3,999
Net losses on investments	-3,851	-7,670	-13,922	-25,443
Net gains (losses) on AFS securities	54,730	-94	-	54,636
Other income	28,889	10,178	-	39,068
Net charges relating to claims	-70	-979	-	-1,049
Commission expense	-351,064	-39,299	-134,280	-524,643
Commissions and other acquisition costs	-250,565	-31,000	-	-281,565
Investment management costs	-	-24,866	-723	-25,590
Other administrative costs	-10,083	-7,344	-610	-18,037
Other costs	-193,709	-90,649	-236	-284,594
INCOME STATEMENT	**-725,723**	**-191,723**	**-145,772**	**-1,063,218**

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 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 mainly refer 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 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

The Intesa Sanpaolo Vita Group 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 prudent supervisory authority and to encourage the adoption of a correct control culture.

2. General

The group's internal controls are described in the parent's guidelines, which the group companies have implemented according to their different organisational structures. They 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 framework;
– protection of group's assets and the management of those held on behalf of its customers over the medium to long-term;
– the reliability and integrity of financial and management reporting;
– the timeliness of reporting;
– compliance with the law, supervisory regulations, self-regulations and internal rules.

The internal controls comprise controls over all types of business risk, including on a forward-looking basis and to protect the group's assets.

The parent's and insurance group's internal controls involve all resources, each within the limits of their own duties and responsibilities, in order to constantly ensure an effective control over risks.

The parent's board of directors is responsible for its group's internal controls and risk management. It checks that senior management implements them correctly and assesses their adequacy and effective operation, ensuring that the parent's and group's main business risks are identified and appropriately managed.

Each group company's board of directors checks that its internal controls are consistent with the established strategies and risk appetite and are able to capture any changes in business risks and their correlation.

Internal controls are structured according to:

– 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 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, in line with the nature, scope and complexity of the business.

The parent's and its subsidiaries' organisational structures are defined in line with the group's organisational structure, carefully differentiating between the duties of the key, support and business control units. It ensures a suitable segregation of duties and responsibilities between internal bodies and departments, as shown in the organisational and functional charts of each company. The internal organisation has an effective communication system through the continuous exchange of information, thus ensuring an adequate level of internal communication and discussion. The communication system is governed by the regulations and procedures issued by the parent and regulates the information flows among key units, the advisory committees and internal bodies and the flows to the ultimate parent in relation to its direction and supervisory role.

The organisational structure is defined in such a manner as to ensure that duties and responsibilities are clearly and appropriately allocated and that any significant change in organisation, as well as the underlying reasons, are reported to the Supervisory authority. Suitable decision-making processes are adopted and formalised and the organisational structure is defined in order to ensure an appropriate segregation of duties.

To ensure their independence, the key units of both the parent and group companies directly report to the relevant board of directors, if any. In specific cases, the parent's key units carry out their activities also on behalf of the group companies and, in any case, at insurance group level.

Specifically, the parent's internal audit unit and risk management unit carry out their activities on behalf of all group companies and Intesa Sanpaolo Assicura, respectively. The risk management units of the other group companies report to the parent's chief risk officer. The parent's compliance unit carries out its activities on behalf of Intesa Sanpaolo Assicura and the compliance units of the other group companies report to the parent's chief compliance officer. The parent's actuarial unit carries out its activities on behalf of Intesa Sanpaolo Assicura and coordinates the work of the actuarial units of the other group companies.

The business control line units and business support control staff units of each group company report to the managing director.

The parent's management and internal committees ensure a suitable level of communication and internal discussion for a coordinated management of important issues within the insurance group.

With reference to the management committees, the group updated its investment committee by introducing a meeting addressing the group's investment strategies in order to draft the group's investment strategies that the individual group companies will convert into specific strategies by incorporating the operating and tactical decisions discussed in their respective investment committees.

The parent's internal committees that also operates in relation to its role as insurance parent are as follows:
– the risk committee, which has advisory and proactive duties vis-à-vis the board of directors in order to enhance its strategical supervisory activities in relation to governance and financial, technical and operational risk management issues. This committee approves the risk mitigation proposals resulting from the risk assessment, defines and approves the ORSA, contributing to ensuring its consistency with the RAF, and prepares the risk reports to be sent to the competent Supervisory authorities;
– the remuneration committee, which has advisory, proactive and preliminary investigation duties vis-à-vis the board of directors in relation to the definition of the remuneration policies for internal bodies and personnel.

The insurance group has its own group regulation.

The regulation stipulates how Intesa Sanpaolo Vita, as the insurance parent, shall manage and coordinate the insurance group companies.

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

Specifically, the regulation provides for:

– strategic-financial control: in order to promote the efficiency and enhancement of the insurance group as a whole and to safeguard its stability also in terms of adequate availability of own funds with respect to identified risks, and profitability, the parent implements a group planning process through the drafting of the group' consolidated plan and budget, including the plans and budgets of the individual companies following processes coordinated by the ultimate parent;
– management control: in order to make operations consistent within the insurance group:
  - the parent applies internal measures to its subsidiaries to implement the Supervisory authority's instructions relating to the insurance group and checks compliance with those measures;
  - through its internal control units (internal audit, compliance, risk management, AML and actuarial units) the parent contributes to the implementation and maintenance of a risk management system at group level in order to monitor and check the overall risks (underwriting, provisioning, market, credit, liquidity, operational, insurance group membership, non-compliance and reputation risks);
  - through its financial statements unit, the parent collects the data and information useful for the supplementary supervisory exercise;
  - through its management control unit, the parent periodically collects the information from the group companies in order to monitor the financial position and financial performance;
– the group's regulatory framework: the parent can define and disseminate the group's governance documents, rules and operating guidelines containing binding provisions about, without limitation: (i) the definition of the objectives, roles, duties and responsibilities of the individual players in the main internal management processes, thus establishing rules for relations between the central units and the individual operating units of the insurance group; (ii) the types and characteristics of the regular information flows between the subsidiaries and the parent, which allow the latter to perform its direction, governance and monitoring duties, both of a managerial and supervisory nature; (iii) specific or general regulatory issues; (iv) temporary or permanent issues and (v) measures addressed to individuals and/or operating units or to the insurance group in its entirety;
– coordination units of the insurance group: the parent's advisory committees and, within its board of directors, the remuneration and risk committees;
– specific obligations for subsidiaries, requiring the parent's prior authorisation for certain operations such as (i) changes to the by-laws and attribution of powers to the bodies provided for by the by-laws, (ii) mergers and demergers, (iii) purchase and/or sale of companies, business units and legal relations en bloc, (iv) acquisition, disposal and contribution of equity investments, (v) appointment of administrative and supervisory bodies;
– prior notices and periodic information flows from the subsidiaries to the parent concerning (i) supervisory authority inspections and any significant assessments, (ii) meetings of the internal bodies, (iii) changes to the organisational structure, (iv) personnel management and (v) data collection for the calculation of the solvency capital requirement at group level and the eligible own funds for its coverage and for all quantitative and qualitative reports required by the Solvency II regulations.

3. Identification

The Intesa Sanpaolo Vita Group 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 probability and 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;
- 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 (price risk, risk of catastrophic events and provisioning risks);
- Anti-money laundering (AML), i.e., all those activities that involve possible laundering of money, goods or other benefits and terrorism financing.

4. Governance

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 activities, and fosters the involvement of all company units in the pursuit of the objectives of each group company and the group.

A fundamental part of the control and risk management system is the group's regulatory framework, which comprises group governance standards that are the basis of each company's government and operating regulations.

The group's governance standards include:

- guidelines (which provide the instructions and guidelines on specific matters which impact all the parent's and group's operations, outlining the regulatory context, the roles and responsibilities of the internal bodies and the methods for the direction and coordination of the group companies issued by Intesa Sanpaolo Vita as the insurance parent);
- general principles (which describe the operating and corporate governance methods, establishing the principles and strategic guidelines underlying the group's operations);
- governance rules (which define principles and strategies on specific matters which impact all the parent and group, possibly including technical and procedural aspects. They may have a more operational connotation, regulating methodological aspects, operating mechanisms, conduct rules and constraints to be followed, including those that the Supervisory authority indicates as policies);
- guidelines on internal controls and key unit regulations, committee regulations and the organisational and management model pursuant to Legislative decree no. 231/2001.

Information flows are also regulated which allow the key units (internal or external, for example, the 231 Supervisory authority) to carry out their activities and the information flows that the key units exchange.

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 2018, the carrying amount of investment portfolios relating to financial assets amounted to € 122,164 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 funds' assets are determined, non-life policies and unrestricted capital amounted to € 72,974 million. The other component, whose risk is borne solely by the policyholders, mainly consists of investments related to unit-linked policies and pension funds and amounted to € 49,190 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 funds, non-life policies and unrestricted capital

In terms of breakdown by asset class, net of derivatives (€ 20 million at their carrying amount) detailed below, 82.86% of the assets (€ 60,451 million) consisted of bonds, whereas assets subject to equity price risk represented 1.31% of the total and amounted to € 956 million. The remainder (15.83%, € 11,547 million) consisted of investments relating to OEIC, private equity and hedge fund units.

Investments relating to the unrestricted capital amounted to € 796 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 € 17 million.

Interest rate risk exposure

The breakdown by maturity of bonds showed 9.91% short-term (under one year), 40.24% medium-term and 49.85% long-term (over five years).

(in thousands of euro)

	Carrying amount	%	Duration
Fixed rate bonds	**56,578,080**	**77.55%**	**5.61**
within one year	5,379,016	7.37%	
from 1 to 5 years	22,756,712	31.19%	
after 5 years	28,442,351	38.99%	
Floating rate/indexed bonds	**3,873,390**	**5.31%**	**3.37**
within one year	609,445	0.84%	
from 1 to 5 years	1,571,919	2.15%	
after 5 years	1,692,026	2.32%	
Sub total	**60,451,470**	**82.86%**	
Equity investments	**955,870**	**1.31%**	
OEIC, private equity, hedge fund	**11,546,627**	**15.83%**	
Total	**72,953,967**	**100.00%**	

The modified duration of the bond portfolio, or the synthetic financial term of assets, is roughly 5.5 years.

The sensitivity of the fair value of the financial asset portfolio to interest rate fluctuations is summarised in the table below which highlights exposure of the securities portfolio. For example, a parallel shift in the yield curve of +100 basis points leads to a fair value loss on the bond portfolios of € 3,107 million.

(in thousands of euro)

	Carrying amount	%	Fair value gains (losses)	
			+100 bps	-100 bps
Fixed rate bonds	56,578,080	93.59%	-2,987,589	3,314,149
Floating rate/indexed bonds	3,873,390	6.41%	-119,128	130,056
Sub total	**60,451,470**	**100.00%**	**-3,106,717**	**3,444,204**
Effect of interest rate hedges	0	-	0	0
Total	**60,451,470**	**0**	**-3,106,717**	**3,444,204**

Credit risk exposure

The table below sets forth the distribution of the portfolio by rating class. With specific reference to bonds, AAA/AA bonds represented 2.89% of total investments and single A bonds represented 8.27%. Low investment grade securities (BBB) were 86.47% of the total, while the portion of speculative grade or unrated was minimal (2.37%).

Breakdown of financial assets by rating of the issuer:

(in thousands of euro)

	Carrying amount	%
Bonds	**60,451,470**	**82.86%**
AAA	927,274	1.27%
AA	818,447	1.12%
A	5,003,589	6.86%
BBB	52,271,165	71.65%
Speculative grade	1,416,736	1.94%
Unrated	14,260	0.02%
Equity investments	**955,870**	**1.31%**
OEIC, private equity, hedge fund	**11,546,627**	**15.83%**
Total	**72,953,967**	**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 76.21% of the total bonds, whereas the bonds of corporate issuers contributed around 23.79%.

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 2018, are shown in the table below:

(in thousands of euro)

	Carrying amount	%	Fair value gains (losses)	
			+100 bps	**-100 bps**
Government bonds	46,067,804	76.21%	-2,495,046	2,794,126
Corporate bonds	14,383,666	23.79%	-667,621	685,515
Sub total	**60,451,470**	**100.00%**	**-3,162,666**	**3,479,640**
Effect of credit risk hedges				
Total	**60,451,470**		**-3,162,666**	**3,479,640**

Equity risk exposure

The sensitivity of the equity portfolio to a hypothetical deterioration in share prices of 10% amounts to € 96 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	77,141	8.07%	-7,714
Shares of non-financial and other companies	878,728	91.93%	-87,873
Effect share price risk hedge	-	0.00%	-
Total	**955,870**	**100.00%**	**-95,587**

Currency risk exposure

Approximately 97.5% of investments are made up of assets denominated in Euros. Derivatives, above all domestic currency swaps, were entered into in the same currency to hedge against the residual exposure to currency risk.

Derivatives

Derivatives are used to hedge the financial risks of the investment portfolio or for effective management.

The following table shows the carrying amounts of derivatives at 31 December 2018 (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	-	20,637	-	-	-	20,637
Effective operating hedges	-	-34,833	45,816	-11,503	45,816	-46,335
Total	**-**	**-14,196**	**45,816**	**-11,503**	**45,816**	**-25,699**

Financial assets allocated to unit-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 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.

Investments for unit-linked policies amount to € 44,133 million at 31 December 2018 (fair values).

Their classification by risk profile shows a concentration of investments in medium and medium-high risk funds (approximately 60.44%).

(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	89,951	0.78%	8	355,080	1.09%	13	445,031	1.01%
Medium low	15	39,959	0.35%	28	371,277	1.14%	43	411,236	0.93%
Medium	35	2,545,642	22.04%	86	9,503,390	29.17%	121	12,049,032	27.30%
Medium high	33	6,848,626	59.30%	87	7,777,440	23.87%	120	14,626,067	33.14%
High	31	2,022,786	17.51%	112	4,303,831	13.21%	143	6,326,617	14.34%
Very high	1	2,742	0.02%	2	54,261	0.17%	3	57,002	0.13%
Protected	-	-	0.00%	8	10,218,347	31.36%	8	10,218,347	23.15%
Guaranteed	-	-	0.00%	-	-	0.00%	-	-	0.00%
Not defined	-	-	0.00%	-	-	0.00%	-	-	0.00%
Total	**120**	**11,549,706**	**100.00%**	**331**	**32,583,625**	**100.00%**	**451**	**44,133,331**	**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**	**321,838**	**2.79%**	**86**	**1,281,695**	**3.93%**	**113**	**1,603,533**	**3.63%**
of which Italian equities	1	9,312	0.08%	8	38,332	0.12%	9	47,644	0.11%
of which European equities	8	51,873	0.45%	12	315,237	0.97%	20	367,109	0.83%
of which North American equities	3	37,999	0.33%	18	315,818	0.97%	21	353,817	0.80%
of which Pacific equities	3	13,547	0.12%	11	135,001	0.41%	14	148,548	0.34%
of which global equities	11	193,370	1.67%	23	317,572	0.97%	34	510,942	1.16%
of which specialised equities	1	15,737	0.14%	14	159,735	0.49%	15	175,472	0.40%
Total balanced	**30**	**2,015,157**	**17.45%**	**42**	**1,661,301**	**5.10%**	**72**	**3,676,458**	**8.33%**
of which balanced-equities	3	3,001	0.03%	8	60,059	0.18%	11	63,061	0.14%
of which balanced	14	195,989	1.70%	28	1,373,390	4.21%	42	1,569,379	3.56%
of which balanced-bonds	13	1,816,166	15.72%	6	227,852	0.70%	19	2,044,018	4.63%
Total bonds	**28**	**507,824**	**4.40%**	**91**	**7,717,792**	**23.69%**	**119**	**8,225,615**	**18.64%**
of which pure Euro short-term government bonds	-	-	0.00%	1	8,412	0.03%	1	8,412	0.02%
of which pure Euro medium to long-term government bonds	9	53,345	0.46%	9	220,382	0.68%	18	273,727	0.62%
of which pure Euro corporate bonds	1	35,052	0.30%	5	202,307	0.62%	6	237,359	0.54%
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	16,171	0.14%	25	332,716	1.02%	26	348,887	0.79%
of which pure international corporate bonds	-	-	0.00%	6	337,130	1.03%	6	337,130	0.76%
of which mixed Eurozone bonds	7	24,813	0.21%	7	227,751	0.70%	14	252,564	0.57%
of which mixed international bonds	10	378,444	3.28%	38	6,389,092	19.61%	48	6,767,536	15.33%
Total liquidity	**3**	**78,324**	**0.68%**	**9**	**358,656**	**1.10%**	**12**	**436,980**	**0.99%**
of which Eurozone liquidity	2	77,983	0.68%	8	355,080	1.09%	10	433,063	0.98%
of which other currency liquidity	1	341	0.00%	1	3,576	0.01%	2	3,918	0.01%
Total flexible	**26**	**8,577,566**	**74.27%**	**95**	**11,345,834**	**34.82%**	**121**	**19,923,400**	**45.14%**
Total protected	**6**	**48,997**	**0.42%**	**8**	**10,218,347**	**31.36%**	**14**	**10,267,344**	**23.26%**
Total guaranteed	-	-	0.00%	-	-	0.00%	-	-	0.00%
N/D	-	-	0.00%	-	-	0.00%	-	-	0.00%
Total	**120**	**11,549,706**	**100.00%**	**331**	**32,583,625**	**100.00%**	**451**	**44,133,331**	**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 2018.

(in thousands of euro)

	Mathematical provision	%
up to 1 year	-	0.00%
from 1 to 5 years	4,291,262	6.10%
from 6 to 10 years	861,830	1.22%
from 11 to 20 years	2,137,300	3.04%
after 20 years	63,065,390	89.64%
Total	**70,355,781**	**100.00%**

(in thousands of euro)

	Total provisions	%
Insurance and investment products with annual return guarantee		
0% -1%	18,161,967	25.13%
from 1% to 3%	42,343,952	58.59%
from 3% to 5%	5,534,076	7.66%
Insurance products	4,315,786	5.97%
Shadow accounting provision	1,911,332	2.64%
Total	**72,267,113**	**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	31.12.2018	31.12.2017
Unit-linked	-	44,885,237	44,885,237	43,442,088
Index-linked	-	-	-	776
Subordinated liabilities	-	1,390,361	1,390,361	1,926,638
Total	**-**	**46,275,598**	**46,275,598**	**45,369,501**

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 2018:

(in thousands of euro)

Year of generation/occurrence		2014	2015	2016	2017	2018	Totale
Provision:							
Estimate of ultimate cost of cumulative claims	at 31/12 of generation year N	124,447	122,160	128,009	132,612	150,800	-
	at 31/12 of year N+1	102,222	98,828	107,851	111,269	-	-
	at 31/12 of year N+2	99,126	97,029	106,585	-	-	-
	at 31/12 of year N+3	97,412	94,266	-	-	-	-
	at 31/12 of year N+4	94,363	-	-	-	-	-
Cumulative amounts paid to date		85,129	86,038	89,450	77,027	49,177	386,821
Claims provision at 31.12.2015		9,234	8,228	17,135	34,274	102,112	170,983
Final claims provision for years before 2013		-	-	-	-	-	23,664
Total claims provision at 31.12.2018		**-**	**-**	**-**	**-**	**-**	**194,647**

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 and non-compliance risk, model risk, IT risk and financial reporting risk; strategic and reputation 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.

The 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.

The 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 entire 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 based on methods that comply with the ORSA process. This latter process is the tool designed to make the governance and operations 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 insurance 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 to:

– measure 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 at least once a year.

Part 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 2014 results and to implement the resolutions taken by the shareholders on 8 May 2014 and 27 April 2015, the Intesa Sanpaolo 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 Intesa Sanpaolo 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 Intesa Sanpaolo 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 € 23,762,245;

– with respect to the 2017 results and the resolution taken by the shareholders on 27 April 2018, the Intesa Sanpaolo Group acquired (through Banca IMI, appointed as the programme agent) 12,686,321 ordinary Intesa Sanpaolo shares on 12 September 2018 (equal to roughly 0.07% of its ordinary shares) for an average price per share of € 2.291 and a total of € 29,061,008.

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 are those yet to be assigned to the beneficiaries in line with the regulations for the incentive systems which usually require that the beneficiary 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.

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 245,795 Intesa Sanpaolo shares during the year at an average unit price of € 2.3 to serve the deferred variable component tied to management's attainment of its 2017 targets. If the targets are met, the shares will be made available to the eligible beneficiaries.

2.1 Employee benefit plans (LECOIP)

The long-term share-based payment plans are designed to motivate and retain group employees, alongside introduction of the 2014-2017 business plan. Specifically, these plans have 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:

- 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 within the group;
- 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 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 for 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. 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.

2.2 2018-2021 long-term incentive plans: POP and LECOIP 2.0

Alongside introduction of the 2018-2021 business plan, the group launched two new incentive plans addressed to different population clusters:

– POP (performance-based option plan) reserved for senior managers, risk takers and key managers;
– LECOIP 2.0 reserved for managers and the remaining personnel.

With reference to the senior managers, risk takers and key managers, who have a direct impact on the group's performance, the group deemed it necessary to adopt an instrument explicitly connected to the achievement of the business plan's objectives and with a risk/return profile suitable to the role covered and the new business plan's ambitious goals.

The POP is based on financial instruments linked to shares (call options) and subject to the attainment of the plan's key performance objectives, as well as certain gateway and individual access conditions (compliance breach).

The entire amount will be settled in shares over a 3/5-year period, based on the beneficiary's cluster, after having checked the malus conditions, that mirror the gateway conditions, when such conditions are provided for.

Moreover, in June, the group signed a novation agreement with J.P. Morgan, whereby it transferred to the latter the obligation to deliver any ordinary shares due upon the expiry of the POP options to the employees of the Intesa Sanpaolo Group, therefore transferring all plan volatility risks to the counterparty.

With reference to the managers and the remaining personnel, in line with the 2014-2017 LECOIP, a 2018-2021 LECOIP 2.0 retention plan was introduced.

The LECOIP 2.0, which aims to disseminate across all organisational levels the value created over time thanks to the achievement of the business plan's objectives and to promote the identification and sense of belonging to the group, assigns certificates issued by JP Morgan, i.e., equity-based financial instruments. Specifically, the LECOIP 2.0 provides for:

– the free assignment of newly-issued ordinary Intesa Sanpaolo shares to employees as part of a bonus capital increase ("free shares");
– the free assignment of additional newly issued ordinary Intesa Sanpaolo shares to employees as part of the same bonus capital increase ("matching shares") and the employees' subscription of newly issued ordinary Intesa Sanpaolo shares arising from a capital increase against payment reserved for the employees at a discounted price compared to the market prices ("discounted shares").

The certificates are divided into two categories, and have different characteristics depending on whether they are reserved for professionals or managers employed by the group in Italy. The certificates reflect the terms of certain options that have ordinary Intesa Sanpaolo shares as their underlying instruments and will allow employees to receive, at maturity, in the absence of trigger events, an amount in cash (or in ordinary Intesa Sanpaolo shares) that is equal to the original market value of the free shares and the matching shares with regard to professionals and 75% of this value with regard to managers, plus a portion of any appreciation, compared to the original market value, related to the amount of the free shares, matching shares and discounted shares.

The POP and LECOIP 2.0 were approved by the shareholders at their ordinary meeting of 27 April 2018.

With reference to the LECOIP 2.0, during the extraordinary session of their meeting, the shareholders authorised the board of directors to increase the share capital pursuant to article 2443 of the Italian Civil Code for the purposes of the plan. The related capital increases were carried out on 11 July 2018 in conjunction with the launch of the 2018-2021 long-term incentive plans.

Both long-term incentive plans (POP and LECOIP 2.0) fall within the scope of IFRS 2 and qualify as equity-settled share-based payment plans.

With reference to the POP, at the assignment date, the fair value of the equity instruments that are subject to the plan was calculated (represented by the fair value of the options adjusted to consider the availability constraint the shares will be subject to following the exercise of the options) and no longer modified. The plan provides for non-market service and performance conditions (gateway and performance conditions), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and up until the expiry. The cost of the plan, so defined, is recognised in profit or loss (as personnel expenses) over the vesting period, as a balancing entry for a specific equity reserve. Upon the occurrence of the events that imply the loss of the right to the benefits of the POP (performance conditions, gateway conditions and the discontinuation of employment) for the employees, Intesa Sanpaolo recognises a cash entry. As it can essentially be considered as the operational method adopted by the group to fulfil the obligation of physical delivery of the shares deriving from the plan, the right of novation is recognised as an equity instrument, with a balancing entry under equity.

With regard to the LECOIP 2.0, the fair value of the equity instruments that are subject to the plan was calculated (equivalent to the sum of the fair value of the free shares assigned and the fair value of the discount for the paid shares) at the assignment date and has not been modified since. The plan provides for non-market service and performance conditions (trigger events), which were considered in order to determine the number of shares for the measurement of the cost of the plan. These estimates will be subject to review during the vesting period and up until the expiry. The cost of the plan, so defined, is recognised in profit or loss (as personnel expenses) over the vesting period, as a balancing entry for a specific equity reserve.

Upon the occurrence of the events that imply the loss of the rights to the benefits of the LECOIP 2.0 certificates (trigger events and the discontinuation of employment) for the employees, Intesa Sanpaolo takes over the rights that would have been recognised to the employees as per the certificates.

2.3 Changes in long-term share-based payment plans: LECOIP

The cost of the LECOIP in 2018 was roughly € 2.3 million (12/44 of the plan’s total value).

The group has not recognised liabilities for cash-settled payments as this is an equity-settled share-based plan.

Annexes to the notes to the consolidated financial statements

STATEMENT OF FINANCIAL POSITION BY BUSINESS SEGMENT

(value in euro)

		Non-life business		Life business		Intra-segment eliminations		Total	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
1	**INTANGIBLE ASSETS**	**6,931,964**	**3,137,000**	**641,646,432**	**636,800,000**	**-**	**-**	**648,578,396**	**639,937,000**
2	**PROPERTY, PLANT AND EQUIPMENT**	**68,896**	**23,000**	**1,192,838**	**1,593,000**	**-**	**-**	**1,261,734**	**1,616,000**
3	**REINSURERS' SHARE OF TECHNICAL PROVISIONS**	**19,466,312**	**14,905,000**	**186,195**	**857,000**	**-**	**-**	**19,652,507**	**15,762,000**
4	**INVESTMENTS**	**1,099,964,633**	**933,057,000**	**121,211,861,500**	**123,483,820,000**	**-84,155,058**	**-83,863,000**	**122,227,671,075**	**124,333,014,000**
4.1	Investment property	-	-	-	-	-	-	-	-
4.2	Investments in subsidiaries and associates and interests in joint ventures	-	-	86,228,222	86,175,000	-84,155,058	-83,863,000	2,073,164	2,312,000
4.3	Held-to-maturity investments	-	-	-	-	-	-	-	-
4.4	Loans and receivables	-	-	18,987,610	19,339,000	-	-	18,987,610	19,339,000
4.5	Available-for-sale financial assets	1,099,780,790	923,774,000	71,022,891,865	74,532,484,000	-	-	72,122,672,655	75,456,258,000
4.6	Financial assets at fair value through profit or loss	183,843	9,283,000	50,083,753,803	48,845,822,000	-	-	50,083,937,646	48,855,105,000
5	**OTHER RECEIVABLES**	**64,152,666**	**23,051,000**	**278,293,141**	**347,408,000**	**-1,819,495**	**-4,830,000**	**340,626,312**	**365,629,000**
6	**OTHER ASSETS**	**24,850,421**	**21,342,000**	**2,745,001,891**	**2,723,691,000**	**262,971**	**-**	**2,770,115,283**	**2,745,033,000**
6.1	Deferred acquisition costs	-	-	-	-	-	-	-	-
6.2	Sundry assets	24,850,421	21,342,000	2,745,001,891	2,723,691,000	262,971	-	2,770,115,283	2,745,033,000
7	**CASH AND CASH EQUIVALENTS**	**25,059,583**	**46,565,000**	**798,810,533**	**721,543,000**	**-**	**-**	**823,870,116**	**768,108,000**
TOTAL ASSETS		**1,240,494,475**	**1,042,080,000**	**125,676,992,530**	**127,915,712,000**	**-85,711,582**	**-88,693,000**	**126,831,775,423**	**128,869,099,000**
1	**EQUITY**							**4,586,927,460**	**4,818,195,000**
2	**PROVISIONS**	**2,189,714**	**76,000**	**11,947,862**	**12,948,000**	**-**	**-**	**14,137,576**	**13,024,000**
3	**TECHNICAL PROVISIONS**	**788,302,629**	**678,438,000**	**73,174,455,307**	**75,774,462,000**	**-**	**-**	**73,962,757,936**	**76,452,900,000**
4	**FINANCIAL LIABILITIES**	**2,538,938**	**3,560,000**	**46,681,440,935**	**45,786,896,000**	**-**	**-**	**46,683,979,873**	**45,790,456,000**
4.1	Financial liabilities at fair value through profit or loss	-	-	44,938,273,132	43,509,555,000	-	-	44,938,273,132	43,509,555,000
4.2	Other financial liabilities	2,538,938	3,560,000	1,743,167,803	2,277,341,000	-	-	1,745,706,741	2,280,901,000
5	**LIABILITIES**	**75,545,154**	**53,176,000**	**665,504,602**	**695,878,000**	**-1,622,205**	**-5,757,000**	**739,427,551**	**743,297,000**
6	**OTHER LIABILITIES**	**20,949,728**	**8,767,000**	**823,529,618**	**1,042,460,000**	**65,681**	**-**	**844,545,027**	**1,051,227,000**
TOTAL EQUITY AND LIABILITIES								**126,831,775,423**	**128,869,099,000**

INCOME STATEMENT BY BUSINESS SEGMENT

(value in euro)

		Non-life business		Life business		Intra-segment eliminations		Total	
		2018	2017	2018	2017	2018	2017	2018	2017
1.1	Net earned premiums	400,688,542	344,980,000	6,842,314,133	5,850,036,000	-	-	7,243,002,675	6,195,016,000
1.1.1	*Gross premiums written*	*412,911,599*	*354,331,000*	*6,842,825,389*	*5,850,559,000*	-	-	*7,255,736,988*	*6,204,890,000*
1.1.2	*Reinsurance premiums*	*-12,223,057*	*-9,351,000*	*-511,256*	*-523,000*	-	-	*-12,734,313*	*-9,874,000*
1.2	Commission income	-	-	940,291,370	791,814,000	-	-	940,291,370	791,814,000
1.3	Net income on financial instruments at fair value through P&L	58,689	220,000	-162,354,172	98,556,000	-	-	-162,295,483	98,776,000
1.4	Income on investments in subsidiaries, associate & joint ventures	-	-	-	-	-	-	-	-
1.5	Income from other financial instruments and lands and buildings	17,228,663	13,043,000	2,242,889,707	2,390,387,000	-	-	2,260,118,370	2,403,430,000
1.6	Other revenues	25,875,087	24,116,000	139,502,938	102,047,000	-8,838,094	-7,485,000	156,539,931	118,678,000
1	**TOTAL INCOME**	**443,850,981**	**382,359,000**	**10,002,643,976**	**9,232,840,000**	**-8,838,094**	**-7,485,000**	**10,437,656,863**	**9,607,714,000**
2.1	Net insurance benefits and claims	-112,221,327	-98,316,000	-7,599,568,798	-6,894,656,000	-	-	-7,711,790,125	-6,992,972,000
2.1.2	Amounts paid and change in technical reserves	-119,530,796	-103,160,000	-7,599,277,250	-6,895,018,000	-	-	-7,718,808,046	-6,998,178,000
2.1.3	Reinsurers' share	7,309,469	4,844,000	-291,548	362,000	-	-	7,017,921	5,206,000
2.2	Commission expenses	-	-	-691,022,947	-574,410,000	-	-	-691,022,947	-574,410,000
2.3	Losses on investments in subsidiaries associates & joint ventures	-	-	-238,836	-393,000	-	-	-238,836	-393,000
2.4	Expenses from other financial instruments and lands and buildings	-3,533,270	-851,000	-235,740,433	-180,930,000	-	-	-239,273,703	-181,781,000
2.5	Operating expenses	-159,646,304	-141,450,000	-317,031,333	-313,882,000	9,929,495	7,521,000	-466,748,142	-447,811,000
2.6	Other costs	-77,381,503	-74,251,000	-404,983,999	-521,632,000	-1,091,401	891,000	-483,456,903	-594,992,000
2	**TOTAL EXPENSES**	**-352,782,404**	**-314,868,000**	**-9,248,586,346**	**-8,485,903,000**	**8,838,094**	**8,412,000**	**-9,592,530,656**	**-8,792,359,000**
	PROFIT (LOSS) BEFORE TAX FOR THE PERIOD	**91,068,577**	**67,491,000**	**754,057,630**	**746,937,000**	**-**	**927,000**	**845,126,207**	**815,355,000**

CONSOLIDATION SCOPE

Name	Country of registered office	Country of operating office (5)	Method (1)	Business (2)	% Direct investment	% Total investment (3)	% Voting rights available at ordinary meetings (4)	% consolidation
INTESA SANPAOLO VITA S.p.A.	086		L	1	0.00	0.00		100.00
INTESA SANPAOLO LIFE DAC	040		L	2	100.00	100.00		100.00
INTESA SANPAOLO ASSICURA S.p.A.	086		L	1	100.00	100.00		100.00

(1) Consolidation method: Line-by-line =L, Proportionate =P, Line-by-line by common management =C

(2) 1=Italian insurance; 2=EU insurance; 3=non-EU insurance; 4=insurance holding company; 4.1=mixed financial holding company; 5=EU reinsurance; 6=non-EU reinsurance; 7=banking; 8=fund management; 9=other holding companies; 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 only required when the country of the operating office is different to that in which the company's registered office is located.

CONSOLIDATION SCOPE: EQUITY INVESTMENTS IN COMPANIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Name	Non-controlling interests %	Non controlling investors' voting rights available at ordinary meetings	Loss for the year attributable to non-controlling interests	Equity attributable to non-controlling interests	Financial highlights							
					Total assets	Investments	Technical provisions	Financial liabilities	Equity	Loss for the year	Dividends distributed to non-controlling investors	Gross premiums
INTESA SANPAOLO SMART CARE S.r.l.	51		-248,857	2,157,783	15,710,921				4,230,947	-487,954		

NON-CONSOLIDATED EQUITY INVESTMENTS

	Country of registered office	Country of operating office (5)	Business (1)	Type (2)	% Direct investment	Total investment % (3)	% Voting rights available at ordinary meetings (4)	Carrying amount
INTESA SANPAOLO SMART CARE S.r.l.	086		11	b	0			2,073,164

(1) 1=Italian insurance; 2=EU insurance; 3=non-EU insurance; 4=insurance holding company; 4.1=mixed financial holding company; 5=EU reinsurance; 6=non-EU reinsurance; 7=banking; 8=fund management; 9=other holding companies; 10=real estate 11=other
(2) a=subsidiary (IFRS 10) ; b=associate (IAS 28); c=joint venture (IFRS 11); indicate with an asterisk (*) the equity investments classified as held for sale pursuant to IFRS 5 and show the key at the end 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 only required when the country of the operating office is different to that in which the company's registered office is located.

INTERESTS IN NON-CONSOLIDATED STRUCTURED ENTITIES

(value in euro)

	Revenue received from the structured entity during the reporting period	Carrying amount (at the transfer date) of the assets transferred to the structured entity during the reporting period	Carrying amount of the assets recognised by the reporting entity related to the structured entity	Corresponding statement of financial position asset caption	Carrying amount of liabilities recognised by the reporting entity related to the structured entity	Corresponding statement of financial position liability caption	Maximum exposure to risk of losses
FIPF 1 A2 10/01/2023	268	-	-	A 4.5	-	-	-
CBO INV (JERSEY) 0 03/23/15	480	-	-	A 4.5	-	-	-
GERMAN POST PENS 3.75 18/01/2021	3,750	-	111,693	A 4.5	-	-	103,510
E-MAC NL05-3 A 25/07/2038	11,519	-	3,392,660	A 4.5	-	-	3,379,683

BREAKDOWN OF PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

(value in euro)

	Cost	Deemed cost or fair value	Total
Investment property	-	-	-
Other property	-	-	-
Other items of property, plant and equipment	1,261,734	-	1,261,734
Other intangible assets	13,998,131	-	13,998,131

BREAKDOWN OF FINANCIAL ASSETS

(value in euro)

	Held to maturity investments		Loans and receivables		Available-for-sale financial assets		Financial assets at fair value through profit or loss				Total	
							Financial assets held for trading		Financial assets designated at fair value through profit or loss			
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Equity securities and derivatives measured at cost	-	-	-	-	73,182	61,000	-	-	-	-	73,182	61,000
Equity securities at fair value	-	-	-	-	952,675,738	1,579,608,000	-	-	976,836,177	849,229,000	1,929,511,915	2,428,837,000
of which listed securities	-	-	-	-	*952,675,171*	*1,579,608,000*	-	-	*972,680,549*	*849,229,000*	*1,925,355,720*	*2,428,837,000*
Debt securities	-	-	-	-	60,097,397,875	64,945,542,000	133,087,314	230,250,000	3,497,063,257	3,319,909,000	63,727,548,446	68,495,701,000
of which listed securities	-	-	-	-	*57,202,098,459*	*64,767,860,000*	*120,990,421*	*227,322,000*	*2,754,403,776*	*3,286,444,000*	*60,077,492,656*	*68,281,626,000*
UCI shares	-	-	-	-	11,072,525,860	8,931,047,000	107,847,506	253,770,000	44,703,991,520	43,730,754,000	55,884,364,886	52,915,571,000
Loans and receivables from banking customers	-	-	14,167,634	14,533,000	-	-	-	-	-	-	14,167,634	14,533,000
Interbank loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-
Deposits under reinsurance business	-	-	-	-	-	-	-	-	-	-	-	-
Financial asset components of insurance contracts	-	-	-	-	-	-	-	-	-	-	-	-
Other loans and receivables	-	-	4,819,976	4,806,000	-	-	-	-	-	-	4,819,977	4,806,000
Non-hedging derivatives	-	-	-	-	-	-	58,270,346	44,600,000	-1,299,999	-	56,970,346	44,600,000
Hedging derivatives	-	-	-	-	-	-	21,435,132	-	-	-	21,435,132	-
Other financial investments	-	-	-	-	-	-	-	-	586,706,393	426,593,000	586,706,393	426,593,000
Total	**-**	**-**	**18,987,610**	**19,339,000**	**72,122,672,655**	**75,456,258,000**	**320,640,298**	**528,620,000**	**49,763,297,348**	**48,326,485,000**	**122,225,597,911**	**124,330,702,000**

BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES RELATED TO CONTRACTS ISSUED BY INSURANCE COMPANIES WHERE THE INVESTMENT RISK IS BORNE BY POLICYHOLDERS AND ARISING FROM PENSION FUND MANAGEMENT

(value in euro)

	Policies where the investment risk is borne by policyholders		Policies related to pension funds		Total	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Assets in the balance sheet	45,271,706,707	43,967,685,000	3,920,282,671	3,615,050,000	49,191,989,378	47,582,735,000
Intercompany assets *	-	-	-	-	-	-
Total assets	**45,271,706,707**	**43,967,685,000**	**3,920,282,671**	**3,615,050,000**	**49,191,989,378**	**47,582,735,000**
Financial liabilities in the balance sheet	44,887,344,705	43,441,845,000	-	-	44,887,344,705	43,441,845,000
Technical provisions in the balance sheet	395,503,268	479,694,000	3,920,282,671	3,615,050,000	4,315,785,939	4,094,744,000
Intercompany liabilities *	-	-	-	-	-	-
Total liabilities	**45,282,847,973**	**43,921,539,000**	**3,920,282,671**	**3,615,050,000**	**49,203,130,644**	**47,536,589,000**

* Assets and liabilities eliminated during consolidation.

BREAKDOWN OF REINSURERS' SHARE OF TECHNICAL PROVISIONS

(value in euro)

	Direct		Indirect		Total	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Non-life insurance provisions	**19,466,312**	**14,905,000**	**-**	**-**	**19,466,312**	**14,905,000**
Provisions for unearned premiums	7,423,916	4,775,000	-	-	7,423,916	4,775,000
Provisions for outstanding claims	12,042,396	10,130,000	-	-	12,042,396	10,130,000
Other insurance provisions	-	-	-	-	-	-
Life insurance provisions	**186,195**	**857,000**	**-**	**-**	**186,195**	**857,000**
Provisions for outstanding claims	185,213	856,000	-	-	185,213	856,000
Mathematical provisions	982	1,000	-	-	982	1,000
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension fund	-	-	-	-	-	-
Other insurance provisions	-	-	-	-	-	-
Total amount ceded to reinsurers from insurance provisions	**19,652,507**	**15,762,000**	**-**	**-**	**19,652,507**	**15,762,000**

BREAKDOWN OF TECHNICAL PROVISIONS

(value in euro)

	Direct		Indirect		Total	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Non-life insurance provisions	**788,302,629**	**678,438,000**	**-**	**-**	**788,302,629**	**678,438,000**
Provisions for unearned premiums	590,707,917	496,540,000	-	-	590,707,917	496,540,000
Provisions for outstanding claims	194,646,288	180,488,000	-	-	194,646,288	180,488,000
Other insurance provisions	2,948,424	1,410,000	-	-	2,948,424	1,410,000
of which reserves posted following liability adeguacy test	-	-	-	-	-	-
Life insurance provisions	**73,174,455,307**	**75,774,462,000**	**-**	**-**	**73,174,455,307**	**75,774,462,000**
Provisions for outstanding claims	756,004,732	297,766,000	-	-	756,004,732	297,766,000
Mathematical provisions	66,039,995,165	66,786,177,000	-	-	66,039,995,165	66,786,177,000
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension fund	4,315,785,939	4,094,744,000	-	-	4,315,785,939	4,094,744,000
Other insurance provisions	2,062,669,471	4,595,775,000	-	-	2,062,669,471	4,595,775,000
of which reserves posted following liability adeguacy test	*22,500,000*	*21,000,000*	-	-	*22,500,000*	*21,000,000*
of which deferred liabilities due to policyholders	*1,888,831,680*	*4,433,206,000*	-	-	*1,888,831,680*	*4,433,206,000*
Total	**73,962,757,936**	**76,452,900,000**	**-**	**-**	**73,962,757,936**	**76,452,900,000**

BREAKDOWN OF FINANCIAL LIABILITIES

(value in euro)

	Financial liabilities at fair value through profit or loss				Other financial liabilities		Total carrying amount	
	Financial liabilities held for trading		Financial liabilities designated at fair value through profit or loss					
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Participating financial instruments	-	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	1,390,360,516	1,926,638,000	1,390,360,516	1,926,638,000
Liabilities from financial contracts issued by insurance companies	-	-	44,885,237,440	43,442,863,000	-	-	44,885,237,440	43,442,863,000
From contracts where the investment risk is borne by policyholders	-	-	*44,885,237,440*	*43,442,863,000*	-	-	*44,885,237,440*	*43,442,863,000*
From pension fund management	-	-	-	-	-	-	-	-
From other contracts	-	-	-	-	-	-	-	-
Deposits received from reinsurers	-	-	-	-	1,537,724	2,559,000	1,537,724	2,559,000
Financial liability portion of insurance contracts	-	-	-	-	353,808,501	351,704,000	353,808,501	351,704,000
Debt securities issued	-	-	-	-	-	-	-	-
Liabilities with bank customers	-	-	-	-	-	-	-	-
Liabilities with banks	-	-	-	-	-	-	-	-
Other loans obtained	-	-	-	-	-	-	-	-
Non-hedging derivatives	50,129,985	66,692,000	1,107,265	-	-	-	51,237,250	66,692,000
Hedging derivatives	798,442	-	-	-	-	-	798,442	-
Other financial liabilities	-	-	1,000,000	-	-	-	1,000,000	-
Total	**50,928,427**	**66,692,000**	**44,887,344,705**	**43,442,863,000**	**1,745,706,741**	**2,280,901,000**	**46,683,979,873**	**45,790,456,000**

BREAKDOWN OF INSURANCE TECHNICAL CAPTIONS

(value in euro)

		2018			2017		
		Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
NON-LIFE BUSINESS							
NET PREMIUMS		**412,911,599**	**-12,223,057**	**400,688,542**	**354,331,000**	**-9,351,000**	**344,980,000**
a	Recognised premiums	507,080,642	-14,871,124	492,209,518	431,566,000	-7,096,000	424,470,000
b	Change in premium provision	-94,169,043	2,648,067	-91,520,976	-77,235,000	-2,255,000	-79,490,000
NET CHARGES RELATING TO CLAIMS		**-119,530,796**	**7,309,469**	**-112,221,327**	**-103,160,000**	**4,844,000**	**-98,316,000**
a	Amounts paid	-105,219,773	5,396,394	-99,823,379	-96,277,000	4,069,000	-92,208,000
b	Change in claims provision	-14,157,657	1,913,075	-12,244,582	-8,443,000	775,000	-7,668,000
c	Change in recoveries	1,385,606	-	1,385,606	1,590,000	-	1,590,000
d	Change in other technical provisions	-1,538,972	-	-1,538,972	-30,000	-	-30,000
LIFE BUSINESS							
NET PREMIUMS		**6,842,825,389**	**-511,256**	**6,842,314,133**	**5,850,559,000**	**-523,000**	**5,850,036,000**
NET CHARGES RELATING TO CLAIMS		**-7,599,277,250**	**-291,548**	**-7,599,568,798**	**-6,895,018,000**	**362,000**	**-6,894,656,000**
a	Amounts paid	-7,739,523,567	379,409	-7,739,144,158	-9,719,960,000	162,000	-9,719,798,000
b	Change in provision for payable amounts	-458,238,159	-671,123	-458,909,282	5,810,000	204,000	6,014,000
c	Change in mathematical provisions	850,037,238	166	850,037,404	3,039,305,000	-4,000	3,039,301,000
d	Change in technical provisions where investment risk is borne by policyholders and provisions arising from pension fund management	-221,041,906	-	-221,041,906	-290,990,000	-	-290,990,000
e	Change in other technical provisions	-30,510,856	-	-30,510,856	70,817,000	-	70,817,000

GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AND INVESTMENTS

(value in euro)

	Interest	Other income	Other expense	Realised gains	Realised losses	Total realised	Unrealised gains		Unrealised losses		Total unrealised	2018	2017
							Fair value gains	Reversal of impairment losses	Fair value losses	Impairment losses			
Result of investments	**1,758,426,232**	**290,001,372**	**-781,092,128**	**1,304,891,004**	**-806,421,165**	**1,765,805,315**	**172,604,582**	**-**	**-3,125,261,221**	**-24,316,862**	**-2,976,973,501**	**-1,211,168,186**	**3,066,732,000**
a Arising from investment property	-	-	-	-	-	-	-	-	-	-	-	-	-
b Arising from associates, subsidiaries and joint venture	-	-	-238,836	-	-	-238,836	-	-	-	-	-	-238,836	-393,000
c Arising from held-to-maturity financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
d Arising from loans and receivables	428,831	-	-	4,315,094	-4,344,745	399,180	-	-	-	-	-	399,180	-4,300,000
e Arising from available for sale financial assets	1,705,786,648	186,409,170	-13,164	363,020,179	-124,429,739	2,130,773,094	-	-	-	-24,316,862	-24,316,862	2,106,456,232	2,307,453,000
f Arising from financial assets held for trading	7,292,979	-	-24,515	73,173,502	-75,996,857	4,445,109	13,933,871	-	-40,575,518	-	-26,641,647	-22,196,538	21,050,000
g Arising from financial assets designated as at fair value through profit or loss	44,917,774	103,592,202	-780,815,613	864,382,229	-601,649,824	-369,573,232	158,670,711	-	-3,084,685,703	-	-2,926,014,992	-3,295,588,224	742,922,000
Result of receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Result of cash and acash equvalents	**158,448**	**-**	**-**	**-**	**-**	**158,448**	**-**	**-**	**-**	**-**	**-**	**158,448**	**296,000**
Result of financial liabilities	**-91,685,927**	**-**	**-30,634**	**34,375,005**	**-16,015,840**	**-73,357,396**	**3,160,792,010**	**-**	**-18,114,528**	**-**	**3,142,677,482**	**3,069,320,086**	**-746,996,000**
a From financial liabilities held for trading	-5,516,734	-	-30,634	34,375,005	-14,011,235	14,816,402	14,531,320	-	-14,131,891	-	399,429	15,215,831	-14,350,000
b From financial liabilities designated at fair value through income statement	-	-	-	-	-2,004,605	-2,004,605	3,146,260,690	-	-3,982,637	-	3,142,278,053	3,140,273,448	-650,846,000
c From other financial liabilities	-86,169,193	-	-	-	-	-86,169,193	-	-	-	-	-	-86,169,193	-81,800,000
Result of payables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,666,899,753**	**290,001,372**	**-781,122,762**	**1,339,266,009**	**-822,437,005**	**1,692,606,367**	**3,333,396,592**	**-**	**-3,143,375,749**	**-24,316,862**	**165,703,981**	**1,858,310,348**	**2,320,032,000**

BREAKDOWN OF MANAGEMENT COSTS

(value in euro)

	Non-life business		Life business	
	2018	2017	2018	2017
Gross commissions and other acquisition costs	-131,350,319	-118,486,000	-195,529,800	-186,451,000
a Acquisition commissions	-119,111,306	-108,271,000	-117,834,855	-126,282,000
b Other acquisition costs	-11,725,663	-9,640,000	-12,750,954	-17,829,000
c Change in deferred acquisition costs	8,158	7,000	-	-
d Premium collection commissions	-521,508	-582,000	-64,943,991	-42,340,000
Commissions and other acquisitions costs net of commissions and profit commissions from reinsurers	2,075,176	911,000	32,339	32,000
Investment management costs	-564,426	-472,000	-50,307,870	-54,605,000
Other administrative costs	-29,806,735	-23,403,000	-73,122,977	-72,858,000
Total	**-159,646,304**	**-141,450,000**	**-318,928,308**	**-313,882,000**

BREAKDOWN OF OTHER COMPREHENSIVE INCOME

(value in euro)

	Allocations		Transfers to profit or loss		Other variations		Total variations		Income taxes		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Other items that will not be reclassified subsequently to profit or loss	**-44,000**	**31,000**	**-**	**-**	**-**	**-**	**-44,000**	**31,000**	**-**	**-**	**- 422,000**	**- 378,000**
Change in equity of investees	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation reserve of intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation reserve of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-
Gains (losses) on non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-	-	-	-	-
Net actuarial gains (losses) and adjustments to defined benefit plans	-44,000	31,000	-	-	-	-	-44,000	31,000	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	- 422,000	- 378,000
Other items that will be reclassified subsequently to profit or loss	**-2,536,830**	**-2,635,000**	**-15,577,559**	**-36,008,000**	**-382,145,667**	**-46,058,000**	**-400,260,056**	**-79,431,000**	**-**	**-**	**- 331,944**	**400,592,000**
Translation reserve	-	-	-	-	-		-	-	-	-	-	-
Net fair value gains (losses) on AFS financial assets	-	-	-15,577,559	-36,008,000	-382,145,667	-46,058,000	-397,723,226	-82,066,000	-	-	233,774	397,957,000
Gains (losses) on cash flow hedges	- 2,536,830	2,635,000	-	-	-	-	-2,536,830	2,635,000	-	-	98,170	2,635,000
Gains (losses) on hedges of net investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-
Change in equity of investees	-	-	-	-	-	-	-	-	-	-	-	-
Gains (losses) on non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-
OTHER COMPREHENSIVE INCOME (EXPENSE)	**-2,580,830**	**2,666,000**	**-15,577,559**	**-36,008,000**	**-382,145,667**	**-46,058,000**	**-400,304,056**	**-79,400,000**	**-**	**-**	**-90,056**	**400,214,000**

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 31.12.2018 of the reclassified assets		Fair value at 31.12.2018 of the reclassified assets		Assets reclassified in 2018		Assets reclassified up to 2018		Assets reclassified in 2018		Assets reclassified up to 2018	
from	to			Assets reclassified in 2018	Assets reclassified up to 2018	Assets reclassified in 2018	Assets reclassified up to 2018	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			-	-	-	-	-	-	-	-	-	-	-	-	-

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING AND NON-RECURRING BASIS: BREAKDOWN BY FAIR VALUE LEVEL

(value in euro)

		Level 1		Level 2		Level 3		Total	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Assets and liabilities measured at fair value on a recurring basis									
Available-for-sale financial assets		67,885,375,403	72,787,355,000	2,895,007,921	1,688,944,000	1,342,289,331	979,959,000	72,122,672,655	75,456,258,000
Financial assets at fair value through profit or loss	Financial assets held for trading	230,920,679	428,371,000	40,332,575	48,626,000	49,387,045	51,623,000	320,640,298	528,620,000
	Financial assets designated at fair value through profit or loss	49,327,935,592	47,560,657,000	76,577,661	286,690,000	358,784,093	479,138,000	49,763,297,348	48,326,485,000
Investment property		-	-	-	-	-	-	-	-
Property, plant and equipment		-	-	-	-	-	-	-	-
Intangible assets		-	-	-	-	-	-	-	-
Total assets measured at fair value on a recurring basis		**117,444,231,674**	**120,776,383,000**	**3,011,918,157**	**2,024,260,000**	**1,750,460,470**	**1,510,720,000**	**122,206,610,301**	**124,311,363,000**
Financial liabilities at fair value through profit or loss	Financial liabilities held for trading	3,414,482	-	47,513,945	66,692,000	-	-	50,928,427	66,692,000
	Financial liabilities designated at fair value through profit or loss	-	-	44,886,344,705	43,442,863,000	1,000,000	-	44,887,344,705	43,442,863,000
Total liabilities measured at fair value on a recurring basis		**3,414,482**	**-**	**44,933,858,650**	**43,509,555,000**	**1,000,000**	**-**	**44,938,273,132**	**43,509,555,000**
Assets and liabilities measured at fair value on a non-recurring basis		-	-	-	-	-	-	-	-
Non-current assets held for sale and disposal groups		-	-	-	-	-	-	-	-
Liabilities of disposal groups		-	-	-	-	-	-	-	-

CHANGES IN LEVEL 3 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

(value in euro)

	Available-for-sale financial assets	Financial assets at fair value through profit or loss		Investment property	Property, plant and equipment	Intangible assets	Financial liabilities at fair value through profit or loss	
		Financial assets held for trading	Financial assets designated at fair value through profit or loss				Financial liabilities held for trading	Financial liabilities designated at fair value through profit or loss
Opening balance	**979,959,000**	**51,623,000**	**479,138,000**	**-**	**-**	**-**	**-**	**-**
Purchases/Issues	-	-	-	-	-	-	-	-
Sales/Repurchases	-116,044,199	-	-	-	-	-	-	-
Repayments	-	-	-	-	-	-	-	-
Gain or loss recognised in profit or loss	2,520,570	-2,260,872	-	-	-	-	-	-
- of which fair value gains/losses	-1,510,948	-	-	-	-	-	-	-
Gain or loss recognised in other comprehensive income	-	-	-	-	-	-	-	-
Transfers to Level 3	11,241,897	-	-	-	-	-	-	-
Transfers to other levels	-166,067,415	-	-	-	-	-	-	-
Other changes	630,679,478	24,917	-120,353,906	-	-	-	-	1,000,000
Closing balance	**1,342,289,331**	**49,387,045**	**358,784,094**	**-**	**-**	**-**	**-**	**1,000,000**

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE: BREAKDOWN BY FAIR VALUE LEVEL

(value in euro)

	Carrying amount		Fair value							
			Level 1		Level 2		Level 3		Total	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Assets										
Held-to-maturity investments	-	-	-	-	-	-	-	-	-	-
Loans and receivables	18,987,610	19,339,000	-	-	-	-	18,987,610	19,339,000	18,987,610	19,339,000
Investments in subsidiaries and associates and interests in joint ventures	-	-	-	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	-	-	-	-	-
Property, plant and equipment	1,261,734	1,616,000	-	-	-	-	1,261,734	1,616,000	1,261,734	1,616,000
Total assets	**20,249,344**	**20,955,000**	**-**	**-**	**-**	**-**	**20,249,344**	**20,955,000**	**20,249,344**	**20,955,000**
Liabilities	**-**	**-**			**-**	**-**	**-**	**-**	**-**	**-**
Other financial liabilities	1,745,706,741	2,280,901,000	-	-	1,390,360,516	1,939,748,000	-	-	1,390,360,516	1,939,748,000

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 31/12/2018 (riferito alle sole società soggette a controllo partecipativo)

Il bilancio consolidato al 31 dicembre 2018 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 620 milioni di euro, interamente di pertinenza del gruppo, e un patrimonio complessivo di 4.587 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 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.

Quanto alle società soggette a controllo partecipativo, il perimetro del Gruppo Assicurativo è composto da Intesa Sanpaolo Vita quale ultima società controllante italiana (di seguito la "USCI" o la "Capogruppo assicurativa"), dalle controllate Intesa Sanpaolo Assicura e Intesa Sanpaolo Life.

* * * * *

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 fondamentali 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 fondamentali 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 2018 da parte delle funzioni fondamentali della Capogruppo assicurativa Audit, Compliance, Risk Management e Funzione Attuariale (nel seguito anche le "Funzioni fondamentali") che confluiranno nella relazione predisposta dalla Capogruppo Assicurativa ai sensi del Regolamento 33/2016.

Si evidenzia, altresì, che il Regolamento IVASS n. 38/2018 introduce una disciplina più dettagliata rispetto al sistema di governo societario di gruppo, prevedendo che l'organo amministrativo dell'USCI costituisca a livello di gruppo le quattro Funzioni fondamentali, in modo proporzionato alla natura, alla portata e alla complessità dei rischi inerenti all'attività del gruppo.

Nella Lettera al mercato del 5 luglio 2018 IVASS precisa inoltre che, in applicazione del principio di proporzionalità, ci si attende che la USCI che adotti un sistema di governo societario di gruppo cd "rafforzato" garantisca la separatezza, l'indipendenza e l'autonomia delle Funzioni fondamentali di Gruppo e non faccia ricorso all'esternalizzazione, e specifica altresì che - ferme restando le distinte competenze a livello individuale e di Gruppo - le funzioni fondamentali della Capogruppo assicurativa possono essere esercitate dalla medesima struttura che adempie presso le stesse alle funzioni di Gruppo ed avere il medesimo titolare.

Sulla base dei predetti orientamenti, si dà atto che la Compagnia ha provveduto a:
(i) svolgere l'autovalutazione dell'assetto di governo societario adottato, individuando l'assetto "rafforzato", così come definito e qualificato nella Lettera al mercato di IVASS del 5 luglio 2018;
(ii) costituire, in data 8 febbraio 2019, le quattro Funzioni fondamentali del Gruppo Assicurativo Intesa Sanpaolo Vita, attribuendo alle omologhe Funzioni fondamentali di Intesa Sanpaolo Vita S.p.A. e ai rispettivi titolari la duplice natura e competenza delle Funzioni fondamentali di Intesa Sanpaolo Vita S.p.A. e del Gruppo ISV;
(iii) approvare, sempre in data 8 febbraio 2019, le direttive sul sistema di governo societario di ISV e del Gruppo ISV, unitamente alla Politica sul controllo interno di ISV e del Gruppo ISV e alle Politiche delle quattro Funzioni fondamentali di ISV e del Gruppo ISV a essa allegate; le altre Società del Gruppo ISV provvederanno, ognuna per quanto di competenza nel corso delle successive riunioni consiliari calendarizzate, a recepire tali documenti e ad approvare la loro propria versione adattandola al proprio contesto societario di riferimento;

(iv) inviare ad IVASS una comunicazione avente ad oggetto approfondimenti in ordine al Modello di implementazione delle Funzioni fondamentali in Intesa Sanpaolo Assicura S.p.A e Fideuram Vita S.p.A. ai sensi del Regolamento IVASS n. 38/2018 ed è in attesa di un riscontro al fine di attribuire alle Funzioni fondamentali della Capogruppo Assicurativa e ai rispettivi titolari la natura e competenza di Funzioni fondamentali delle società controllate.

Abbiamo complessivamente preso atto della progressiva crescita delle attività e dei controlli di Intesa Sanpaolo Vita nel recente ruolo di USCI ai sensi del Regolamento IVASS n. 38/2018, raccomandando soprattutto alla luce delle previsioni del citato Regolamento in materia di governo societario di gruppo (fra cui la costituzione delle funzioni fondamentali di gruppo) l'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 USCI e delle relative Funzioni fondamentali. In proposito è possibile dare atto del progetto di Analisi organizzativa – revisione modello organizzativo e dimensionamento attività svolte - previsto al livello di Divisione Insurance e con l'obiettivo tra le altre di (i) disegnare la migliore struttura organizzativa in funzione dell'evoluzione del business (ii) dimensionare correttamente le singole Unità organizzative e (iii) valutare le possibili sinergie in termini di attività tra le diverse compagnie.
Alla luce delle innovazioni conseguenti all'adeguamento al Regolamento 38 e relativo ampliamento di attività e perimetro di talune funzioni della USCI, sarà necessario, nell'ambito del progetto di revisione organizzativa citato, verificarne e/o confermarne l'adeguatezza degli assetti.

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Per quanto attiene alla controllata *Intesa Sanpaolo Life* il Collegio ha periodicamente incontrato il CEO e preso atto - nell'ambito della Relazione semestrale della funzione Audit della Capogruppo – degli esiti degli interventi condotti dalla e sulla controllata, approfondendo le necessità di rafforzamento del sistema dei controlli interni e le azioni individuate ed in corso di implementazione a tal fine. Il Collegio è stato periodicamente informato in merito al progressivo avanzamento delle attività previste dal Progetto di rafforzamento dell'assetto organizzativo e mappatura dei controlli finalizzato a raggiungere l'obiettivo del definitivo complessivo rafforzamento del sistema dei controlli interni. In ambito AML abbiamo preso positivamente atto delle attività in corso di attuazione per l'adeguamento del presidio in ambito AML rispetto a quello della Controllante, anche per quanto attiene ai controlli e all'adozione dell'applicativo di Gruppo Gianos 4D.

Per quanto attiene alla controllata *Intesa Sanpaolo Assicura S.p.A.*, abbiamo approfondito il proseguimento delle attività per l'implementazione delle iniziative di sviluppo e di adeguamento della macchina operativa, finalizzate alla realizzazione degli obiettivi definiti dal Piano d'Impresa 2018-2020 - che prevede un forte sviluppo del business con focus principale sul segmento *retail non-motor* - rilevando l'esistenza di misure atte a sostenere il rafforzamento degli assetti, l'ottimizzazione dei processi, anche di back office, nonché l'evoluzione del sistema dei controlli interni. Il Collegio ha raccomandato un attento monitoraggio delle azioni di rafforzamento relativamente all'assetto organizzativo ed ai sistemi di controllo interno al fine di tempestivamente verificarne l'adeguatezza in funzione ed in coerenza con gli ambiziosi obiettivi di piano. Abbiamo infine incontrato periodicamente il Presidente del Collegio Sindacale, dal cui scambio di informazioni non sono emerse criticità significative.

* * * * *

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 USCI 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 - e ponendo l'attenzione sulla prosecuzione delle attività di omogeneizzazione degli assetti organizzativi e dei sistemi di controllo interno a livello di Gruppo assicurativo e sulle previste iniziative di sviluppo e di adeguamento della macchina operativa, finalizzate alla realizzazione degli obiettivi definiti dal Piano d'Impresa 2018-2021 della controllata Intesa Sanpaolo Assicura S.p.A., come dianzi rappresentato.
- Le situazioni patrimoniali ed economiche prese a base del processo di consolidamento integrale sono quelle riferite al 31 dicembre 2018 come approvate dai competenti organi delle società controllate, eventualmente rettificate ove necessario per adeguarli ai principi contabili omogenei della USCI.
- Il bilancio consolidato (riferito alle sole società a controllo partecipativo) consta di due società controllate direttamente.
- Il consolidamento è stato attuato con il metodo di integrazione globale per le controllate.

- 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.
- 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.
- 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 2018 viene presentata agli Azionisti unitamente a quella inerente il bilancio di esercizio a tale data.

Milano lì, 7 marzo 2019

Il Collegio sindacale

Massimo Broccio:

Paolo Mazzi:

Riccardo Ranalli

Independent auditors' report

(Translation from the Italian original which remains the definitive version)

Intesa Sanpaolo Vita Insurance Group

Consolidated financial statements as at and for the year ended 31 December 2018

(with independent auditors' report thereon)

KPMG S.p.A.

4 March 2019

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
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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 2018, the income statement and the 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 Group's financial position as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 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 "parent") 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 2018 include goodwill of €634.6 million. The parent's directors calculated the recoverable amount of goodwill by estimating its value in use, using the appraisal value method that calculates the parent'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 parent 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 2018 include financial instruments of €122,227.7 million, accounting for about 96% of total assets. Measuring financial instruments, particularly those unquoted on active markets or illiquid (classified at fair value levels 2 and 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 2018; — checking, on a sample basis, the measurement of unquoted financial instruments (fair value levels 2 and 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 2018 include technical provisions of €73,962.8 million, accounting for about 58% of total liabilities. The Group measures this caption using actuarial valuation techniques which entail 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.	Our audit procedures included: — understanding the process for the measurement of technical provisions 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 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; we carried out these procedures with the assistance of experts of the KPMG network; — 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 parent's 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 April 2013, the shareholders of Intesa Sanpaolo Vita S.p.A. appointed us to perform the statutory audit of its 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 2018 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 2018 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 Group's consolidated financial statements at 31 December 2018 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, 4 March 2019

KPMG S.p.A.

(signed on the original)

Maurizio Guzzi
Director of Audit

Prepress and printing: Agema® S.p.A.

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GALLERIE D'ITALIA.
THREE MUSEUM VENUES: AN ITALIAN CULTURAL NETWORK.

Through the Gallerie d'Italia, 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, coming from the art collections of Fondazione Cariplo and Intesa Sanpaolo, along with a collection representative of twentieth-century Italian art.

Gallerie d'Italia - Palazzo Leoni Montanari in Vicenza exhibits works of eighteenth-century Veneto art and a collection of Attic and Magna Graecia pottery. Moreover, one of the most important collections of Russian icons in the West is safeguarded here.

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:

ANGELO INGANNI
(Brescia, 1807 - 1880)
Piazza della Scala under the snow, seen from the Gallery 1874
oil on canvas, 65,5 x 55,5 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Piazza Scala, Milan

Angelo Inganni's vedute are fine works offering a valuable insight into the urban transformations that Milan experienced during the 19th century. In *Piazza della Scala under the snow, seen from the Gallery*, the artist depicts Teatro alla Scala before the square it faces was opened, which involved the demolition of a housing block next to the Palazzo Marino, and subsequently led to the construction of the Galleria Vittorio Emanuele II and the erection of the Leonardo da Vinci monument.

Despite the structural balance of the work, the resulting image - created with free and vibrant brushstrokes with no concern for defined outlines - seems somewhat random, almost like a snapshot of the path running between the snowy square and the Galleria.

The work is part of the permanent collection at the **Gallerie d'Italia**, Intesa Sanpaolo's museum complex located in **Piazza Scala, Milan**. The exhibition dedicated principally to 19th century art opens with Neoclassical works and continues through to the turn of the 20th century, with a century's worth of Italian paintings depicting historical events, battles of the Risorgimento (the Italian Unification), vedute and landscapes, as well as genre paintings and masterpieces of Symbolism.