INTESA SANPAOLO VITA

# 2016 Annual Report of Intesa Sanpaolo Vita Insurance Group

only including the companies over which the parent has control

Bank of INTESA SANPAOLO

# 2016 Annual Report
# of Intesa Sanpaolo Vita Insurance Group

only including the companies over which the parent has control

# 31 December 2016

**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 Intesa Sanpaolo Vita Insurance Group, included in the register of insurance groups as no. 28 – Managed and coordinated by Intesa Sanpaolo S.p.A.

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# Management report

# Company bodies

### Board of Directors

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

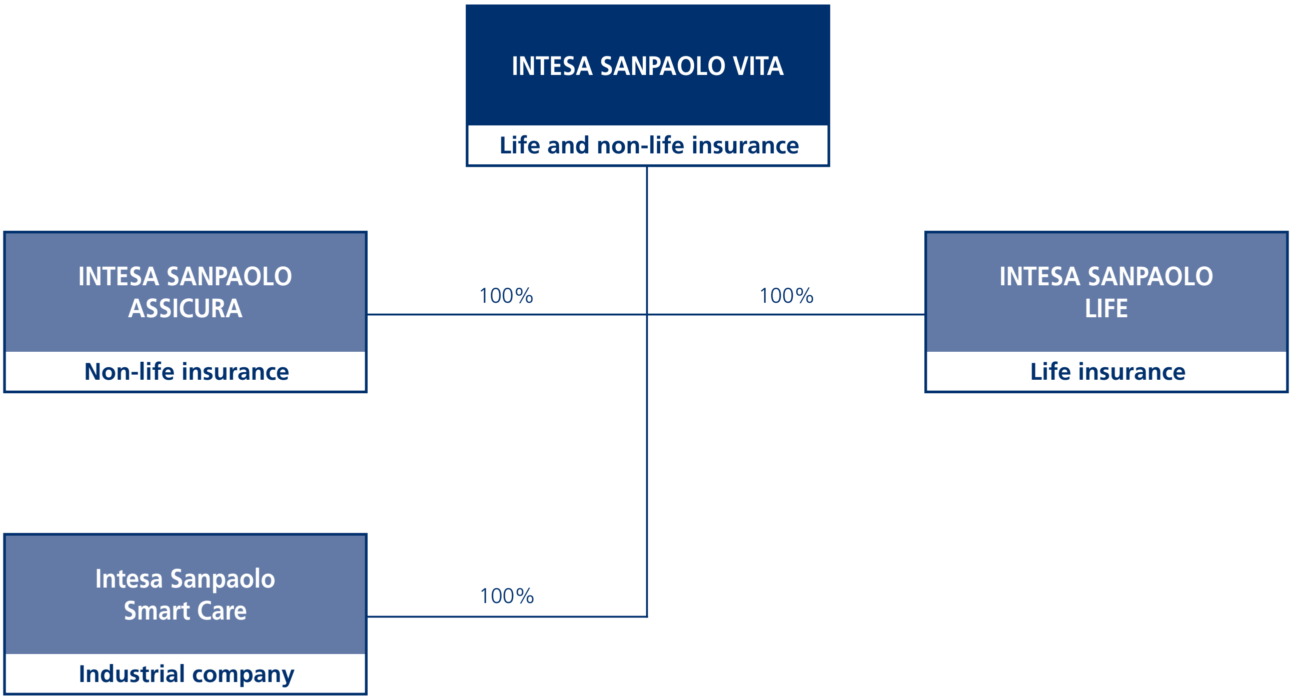
### Board of Statutory Auditors

| | |
|---|---|
| Chairman | Massimo BROCCIO |
| Standing statutory auditors | Paolo MAZZI<br>Riccardo RANALLI |
| Alternate statutory auditors | Eugenio Mario BRAJA<br>Patrizia MARCHETTI |

### Independent auditors

KPMG S.p.A.

# Group structure



# Key consolidated figures

(in millions of euro)

| | 31.12.2016 | 31.12.2015 | Change | |
|---|---|---|---|---|
| **Operational figures** | | | | |
| Gross collection | 19,816.3 | 21,210.5 | -1,394.2 | -6.6% |
| Premiums of Life insurance products | 856.8 | 652.7 | 204.1 | 31.3% |
| Premiums of Life financial products with DOFF | 6,745.1 | 11,100.0 | -4,354.9 | -39.2% |
| Gross collection of Life insurance products without DPF | 11,820.7 | 9,172.0 | 2,648.7 | 28.9% |
| Premiums of Non-life business | 393.8 | 285.9 | 107.9 | 37.7% |
| Life new business | 19,239.4 | 20,724.8 | -1,485.4 | -7.2% |
| Life Contracts | 3,490,133 | 3,280,100 | 210,033 | 6.4% |
| Non-life Contracts | 2,068,211 | 1,897,289 | 170,922 | 9.0% |
| Human Resources | 562 | 538 | 24 | 4.5% |
| **Balance sheet figures** | | | | |
| Investments | 117,892.2 | 107,076.4 | 10,815.7 | 10.1% |
| - Available-for-sale financial assets | 78,056.9 | 75,268.1 | 2,788.8 | 3.7% |
| - Financial assets at fair value through profit or loss | 39,819.0 | 31,216.2 | 8,602.8 | 27.6% |
| - Other investments | 16.3 | 592.1 | -575.8 | -97.2% |
| Insurance provisions | 80,136.1 | 79,234.9 | 901.2 | 1.1% |
| - Life insurance contracts | 7,497.1 | 7,415.7 | 81.4 | 1.1% |
| - Life financial contracts with DPF | 66,711.8 | 65,658.9 | 1,053.0 | 1.6% |
| - Shadow accounting provision | 5,334.6 | 5,655.9 | -321.3 | -5.7% |
| - Non-life insurance policies | 592.7 | 504.4 | 88.3 | 17.5% |
| Financial liabilities | 36,212.3 | 27,363.9 | 8,848.4 | 32.3% |
| - Unit-linked financial policies | 34,531.8 | 25,494.7 | 9,037.2 | 35.4% |
| - Index-linked financial policies | 0.8 | 275.8 | -275.0 | -99.7% |
| - Products with specific assets | - | - | - | 0.0% |
| - Subordinated liabilities | 1,316.2 | 1,313.5 | 2.8 | 0.2% |
| - Other liabilities | 363.4 | 279.9 | 83.6 | 29.9% |
| Shareholders' equity | 4,565.4 | 4,599.5 | -34.1 | -0.7% |
| - attributable to the Group | 4,565.4 | 4,599.5 | -34.1 | -0.7% |
| - attributable to minority interests | - | - | - | 0.0% |
| **Income statement** | | | | |
| Net earned premiums | 7,902.6 | 12,002.5 | -4,099.8 | -34.2% |
| Net insurance benefits and claims | 8,851.0 | 13,253.2 | -4,402.2 | -33.2% |
| Net fee and commission income | 167.1 | 153.1 | 14.0 | 9.1% |
| Net income from financial instruments and investments | 2,404.5 | 2,534.9 | -130.4 | -5.1% |
| Commissions and other acquisition costs | 319.0 | 331.9 | -12.9 | -3.9% |
| Consolidated profit | 638.7 | 612.5 | 26.2 | 4.3% |
| - attributable to the Group | 638.7 | 612.5 | 26.2 | 4.3% |
| - attributable to minority interests | - | - | - | 0.0% |
| **Ratio** | | | | |
| Expense ratio | 33.1% | 35.0% | -1.9% | -5.4% |
| Non-life Loss ratio | 31.6% | 37.7% | -6.1% | -16.2% |
| Gross collection/insurance provisions and financial liabilities | 17.0% | 19.9% | -2.9% | -14.4% |
| Non-life combined ratio | 64.7% | 72.7% | -8.0% | -11.0% |
| Net fees and commissions/financial liabilities (Index- and Unit-linked) | 0.5% | 0.6% | -0.1% | -18.6% |

# Reclassified consolidated financial statements

# Reclassified statement of financial position and income statement

(in millions of euro)

| ASSETS | 31.12.2016 | 31.12.2015 | Change | |
|---|---|---|---|---|
| Intangible assets | 635.5 | 635.5 | -0.0 | 0.0% |
| Tangible assets | 4.9 | 1.5 | 3.4 | 222.1% |
| Amount ceded to reinsurers from insurance provisions | 17.3 | 22.4 | -5.1 | -22.7% |
| Investments | 117,892.2 | 107,076.4 | 10,815.8 | 10.1% |
| - Lands and buildings (investment properties) | - | 19.2 | -19.2 | -100.0% |
| - Investments in subsidiaries, associates and joint ventures | - | - | - | n.a. |
| - Held to maturity investments | - | - | - | n.a. |
| - Loans and receivables | 16.3 | 572.9 | -556.6 | -97.2% |
| - Available-for-sale financial assets | 78,056.9 | 75,268.1 | 2,788.8 | 3.7% |
| - Financial assets at fair value through profit or loss | 39,819.0 | 31,216.2 | 8,602.8 | 27.6% |
| Receivables | 403.6 | 320.2 | 83.5 | 26.1% |
| Other assets | 2,299.9 | 1,923.7 | 376.2 | 19.6% |
| Cash and cash equivalents | 1,495.0 | 3,003.2 | -1,508.1 | -50.2% |
| **Total assets** | **122,748.5** | **112,982.9** | **9,765.6** | **8.6%** |

(in millions of euro)

| LIABILITIES | 31.12.2016 | 31.12.2015 | Change | |
|---|---|---|---|---|
| Shareholders' equity | 4,565.4 | 4,599.5 | -34.1 | -0.7% |
| - attributable to the Group | 4,565.4 | 4,599.5 | -34.1 | -0.7% |
| - attributable to minority interests | - | - | - | n.a. |
| Other provisions | 12.0 | 13.9 | -1.9 | -13.9% |
| Insurance provisions | 80,136.1 | 79,234.9 | 901.2 | 1.1% |
| - Life insurance contracts | 7,497.0 | 7,415.7 | 81.3 | 1.1% |
| - Life financial contracts with DPF | 66,711.8 | 65,658.9 | 1,053.0 | 1.6% |
| - Shadow accounting provision | 5,334.6 | 5,655.9 | -321.3 | -5.7% |
| - Non-life insurance policies | 592.7 | 504.4 | 88.3 | 17.5% |
| Financial liabilities | 36,212.3 | 27,363.9 | 8,848.4 | 32.3% |
| - Index-linked financial policies | 0.8 | 275.8 | -275.0 | -99.7% |
| - Unit-linked financial policies | 34,531.8 | 25,494.7 | 9,037.2 | 35.4% |
| - Products with specific assets | - | - | - | n.a. |
| - Subordinated liabilities | 1,316.2 | 1,313.5 | 2.8 | 0.2% |
| - Other liabilities | 363.4 | 279.9 | 83.6 | 29.9% |
| Payables | 754.3 | 618.9 | 135.4 | 21.9% |
| Other liabilities | 1,068.3 | 1,151.8 | -83.5 | -7.2% |
| **Total Shareholders' equity and liabilities** | **122,748.5** | **112,982.9** | **9,765.6** | **8.6%** |

(in millions of euro)

| | 31.12.2016 | 31.12.2015 | Change | |
|---|---|---|---|---|
| **Net earned premiums** | **7,902.6** | **12,002.5** | **-4,099.8** | **-34.2%** |
| - Life businesses | 7,601.3 | 11,752.1 | -4,150.8 | -35.3% |
| - Non-life businesses | 301.3 | 250.3 | 51.0 | 20.4% |
| **Net insurance benefits and claims** | **-8,851.0** | **-13,253.2** | **4,402.1** | **-33.2%** |
| **Net fee and commission income** | **167.1** | **153.1** | **13.9** | **9.1%** |
| **Net income from financial instruments and investments** | **2,404.5** | **2,534.9** | **-130.3** | **-5.1%** |
| - Net income from financial instruments at fair value through profit or loss | 23.9 | 47.7 | -23.9 | -50.0% |
| - Other income | 2,380.6 | 2,487.2 | -106.6 | -4.3% |
| **Acquisition and administration costs** | **-454.1** | **-445.1** | **-9.0** | **2.0%** |
| - Commissions and other acquisition costs | -319.0 | -331.9 | 12.9 | -3.9% |
| - Other costs | -135.2 | -113.2 | -22.0 | 19.4% |
| **Other revenues and expenses** | **-238.4** | **-133.2** | **-105.2** | **79.0%** |
| **Profit before taxes for the period** | **930.7** | **859.0** | **71.7** | **8.3%** |
| - Income taxes | -292.0 | -246.5 | -45.4 | 18.4% |
| **Consolidated profit after taxes** | **638.7** | **612.5** | **26.2** | **4.3%** |
| **Loss from discontinued operations** | **-** | **-** | **-** | **n,d,** |
| **Consolidated profit** | **638.7** | **612.5** | **26.2** | **4.3%** |
| - attributable to the Group | 638.7 | 612.5 | 26.2 | 4.3% |

# Statement of comprehensive income

(in thousands of euro)

| INTESA SANPAOLO VITA S.P.A. | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|
| **CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD** | **638,710** | **612,492** |
| **Other comprehensive income after taxes without reclassification in the income statement** | **-103** | **380** |
| Change in shareholders' equity of subsidiaries | - | - |
| Changes in the revaluation reserve of intangible assets | - | - |
| Changes in the revaluation reserve of tangible assets | - | - |
| Gains (losses) of non-current assets held for sale and discontinued operations | - | - |
| Actuarial gains (losses) arising from defined benefit plans | -103 | 380 |
| Other items | - | - |
| **Other comprehensive income after taxes with reclassification in the income statement** | **-168,872** | **58,321** |
| Foreign currency translation differences | - | -40 |
| Net unrealized gains (losses) on available for sale financial assets | -168,872 | 58,361 |
| Net unrealized gains (losses) on cash flow hedging derivatives | - | - |
| Net unrealized gains (losses) on hedge of a net investment in foreign operation | - | - |
| Change in shareholders' equity of subsidiaries | - | - |
| Gains (losses) of non-current assets held for sale and discontinued operations | - | - |
| Other items | - | - |
| **TOTAL OF OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME** | **-168,975** | **58,701** |
| **TOTAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** | **469,735** | **671,193** |
| **of which attributable to the Group** | **469,735** | **671,193** |
| **of which attributable to minority interests** | **-** | **-** |

# Statement of changes in equity

(in thousands of euro)

| INTESA SANPAOLO VITA S.P.A. | | Amount as of 31.12.2014 | Change in Closing Balances | Allocations | Reclassification adjustments to income statement | Transfers | Change in Profit sharing | Amount as of 31.12.2015 |
|---|---|---|---|---|---|---|---|---|
| Shareholders' equity attributable to the Group | Share capital | 320,423 | - | - | - | - | - | 320,423 |
| | Other equity instruments | - | - | - | - | - | - | - |
| | Capital reserves | 1,328,097 | - | - | - | - | - | 1,328,097 |
| | Revenue reserves and other reserves | 1,660,635 | - | 481,311 | - | -452,078 | - | 1,689,868 |
| | (Own shares) | - | - | - | - | - | - | - |
| | Result for the period | 480,406 | - | 132,087 | - | -1 | - | 612,492 |
| | Other comprehensive income | 589,888 | - | 380 | -88,324 | 146,645 | - | 648,589 |
| | **Total attributable to the Group** | **4,379,449** | **-** | **613,778** | **-88,324** | **-305,434** | **-** | **4,599,469** |
| Shareholders' equity attributable to minority interests | Shareholder capital and reserves | - | - | - | - | - | - | - |
| | Result for the period | - | - | - | - | - | - | - |
| | Other comprehensive income | - | - | - | - | - | - | - |
| | **Total attributable to minority interests** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | | **4,379,449** | **-** | **613,778** | **-88,324** | **-305,434** | **-** | **4,599,469** |

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

# Statement of cash flows (indirect method)

(in thousands of euro)

| INTESA SANPAOLO VITA S.P.A. | 31.12.2016 | 31.12.2015 |
|---|---|---|
| **Profit (loss) before taxes for the period** | **930,671** | **859,017** |
| **Change in non-cash items** | **873,570** | **5,721,061** |
| Change in non-life provision from unearned premium | 86,134 | 29,159 |
| Change in non-life provision for outstanding claims and other insurance provisions | 5,905 | -4,334 |
| Change in mathematical provisions and other life insurance provisions | 645,404 | 4,859,321 |
| Change in deferred acquisition costs | - | 48 |
| Change in provisions | -1,930 | 3,274 |
| Non-cash income and expenses from financial instruments, investment property and equity investments | 283,479 | 815,449 |
| Other expenses | -145,422 | 18,144 |
| **Change in receivables and payables generated by operating activities** | **-265,702** | **136,719** |
| Change in receivables and payables on direct insurance and reinsurance operations | 1,333 | 50,807 |
| Change in other receivables and payables | -267,035 | 85,912 |
| **Income taxes paid** | **-291,961** | **-246,525** |
| **Net cash generated/absorbed by cash items related to investment and financing activity** | **22,135** | **-764,867** |
| Financial liabilities related to investment contracts | 8,848,440 | 5,120,203 |
| Payables to banks and customers | - | - |
| Loans and receivable from banks and customers | - | - |
| Other financial instruments at fair value through profit or loss | -8,826,305 | -5,885,070 |
| **CASH FLOW FROM OPERATING ACTIVITY** | **1,268,713** | **5,705,405** |
| Net cash generated/absorbed by lands and buildings (investment property) | 19,249 | 165 |
| Net cash generated/absorbed by equity investments in subsidiaries, associates and joint ventures | - | - |
| Net cash generated/absorbed by loans and receivable | 556,563 | -491,944 |
| Net cash generated/absorbed by held to maturity investments | - | - |
| Net cash generated/absorbed by available for sale financial assets | -2,848,745 | -4,322,269 |
| Net cash generated/absorbed by tangible and intangible assets | - | - |
| Other cash generated/absorbed by investment activity | - | - |
| **CASH FLOW FROM INVESTING ACTIVITY** | **-2,272,933** | **-4,814,048** |
| Net cash generated/absorbed by Group's share capital and equity instruments | -503,895 | -448,833 |
| Net cash generated/absorbed by own shares | - | - |
| Dividends payment | - | - |
| Net cash generated/absorbed by minority interests' share capital and reserves | - | - |
| Net cash generated/absorbed by subordinated liabilities and participative financial instruments | - | - |
| Net cash generated/absorbed by other financial liabilities | - | - |
| **CASH FLOW FROM FINANCING ACTIVITY** | **-503,895** | **-448,833** |
| **Effect of foreign-exchange differences on cash and cash equivalents** | | **-** |
| OPENING BALANCE OF CASH AND CASH EQUIVALENTS | 3,003,162 | 2,560,638 |
| **INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS** | **-1,508,115** | **442,524** |
| CLOSING BALANCE OF CASH AND CASH EQUIVALENTS | 1,495,047 | 3,003,162 |

# Reference context and Group performance

# The external context

## The macroeconomic scenario

The global economy continued along a path of moderate expansion in 2016. The prices of commodities, including oil, recovered after a long period of weakness. The outcome of the referendum in the United Kingdom on deciding whether to remain in the European Union caused sterling to fall sharply. The feared contagion effects over the other European markets did not materialise.

Economic growth in the US was lower than expected in the first half, but picked up pace in the second half of 2016. Employment and income continued to grow at a rapid pace. At the end of the year, the result of presidential elections favoured an increase in medium and long-term rates, partly linked to the expectation that the new administration will implement expansive fiscal policy measures. In December, the Federal Reserve raised official rates again by 25 basis points, stating that it intends to move them another three times in 2017.

Contrasting economic indications were seen in the Eurozone. Quarterly GDP growth was uneven, but the annual variation remained practically unchanged, just above 1.5%, a sufficient level to promote gradual improvement in the labour market with progressive absorption of the unemployment rate. In the fourth quarter, the economic surveys and industrial production figures were consistent with steady GDP growth. Inflation gradually rose back up to 1.1% during the year.

In March, the ECB announced new expansive measures. The deposit rate, which currently acts as the main benchmark rate, was reduced from -0.30% to -0.40%. The rate on the main refinancing operations was cut from 0.05% to zero, while the marginal refinancing rate dropped to 0.25%. The ECB also announced the inclusion of non-bank corporate bonds in the purchase programme, which rose from €60 billion to €80 billion per month. A new long-term refinancing programme was also launched, called TLTRO II, on the basis of which monetary and financial institutions may obtain 4-year secured loans from the ECB at favourable rates. Subsequently, the ECB announced that it would extend the purchase programme until the end of December 2017, although with a reduction in its monthly size to €60 billion from April of this year. In addition, the full allotment of refinancing operations will remain in force at least until the last reserve period of 2017.

The Italian economy's growth nearly came to a halt in the second quarter of the year, to recover in the third quarter. The year-on-year increase in GDP, which was 1.0% in the third quarter, was estimated to be slightly below 1% for the entire year. In the fourth quarter, indications were mixed and overall in line with the slow pace of economic growth. Industrial production continued to grow, boosting the increase in GDP in the second half of the year. Growth in employment, which was robust in 2015 due to reforms and incentives on contributions, lost ground during the year. Fiscal policy took on a prudent approach: the further reduction in the primary surplus offset the faster than expected decline in interest expenses, leaving the total deficit practically unchanged in relation to GDP. The debt/GDP ratio is estimated to have increased slightly also in 2016. On the external front, the Italian economy continued to report a large surplus in the current account of the balance of payments, alongside significant improvements in the net external financial position.

Spreads against German debt yields gradually rose during the year. The second half was particularly affected by the uncertainty about the referendum of 4 December, with its political and economic implications, the strains in the banking system, and the US elections. The peaks were reached shortly before the vote, in the wake of pre-referendum polls. Afterwards, the rapid resolution of the government crisis and the extension of the ECB purchase programme reassured investors, although several rating agencies changed their outlook on long-term debt to negative. The BTP-Bund spread, on the ten-year maturity, closed the year at 162bps, up by 68bp compared to the end of June. Yields on Italian government debt reached a record low at 1.05% on 14 August, to then end the year at 1.83% (23bp above the levels of a year before).

The euro/US dollar fluctuated widely during 2016: a period of appreciation, culminating at 1.15 on 2 May, was followed by a gradual weakening, which accelerated from October, to end the year at 1.05.

### Stock markets
During 2016, performances of the global equity indices generally featured increased volatility, together with a rise in risk aversion by investors in the major international markets and, in particular, in the Eurozone and Asia. These trends had already emerged in the initial weeks of the year, penalising, in particular, the peripheral Eurozone markets (Italy, Spain and Greece).

The sharp fall in equity markets at the beginning of 2016 was primarily caused by a combination of macroeconomic factors: the heavy fluctuations in oil prices, the economic slowdown in China, emerging economies and oil-producing countries, the uncertainties about the timing of monetary policy in the US, and the UK referendum on Brexit.

These factors were accompanied by concerns about the quality of bank assets and the levels of coverage of NPEs, as well as the capital strength of some banks in the Eurozone. Moreover, the automotive industry was adversely affected by fears of additional costs for emission reductions.

After reaching a low in mid-February, equity markets were boosted by the ECB’s monetary policy decisions at the beginning of March and the recovery in oil prices. In the second quarter, equity markets were widely influenced by expectations about the Brexit referendum, in conditions of high and unusual volatility. The unexpected victory of the Leave camp caused a violent downward adjustment of quoted prices, and a new surge in investor risk aversion.

During the third quarter, stock indices in the Eurozone, with the exception of Italy, gradually returned to pre-Brexit levels, backed as well by a season of half year results that was overall better than prudent market expectations.

The domestic market, on the other hand, was slowed down by macro factors (growth slowed down sharply in the second quarter), political factors (in view of the constitutional referendum) and factors connected to specific industry sectors, such as concerns about capitalisation in the banking sector and NPLs.

In the last quarter of 2016, equity markets in the Eurozone first consolidated the levels reached and then picked up in the final weeks of the year, in a situation of rising bond yields, and in view of a busy election schedule for this year. The season of the third quarter results in the Eurozone provided a boost to prices, resulting, on the whole, better than expected. The US equity indices reached new highs, following Donald Trump’s election, on the expectation of more fiscally expansive policy.

The EuroStoxx index closed the year up slightly (+1.5%); the CAC 40 recorded an increase of 4.9% at the year end, while the Dax 30 posted a slightly higher rise (+6.9%); the IBEX 35 index ended the year down by 2%. Outside the Eurozone, the Swiss market index SMI fell by 6.8%, while the UK FTSE 100 index closed the year with a rise (+14.4%).

The S&P 500 index ended the period up by 9.5%. The overall performance of the main Asian stock markets was disappointing: the Chinese SSE A-Share benchmark index ended the year down by 12.3%, while the Nikkei 225 index remained substantially unchanged in the period (+0.4%).

In 2016, the Italian stock market underperformed against other international markets, due to the high weighting in the index of the financial sector, which was particularly penalised by investors during the period, as well as due to the renewed political risk. The FTSE MIB index ended the period in decline (-10.2%), although well above the lows recorded on 11 February (-26.4%); the FTSE Italia All Share index closed the period at -9.9%. Performance of mid-cap stocks was much more defensive, with the FTSE Italia STAR index slightly up by +4.2% at the end of the period.

### Corporate bond markets
The European corporate bond markets ended 2016 positively, with risk premiums (measured as ASW spread) down compared to the beginning of the year, although slightly higher than the lows reached in September. During the year the monetary policies of central banks (and in particular the ECB’s corporate securities purchase programme) continued to be the most important factors supporting markets.

In the first months of the year, the European market was characterised by high negativity. The combination of a number of factors such as sharp fluctuations in oil prices, renewed concerns about a possibly more extensive slowdown than forecast in the Chinese economy and growing fears relating to profitability and stability in the banking sector weighed on the risk appetite of investors and caused a sudden expansion of spreads.

The situation changed drastically at the beginning of March, when the ECB announcement that it would also include nonfinancial, investment grade (IG) corporate bonds in its purchase programmes had a very positive impact on the markets. The "technical support" provided by the presence on the market of a buyer as ECB also continued in July and August, making it possible to limit the impact of the outcome of UK referendum.

From the end of September there were increases in volatility, and risk premiums, linked to a series of events that shaped the final months of 2016: US elections, expectations of a rate hike by FED, the constitutional referendum in Italy, and the ECB meeting. However, the search for yields, and the safety net provided by ECB, allowed markets to close in December with spreads that had returned near the lowest levels recorded during the year.

During 2016, in the IG segment, industrial securities outperformed financial securities, which were excluded from the assets eligible for purchase by ECB, with the former recording a narrowing of spreads of around 40%. The more speculative high-yield securities also performed strongly, benefiting from investor need to shift to riskier asset classes in search of yield.

The effect of the ECB's action on interest rates also had a positive impact on the primary market, with very strong volumes especially at IG issuer level, also thanks to the presence of US issuers seeking to take advantage of the low interest rates on the Euro. The favourable funding conditions also led to an increase in financial optimisation transactions , through the repurchase of issued securities and their replacement with longer-term securities at more favourable conditions.

## Emerging economies

### Economic cycle and inflation

In 2016, according to preliminary IMF estimates, the average GDP growth in emerging countries was 4.1%, the same rate as in 2015.

Asia was again the strongest performing region (average GDP estimated at 6.3% from 6.7% in 2015) although the growth rate slowed down both in India (from 7.6% to 6.6%) and in China (from 6.9% to 6.7%). In Latin America (-0.7%) and the CIS countries (-0.1%) GDP continued to fall, although at a slower rate than the decline seen in both areas in 2015. In the MENA area (+3.8%) the slowdown in economic activity in some oil and gas exporting countries (such as Saudi Arabia) is considered to have been more than offset by the acceleration in others, particularly in Iran due to the removal of sanctions.

In Central and South Eastern Europe, according to the figures available for the first three quarters of 2016, GDP growth compared to the same period of 2015 slowed down in the CEE countries, Hungary (from 3.1% to 2.1%) and Slovakia (from 3.6% to 3.4%), while it accelerated in the EEA countries, Romania (from 3.8% to 4.8%), Croatia (1.5% to 2.8%) and Serbia (from 0.6% to 2.8%). In Turkey, however, growth over the same period was adversely affected by regional and internal tensions (2% from 3.4%).

According to the preliminary IMF estimates, the average inflation rate in the emerging countries slowed down slightly to 4.5% in 2016, from 4.7% in 2015. However, the overall figure was made up of different trends in the various countries. A significant slowdown in some areas, above all Russia (from 15% to 7.1%) and Ukraine (from 48.5% to 14.9%), due to the absence of the impact on prices of the past currency depreciation, was accompanied by an (albeit limited) acceleration in other areas, such as China (1.4% to 2%) and South Africa (from 4.6% to 6.3%). In the CEE countries, average inflation remained negative in Slovakia and Slovenia (-0.5% and -0.2% respectively) but was in positive territory in Hungary (0.4%). In the EEA area, average inflation was negative in Bosnia, Croatia and Romania (-1.2%, -1.1% and -1.5% respectively), while prices rose in Albania (1.3%) and Serbia (1.1%).

### Monetary policy

In 2016, the reversal of currency strains, low inflation pressures and relatively weak economic growth rates enabled monetary easing actions in various areas. There were rate cuts by a number of central banks, including Brazil (from 14.25% to 13.75%), Russia (from 11% to 10%), Ukraine (from 22% to 14%), Turkey (maximum rate from 10.75% to 8.5%), India (from 6.75% to 6.25%) and Indonesia (7.5% to 4.75%). However, there were also rate increases, especially in the commodity exporting countries, in response to the increase in inflation, such as in Nigeria, South Africa, Mexico and Colombia. In the CEE and SEE countries, the fall in inflation below the target values of the respective central banks led to further rate cuts in Hungary, Albania, Romania and Serbia. On the other hand, to counter the current and expected price rise, Egypt increased the maximum rate several times, taking it from 10.25% to 15.75%.

### The financial markets

In 2016, the US dollar continued its period of appreciation against the currencies of the emerging countries that began in 2013. The OITP index rose by 6.4% (following the 10.2% increase in 2015). The US dollar rose above all against the currencies of countries that could be most affected by a shift towards a protectionist US trade policy, such as the Chinese renminbi (+7%) and the Mexican peso (+19.7%). The Turkish lira lost about a fifth of its value in the presence of large external financing needs (and geopolitical tensions). With regard to the currencies of the countries where ISP subsidiaries are located, in the CIS area the Russian rouble appreciated by 17.3% following the recovery in oil prices, while the Ukrainian hryvnia depreciated by 12.8%, due to the presence of political difficulties. Currencies in CEE and SEE countries followed the depreciation in the Euro, which fell by approximately 3% against the US dollar. At the beginning of November, Egypt switched to a free floating exchange rate system. Following this decision, the value of the Egyptian pound against the dollar more than halved, taking it to over 18 EGP: 1 USD.

The MSCI composite index of emerging markets rose by 7.2% in 2016, while in 2015 it had lost 8% of its value. The weakness of the Asian markets (Shanghai index -12.3%, due to concerns about the outlook for the economy and financial stability in China), was more than offset by the recovery of other important markets subject to sharp sales in 2015. In particular, double-digit growth was recorded in the stock markets of Moscow (+53%), helped by the recovery in oil prices, and Sao Paulo (+39%). With regard to the countries where ISP subsidiaries are located, almost all CEE and SEE markets outperformed the EuroStoxx, which rose by a modest 1.5%, with double-digit growth in stock prices in Hungary (+33.8%), Croatia (+18%) and Serbia (+14.9%). The recovery of GDP boosted Ukraine's stock market (+18.6%) while the Egyptian stock index took off following the transition to the new currency regime (+76.2%).

The recovery in commodity prices, improved growth prospects and greater stability in financial markets led to a decrease in the average EMBI+ spread for emerging countries, which fell by 47bps to 363bps in 2016. The most significant reductions were seen in Latin American countries (-101bps) and Sub-Saharan Africa (-79%), all particularly vulnerable to the commodity cycle.

For the countries where ISP subsidiaries are located, the biggest reductions in spreads were in Russia, where the spread fell back down to the levels of 2014, in Hungary, upgraded to investment grade by S&P and by Fitch, and in Croatia and Serbia, which benefited from an outlook upgrade. Conversely, a higher risk premium was paid by Egypt due to the deterioration in the security situation in particular.

## The domestic insurance market

### The life market

The domestic life market continued to lose ground rapidly in the first nine months of the year in terms of both gross premiums at €90.2 billion (-6.4% on the corresponding period of 2015) and new production (-11.6% on the corresponding period of 2015).

This trend was mainly caused by the contraction in sales of unit-linked policies due to uncertainty about the financial markets. Class III products collected premiums of €27.5 billion for the nine months, 16.7% less than in the same period of 2015.

After offering large volumes of traditional products in the first six months of the year, insurance companies slowed down their sales campaigns in the third quarter considerably. By September 2016, class I products had earned premiums of €61.8 billion, down 1.1% on the first nine months of 2015.

At distribution channel level, the agencies channel increased production during the nine months, mainly thanks to its distribution of class I policies, while banks and financial advisors both recorded a contraction in their business.

The negative trend affected both Italian companies (-6.5% on the first nine months of 2015) and cross-border companies (-6.2% on the corresponding period of 2015), collecting premiums of €78.1 billion and €12.1 billion, respectively.

During the year, payments for class I and class III products decreased. Net premiums continued to be positive at €34.9 billion although they were down 4.1% on the same period of 2015 due to the reduction in recognised premiums which cancelled the positive effect of the smaller payments.

In September 2016, new life production amounted to €77.6 billion, down 11.6% on the same nine months of 2015. In line with the trend seen for gross premiums, traditional and unit-linked products lost ground. Only the multi-class products increased their new production during the nine months, growing rapidly to €16.9 billion (+16.2% on the corresponding period of 2015). With respect to the business mix, the contribution of class III products increased by 2% on the previous quarter and accounted for 41% of the new premiums at the end of September 2016. During the year, insurance companies opted to contain inflows from the segregated funds by increasing the management costs, the loading costs for just the part invested in the segregated funds and limiting switches from funds to these businesses.

As customers continue to favour products with guaranteed principal rather than returns, companies are studying alternative products to reassure them.

Operators are introducing protected funds as part of their class III products while they are developing commercial solutions with increasingly postponed guarantees for products tied to segregated funds.

In legislative terms, introduction of the individual saving plans (PIR, Piani Individuali di Risparmio) could shake up the life market as companies will have access to new more stable products, as the minimum period of time to avail of the tax relief is five years.

Overall, the life market is expected to end the year with a 2.1% reduction in premiums to then gain ground in 2017.

### The pensions market

At 30 September 2016, supplementary pension plans already counted 7,611,779 members, up 6.8% on 30 September 2015. Although the choice about where to allocate your pension is increasingly made by the individuals in Italy, the number of members of pillar II pension plans increased significantly thanks to the automated contractually-provided for membership of construction sector workers and the effects of the Jobs Act. During the third quarter of the year, 29.8% of the Italian workforce had signed up for these plans. At 30 September 2016, members of open pension plans numbered 1,220,737, up 9.8% on 30 September of the previous year while workers who joined revised individual pension plans increased by 10.2% to 2,763,384 at 30 September 2016.

New members of open pension plans numbered 97,700 at 30 September 2016 (+14.3% on 30 September 2015). An analysis of these new members by channel shows that the banking channel signed up 76,530 new members, up 32.0% on the same period of the previous year. The agency channel ranked second with 10,620 open pension plans sold (+29.0% on 30 September 2015) with the financial advisors coming in at third place with 8,000 new members, followed by the sales teams at 2,550 new members.

The revised individual pension plans continued to be the most attractive product of their category with roughly 255,170 new policies placed since the start of the year (+9.4% on 30 September 2015). A breakdown by channel shows that the agency channel did the best with 129,300 new members (+3.0% on 30 September 2015), followed by the bank and post office branches with 103,300 new individual pension plans sold since the start of the year (+20.0% on 30 September 2015). The financial advisors also improved their position on the previous year with 22,570 individual pension plans placed in the first nine months of the year.

Supplementary pension plan assets continue to increase and amounted to €146.4 billion at 30 September 2016, up 8% on the first nine months of 2015. The market’s top product continues to be the individual pension plans, which grew by 22.4% on 30 September 2015, followed by the open pension plans (+12.5% on 30 September 2015), and the negotiated pension plans (+9.0% on 30 September 2015). The role of the pre-existing plans has become increasingly marginal.

At 30 September 2016, open pension plans had collected €1,095 million, up 8.4% on the first nine months of 2015, while new production for the individual pension plans was €432 million, up 3.3% on the corresponding period of 2015.

Operators focused on reorganising their product portfolio during the year and restyling the products to reduce the guaranteed returns.

Overall, the supplementary pension plan market is expected to end the year with a 5.8% increase in the number of members.

### The non-life market

The non-life market continued to contract in the first nine months of the year, with premiums of €25.5 billion at 30 September 2016 down 1.6% on 30 September of the previous year. Once again, the motor insurance segment was the cause, due to the stiff market competition, and not offset by the moderately positive upturn of the non-motor insurance segment.

The motor insurance segment recorded premiums of roughly €12.5 billion, down 4.2% on the corresponding period of the previous year. The motor third party liability insurance premiums decreased by 5.9%, due to another decrease in MTPL prices for both renewals and new customers. The year-on-year reduction in the average MTPL prices for new customers in September 2016 was about 3.9%.

With respect to non-mandatory covers, premiums collected by the motor vehicle property damage class increased steadily during the first nine months of 2016. After the very positive results for 2015, driven by the rise in sales of new vehicles, the steady upturn trend in new registrations during the year (+17.6% in September) and the insurance companies' promotion of these covers contributed to the year-on-year 5.5% rise in motor vehicle property damage premiums at 30 September 2016.

With respect to the non-motor insurance segment, the market is focused on development of a complete offer able to meet customer requirements as can be seen from the slightly higher growth pattern in the volume of non-motor insurance policies compared to the pace set at the beginning of 2014.

At 30 September 2016, non-motor insurance segment premiums amounted to €13.0 billion, up 1.1%. The classes that grew in line with or above the average for this segment were the health insurance, support and assistance and bond insurance. On the other hand, the premiums collected by the general third-party liability and pecuniary losses classes decreased compared to 30 September 2015.

The non-life insurance market is still concentrated, with the top five insurance groups holding significant market share, just under 70%.

The main distribution channel in terms of market share was the agency and broker channel accounting for 85.3% of the premiums, down 1% on the end of the third quarter of 2015. This channel mostly sells MTPL and general third-party liability policies. Bank branches continued to increase their market share, up to approximately 6.0% of the total non-life premiums. They were more involved in selling credit insurance and pecuniary losses policies, although they are also major players in the fire, legal protection, accident insurance and health insurance segments. Policies sold directly by the bank branches accounted for 8.5% of the total at 30 September 2016.

Volumes handled by the bank branches approximated €1.7 billion at the end of September, up 12.0% compared to the same nine months of 2015. Motor policy premium collections were positive at €400 million, up 9.0% on the end of the third quarter of 2015. The banking channel is the only distribution channel to see growth in motor premiums during the first nine months of the year, even though its percentage of the motor vehicle segment continues to be modest (roughly 3.0% of total premiums).

The banking channel collected non-motor premiums of approximately €1.3 billion in the first nine months of 2016, up 14% on the corresponding period of the previous year, boosted by the home & family segment (+21% on the corresponding period of 2015), which continues to benefit from the positive performance of the real estate market and mortgage loans.

Overall, the non-life market is expected to end the year with a 1.8% reduction in premiums to then gain ground in 2017.

# Action plans and business development

The strategies adopted by the parent, Intesa Sanpaolo Vita, for the entire insurance group, were focused on the following aspects during the year:

- product innovation in accordance with the new legislative and regulatory framework, concentrating on customer requirements;
- adequate capitalisation of the insurance companies and compliance with the Solvency II Directive applicable from 1 January 2016;
- ongoing monitoring, checks and management of risks with the promotion of an appropriate internal risk culture to completely manage its risks;
- investment in resources by encouraging dialogue and team work, including through projects to promote innovation and talent development;
- financial optimisation through ALM (asset and liability management);
- cost containment and management.

In commercial terms, the insurance group focused on enhancing its role within Intesa Sanpaolo Group by promoting projects of use to the entire banking network. Specifically:

- a new commercial unit has been operational since 1 January 2016, which is based on a completely functional model compared to Intesa Sanpaolo Group and includes professionals who assist the regional management teams of the Banca dei Territori network;
- the insurance parent took part in many group projects to develop innovative IT systems for use by the distribution network and that facilitate communication to spread an understanding of specific insurance skills;
- the IT projects led to a reduction in the time to market of new products, higher service levels for after-sales services and the introduction of automated checks of compliance with primary and secondary legislation.

Thanks to adoption of these strategies, the insurance group recorded excellent results for the year, in line with Intesa Sanpaolo Group's 2014-2017 business plan. Therefore, during the year, Intesa Sanpaolo Vita:

- maintained its leading role in the domestic life insurance sector;
- reduced again the cost of funding and protection levels through product policies and the introduction of multi-class products, while continuing to focus on linked products;
- implemented a policy to mitigate risks and improve its internal controls.

In line with the approach taken in 2015, the parent suspended collection of pure class I premiums in the life business and concentrated on promoting multi-class products through the retail channel via the Banca dei Territori network and the private customers channel via the Private Banking division. This allowed it to achieve excellent profits and risk management results. The Group strengthened its leadership of the Italian pension sector. With respect to the non-life business, the parent achieved very satisfactory results in terms of premium collections, leading to exceptional profitability, with the outlook for steady growth over time and risk levels that are among the best on the market.

It achieved these results in a rather adverse domestic and international economic climate. Despite this, customers' approval of the Group's insurance products together with the distribution network's skills and professionalism allowed it to record production results that are among the best since the Group's set up.

The insurance group's governance approach hinges on the adequate capitalisation of the group companies in line with the ruling regulatory requirements. The Solvency II Directive became applicable on 1 January 2016 and the Group has had to comply with the new requirements.

# Performance

## Overall performance

The profit for the year came to €638.7 million, an improvement on the €612.5 million for 2015.

The Group recognised an excellent operating result:

– an approximate €10 billion increase in assets under management (+9.2%, €114.7 billion at year end compared to €105 billion at 31 December 2015);
– transition in the life business product mix from class I products to multi-class and unit-linked products;
– increase in the non-life business portfolio due to the upturn in premiums (+37.7%, €393.8 million at year end compared to €285.9 million at 31 December 2015), mostly as a result of the higher sales of the credit protection insurance (CPI) policies tied to the loans issued by the Intesa Sanpaolo Group network and the Other non-life lines of business excluding aviation, marine, bonds and credit.

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

– greater contribution of the technical performance of approximately €181.3 million, partly decreased by the smaller contribution of net financial income of €123.7 million;
– higher net commission income of €14 million.

The profit before taxes amounted to €930.7 million compared to €859.0 million for the previous year.

Income taxes came to €292.0 million for the year (tax rate of 31.3%) against €246.5 million for 2015 (tax rate of 28.7%).

## Risk management

An internal control system is of strategic importance to 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 healthy 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 ensure compliance of its organisation. 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 correct control culture.

The risk management system was reinforced again during the year to comply with the EU and national regulations issued as part of the preparatory phase before enactment of the Solvency II Directive. Specifically, the Group strengthened the procedures and models used to assess its risk profile, the related monitoring processes and governance documents of the insurance group.

This project not only involved the Group's internal processes but also included developing a greater risk management culture, which is shared by the entire organisation and applied to develop and introduce methods to identify, measure, communicate and manage risks.

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 correctly identifying the principal 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 instructions for management, sensitivity 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 prejudice 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 business;

– monitoring activities carried out by the relevant persons (line managers, risk management officers, internal auditors, senior management, board of statutory auditors, independent auditors, pension fund managers (open pension funds and individual pension plans) and, for Intesa Sanpaolo Life, the committees responsible for audit and risk, investments and accounting and reporting to ensure continuous supervision of the internal controls and to identify and implement any improvements necessary to resolve critical issues identified, ensuring the maintenance, updating and improvement of the system.

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

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

– directives on internal controls and the annual internal controls report;

– the risk management regulation;

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

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

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

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

– segregation of duties and responsibilities: duties and responsibilities are divided among company bodies in a clear manner in order to avoid gaps or overlapping powers that may impinge upon the company's proper functioning;

– formalisation: the actions of the boards of directors and delegated parties must always be documented to allow the checking of management activities and decisions taken;

– independence of controls: the necessary independence of the control structures from the operational units must be assured.

The ultimate parent's risk management and control system, also adopted by the insurance group, involves the company bodies and the operational and supervisory units in the comprehensive management of the company 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, like 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 favours the involvement of all company units in the pursuit of the Group's objectives.

### The risk management strategy

Intesa Sanpaolo Vita Group is committed to developing an efficient risk management system given its importance for the balanced development of the insurance group. 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 (the Risk Management Unit);
- 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 transactions performed. 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 afforded 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 production definition process to reduce the protection offered, 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 and spread risk, the term of assets was kept lower than the term of the liabilities, mitigating the reinvestment risk through the continuous reduction of average minimum guaranteed levels for assets under management;
- as part of the management of credit risk, a policy was introduced involving diversification and reduction of issuer exposures which, with the exception of the Italian, German and ultimate parent bonds, never have an overall exposure above 1%;
- total exposure has been contained as part of management of equity risk;
- as part of management of surrender risk, in addition to closely monitoring the trends and net cash flows for each asset under management, adequate liquidity was maintained to cover unforeseeable outcomes without necessarily having to make unplanned divestments;
- in order to mitigate liquidity risk, efforts continued in 2016 to focus the investment portfolio on actively traded and liquidable instruments by divesting positions comprised of structured instruments or that were not associated with sufficiently liquid trading markets;
- the careful selection of new investments, especially as regards the alternative investments portfolio;
- as part of the management of derivatives, in keeping with the policy of focusing investments on liquid instruments that are priceable and have measurement risks, the parent operated as a matter of preference on explicit derivatives, adequately linked to primary financial instruments, with the goal of mitigating interest rate risks (IRSs, futures, forwards), currency risks (DCSs and forwards) and credit spread risks (CDSs);
- as part of management of operational risks, the business and control processes were strengthened.

These results can clearly be seen in the stress tests and economic 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 (“Risks”) provides additional qualitative and quantitative information about risk management. The insurance group companies worked to implement the requirements of the Solvency II Directive in a consistent and coordinated manner, mainly focusing on system optimisation and the standardisation of assessment methods.

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

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

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

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

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

## The principal new products

During the year, the parent took steps to reposition its product portfolio and increase the proportion of multi-class products compared to the traditional class I products. This initiative is designed to constructively embrace the new legislative and regulatory framework for risk management and measurement.

It consisted of:

– discontinuation of the class I product "Base Sicura" during the first half of the year;
– extension of the investment solutions in the two multi-class products introduced in 2015: "Giusto Mix" and "Synthesis", the key products thanks to their component assembly and diversification features designed to meet customers' varied requirements.

Extension of the multi-class range was based on product diversification and stability.

Specifically, the "Giusto Mix" product for retail and individual customers of the Banca Dei Territori division was enriched with a new low-volatility internal fund. This meets the "stability" requirement, which is a key issue with customers given the very volatile financial markets. It can be tailored as required.

During the second half of the year, a new flexible internal fund was added to the "Synthesis" product for Intesa Sanpaolo Private Banking customers, designed to protect 80% of the maximum unit value recorded by the fund since its set up on a continuous basis, in addition to the regular monitoring and review of the product which entailed the addition and replacement of some external funds to maintain high quality standards. This protection strategy was strengthened by the involvement of a third party that can be called upon to integrate the necessary difference if the fund's unit value is lower than the protected unit value.

As a result, the various customer groups currently have two "core" products that both respond to the new economic and financial market scenarios. Sales results have proven the product repositioning strategy to be correct in the year.

Two important social projects designed for "weaker" categories are also worthy of note.

During the year, the parent launched the "Base Sicura Tutelati" product, a traditional guaranteed principal product solely for minors under 18 who have principal to invest and whose agreement of an insurance policy has to be authorised by a probate judge.

Together with the ultimate parent, Intesa Sanpaolo, the parent introduced the free activation of a guaranteed principal life insurance policy of up to €300,000 for minors who have lost one or both parents in the earthquakes of central Italy in August 2016.

Specifically, minors who have lost one or both parents can benefit from a policy that is tied-up until they reach 18, which has a guaranteed principal of €100,000 if they lost one parent and €200,000 if they lost both parents. The principal will be increased by 50% if the child graduates from university: €150,000 and €300,000, respectively upon the loss of one or both parents.

In February 2016, the subsidiary Intesa Sanpaolo Life launched the "ExclusiveInsurance" product, a new investment solution providing direct access to a wide selection of financial instruments chosen from a panel of 50 funds pre-selected by the subsidiary that are all best of their class (equity, fixed income, balanced and flexible fund categories). The panel includes funds of Intesa Sanpaolo Group (Eurizon Capital S.A.) and major fund management companies such as BlackRock (Luxembourg) S.A., Fidelity (Fil Investment Management S.A.), Invesco Asset Management S.A., JPMorgan Asset Management (Europe) S.à.r.l., M&G Investment Management Ltd. and Morgan Stanley Investment Managment (ACD) Ltd.

During the year, the subsidiary Intesa Sanpaolo Assicura concentrated on its protection products for Intesa Sanpaolo Group customers.

The subsidiary developed the following features for its "ViaggiaConMe" product at the start of the year:

– a new utilisation formula with a three-month premium settlement mechanism (for both the MTPL and the motor property damage components) based on the actual distance (km) driven;
– redesigned the existing formulae as follows:
  - Formula 5000 km and Formula 8000 km - reduction of the discount percentage upon purchase and elimination of the penalty when the distance limit is exceeded;
  - unlimited kilometre formula - introduction of a cash back option for all contracts that allows the renewed benefit of a discount of up to 25% for the MTPL for owners who do not drive long distances and do not have claims;
– update of the MTPL tariff model to include microzoning and allow better calibration on a geographical basis;
– introduction of a licence plate collection system (through branches, internet banking, online branches and ATMs) with the automated generation of MTPL offers which can be updated and reproposed when insurance policies expire;
– testing for the transition of operations to the insurance platform (ebaas) in December, necessary for the subsequent development of the dematerialisation and distance sale of the product scheduled for the first quarter of 2017.

With respect to the credit protection insurance products and as requested by the supervisory authorities (IVASS, the Italian Insurance Supervisory Authority, and Bank of Italy) with their letter to the market of 25 August 2015 within the requested deadline (22 February 2016), the subsidiary:

– revised the "Proteggi Prestito" product with different offers depending on the customers' employment position when they sign the policy and a review of the healthcare questionnaire;
– decreased the commissions paid to the network for the "Proteggi Prestito", "Business 5" and "Business Sempre" products, eliminating the clause for the exclusion of pre-existing conditions and adopting more extensive settlement policies to reflect the repricing after the sale of the "Personal Finalizzato" product for the Accedo network was interrupted.

The subsidiary launched the following individuals line products for the other non-life lines of business:

– Accident insurance in March, with the option of insuring up to seven people (either as individuals or legal entities) and introduction of the death caused by accident policy as well as the loss of an academic year, aesthetic damage and fractures compensation options
– Family cover in April, with an increase of the third party liability ceilings and introduction of guarantees such as legal protection and theft and robbery; all these guarantees can also be purchased individually
– Health in May, an innovative product for families with insurance cover for diagnostic tests and the risks arising from tests as well as cover for second opinions
– Surgery in May, providing compensation for the family with cover linked to preset ceilings depending on the seriousness of the surgery
– Collective policy, to cover "fire and related events" available at bank branches from May 2016 for life mortgage loans to persons over 60 who own a residential property
– The subsidiary completed its new healthcare products with the launch of "Malattie Gravi" product at the end of September. This insurance policy provides large compensation (from €70 thousand to €300 thousand) in the case of specific pathologies, such as strokes, heart attacks and neoplasms.

In December, the subsidiary started the dematerialisation of the first two products of the Other non-life lines of business excluding aviation, marine, bonds and credit: Healthcare and family protection. In early 2017, dematerialisation and authorisation for distance sales will be extended to the rest of the range.

In addition, after the positive feedback from the pilot stage at the Lombardy regional offices in the period from the end of 2015 to February 2016, the subsidiary launched the first part of its "business protection" range for SMEs that are group customers; the products can be tailored to meet the sectors' specific requirements:

– commercial business cover, introduced at the end of May, for retail and wholesale outlets;
– agricultural business cover, introduced at the end of June, for agricultural businesses and their activities.

During the last quarter of the year, the subsidiary started to develop an insurance product for agricultural risks (available in February 2017) which will cover both the risk of a bad harvest caused by a range of weather conditions as well as the risk of a strong drop in the price of durum wheat, as provided for by a new law which is currently being implemented.

Together with the ultimate parent, Intesa Sanpaolo, and as a response to the earthquakes in central Italy in August 2016, the subsidiary provided the following for all its customers in the areas hit by the earthquakes that have non-life policies:

– free renewal of the policies that expire within the next 12 months;
– the possible adjustment of term of principal protection policies tied to loans and mortgage loans to reflect the more favourable timing of the rescheduled loan repayments.

## Performance

During 2016, the Group reported gross premiums of €19,816.3 million for both the life and the non-life businesses and, in relation to the former, both products classified as insurance products and policies with a more financial content. Premiums decreased by 6.6% on the previous year (€21,210.5 million).

Gross life premiums amounted to €19,422.5 million, down 7.2% on the €20,924.6 million for the previous year.

Gross non-life premiums amounted to €393.8 million, up 38% on the €285.9 million for the previous year.

Income from traditional products decreased (-37%), partly countered by the rise in class III products related to investment products and the upturn in class VI products due to consolidation of the pension plan products (+24%).

(in millions of euro)

| | 31.12.2016 | 31.12.2015 | Change | |
|---|---|---|---|---|
| **Collection of contracts classified as insurance and investment with DPF:** | **7,601.8** | **11,752.6** | **-4,150.8** | **-35.3%** |
| - Traditional (class I) | 7,130.4 | 11,363.9 | -4,233.5 | -37.3% |
| - Capitalisation (class V) | 0.9 | 1.8 | -0.9 | -48.6% |
| - Unit Linked (class III) | 5.3 | 11.1 | -5.8 | -52.1% |
| - Pension funds and Fip (VI) | 465.2 | 375.9 | 89.3 | 23.7% |
| **Collection of contracts classified as investment without DPF:** | **11,820.7** | **9,172.0** | **2,648.7** | **28.9%** |
| - Index Linked (class III) | - | - | - | 0.0% |
| - Unit Linked (class III) | 11,820.7 | 9,172.0 | 2,648.7 | 28.9% |
| **Total Life business** | **19,422.5** | **20,924.6** | **-1,502.1** | **-7.2%** |

New life business, including income from financial products without discretionary participation features (DPF), came to €19,239.4 million (+7.2%) compared to €20,724.8 million for 2015.

## The distribution structure

Intesa Sanpaolo Vita uses the banking network of Intesa Sanpaolo Group to distribute its pension, savings and investment products.

Intesa Sanpaolo Vita uses the bank branches of Intesa Sanpaolo Group and, in the early part of the year, Accedo's (formerly Intesa Sanpaolo Personal Finance) distribution network to distribute its CPI products.

The parent also avails of the financial advisors network of the Private Banking division to distribute pension products of smaller portfolios.

Finally, with respect to the other portfolios, it also has sales agreements with non-group banks, mostly for after-sales services, and to a lesser extent, sales activities for pension products.

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

## Reinsurance policy

During the year and in order to contain exposure on specific portfolios, the Group 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 life insurance policies and certain accident covers of non-life businesses (temporary and permanent disability).

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

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

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

All its treaties are signed with leading operators and comply with ISVAP 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

2016 was a year of big changes for Intesa Sanpaolo Vita, especially in technological terms, as it developed and installed the first stages of its new application architecture and technical infrastructure, as per the parent's strategic plan.

The parent decided to renew the entire IT system in 2015 and prepared a three-year investment plan, given its strategic importance to the Group.

Innovation of an IT system is a complex and costly operation, which has a strong impact on business. Therefore, only companies with a great aptitude for change take this step, which was confirmed to be the right decision for the Group allowing it to improve process efficiency and create new marketing and sales opportunities in 2016.

The technological work took place without slowing down other internal developments and concurrently with other projects to sometimes flank and support them, such as the rationalisation of the system's actuarial classes. The Group achieved this milestone thanks to its careful scheduling of the activities and its employees' awareness of the project's importance and their contribution and commitment.

Alongside this project to renew the IT system, the Group also continued to upgrade other areas: commercial; legislative/regulatory; process efficiency and completion.

The measures taken in all these areas were carried out evenly and attributed a different importance than in the past.

The development objectives were as follows:

- **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** - reduce IT risks and development costs for project management, update the application infrastructure and integrate the business processes.

The main releases for the commercial area related to:

- the "Giusto Mix" and "Synthesis" products, with activities to both manage new investment funds and restyle products depending on the customer category;
- the new versions of the "Il mio domani" and "Il mio futuro" pension products;
- the release of two new portals for the customer product process, to provide greater specialist IT assistance to the managers of the Banca dei Territori and Private Banking networks.

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

- introduction of automated checks (i.e., policy conversions);
- development of IT procedures to process data before the reporting of quantitative data to IVASS as part of the Solvency II requirements;
- completion of the new system to comply with AML legislation;
- better integration between the AML system and the parent's management system through online interviews;
- development of a system to map and check contractual documentation.

As part of the development process for process efficiency and completion, the main activities enabled:

– release of the dematerialisation process for the issue of life policies;
– merger of the telephone platforms used for customer care activities;
– continuation of the roll out of applications to complete the automation of post-sales services;
– creation of a new "factory" to design product rules, with a significant reduction in time to market and development costs;
– issue of a new proxies management system, with detailed tracking of any commercial intervention;
– launch of a new portal to be used by employees for training and communications activities.

With respect to development of the main technological activities:

– the new Windows Server 2012 application infrastructure was launched and all users are now migrating to the new system;
– the internal processes for the software's lifecycle and change management were revised;
– the first upgraded portfolio processes were released that include the new technologies;
– the internal application authentication systems were revised.

## Staff

At 31 December 2016, the parent and its subsidiaries had 562 employees, 24 less than at 31 December 2015. The Group had 71 resources seconded from other companies of Intesa Sanpaolo Group and had seconded 59 employees to other companies of Intesa Sanpaolo Group.

| | Intesa Sanpaolo Vita | Intesa Sanpaolo Life | Intesa Sanpaolo Assicura | Total |
|---|---|---|---|---|
| Employees | 376 | 57 | 117 | 550 |
| - Managers | 10 | 3 | 7 | 20 |
| - Officers | 182 | 11 | 42 | 235 |
| - Other employees | 184 | 43 | 68 | 295 |
| Staff seconded from other companies to the Intesa Sanpaolo Group | 65 | 4 | 2 | 71 |
| Staff seconded to other companies of the Intesa Sanpaolo Group | 25 | - | 34 | 59 |
| **Total** | **416** | **61** | **85** | **562** |
| Other contractual forms | - | - | - | - |
| **General total** | **416** | **61** | **85** | **562** |

Intesa Sanpaolo's insurance division was fully operational during the year to manage and coordinate the Group's entire insurance business. The parent seconded managers and specialist staff thereto (four managers and 15 junior managers and white collars) to the division as needed depending on the project under development.

In 2016, the centralisation of the governance departments at the parent became fully effective. This change was designed to allow the parent to more effectively manage the Group and involved the secondment of 66 employees to the parent (38 at 31 December 2015).

HR activities were intense during the year and covered the entire insurance group, in line with the cross-group approach adopted at Intesa Sanpaolo group level in terms of training, communication, skills sharing and mandatory training.

Thanks to the direct intervention of many colleagues, Insurance Academy was set up in 2016. This training, development and innovation platform has been designed for all the employees active in the insurance business. **Training** hours totalled over 10,000 and courses covered business ethics, technical-professional subjects, management skills, languages as well as the mandatory courses.

The Group completely redesigned the **communication** model, introducing the new Myinsurance portal, which represents a break with the past and offers a more tailored service to meet employees' specific requirements.

The "**Progetto Ascolto**" was continued during the year and entailed activation of an agreement among employees, senior management and management in 2015. During the year, the department head met the ISV units and initiated a dialogue with people which, starting from their response to commitments already taken on, allowed the department to take on other commitments, thus continuing to develop actions and projects over time.

The Group took part in **four career days** at some of the major Italian universities as part of its employer branding policy. The very positive feedback led to internships at the parent and with the group companies.

The Group designed a new weekly Weinsurance programme visible on the parent's webTV for all the group employees providing updates about the performance of the life products.

Information about the parent's performance, provided in real time on the monitors placed in common areas in the Milan office, was enriched with details of products offered by other group companies. A programme was also introduced providing information of particular interest to staff and connected to the Myinsurance portal.

Once again in 2016, Intesa Sanpaolo Vita took part in the **children in the office project**, promoted by the newspaper Corriere della Sera and sponsored by the Office of the Prime Minister. Many employees brought their children to the office on 27 May.

The **Allinsurance** 2016 event held on 13 December involved the entire insurance division with updates on the objectives met and future goals. The theme of the day was the "Passion" that pushes people to do their best every day and involved the direct contribution of employees during the event.

## Principal regulatory developments in the year

### Sector regulations

The new prudential supervisory regulatory framework, Solvency II, affecting the entire insurance sector, became applicable on 1 January 2016.

This framework has completely revised the method used to calculate the synthetic indicators which measure insurance companies' solvency.

Accordingly, the group companies have complied with all the new requirements imposed by the new timeframe for reporting to IVASS, including reporting the solvency capital requirement (SCR) and solvency ratio (SR) data along with all the other mandatory qualitative and quantitative information. This information refers both to the date on which the new legislative framework became applicable (1 January 2016) and the subsequent quarters of 2016.
The main additional regulations published by the supervisory authority in the year and that affect the parent are as follows:

- On 15 March 2016, **Regulation no. 18** was introduced, setting out the rules to calculate the technical provisions. The authority specifies the general principles, application rules and methods to be adopted to calculate the technical provisions and to check such calculations. It also clarifies the actuarial function's role in calculating and checking the data to be used to calculate the technical provisions and the activities to be performed if the data is significantly incomplete or incorrect.
- On 10 May 2016, **Regulation no. 21** was issued on the periodic quantitative information to be sent to IVASS for financial stability and macro-prudential supervisory purposes (financial stability reporting). It also clarified the terms and conditions for the transmission of such data. The Regulation sets out the identification criteria for the reporting entities, the general principles for the periodic quantitative information (annual, quarterly) and the content of the reports as well as the timing and formats to be used.
- On 1 June 2016, **Regulation no. 22** was issued on group supervision. Specifically, the Regulation sets out the legal framework for the application of group supervisory tools (including group solvency, monitoring of intragroup transactions, risk concentration and governance), also covered by other regulations.
- On the same date, IVASS issued **Regulation no. 23** covering the claims database, the witness database and the damaged persons database. These databases collect data about claims made for motor vehicles registered

in Italy as well as the data of the witnesses and the damaged persons for the same claims in order to prevent and combat fraud in the mandatory motor vehicle insurance sector. IVASS has structured the databases to allow their processing to obtain statistics, perform surveys, studies and data analyses.

- On 6 June 2016, **Regulation no. 24** was issued, which sets out instructions about investments and assets hedging technical provisions. It provides that insurance and reinsurance companies are required to properly identify, measure, monitor, manage, check and report risks, ensuring the security, quality, liquidity and profitability of their portfolios and identifying assets using criteria that ensure their availability. In order to ensure compliance with the principle of prudent investments, the companies define their investment policies, management of assets and liabilities and liquidity risk in line with the nature, scope and complexity of their business. The board of directors approves these policies with a specific master resolution to be revised at least once a year, and before 30 September 2016, based on the new Regulation. In line with the prudence principle and the current regulations, specific requirements for derivatives were maintained:
    - hedging: companies shall have assets that are suitable and sufficient to cover obligations arising from derivatives;
    - ban: on using assets hedging technical provisions as guarantees;
    - ban: on using assets hedging derivatives in the calculation of the capital adequacy requirement, for the part of the assets exceeding that required to enforce the guarantee.
- On 25 July 2016, **Regulation no. 25** was issued about basic own funds after Italy's implementation of the EIOPA guidelines on financial stability reporting under Solvency II.
- On 26 July 2016, **Regulation no. 26** (on the application of measures for long-term cover and transitory measures for risk-free interest rates and technical provisions following EIOPA implementation), Regulation no. 27 (on the application of the sub-module for catastrophe risk for health insurance to determine the solvency requirement calculated using standard formula following EIOPA implementation) and Regulation no. 28 (on the application of the look-through method to determine the solvency requirement calculated using the standard formula following EIOPA implementation) were issued.
- On 26 October 2016, **Regulation no. 30** on supervisory instructions for intragroup transactions and concentrations was issued.
- On 9 November 2016, **Regulation no. 31** (on the application of outwards reinsurance treaties to the submodule of non-life insurance subscription risk) and Regulation no. 32 (on the own risk and solvency assessment - ORSA) were issued.
- On 6 December 2016, **Regulation no. 33** was issued on the disclosure of information to the market and IVASS.

Of all the measures issued by IVASS, **Measure no. 53** of 6 December 2016 is worthy of notice as it contains amendments and supplements to ISVAP Regulation no. 22/2008, ISVAP Regulation no. 7/2007 and IVASS Measure no. 3/2013 on local GAAP and IFRS-compliance financial statements.

In addition, the **letter to the market** on "Solvency II - audit pursuant to article 47-septies.7 of the Italian Code for Private Insurance Companies requests for disclosures - Solvency and Financial Condition Report (SFCR) for 2016" was published on 7 December 2016.

The group companies provided IVASS with the necessary information in due time and revised their internal regulations to comply with the new implemented requirements. They also commenced the actions necessary to introduce the additional obligations to send data/make changes to internal processes that will become effective in 2017.

### Tax regulations

Law no. 208/2015 (the 2016 Stability Law) introduced a decrease in the IRES rate from 27.5% to 24% starting from 2017. The 2017 Stability Law, published in the Italian Official Journal on 21 December 2016 as Law no. 232/2016, did not change this measure and therefore, the IRES tax rate is 24% for 2017. It did provide for a reduction in the ACE relief from the current 4.75% to 2.3% starting from 2017 while it will increase to 2.7% in 2018.

The 2017 Stability Law also provided for the continuation of the super-depreciation rate of 140% in 2017 making it possible to increase the depreciation rate of new operating assets by 40%.

It also introduced favourable tax measures to encourage certain types of investment starting from 2017.

The first measure directly affects social security agencies, including pension funds, which can exclude returns from the calculation of income taxes and the 20% substitute tax applicable to investments in shares or quotas of companies resident in Italy or EU member states or in states that have signed the Agreement on the European Economic Area (EEA), as long as the amount of the returns does not exceed 5% of the fund's assets. Another condition is that these investments are to be held for at least five years. If these conditions are met, the returns are not taxable, not even for the unit holders/members of the pension funds, thus extending the tax benefit.

The second measure provides for the tax exemption of financial returns on investments made by individuals in long-term savings plans, which may be set up by companies that offer savings products, such as banks, stock brokers, insurance companies (through life and capitalisation policies), etc.. The funds are set up with subscriptions of not more than €30,000 per calendar year and the maximum limit of €150,000.

The following constraints exist in order to apply the above tax exemption: at least 70% of the total subscriptions shall be invested in financial instruments issued by listed and unlisted companies, resident in Italy, EU member states or states that have signed the Agreement on the European Economic Area (EEA) and at least 30% of this 70% shall be invested in financial instruments issued by unlisted companies (SMEs). This measure was designed to encourage investments in production by SMEs given that at least 21% of the amounts for investment shall be made in these companies. The investments must be held for at least five years in order to continue to apply the tax exemption.

Another measure introduced by the 2017 Stability Law was the tax relief of the productivity bonuses whereby the tax-exempt bonus will double in 2017 from €2,000 to €4,000, applying a substitute tax of 10% but with total tax exemption if the amounts are used for company welfare plans, including supplementary pension and healthcare plans, such as dread disease policies and disability (LTC) policies.

## Premiums and net payments relating to insurance contracts

Premiums recognised in the year for the life and non-life business, including reinsurance, amounted to €7,912 million, down 34% on the previous year. This decrease mainly referred to the life business and principally to premiums for financial products with DPF.

(in millions of euro)

| | 31.12.2016 | | | | 31.12.2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **First year** | **Subsequent years** | **Single premiums** | **Total** | **First year** | **Subsequent years** | **Single premiums** | **Total** |
| Life insurance products without DPF | 2.5 | 22.5 | 776.2 | **801.2** | 1.3 | 25.5 | 564.6 | **591.4** |
| Life insurance products with DPF | - | 39.2 | 16.4 | **55.6** | - | 46.0 | 15.2 | **61.2** |
| Life financial products with DPF | 16.4 | 107.0 | 6,621.7 | **6,745.1** | 9.8 | 110.6 | 10,979.6 | **11,100.0** |
| Non-life insurance products (*) | - | - | - | **310.1** | | | | **258.4** |
| **Total** | **18.9** | **168.7** | **7,414.3** | **7,912.0** | **11.1** | **182.1** | **11,559.4** | **12,011.0** |

(*) premiums for period

The amounts paid in the life business decreased from €8,778.6 million in 2015 to €7,620.9 million in 2016. The amounts paid in the non-life business increases by 10% from €105.9 million in 2015 to €94.8 million in 2016. The increase in the non-life business is due to the growth in the size of the policy portfolio which reported an improved loss ratio in relative terms (from 38% in 2015 to 32% in 2016). The reinsurers' share (of amounts paid) amount to €0.1 million for the life business and €3.9 million for the non-life business.

(in millions of euro)

| | Claims | Annuities | Surrenders | Maturities | Liquidation costs | Total |
|---|---|---|---|---|---|---|
| Insurance products without DPF | -85.1 | -0.0 | -363.8 | -73.8 | -8.8 | **-531.5** |
| Insurance products with DPF | -17.2 | -7.1 | -45.7 | -58.8 | - | **-128.8** |
| Financial products with DPF | -1,539.5 | -0.1 | -4,934.0 | -392.2 | - | **-6,865.8** |
| Non-life business insurance products | - | - | - | - | - | **-94.8** |
| **Total 31.12.2016** | **-1,641.8** | **-7.2** | **-5,343.5** | **-524.8** | **-8.8** | **-7,620.9** |
| Insurance products without DPF | -98.5 | -0.1 | -543.0 | -564.9 | -17.2 | **-1,223.7** |
| Insurance products with DPF | -12.7 | -6.4 | -60.0 | -81.1 | - | **-160.2** |
| Financial products with DPF | -1,505.6 | -0.1 | -5,470.6 | -312.6 | - | **-7,288.9** |
| Non-life business insurance products | - | - | - | - | - | **-105.9** |
| **Total 31.12.2015** | **-1,616.8** | **-6.6** | **-6,073.6** | **-958.6** | **-17.2** | **-8,778.6** |

## Commissions

Net commissions on financial products without DPF, comprised of index-linked and financial unit-linked policies, amounted to €167.1 million, up 9.1% on 2015 (€153.1 million). This net increase is due to the unit-linked products as the index-linked product portfolio is gradually maturing.

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

## Financial income and expense

Net gains on financial instruments decreased to €2,404.5 million compared to €2,534.9 million for 2015. The €130.4 million decrease is mainly due to the smaller net gains on the sale of available-for-sale securities (€206.8 million) and smaller fair value losses of €37.5 million. Net gains on financial instruments at fair value through profit or loss decreased for the main part related to assets hedging the index-linked and unit-linked product provisions from €86.9 million in 2015 to €65.5 million in 2016.

## Commissions and operating costs

Commissions and operating costs amount to €319.0 million for the year, down 3.9% compared to €331.9 million for 2015.

Investment management costs of €51.01 million decreased by €6.7 million or 12% on the previous year. Other administrative costs increased from €55.5 million to €84.2 million, due to the changed method of allocating acquisition, administration, payment and investment costs during the year to better comply with the new Solvency II regulations.

Other administrative costs as a percentage of total net premiums were roughly 1.1% compared to 0.5% for the previous year.

Commissions and other acquisition costs as a percentage of net premiums came to 4.0% compared to 2.8% for 2015, following the change in the production mix.

## Other revenue and costs

Other net costs went from €238.4 million for 2015 to €133.2 million for the year, mainly due to exchange rate trends.

## Statement of financial position

### Investments

The financial investments portfolio amounts to €117,892.2 million (up 10.1% compared to 31 December 2015) and comprises available-for-sale securities (66.2%), securities at fair value through profit or loss (33.3%) with the remainder mostly consisting of financial assets held for trading and loans and receivables.

(in millions of euro)

| | 31.12.2016 | | 31.12.2015 | | Change | |
|---|---|---|---|---|---|---|
| Financial assets available for sale | 78,056.9 | 66.2% | 75,268.1 | 70.3% | 2,788.8 | 3.7% |
| Financial assets measured at fair value | 39,231.5 | 33.3% | 30,369.8 | 28.4% | 8,861.7 | 29.2% |
| Financial assets held for trading | 587.5 | 0.5% | 846.4 | 0.8% | - 258.9 | -30.6% |
| Land and buildings | - | 0.0% | 19.2 | 0.0% | - 19.2 | -100.0% |
| Investments in subsidiaries, associates and joint ventures | - | 0.0% | - | 0.0% | - | n.a. |
| Loans and receivables | 16.3 | 0.0% | 572.9 | 0.5% | - 556.6 | -97.2% |
| **Total** | **117,892.2** | **100%** | **107,076.4** | **100%** | **10,815.8** | **10.1%** |

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

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

The component comprised of bonds and fixed income securities continues to be significant, accounting for 66% of the total. The bond portfolio includes bonds issued by the Italian government, foreign governments, international bodies and national banks and corporate bonds distributed over a broad range of issuers, including, in particular, companies from the Eurozone.

## Equity

(in millions of euro)

| | 31.12.2016 | 31.12.2015 | Change |
|---|---|---|---|
| **Capital and reserves attributable to the Group** | **4,565.4** | **4,599.5** | **-0.7%** |
| Group capital and reserves | 3,446.7 | 3,338.1 | 3.3% |
| Gains (losses) on financial assets available for sale | 480.0 | 648.9 | -26.0% |
| Profit (loss) | 638.7 | 612.5 | 4.3% |

At 31 December 2016, the Group reported equity of €4,565.4 million, including the profit for the year of €638.7 million, compared to equity at the start of the year of €4,599.5 million.

It recognised a €480.0 million fair value gain in the fair value reserve under equity compared to €648.9 million recognised at 31 December 2015 as a result of the different market values compared to the carrying amounts.

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 ISVAP Regulation no. 7/2007, amended by IVASS Measure no. 52/2016, 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 | 3,355,380 | - |
| Minimum Capital Requirement | - | 1,643,639 |
| Eligible Own Funds | 6,049,775 | 5,829,471 |
| **Eligibility level of own funds** | | |
| Tier 1 - unrestricted | 4,706,956 | 4,706,956 |
| Tier 1 - restricted | 793,787 | 793,787 |
| Tier 2 | 549,032 | 328,728 |
| Tier 3 | - | - |

In accordance with article 62 - Transition measures of IVASS Measure no. 53/2016, the above figures for the solvency capital requirement and the minimum capital requirement are estimates. The definitive figures will be communicated to the supervisory authority and included in the SFCR in line with the timeframe provided for by IVASS regulations about Solvency II.

## Liabilities with policyholders

Liabilities with policyholders, which include technical provisions of the life and non-life businesses as well as financial liabilities of the life business, increased by 9% from €105,005.4 million at 31 December 2015 to €114,668.8 million at the reporting date.

Technical provisions and financial liabilities, considering deferred liabilities with policyholders as well, of the life business went from €104,501.0 million at 31 December 2015 to €114,076.0 million at 31 December 2016 (+11%).

### Technical provisions

The life business' technical provisions increased by 1.6%. The increase is attributable to the revaluation of benefits to policyholders and the performance of production aggregates.

The increase in the non-life business technical provisions was 17.5% from €504.4 million to €592.7 million.

Deferred liabilities with policyholders incorporating the policyholders' share of fair value gains and losses of investments and the accrual made after the liabilities' adequacy test decreased from €5,665.9 million to €5.334.6 million at 31 December 2016.

### Financial liabilities

Financial liabilities rose by 34.0% from €25,770.5 million at 31 December 2015 to €34,532.6 million at the reporting date. This increase is principally attributable to business trends and portfolio movements. It also incorporates fair value gains and losses on investments to which those liabilities are related.

(in millions of euro)

| | 31.12.2016 | 31.12.2015 | C hange |
|---|---|---|---|
| **Liabilities due to policyholders for Life segment** | **114,076.0** | **104,501.0** | **9.2%** |
| Insurance provisions and financial liabilities: | 108,741.5 | 98,845.1 | 10.0% |
| traditional | 70,405.1 | 69,422.1 | 1.4% |
| *- of which financial liabilities* | - | - | *n.a.* |
| *- of which insurance provisions* | *70,405.1* | *69,422.1* | *1.4%* |
| linked | 38,336.4 | 29,423.0 | 30.3% |
| *- of which financial liabilities* | *34,532.6* | *25,770.5* | *34.0%* |
| *- of which insurance provisions* | *3,803.8* | *3,652.5* | *4.1%* |
| Deferred liabilities due to policyholders | 5,334.6 | 5,655.9 | -5.7% |
| **Insurance provisions for non-life segment** | **592.7** | **504.4** | **17.5%** |
| Provision for unearned premiums | 419.3 | 335.6 | 24.9% |
| Provision for outstanding claims | 172.0 | 167.9 | 2.5% |
| Other insurance provisions | 1.4 | 0.9 | 58.6% |
| **Liabilities due to policyholders** | **114,668.8** | **105,005.4** | **9.2%** |

## 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 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 into 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**: unobservable 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 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: periodical monitoring of the adherence to the market of the pricing model 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 considering, in addition to model risk described above, also other factors eligible to 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 searches 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 of variation range | Maximum of variation range | Unit | Fair value gain | Fair value loss |
|---|---|---|---|---|---|---|---|
| Securities | Discounting Cash Flows | Credit Spread | -57 | 79 | % | 40,522 | -56,041 |
| Structured securities | Two-rate model | Two-rate model | | | % | | |

(in thousands of euro)

| Financial assets/liabilities | Non-observable parameters | Sensitivity | Change in non-observable parameter |
|---|---|---|---|
| Securities held for trading and available-for-sale | Credit Spread | -71 | 1bps |
| Securities held for trading and available-for-sale | Correlation | | |

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

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

(in thousands of euro)

| | Transfers among levels as at 31.12.2016 | | | | | |
|---|---|---|---|---|---|---|
| | 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 3 |
| Financial assets held for trading | 3,883 | - | 1,382 | - | - | - |
| Financial assets designated at fair value through profit and loss | 109,917 | - | 130,875 | 9,768 | - | 36,069 |
| Financial assets available for sale | 569,989 | - | 377,646 | 3,853 | - | 118,322 |
| **Financial assets measured at fair value through profit and loss** | **683,789** | **-** | **509,903** | **13,621** | **-** | **154,391** |
| Financial liabilities held for trading | - | - | - | - | - | - |
| Financial liabilities designated at fair value through profit and loss | - | - | - | - | - | - |
| **Financial assets / liabilities 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 1 are reclassified into Level 1 when an active market is identified.

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

(in thousands of euro)

| | Profit or loss | Equity | Total |
|---|---|---|---|
| Financial assets available for sale | -319 | -51.604 | -51.923 |
| Financial assets held for trading | -1.856 | - | -1.856 |
| Financial assets designated at fair value throught profit and loss | -951 | - | -951 |
| Loans and receivables | - | - | - |
| **Total** | **-3.126** | **-51.604** | **-54.730** |

(in thousands of euro)

| | Available-for-sale financial assets | Financial assets held for trading | Financial assets designate at fair value throght profit or loss |
|---|---|---|---|
| **Opening balance** | **476,576** | **56,398** | **731,182** |
| **Additions** | **325,742** | **38,161** | **29,953** |
| Acquisitions | 183,165 | 0 | 0 |
| Fairl value gains recognised in equity | 9,448 | 0 | 0 |
| Fairl value gains recognised in profit or loss | 0 | 1,925 | 349 |
| Realised gains | 140 | 69 | 667 |
| Other increases | 129,136 | 98 | 28,937 |
| **Decreases** | **-151,314** | **-49,172** | **-162,159** |
| Sales and repayments | -61,987 | -9,250 | -66,361 |
| Fairl value losses recognised in equity | -63,527 | 0 | 0 |
| Fairl value losses recognised in profit or loss | 0 | 0 | 0 |
| Realised losses | -104 | 0 | -1,929 |
| Other decreases | -15,543 | -30,154 | -93,832 |
| **Closing balance** | **651,004** | **45,387** | **598,976** |

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

## Business segments

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

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

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

# Life business

## Insurance operations

The Group recorded gross premiums of €19,422.5 million for the year, relating to both premiums on insurance products and financial products with DPF, as well as gross inflows from financial products without DPF.

Gross premiums decreased by 7.2% compared to the previous year.

(in millions of euro)

| | 31.12.2016 | 31.12.2015 | Change | |
|---|---|---|---|---|
| **Collection of contracts classified as insurance and investment with DPF:** | **7,601.8** | **11,752.6** | **-4,150.8** | **-35.3%** |
| - Traditional (class I) | 7,130.4 | 11,363.9 | -4,233.5 | -35.3% |
| - Capitalisation (class V) | 0.9 | 1.8 | -0.9 | -48.6% |
| - Unit Linked (class III) | 5.3 | 11.1 | -5.8 | -52.1% |
| - Pension funds and Fip (VI) | 465.2 | 375.9 | 89.3 | 23.7% |
| **Collection of contracts classified as investment without DPF:** | **11,820.7** | **9,172.0** | **2,648.7** | **28.9%** |
| - Index Linked (class III) | - | - | - | 0.0% |
| - Unit Linked (class III) | 11,820.7 | 9,172.0 | 2,648.7 | 28.9% |
| **Total Life business** | **19,422.5** | **20,924.6** | **-1,502.1** | **-7.2** |

At 31 December 2016, more than 3 million policies had been signed by group policyholders, up 6.4% on the previous year end.

Changes in the life insurance contracts are set out below:

| | Contracts on 31.12.2015 | New contracts | Other inflows | Payments and maturities | Other outflows | Contracts on 31.12.2016 |
|---|---|---|---|---|---|---|
| **Contracts under the scope of IFRS 4** | **3,220,972** | **630,335** | **4** | **-356,888** | **-300,054** | **3,194,369** |
| Traditional | 1,447,952 | 34,241 | - | -118,273 | -168,761 | 1,195,159 |
| Capitalisation | 2,417 | 2 | - | -189 | - | 2,230 |
| Unit Linked | 306,414 | 160,829 | 4 | -44,103 | - | 423,144 |
| Pension | 75,614 | 29,893 | - | -604 | -751 | 104,152 |
| Individual pension funds | 32,123 | - | - | -724 | -2,467 | 28,932 |
| Term life | 1,084,773 | 348,053 | - | -177,022 | -125,326 | 1,130,478 |
| Index Linked | 12,055 | - | - | -12,029 | - | 26 |
| Open Pension Funds | 259,624 | 57,317 | - | -3,944 | -2,749 | 310,248 |
| **Contracts under the scope of IAS 39** | **59,128** | **96,620** | **166,299** | **-18,595** | **-7,688** | **295,764** |
| Unit Linked | 56,734 | - | - | -10,901 | - | 45,833 |
| Index Linked | 2,394 | - | - | -2,394 | - | - |
| Multi-class | - | 96,620 | 166,299 | -5,300 | -7,688 | 249,931 |
| **Total** | **3,280,100** | **726,955** | **166,303** | **-375,483** | **-307,742** | **3,490,133** |

The net charges relating to claims, including the adjustment to the technical provisions, amount to €8,755.7 million, showing a decrease of 33% on the €13,161 million recognised for 2015. This performance is the result of the combined effect of the containment of benefits paid and the increase in technical provisions, due principally to the favourable commercial performance.

With regard to amounts paid, charges due to claims decreased by 13%.

The provision for payable amounts, net of reinsurance, decreased by €76.7 million. The reduction in mathematical provisions, after accounting for the reinsurers' share, amounts to €1,048 million, whilst provisions resulting from pension fund management where the investment risk is borne by the policyholders decreased by €151 million. The other technical provisions at 31 December 2015, net of the reinsurers' share, decreased by a net €107 million.

Commissions and other acquisition costs, net of profit participation and other commissions received from reinsurers, amount to €209 million. They include acquisition costs relating to insurance contracts and investment contracts with DPF. In particular, the caption includes acquisition commissions of €152 million (-2%), other acquisition costs of €20 million (-23%) and collection commissions of €38 million (-49%).

Investment management costs amount to €51 million for 2016 (€57 million for 2015) and include general costs and personnel expenses related to the management of investment property and equity investments.

Administrative costs amount to €72 million, up from €36 million for 2015. This increase is mainly due to personnel expense, following the centralisation of the subsidiaries' governance activities at the parent, design and IT costs as well as costs incurred for the "Vicino a Te" project performed with the ultimate parent Intesa Sanpaolo. The allocation of these costs among acquisitions, administration, payments and investments by the parent is based on a method which was revised during the year to better comply with Solvency II.

## Non-life business

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

Gross premiums for the year amount to €393.8 million, up on 2015 (€285.9 million). The banking channel contributed €272.4 million, the financial advisors channel contributed €4.2 million whilst the other channels contributed €9.2 million.

A breakdown by distribution channel is as follows:

(in millions of euro)

| | 31.12.2016 | | | | | 31.12.2015 | | | | | Change | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Promoters | Bancassurance | Post office counters | Other channels | Total | Promoters | Bancassurance | Post office counters | Other channels | Total | | |
| Health | 4.4 | 8.7 | - | - | 13.1 | 3.9 | 6.1 | - | 2.5 | 12.5 | 0.6 | 4.8% |
| CPI | - | 183.9 | - | - | 183.9 | - | 102.6 | - | - | 102.6 | 81.3 | 79.2% |
| Multi-guarantee on loans | - | 55.5 | - | - | 55.5 | - | 41.9 | - | - | 41.9 | 13.6 | 32.5% |
| Property | 0.2 | 40.6 | - | - | 40.8 | 0.3 | 32.7 | 3.7 | - | 36.7 | 4.1 | n.a. |
| CPI on Neos leasing | - | 0.2 | - | - | 0.2 | - | - | - | - | - | 0.2 | n.a. |
| Motor | - | 86.5 | - | 4.0 | 90.5 | - | 85.2 | - | 2.7 | 88.0 | 2.6 | 3.0% |
| Other banking-insurance products | - | 8.0 | - | 1.7 | 9.7 | - | 3.9 | - | 0.3 | 4.2 | 5.5 | 131.0% |
| **Total** | **4.5** | **383.5** | **-** | **5.7** | **393.8** | **4.2** | **272.4** | **3.7** | **5.5** | **285.9** | **107.9** | **37.7%** |

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

(in millions of euro)

| | 31.12.2016 | 31.12.2015 | Change | |
|---|---|---|---|---|
| Accident | 2.4 | 2.7 | -0.3 | -12.4% |
| Health | 13.5 | 15.3 | -1.8 | -12.0% |
| Land vehicles | 6.1 | 5.3 | 0.8 | 14.6% |
| Railway rolling stock | - | - | - | n.d. |
| Aircraft | - | - | - | n.d. |
| Ships | - | - | - | n.d. |
| Goods in transit | - | - | - | n.d. |
| Fire and natural events | 2.8 | 2.6 | 0.2 | 7.0% |
| Other damage to property | 2.4 | 2.0 | 0.4 | 20.1% |
| Credit | 1.6 | 2.4 | -0.8 | < 100% |
| Surety | 0.1 | 2.5 | -2.4 | -95.3% |
| Motor third party liability | 49.0 | 50.7 | -1.7 | -3.3% |
| Aircraft liability | - | - | - | n.d. |
| Liability for ships | 0.0 | - | 0.0 | 100.0% |
| Legal protection | 0.2 | 1.8 | -1.6 | -87.4% |
| General third party liability | 2.4 | 2.0 | 0.4 | 19.7% |
| Miscellaneous financial loss | 11.0 | 16.5 | -5.5 | -33.2% |
| Assistance | 1.6 | 0.2 | 1.4 | 712.7% |
| **Total** | **93.1** | **104.0** | **-10.9** | **-10.4%** |

At 31 December 2016, non-life policies numbered 2,068,211.

Commissions and other acquisition costs, net of profit participation and other commissions received from reinsurers, amount to €110.6 million (€78.5 million for 2015).

Investment management costs amount to €0.5 million for the year (€0.4 million for 2015) and include general costs and personnel expenses related to the management of investment property and equity investments.

Administrative costs amount to €20.0 million, down from €21.8 million for 2015.

# Other information

## Principal risks and uncertainties for companies included in the consolidation scope

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

Within this context, in accordance with the process defined by the ultimate parent for operational risks, the Intesa Sanpaolo Vita Group has set up a monitoring system for financial, insurance and operational risks through an integrated reporting system, which provides management with the information necessary to manage and/or reduce the risks taken on.
Section G "Information on risks" provides qualitative and quantitative disclosures on the principal risks and uncertainties to which the consolidated companies are exposed.

## 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 2016.

### ALM and Capital Management

During the year, the Group continued to upgrade its assessment and analysis of insurance risks and financial mismatching as part of the parent's special project to design a new ALM model, i.e., a management framework with an integrated view of assets and liabilities and the proactive management of capital. The aim is to direct the activities of the other internal bodies involved in generating and managing the parent's risk positions. The parent also commenced the launch of a new dedicated application.

Through the ongoing analysis of commercial, actuarial and financial aspects, the parent intends to assemble a portfolio of assets to cover its reserves and adapt accordingly over time and in different economic scenarios, while concurrently maintaining a stable capitalisation level and consistency with the risk/return profile expected by the shareholders.

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

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

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

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

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

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

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

Suitable LME (Liability Management Exercise) assumptions about debt instruments issued or to be issued in different forms and in different economic scenarios are an integral part of these analyses.

### Capital Management

The 2016 performance on the Luxembourg stock exchange of the two series of subordinated bonds issued in 2013 and 2014 is set out below:

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

  The bond price was €110.163 and €107.864 at the beginning and end of 2016, respectively. The lowest price was €107.400 on 12 February while the highest price quoted was €110.574 on 25 April. The 5.35% coupon was paid on 19 September 2016 (€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 €99.787 and €98.30 at the beginning and end of 2016, respectively. The lowest price was €87.990 on 12 February while the highest price quoted was €103.774 on 22 April. The 4.75% coupon was paid on 19 December 2016 (€35,625 thousand).

## Related party transactions

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 should be completed during the first quarter of 2017 and the board of directors will be informed of the supervisory authority’s findings during the second quarter of this year.

## Ownership structure

Intesa Sanpaolo Vita belongs to 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 registered shares with no nominal amount.

At 31 December 2016, Intesa Sanpaolo Vita Group held 631,715 shares of the ultimate parent, Intesa Sanpaolo. These shares were acquired in order to service the share incentive plan for senior management in relation to 2012, authorised by the shareholders of Intesa Sanpaolo in their meeting of 22 April 2013 and resolved upon by the boards of directors of Intesa Sanpaolo Vita and Intesa Sanpaolo Life. They were also acquired for the investment plan benefiting all employees (LECOIP) and investments included in pension products which are part of the parent’s assets after contribution of the business unit by Intesa Sanpaolo Previdenza Sim. The carrying amount and fair value of the shares is €1.5 million.

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

(in thousands of euro)

| | Number of shares | Value at 31.12.2016 |
|---|---|---|
| Intesa Sanpaolo Vita SpA | 460,132 | 1,044 |
| Intesa Sanpaolo Assicura SpA | 61,100 | 148 |
| Intesa Sanpaolo Life Ltd | 71,511 | 173 |
| **Total** | **592,743** | **1,366** |

## Main offices

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

## Audit

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

# Events after the reporting date and outlook

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

The modest economic expansion is set to continue into 2017 and should lead to an additional rise in inflation rates. Italian GDP will grow slightly by less than 1% compared to the average projections published. The Federal Reserve is expected to increase the official rates at least twice by the end of the year. The ECB has already announced that it will extend the purchase programme until the end of December and that it intends to leave the official rates in line with or below the current rates until well after conclusion of the programme. The financial markets will be affected by political events, such as the new Trump administration and the busy European electoral calendar.

The IMF expects a slight improvement in the emerging countries' economies in 2017, with growth of 4.5%, compared to the 4.1% estimated for 2016. This improvement is mainly based on expectations of recovery in the CIS countries and Latin America (with Brazil again performing well) and the more robust growth of the Sub-Saharan African countries thanks to the recovery of the raw material prices. GDP growth will be substantially unchanged in Asia as India's improvement will be offset by China's continued economic slowdown.

With respect to the countries with ISP subsidiaries, GDP is forecast to grow in the CEE area compared to the estimated 2.5% for 2016, driven by better prospects for Slovakia, Slovenia and Hungary and a (small) deceleration of the SEE countries (compared to the estimated 3.7% for 2016). The slowdown is mainly due to the lower growth rate for Romania (compared to the estimated 4.6% for 2016) while the area's other countries should see an improvement. In the CIS area, Russia should see positive growth after two negative years, thanks to an improved economic climate triggered by the rise in oil prices and drop in inflation. The jump in inflation rates in Egypt and the steadily rising interest rates will hold its GDP growth back in the short term, forecast to be in the region of 4% in 2017 and then to grow in subsequent years.

The gradual recovery of the lending activities of the Italian banks should be assisted by the government's more expansionary monetary policy, the selective availability of funds and the rise in demand from some production sectors as well as the modest economic growth. The lending situation is positive for households, which confirm their financial solidity. Lending will continue to grow in 2017 at a modest pace, assisted by traditionally low interest rates, the upturn in the real estate market and better labour market conditions. However, lending to businesses will again be staggered and slower, with growth expected during 2017.

On the funding side, deposits continue to grow while the overall situation will continue to be affected by the banks' limited need for funding from customers, given the lending trend and ample liquidity available. The banks will continue to redeem retail bonds and the unattractive market yields and ample liquidity mean that investors will continue to hold their cash in current accounts. This situation favours low cost of funding. Interest rates on loans are expected to continue to be very favourable given the very low market rates, which are even negative on occasion, and the very favourable lending access conditions.

Turin, 16 February 2017

The Chairman of the Board of Directors
Luigi Maranzana

(signed on the original)

# Consolidated financial statements

# Statement of financial position

(in thousands of euro)

| ASSETS | | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|
| **1** | **INTANGIBLE ASSETS** | **635,544** | **635,546** |
| 1.1 | Goodwill | 634,580 | 634,580 |
| 1.2 | Other intangible assets | 964 | 966 |
| **2** | **TANGIBLE ASSETS** | **4,915** | **1,526** |
| 2.1 | Lands and buildings (self used) | - | - |
| 2.2 | Other tangible assets | 4,915 | 1,526 |
| **3** | **AMOUNT CEDED TO REINSURERS FROM INSURANCE PROVISIONS** | **17,311** | **22,383** |
| **4** | **INVESTMENTS** | **117,892,199** | **107,076,440** |
| 4.1 | Lands and buildings (investment properties) | - | 19,249 |
| 4.2 | Investments in subsidiaries, associates and joint ventures | - | - |
| 4.3 | Investments held to maturity | - | - |
| 4.4 | Loans and receivables | 16,315 | 572,878 |
| 4.5 | Financial assets available for sale | 78,056,921 | 75,268,127 |
| 4.6 | Financial assets at fair value through profit and loss | 39,818,963 | 31,216,186 |
| **5** | **RECEIVABLES** | **403,616** | **320,162** |
| 5.1 | Receivables arising from direct insurance operations | 15,623 | 13,816 |
| 5.2 | Receivables arising from reinsurance operations | 649 | 3,957 |
| 5.3 | Other receivables | 387,344 | 302,389 |
| **6** | **OTHER ASSETS** | **2,299,860** | **1,923,696** |
| 6.1 | Non-current assets held for sale and discontinued operations | - | - |
| 6.2 | Deferred acquisition costs | - | - |
| 6.3 | Deferred tax assets | 195,287 | 193,520 |
| 6.4 | Current tax assets | 1,697,988 | 1,453,609 |
| 6.5 | Other assets | 406,585 | 276,567 |
| **7** | **CASH AND CASH EQUIVALENTS** | **1,495,047** | **3,003,162** |
| **TOTAL ASSETS** | | **122,748,492** | **112,982,915** |

(in thousands of euro)

| LIABILITIES | | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|
| **1** | **SHAREHOLDERS' EQUITY** | **4,565,412** | **4,599,469** |
| **1.1** | **attributable to the Group** | **4,565,412** | **4,599,469** |
| 1.1.1 | Share capital | 320,423 | 320,423 |
| 1.1.2 | Other equity instruments | - | - |
| 1.1.3 | Capital reserves | 1,328,097 | 1,328,097 |
| 1.1.4 | Revenue reserves and other reserves | 1,798,568 | 1,689,868 |
| 1.1.5 | (Own shares) | - | - |
| 1.1.6 | Reserve for currency translation differences | - | - |
| 1.1.7 | Reserve for unrealized gains (losses) on available for sale financial assets | 480,023 | 648,895 |
| 1.1.8 | Reserve for other unrealized gains (losses) through equity | -409 | -306 |
| 1.1.9 | Result of the period | 638,710 | 612,492 |
| **1.2** | **attributable to minority interests** | **-** | **-** |
| 1.2.1 | Share capital and reserves | - | - |
| 1.2.2 | Reserve for other unrealized gains (losses) through equity | - | - |
| 1.2.3 | Result of the period | - | - |
| **2** | **OTHER PROVISIONS** | **11,992** | **13,922** |
| **3** | **INSURANCE PROVISIONS** | **80,136,128** | **79,234,885** |
| **4** | **FINANCIAL LIABILITIES** | **36,212,320** | **27,363,880** |
| 4.1 | Financial liabilities at fair value through profit and loss | 34,620,738 | 25,913,726 |
| 4.2 | Other financial liabilities | 1,591,582 | 1,450,154 |
| **5** | **PAYABLES** | **754,294** | **618,935** |
| 5.1 | Payables arising from direct insurance operations | 138,709 | 138,989 |
| 5.2 | Payables arising from reinsurance operations | 1,710 | 1,598 |
| 5.3 | Other payables | 613,875 | 478,348 |
| **6** | **OTHER LIABILITIES** | **1,068,346** | **1,151,824** |
| 6.1 | Non-current liabilities held for sale and discontinued operations | - | - |
| 6.2 | Deferred tax liabilities | 494,084 | 634,352 |
| 6.3 | Current tax liabilities | 416,895 | 363,568 |
| 6.4 | Other liabilities | 157,367 | 153,904 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **122,748,492** | **112,982,915** |

# Income statement

(in thousands of euro)

| INTESA SANPAOLO VITA S.p.A. | | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|
| 1.1 | Net earned premiums | 7,902,618 | 12,002,455 |
| *1.1.1* | *Gross earned premiums* | *7,911,889* | *12,011,018* |
| *1.1.2* | *Earned premiums ceded* | *-9,271* | *-8,563* |
| 1.2 | Commission income | 565,279 | 441,893 |
| 1.3 | Gains (losses) on financial instruments at fair value through profit and loss | 23,863 | 47,722 |
| 1.4 | Income from investments in subsidiaries, associates and joint ventures | - | - |
| 1.5 | Income from other financial instruments and lands and buildings | 2,586,412 | 2,831,931 |
| *1.5.1* | *Interest income* | *1,852,296* | *1,897,301* |
| *1.5.2* | *Other income* | *202,784* | *143,482* |
| *1.5.3* | *Gains on disposal* | *531,327* | *791,148* |
| *1.5.4* | *Unrealized gains* | *5* | *-* |
| 1.6 | Other income | 198,153 | 253,916 |
| **1** | **TOTAL INCOME** | **11,276,325** | **15,577,917** |
| 2.1 | Net insurance benefits and claims | -8,851,004 | -13,253,199 |
| *2.1.1* | *Claims paid and change in insurance provisions* | *-8,852,488* | *-13,258,241* |
| *2.1.2* | *Reinsurers' share* | *1,484* | *5,042* |
| 2.2 | Fee and commission expense | -398,159 | -288,771 |
| 2.3 | Expenses from investments in subsidiaries, associates and joint ventures | - | -3 |
| 2.4 | Expenses from other financial instruments and lands and buildings | -205,781 | -344,734 |
| *2.4.1* | *Interest expense* | *-70,953* | *-66,646* |
| *2.4.2* | *Other expenses* | *-1* | *-9* |
| *2.4.3* | *Losses on disposal* | *-74,871* | *-180,011* |
| *2.4.4* | *Unrealized losses* | *-59,956* | *-98,068* |
| 2.5 | Operating expenses | -454,146 | -445,114 |
| *2.5.1* | *Commissions and other acquisition costs* | *-318,960* | *-331,905* |
| *2.5.2* | *Investment management expenses* | *-51,017* | *-57,751* |
| *2.5.3* | *Other administrative expenses* | *-84,169* | *-55,458* |
| 2.6 | Other expenses | -436,564 | -387,079 |
| **2** | **TOTAL EXPENSES** | **-10,345,654** | **-14,718,900** |
| | **PROFIT (LOSS) BEFORE TAXES FOR THE PERIOD** | **930,671** | **859,017** |
| 3 | Income taxes | -291,961 | -246,525 |
| | **PROFIT (LOSS) AFTER TAX FOR THE PERIOD** | **638,710** | **612,492** |
| **4** | **PROFIT (LOSS) FROM DISCONTINUED OPERATIONS** | - | - |
| | **CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD** | **638,710** | **612,492** |
| | of which attributable to the Group | 638,710 | 612,492 |
| | of which attributable to minority interests | - | - |

# Statement of comprehensive income

(in thousands of euro)

| INTESA SANPAOLO VITA S.p.A. | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|
| **CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD** | **638,710** | **612,492** |
| **Other comprehensive income after taxes without reclassification in the income statement** | **-103** | **380** |
| Change in shareholders' equity of subsidiaries | - | - |
| Changes in the revaluation reserve of intangible assets | - | - |
| Changes in the revaluation reserve of tangible assets | - | - |
| Gains (losses) of non-current assets held for sale and discontinued operations | - | - |
| Actuarial gains (losses) arising from defined benefit plans | -103 | 380 |
| Other items | - | - |
| **Other comprehensive income after taxes with reclassification in the income statement** | **-168,872** | **58,321** |
| Foreign currency translation differences | - | -40 |
| Net unrealized gains (losses) on available for sale financial assets | -168,872 | 58,361 |
| Net unrealized gains (losses) on cash flow hedging derivatives | - | - |
| Net unrealized gains (losses) on hedge of a net investment in foreign operation | - | - |
| Change in shareholders' equity of subsidiaries | - | - |
| Gains (losses) of non-current assets held for sale and discontinued operations | - | - |
| Other items | - | - |
| **TOTAL OF OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME** | **-168,975** | **58,701** |
| **TOTAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** | **469,735** | **671,193** |
| **of which attributable to the Group** | **469,735** | **671,193** |
| **of which attributable to minority interests** | **-** | **-** |

# Statement of changes in equity

(in thousands of euro)

| INTESA SANPAOLO VITA S.p.A. | | Amount as of 31.12.2014 | Change in Closing Balances | Allocations | Reclassification adjustments to income statement | Transfers | Change in Profit sharing | Amount as of 31.12.2015 |
|---|---|---|---|---|---|---|---|---|
| **Shareholders' equity attributable to the Group** | Share capital | 320,423 | - | - | - | - | - | 320,423 |
| | Other equity instruments | - | - | - | - | - | - | - |
| | Capital reserves | 1,328,097 | - | - | - | - | - | 1,328,097 |
| | Revenue reserves and other reserves | 1,660,635 | - | 481,311 | - | -452,078 | - | 1,689,868 |
| | (Own shares) | - | - | - | - | - | - | - |
| | Result for the period | 480,406 | - | 132,087 | - | -1 | - | 612,492 |
| | Other comprehensive income | 589,888 | - | 380 | -88,324 | 146,645 | - | 648,589 |
| **Total attributable to the Group** | | **4,379,449** | **-** | **613,778** | **-88,324** | **-305,434** | **-** | **4,599,469** |
| **Shareholders' equity attributable to minority interests** | Shareholder capital and reserves | - | - | - | - | - | - | - |
| | Result for the period | - | - | - | - | - | - | - |
| | Other comprehensive income | - | - | - | - | - | - | - |
| **Total attributable to minority interests** | | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | | **4,379,449** | **-** | **613,778** | **-88,324** | **-305,434** | **-** | **4,599,469** |

(in thousands of euro)

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

# Statement of cash flows (indirect method)

(in thousands of euro)

| INTESA SANPAOLO VITA S.p.A. | 31.12.2016 | 31.12.2015 |
|---|---|---|
| **Profit (loss) before taxes for the period** | **930,671** | **859,017** |
| **Change in non-cash items** | **873,570** | **5,721,061** |
| Change in non-life provision from unearned premium | 86,134 | 29,159 |
| Change in non-life provision for outstanding claims and other insurance provisions | 5,905 | -4,334 |
| Change in mathematical provisions and other life insurance provisions | 645,404 | 4,859,321 |
| Change in deferred acquisition costs | - | 48 |
| Change in provisions | -1,930 | 3,274 |
| Non-cash income and expenses from financial instruments, investment property and equity investments | 283,479 | 815,449 |
| Other expenses | -145,422 | 18,144 |
| **Change in receivables and payables generated by operating activities** | **-265,702** | **136,719** |
| Change in receivables and payables on direct insurance and reinsurance operations | 1,333 | 50,807 |
| Change in other receivables and payables | -267,035 | 85,912 |
| **Income taxes paid** | **-291,961** | **-246,525** |
| **Net cash generated/absorbed by cash items related to investment and financing activity** | **22,135** | **-764,867** |
| Financial liabilities related to investment contracts | 8,848,440 | 5,120,203 |
| Payables to banks and customers | - | - |
| Loans and receivable from banks and customers | - | - |
| Other financial instruments at fair value through profit or loss | -8,826,305 | -5,885,070 |
| **CASH FLOW FROM OPERATING ACTIVITY** | **1,268,713** | **5,705,405** |
| Net cash generated/absorbed by lands and buildings (investment property) | 19,249 | 165 |
| Net cash generated/absorbed by equity investments in subsidiaries, associates and joint ventures | - | - |
| Net cash generated/absorbed by loans and receivable | 556,563 | -491,944 |
| Net cash generated/absorbed by held to maturity investments | - | - |
| Net cash generated/absorbed by available for sale financial assets | -2,848,745 | -4,322,269 |
| Net cash generated/absorbed by tangible and intangible assets | - | - |
| Other cash generated/absorbed by investment activity | - | - |
| **CASH FLOW FROM INVESTING ACTIVITY** | **-2,272,933** | **-4,814,048** |
| Net cash generated/absorbed by Group's share capital and equity instruments | -503,895 | -448,833 |
| Net cash generated/absorbed by own shares | - | - |
| Dividends payment | - | - |
| Net cash generated/absorbed by minority interests' share capital and reserves | - | - |
| Net cash generated/absorbed by subordinated liabilities and participative financial instruments | - | - |
| Net cash generated/absorbed by other financial liabilities | - | - |
| **CASH FLOW FROM FINANCING ACTIVITY** | **-503,895** | **-448,833** |
| **Effect of foreign-exchange differences on cash and cash equivalents** | **-** | **-** |
| OPENING BALANCE OF CASH AND CASH EQUIVALENTS | 3,003,162 | 2,560,638 |
| **INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS** | **-1,508,115** | **442,524** |
| CLOSING BALANCE OF CASH AND CASH EQUIVALENTS | 1,495,047 | 3,003,162 |

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

The Parent's legal representatives (*)

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

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

# Notes to the consolidated financial statements

# Part A – Basis of preparation and accounting policies

## Basis of preparation

### The legislative context

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

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

IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission with EC regulation no. 2067/2016, will replace IAS 39, which currently covers the classification and measurement of financial instruments, from 1 January 2018. IFRS 9 is split into three different areas for the classification and measurement of financial instruments, impairment losses and hedge accounting.

In 2015, the Group commenced a specific project to analyse the standard and its qualitative and quantitative impacts, and to identify and implement the actions necessary for its consistent, organic and effective introduction within the Group as a whole and its individual companies.

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

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

Lastly, again in terms of interpretation, the documents regarding the application of the IFRS prepared by the Italian Standard Setter Body (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.

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

From a quantitative viewpoint, the solvency capital requirement is €3,355,380 thousand and the minimum capital requirement is €1,643,639. According to article 62 of IVASS Measure no. 53/2016, these figures are estimates. The definitive figures will be communicated to the supervisory authority and included in the SFCR pursuant to the IVASS regulations about Solvency II compliance.

The eligible own funds covering the SCR amount to €6,049,055 thousand and the eligible own funds covering the MCR amount to €5,829,471 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 the Italian Insurance Regulator (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) is mandatory from 1 January 2014. The new requirements introduced by the above regulation were integrated by subsequent regulations (nos. 313 and 1174 of 2013), also applicable from 1 January 2014.

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

- power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities (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 when that control is not transitory (so called “under common control” according to IFRS 3.10) are outside the scope of IFRS 3 which normally provides for the application of the acquisition method to business combinations, requiring the fair value measurement of acquired assets and liabilities for the acquirer.

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

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

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

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

## Insurance products

Pursuant to IFRS 4, the policies portfolio was classified as insurance contracts and investment contracts with or without discretionary participation features (DPF), based on the significance of the underlying insurance risk, i.e., the risk related to the fact that, at the date the policy is signed, at least one of the following events is uncertain: the occurrence of the event, the time at which the event will occur, 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 occur, then the contract is classified as an insurance contract. If, on the other hand, they remain at a level below 5%, then the contract is classified as a service or investment contract, with or without DPF. In the intermediate category, the significance of these benefits was assessed on a case-by-case basis, according to the specific nature of each agreement. This assessment was carried out considering any possible scenario, 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 ones is enough to qualify the whole contract as an insurance one, subject to the verifying 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 post-employment benefits (AIL) 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., unbundling. This insurance component is provided for in the technical provisions; the insurance component is not unbundled for index-linked products with a non-marginal insurance component, which were originally classified as insurance products in the companies that belonged to another group at that time;

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

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

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

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

## 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 market participants at the measurement date.

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 valued and deduced 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 not optional, since they must be applied according to a hierarchy. The availability of a price from an active market excluded the need to use one of the other measurement methods.

### Financial assets at fair value through profit or loss

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

Financial assets held for trading include the following:

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

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

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

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

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

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

**Loans and receivables**

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

Loans and receivables are recognised when they are issued.

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

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

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

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

**Financial assets available for sales**

Financial assets available for sales 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 UCI shares that do not qualify as investments in subsidiaries, associates and joint ventures.

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

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

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

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

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

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

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

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

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

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

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

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

For financial instruments that represent investments in closed-end private equity funds, the fair value of the investment is deduced 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 brings about the analysis of the positions and the decision as to whether or not to recognise an impairment loss.

### Cash flow hedges

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

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

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

## Lands and buildings

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

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

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

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

## Financial liabilities

### Financial liabilities at fair value through profit or loss

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

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

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

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

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

### Other financial liabilities

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

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

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

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

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

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

## Technical provisions

### Life technical provisions

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

### Provision for outstanding claims

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

### Mathematical provisions

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

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

### Technical provisions where investment risk is borne by policyholders and provisions arising from pension fund management

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

### Other technical provisions

The other technical provisions include the following:

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

### Liability adequacy test

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

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

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

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

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

The 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.

### Non-life technical provisions

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

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

- the provision for unearned premiums includes the provision for unearned premiums and the provision for unexpired risks. The provision for unearned premiums consists of the amounts of the gross premiums recognised during the current year but belonging to future years. The calculation is made analytically, line by line, on a pro rata basis, deducting the acquisition costs that can be directly allocated. The provision for unexpired risks consists of the amount to be set aside to cover the risks incumbent on the Group after the reporting date, to cover all the compensation and expenses coming from insurance contracts that gave rise to the creation of the provision for unearned premiums, in so far as the total amount of the estimated cost of the expected claims is higher than that of the provision for unearned premiums and the premiums that will be due under the terms of these contracts. The calculation is made by line of business, taking as the basis the ratio of claims to currently generated premiums on an accruals basis, also taking into account the indicator in the previous years. The premium provisions of the ceded business are computed by using the same criteria followed for the direct business;
- the claims provision is determined analytically, by using a prudent valuation of the damage based on objective elements and ultimate cost logic, to the extent necessary to cover the group's commitments for the payment of the claims and the relative direct and indirect settlement expenses. The provision is not discounted. It is also updated according to the "continuous provisioning" principle. Therefore, this means that any additional piece of information regarding the valuation of a claim necessarily causes a revisiting of the relative amount in the provision. The analytical valuation of the claims is followed by the actuarial analysis and check of the inventory data, through the examination of the results of the run-offs over time of the previous generations and the consequent check of the provision's future capacity to cover the generations still open. With regard to the MTPL business, for the purposes of calculating the amounts of the provision to be recognised, the provisions set forth under Presidential decrees nos. 973/1970 and 45/1981 have been taken into account. According to said regulations, the claims provision plus the amount of the claims paid and the relative settlement expenses, at

the end of each year cannot be less, in no case whatsoever, 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 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 the 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 built 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 income that generated it. Therefore, it represents the balance of current and deferred taxes relating to the profit or loss for the year.

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

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

– current tax liabilities are calculated based on a prudent forecast of the tax expense due for the year, based on the relative legislation currently in force;

– current tax assets include payments on account and other tax assets, or other tax credits from previous years that the Group can set off against the taxes of following years. These assets also include tax credits for which reimbursement has been claimed from the relevant tax authorities. Lastly, tax assets include the tax credit made up of the amounts paid to the tax authorities, pursuant to Legislative decree no. 209/2002 converted, with changes, by Law no. 265 of 22 November 2002 and Legislative decree no. 168/2004, converted by Law no. 191 of 30 July 2004. This credit was recognised at its nominal amount.

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

– "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years;

– deferred tax liabilities are calculated by applying the enacted tax rates to taxable temporary differences that will probably generate a tax liability, and to the deductible temporary differences whose recoverability is reasonably certain;

– deferred tax assets and liabilities related to the same tax and due in the same period are offset. In the years where deductible temporary differences are greater than taxable temporary differences, the related deferred tax assets are included under assets. On the other hand, in the years where taxable temporary differences are greater than deductible temporary differences, the related deferred tax liabilities are included under liabilities;

– if deferred tax assets and liabilities refer to items affecting the income statement, the balancing entry is recognised under income taxes. Where deferred tax assets and liabilities relate to transactions that have been recorded in equity without affecting profit or loss (such as adjustments for IFRS first-time adoption, fair value changes in available-for-sale financial assets or of cash flow hedges), the balancing entry is made in equity, under specific reserves where so provided (e.g. fair value reserves).

### Reinsurers' share of technical provisions

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

### Direct and indirect insurance receivables

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

### Provisions for risks and charges

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

– there is a present obligation as a result of a past event;

– it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;

– a reliable estimate of the amount of the obligation can be made.

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

## Foreign currency transactions

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

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

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

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

## Cost and revenue recognition

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

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

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

Other income is recognised on an accruals basis. Specifically:

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

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

## Regular way purchases and sales of financial assets

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

## Derecognition criteria

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

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

# Part B – Consolidation policies and scope

## Consolidation policies

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

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

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

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

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

The financial statements used for consolidation are those at 31 December 2015 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".

The life insurance business segment includes the non-insurance subsidiary Smart Care.

## Consolidation scope

Investments in subsidiaries, including in companies operating in business sectors that are different from that of the parent, are consolidated.

A list of the companies consolidated at 31 December 2016 is provided in the annex to the notes "Consolidation scope".

## Intangible assets (caption 1)

They amount to €635,544 thousand (€635,546 thousand at 31 December 2015).

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

(in thousands of euro)

| | Cost | Deemed cost or fair value | Carring amount 31.12.2016 | Cost | Deemed cost or fair value | Carring amount 31.12.2015 |
|---|---|---|---|---|---|---|
| Goodwill | 634,580 | | 634,580 | 634,580 | | 634,580 |
| Other intangible assets | 964 | | 964 | 966 | | 966 |
| **Total** | **635,544** | **-** | **635,544** | **635,546** | **-** | **635,546** |

Goodwill of €634,580 thousand, unchanged from 31 December 2015, refers to the non-recurring transactions in which the Group was involved, especially the merger of Intesa Sanpaolo Vita and Sud Polo Vita into the parent on 31 December 2011 and the contribution of the Intesa Sanpaolo Previdenza SIM S.p.A. business unit on 1 December 2014.

Goodwill was tested for impairment by benchmarking it against the overall intrinsic value of the life portfolio measured at 31 December 2015. The discount rate used to calculate the intrinsic value was derived from the "risk neutral" approach, using the Euroswap curve adjusted by the volatility adjustment defined in the Solvency II regulation.

This measurement, which gives values considerably higher than goodwill, was supported by the elements characterising the operations in 2016 and mainly:

– the positive trend of new business, recording significant amounts and products with relative profitability above the portfolio's average, resulting in an increase in assets under management;

– the financial market performance maintained the positive balance of the fair gains/losses on the segregated assets.

Moreover, the good performance of new business in early 2016 and forecasts for the entire year are consistent with the 2016 results, without indicating subsequent events that may negatively affect measurement.

The measurement at 31 December 2015 and changes in the reporting period result in a higher portfolio fair value compared to its carrying amount; therefore, no impairment losses were recognised.

The table below provides a breakdown of the changes during 2016:

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(in thousands of euro)

| | Goodwill | Other intangible assets: developed internally | | Other intangible assets: other | | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|---|---|---|---|
| | | Finite life | Indefinite life | Finite life | Indefinite life | | |
| Gross opening balance | 650,379 | - | - | 8,894 | - | 659,273 | 659,218 |
| Total net impairment losses | -15,799 | - | - | -7,928 | - | -23,727 | -23,542 |
| **Net opening balance** | **634,580** | **-** | **-** | **966** | **-** | **635,546** | **635,676** |
| **Increases** | **-** | **-** | **-** | **191** | **-** | **191** | **55** |
| – Acquisitions | - | - | - | 191 | - | 191 | 55 |
| – New entities included in the consolidation scope | - | | - | - | - | - | - |
| – Increases in internally developed assets | - | - | - | - | - | - | - |
| – Other increases | - | - | - | - | - | - | - |
| **Decreases** | **-** | **-** | **-** | **-193** | **-** | **-193** | **-185** |
| – Sales | - | - | - | - | - | - | - |
| – Amortisation | - | - | - | -193 | - | -193 | -185 |
| – Impairment losses recognised in profit or loss | - | - | - | - | - | - | - |
| – Transfers to assets held for sale | - | | - | - | - | - | - |
| – Other decreases | - | - | - | - | - | - | - |
| – Entities excluded from the consolidation scope | - | | - | - | - | - | - |
| **Closing balance** | **634,580** | **-** | **-** | **964** | **-** | **635,544** | **635,546** |
| Total net impairment losses | - | - | - | -8,121 | | -8,121 | -23,727 |
| Gross closing balance | 634,580 | - | - | 9,085 | | 643,665 | 659,273 |

## Other tangible assets (caption 2.2)

This caption, amounting to €4,915 thousand (€1,526 thousand at 31 December 2015), mainly comprises chattels, electronic systems, equipment and office machines. “Other” includes the packages purchased from Smart Care S.r.l. for the “aCasaConMe” and “ViaggiaConMe” products.

The table below provides a breakdown of the changes that took place during 2016:

(in thousands of euro)

| | Furniture and fittings | Electronic systems and equipment | Other assets | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|---|---|
| Gross opening balance | 1,330 | 1,569 | 1,929 | 4,828 | 3,218 |
| Total net impairment losses | -1,004 | -1,516 | -782 | -3,302 | -2,584 |
| **Net opening balance** | **326** | **53** | **1,147** | **1,526** | **634** |
| **Increases** | **75** | **-** | **7,136** | **7,211** | **1,657** |
| – Acquisitions | 75 | - | 4,910 | 4,985 | 886 |
| – New entities included in the consolidation scope | - | - | - | - | - |
| – Other increases | - | - | 2,226 | 2,226 | 771 |
| **Decreases** | **-92** | **-38** | **-3,692** | **-3,822** | **-765** |
| – Sales | - | - | - | - | - |
| – Depreciation | -92 | -38 | -3,031 | -3,161 | -718 |
| – Transfers to assets held for sale | - | - | - | - | - |
| – Other decreases | - | - | -661 | -661 | -47 |
| – Entities excluded from the consolidation scope | - | - | - | - | - |
| **Closing balance** | **309** | **15** | **4,591** | **4,915** | **1,526** |
| Total net impairment losses | -1,096 | -1,554 | -3,813 | -6,463 | -3,302 |
| Gross closing balance | 1,405 | 1,569 | 8,404 | 11,378 | 4,828 |

## Amount ceded to reinsurers from insurance provisions (caption 3)

The balance amounts to €17,311 thousand (€22,383 thousand at 31 December 2015), with a decrease of €5,072 thousand compared to 31 December 2015. The breakdown by provision type is shown in the annex to the notes "Breakdown of reinsurers' share of technical provisions".

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

## Investments (caption 4)

Total investments (investment property, equity investments and financial assets) amount to €117,892,199 thousand (€107,076,440 thousand at 31 December 2015).

### Lands and buildings (investment property) (caption 4.1)

This caption has a nil balance at the reporting date compared to €19,249 thousand at 31 December 2015 as the Group sold the property in Via Hoepli 10, Milan in December as part of a wider-reaching disposal project performed by the Group with a major Italian fund manager specialised in real estate funds.

The table below provides a breakdown of the changes that took place during 2016:

(in thousands of euro)

| | Land | Buildings | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|---|
| Gross opening balance | 16,302 | 4,942 | 21,244 | 21,244 |
| Total net impairment losses | - | -1,995 | -1,995 | -1,830 |
| **Net opening balance** | **16,302** | **2,947** | **19,249** | **19,414** |
| **Increases** | **14,046** | **7,009** | **21,055** | **-** |
| – Acquisitions | - | - | - | - |
| – Transfers from investment property | - | - | - | - |
| – Other increases | 14,046 | 7,009 | 21,055 | - |
| **Decreases** | **-30,348** | **-9,956** | **-40,304** | **-165** |
| – Sales | -30,348 | -9,791 | -40,139 | - |
| – Depreciation | - | -165 | -165 | -165 |
| – Losses on sales | - | - | - | - |
| – Other decreases | - | - | - | - |
| **Closing balance** | **-** | **-** | **-** | **19,249** |
| Total net impairment losses | - | -2,160 | -2,160 | -1,995 |
| Gross closing balance | - | 2,160 | 2,160 | 21,244 |

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

Financial assets amount to €117,892,199 thousand (€107,057,191 thousand at 31 December 2015). The related breakdown by classification category and investment type is given in the annex to the notes "Breakdown of financial assets".

## Loans and receivables (caption 4.4)

They amount to €16,315 thousand ( €572,878 thousand at 31 December 2015) as follows:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Loans and receivables with bank customers | 16,048 | 16,179 |
| Loans and receivables with bank | - | 556,374 |
| Deposit with ceding companies | - | 0 |
| Other loans and receivable | 267 | 325 |
| – loans on policies | 267 | 325 |
| – secured loans | - | 0 |
| – employee loans | - | 0 |
| – other | - | 0 |
| **Total** | **16,315** | **572,878** |

The maximum exposure to the credit risk on loans and receivables is €16,315 thousand, i.e., the carrying amount of such assets. The significant decrease on 31 December 2015 is entirely due to the expiry of repurchase agreements with the ultimate parent, Intesa Sanpaolo, in 2015. Loans and receivables with banks mainly consist of debt instruments and are mostly short-term.

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

## Financial assets available for sales (caption 4.5)

They amount to €78,056,921 thousand ( €75,268,127 thousand at 31 December 2015), mainly comprise bonds and may be broken down as follows:

(in thousands of euro)

| | 31.12.2016 | | | | 31.12.2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Debt instruments | 66,742,106 | 1,612,377 | 116,728 | 68,471,211 | 64,771,028 | 2,191,939 | 44,097 | 67,007,064 |
| – Structured | 3,744,660 | 252,998 | 4,568 | 4,002,226 | 2,224,723 | 423,957 | 4,677 | 2,653,357 |
| – Other | 62,997,446 | 1,359,379 | 112,160 | 64,468,985 | 62,546,305 | 1,767,982 | 39,420 | 64,353,707 |
| Equity instruments | 1,540,352 | - | 63 | 1,540,415 | 1,322,135 | 1 | 53 | 1,322,189 |
| – Cost | - | - | 63 | 63 | - | - | 52 | 52 |
| – FVTPL | 1,540,352 | - | - | 1,540,352 | 1,322,135 | 1 | 1 | 1,322,137 |
| UCI shared | 7,498,721 | 12,361 | 534,213 | 8,045,295 | 6,506,448 | - | 432,426 | 6,938,874 |
| **Total** | **75,781,179** | **1,624,738** | **651,004** | **78,056,921** | **72,599,611** | **2,191,940** | **476,576** | **75,268,127** |

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

The impairment test of investments classified as available-for-sale, which was conducted in compliance with the criteria set out in detail in the section on the accounting policies, led to recognition of losses of €59,791 thousand. This amount includes impairment losses on government bonds (€2,686 thousand), equity instruments (€55,354 thousand) and UCI shares (€1,751 thousand).

The table below provides a breakdown of the changes that took place during 2016:

(in thousands of euro)

| | Debt instruments | Equity instruments | UCI shared | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|---|---|
| **Opening balance** | **67,007,064** | **1,322,189** | **6,938,874** | **75,268,127** | **71,043,926** |
| **Increases** | **14,402,916** | **538,685** | **5,113,840** | **20,055,441** | **22,097,611** |
| – Acquisitions | 13,274,955 | 316,824 | 3,319,389 | 16,911,168 | 19,180,262 |
| – New entities included in the consolidation scope | - | - | - | - | - |
| – Exchange rate gains | - | - | - | - | - |
| – Fair value gains recognised in equity | 98,856 | 32,128 | 55,441 | 186,425 | 1,157,805 |
| – Fair value gains recognised in profit or loss (hedges) | - | - | - | - | - |
| – Realised gains | 462,703 | - | 33,188 | 495,891 | 661,481 |
| – Transfers from other portfolios | - | - | - | - | - |
| – Other increases | 566,402 | 189,733 | 1,705,822 | 2,461,957 | 1,098,063 |
| **Decreases** | **-12,938,769** | **-320,459** | **-4,007,419** | **-17,266,647** | **-17,873,410** |
| – Sales | -7,222,828 | -154,854 | -2,420,554 | -9,798,236 | -9,945,401 |
| – Repayments | -3,867,564 | - | - | -3,867,564 | -3,333,206 |
| – New entities included in the consolidation scope | - | - | - | - | - |
| – Fair value losses recognised in profit or loss (impairment) | -2,686 | -55,354 | -1,751 | -59,791 | -97,903 |
| – Fair value losses recognised in equity | -998,072 | -45,803 | -48,198 | -1,092,073 | -631,125 |
| – Transfers from other portfolios | - | - | - | - | - |
| – Realised losses | -52,016 | - | -33,731 | -85,747 | -150,731 |
| – Transfers to impaired assets | - | - | - | - | - |
| – Hedging losses | - | - | - | - | - |
| – Exchange rate losses | -64,116 | - | -453 | -64,569 | 31,006 |
| – Other decreases | -731,487 | -64,448 | -1,502,732 | -2,298,667 | -3,746,050 |
| **Closing balance** | **68,471,211** | **1,540,415** | **8,045,295** | **78,056,921** | **75,268,127** |

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 |
| **Shengen countries** | **50,825,851** | **12,934,267** |
| AUSTRIA | 2,719 | 2,268 |
| BELGIUM | 6,202 | 184,177 |
| BULGARIA | 58,980 | 21,587 |
| CROATIA | 60,835 | 16,947 |
| DENMARK | - | 41,315 |
| FINLAND | 4,623 | - |
| FRANCE | 63,342 | 1,421,112 |
| GERMANY | 554,294 | 475,396 |
| IRELAND | 111,847 | 244,841 |
| ITALY | 48,581,857 | 6,650,163 |
| LUXEMBOURG | 18,896 | 333,003 |
| NORWAY | - | 77,795 |
| NETHERLANDS | 75,277 | 1,270,292 |
| POLAND | 19,163 | - |
| PORTUGAL | - | 7,822 |
| UK | - | 1,379,207 |
| ROMANIA | 132,035 | - |
| SLOVENIA | 7,991 | - |
| SPAIN | 1,089,043 | 805,644 |
| SWEDEN | - | 2,698 |
| HUNGARY | 38,747 | - |
| JAPAN | - | 70,644 |
| **America** | **346,980** | **2,652,702** |
| **Other countries** | **134,507** | **1,506,260** |
| **TOTAL** | **51,307,338** | **17,163,873** |

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

They amount to €39,818,963 thousand (€31,216,186 thousand at 31 December 2015) and include assets held for trading (€587,482 thousand) and assets designated at fair value through profit or loss (€39,231,481 thousand).

## Financial assets held for trading

Financial assets held for trading amount to €587,482 thousand (€846,407 thousand at 31 December 2015).

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

The breakdown of the caption at 31 December 2016 is set out below:

(in thousands of euro)

| | 31.12.2016 | | | | 31.12.2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Debt instruments | 223,155 | 33,447 | - | 256,602 | 214,191 | 77,283 | 9,086 | 300,560 |
| – Structured | 17,796 | 4,617 | - | 22,413 | 1,542 | 35,421 | 9,086 | 46,049 |
| – Other | 205,359 | 28,830 | - | 234,189 | 212,649 | 41,862 | - | 254,511 |
| Equity instruments | - | - | - | - | - | - | - | - |
| UCI shared | 203,208 | - | 45,387 | 248,595 | 391,211 | - | 47,312 | 438,523 |
| Derivatives | 11,873 | 70,412 | - | 82,285 | - | 107,324 | - | 107,324 |
| **Total** | **438,236** | **103,859** | **45,387** | **587,482** | **605,402** | **184,607** | **56,398** | **846,407** |

The table below provides a breakdown of the changes in the caption, with the exclusion of derivatives, that took place during 2016:

(in thousands of euro)

| | **Debt instruments** | **Equity instruments** | **UCI shared** | **Total 31.12.2016** | **Total 31.12.2015** |
|---|---|---|---|---|---|
| **Opening balance** | **300,560** | **-** | **438,523** | **739,083** | **793,370** |
| **Increases** | **17,386** | **-** | **11,665** | **29,051** | **84,580** |
| – Acquisitions | 14,939 | - | - | 14,939 | 37,817 |
| – Other companies included in the consolidation scope | | | | - | - |
| – Fair value gains recognised in profit or loss | 194 | - | 6,380 | 6,574 | 9,496 |
| – Realised gains | 216 | - | 5,285 | 5,501 | 1,112 |
| – Other increases | 2,037 | - | - | 2,037 | 36,155 |
| **Decreases** | **-61,344** | **-** | **-201,593** | **-262,937** | **-138,867** |
| – Sales | -1,887 | - | -199,586 | -201,473 | -24,020 |
| – Repayments | -46,925 | - | - | -46,925 | -81,355 |
| – Fair value losses recognised in profit or loss | -8,274 | - | -2,007 | -10,281 | -10,162 |
| – Realised losses | -4,252 | - | - | -4,252 | -127 |
| – Other decreases | -6 | - | - | -6 | -23,203 |
| **Closing balance** | **256,602** | **-** | **248,595** | **505,197** | **739,083** |

## Assets designated at fair value through profit or loss

Assets designated at fair value through profit or loss amount to €39,231,481 thousand (€30,369,779 thousand at 31 December 2015).

The breakdown of the caption at 31 December 2016 is set out below:

(in thousands of euro)

| | 31.12.2016 | | | | 31.12.2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Debt instruments | 2,908,204 | 384,992 | 2,721 | 3,295,917 | 2,547,136 | 879,824 | 44,133 | 3,471,093 |
| – Structured | 117,472 | 160,812 | - | 278,284 | 92,333 | 264,769 | 44,133 | 401,235 |
| – Other | 2,790,732 | 224,180 | 2,721 | 3,017,633 | 2,454,803 | 615,055 | - | 3,069,858 |
| Equity instruments | 687,631 | - | - | 687,631 | 530,336 | - | - | 530,336 |
| UCI shared | 34,651,678 | - | 19,565 | 34,671,243 | 25,681,301 | - | 19,249 | 25,700,550 |
| Other financial investments | - | - | 576,690 | 576,690 | - | - | 667,800 | 667,800 |
| Derivatives | - | - | - | - | - | - | - | - |
| **Total** | **38,247,513** | **384,992** | **598,976** | **39,231,481** | **28,758,773** | **879,824** | **731,182** | **30,369,779** |

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.

At the reporting date, the parent did not have any forward hedges.

The table below provides a breakdown of the changes in the caption, with the exclusion of derivatives, that took place during 2016:

(in thousands of euro)

| | Debt instruments | Equity instruments | UCI shared | Other financial investmets | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|---|---|---|
| **Opening balance** | **3,471,093** | **530,336** | **25,700,550** | **667,800** | **30,369,779** | **25,071,202** |
| **Increases** | **2,713,398** | **497,277** | **11,857,210** | **39,302** | **15,107,187** | **8,916,294** |
| – Acquisitions | 2,626,568 | 409,251 | 3,816,242 | - | 6,852,061 | 4,043,105 |
| – Reversal of impairment losses recognised in profit or loss | - | - | - | - | - | - |
| – Fair value gains recognised in equity | - | - | - | - | - | - |
| – Fair value gains recognised in profit or loss | 10,334 | 61,171 | 849,592 | - | 921,097 | 453,127 |
| – Transfers from other portfolios | - | - | - | - | - | - |
| – Realised gains | 58,972 | 11,267 | 451,438 | 186 | 521,863 | 902,278 |
| – Other increases | 17,524 | 15,588 | 6,739,938 | 39,116 | 6,812,166 | 3,517,784 |
| **Decreases** | **-2,888,574** | **-339,982** | **-2,886,517** | **-130,412** | **-6,245,485** | **-3,617,717** |
| – Sales | -2,027,138 | -268,228 | -2,305,190 | - | -4,600,556 | -2,504,731 |
| – Repayments | - | - | - | - | - | -320,912 |
| – Impairment losses recognised in profit or loss | - | - | - | - | - | - |
| – Fair value losses recognised in equity | - | - | - | - | - | - |
| – Fair value losses recognised in profit or loss | -46,132 | -20,872 | -285,323 | - | -352,327 | -614,012 |
| – Transfers to other portfolios | - | - | - | - | - | - |
| – Realised losses | -24,953 | -29,325 | -183,555 | -2,585 | -240,418 | -140,679 |
| – Other decreases | -790,351 | -21,557 | -112,449 | -127,827 | -1,052,184 | -37,383 |
| **Closing balance** | **3,295,917** | **687,631** | **34,671,243** | **576,690** | **39,231,481** | **30,369,779** |

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

The category also includes assets used to hedge contracts where the financial risk is borne by the policyholders, which amount to €38,386,110 thousand.

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

## Receivables (caption 5)

They amount to €403,616 thousand (€320,162 thousand at 31 December 2015).

Sundry receivables include, in particular, receivables from the ultimate parent for payment of the IRES advance (€139,371 thousand), tax assets (€65,162 thousand), management commissions on unit-linked and index-linked policies (€68,042 thousand) and other receivables of €114,769 thousand, mainly consisting of hedges of the margins on derivatives agreed with Credit Suisse, Deutsche Bank and Bank of New York.

The following table sets out details of the caption at 31 December 2016:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| **Direct insurance receivables (caption 5.1)** | **15,623** | **13,816** |
| Premium due from policy holders | 9,857 | 7,126 |
| Receivables from insurance brokers | 2,677 | 2,805 |
| Co-insurance receivables | 1,454 | 2,869 |
| Other | 1,635 | 1,016 |
| **Reinsurance receivables (caption 5.2)** | **649** | **3,957** |
| **Other receivables (caption 5.3)** | **387,344** | **302,389** |
| Tax assets | 65,162 | 58,986 |
| Management commissions on unit-linked policies | 68,042 | 59,462 |
| Receivables from the ultimate parent for tax payments on account | 139,371 | 156,703 |
| Sundry receivables | 114,769 | 27,238 |
| **Total** | **403,616** | **320,162** |

## Other assets (caption 6)

They amount to €2,299,860 thousand (€1,923,696  thousand at 31 December 2015).

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Non-current assets held for sale and disposal groups | - | - |
| Deferred acquisition costs | - | - |
| Deferred tax assets | 195,287 | 193,520 |
| Current tax assets | 1,697,988 | 1,453,609 |
| Other assets | 406,585 | 276,567 |
| *Deferred commission expense on investments contracts* | *243,279* | *243,279* |
| *Other* | *163,306* | *33,288* |
| **Total** | **2,299,860** | **1,923,696** |

### Deferred tax assets (caption 6.3))

This caption includes deferred tax assets through profit or loss of €195,087 thousand and through equity of €200 thousand (€193,520 thousand at 31 December 2015).

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Deferred tax assets throught profit or loss | 195,087 | 193,381 |
| Deferred tax assets throught equity | 200 | 139 |
| **Total** | **195,287** | **193,520** |

The table below shows the changes in this caption:

(in thousands of euro)

| | Deferred tax assets through profit or loss | Deferred tax assets through equity | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|---|
| **Opening balance** | **193,381** | **139** | **193,520** | **180,473** |
| **Increases** | **37,096** | **61** | **37,157** | **72,636** |
| New entities included in the consolidation scope | - | - | - | - |
| Deferred tax assets recognised in the year | 25,018 | 61 | 25,079 | 54,300 |
| *– related to previous years* | | | - | - |
| *– due to changes in accounting policies* | | - | - | - |
| *– reversals of impairment losses* | | - | - | - |
| *– other* | *25,018* | *61* | *25,079* | *54,300* |
| New taxes or tax rate increases | - | - | - | - |
| Other increases | 12,078 | - | 12,078 | 18,336 |
| **Decreases** | **-35,390** | **-** | **-35,390** | **-59,589** |
| Deferred tax assets derecognised in the year | | | - | - |
| New taxes or tax rate increases | | | - | - |
| Reversals | -33,515 | - | -33,515 | -32,964 |
| Tax rate reductions | - | - | - | -26,351 |
| Other decreases | -1,875 | - | -1,875 | -274 |
| **Closing balance** | **195,087** | **200** | **195,287** | **193,520** |

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 decreases include the "Tax rate reductions", which, in turn, comprise the adjustment of the IRES rate from 27.5% to 24% from 2017 (provided for by the 2016 Stability Law, Law no. 208/2015).

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 €1,697,988 thousand (€1,453,609 thousand at 2 December 2015). 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 following table sets out details of the caption at 31 December 2016:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Direct taxes | 43,837 | 72,257 |
| Tax on mathematical provisions | 1,654,151 | 1,381,352 |
| **Total** | **1,697,988** | **1,453,609** |

### Other assets (caption 6.5)

Sundry assets amount to €406,585 thousand (€276,567 thousand at 31 December 2015). The caption mainly comprises deferred commission costs of €371,787 thousand associated with products of a financial nature without DPF, such as index-linked and unit-linked policies.

The following table sets out details of the caption at 31 December 2016:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Deferred commission expense on investment contracts | 371,787 | 243,279 |
| Other | 34,798 | 33,288 |
| **Total** | **406,585** | **276,567** |

Other assets mainly comprise amounts relating to units issued and repaid of unit-linked policies with a bank value date of January 2017 and an accounting value date of 31 December 2016. They also comprise other prepayments and accrued income.

## Cash and cash equivalents (caption 7)

At 31 December 2016, cash and cash equivalents amount to €1,495,047 thousand (€3,003,162 thousand at 31 December 2015). The caption includes cash and cash equivalents and demand deposits, including treasury current accounts.

## Shareholders' 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 2016:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Share capital | 320,423 | 320,423 |
| Capital reserves | 1,328,097 | 1,328,097 |
| Revenue reserves and other reserves | 1,798,568 | 1,689,868 |
| Own shares | - | - |
| Reserve for currency translation differences | - | - |
| Reserve for unrealized gains and losses on assets available for sale | 480,023 | 648,895 |
| Other gains or losses recognised directly in equity | - 409 | - 306 |
| Profit for the year attributable to the Group | 638,710 | 612,492 |
| **Total equity attributable to the Group** | **4,565,412** | **4,599,469** |

The change in equity mainly reflects the profit for the year, the income-related reserves and the other equity-related reserves and the variation in the fair value reserve.

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

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

### Revenue reserves 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 €1,798,568 thousand compared to €1,689,868 thousand at 31 December 2015.

The increase is mainly due to the allocation of the profit for the prior year and the parent's return of €504 million to the ultimate parent.

### Reserve for unrealized gains and losses on assets available for sales (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 2016:

(in thousands of euro)

| | 31.12.2016 | | | 31.12.2015 | | |
|---|---|---|---|---|---|---|
| | **Unrealized gains** | **Unrealized losses** | **Total** | **Unrealized gains** | **Unrealized losses** | **Total** |
| Total gross of shadow accounting | 6,238,495 | -200,960 | 6,037,535 | 6,960,740 | -283,459 | 6,677,281 |
| – Debt instruments | 5,666,685 | -106,687 | 5,559,998 | 6,575,276 | -110,560 | 6,464,716 |
| – Equity instruments | 302,905 | -36,266 | 266,639 | 214,019 | -56,281 | 157,738 |
| – UCI shares | 268,905 | -58,007 | 210,898 | 171,445 | -116,618 | 54,827 |
| Shadow accounting | -5,527,537 | 181,798 | -5,345,739 | -5,974,963 | 248,626 | -5,726,337 |
| Total gross of income taxes | 710,958 | -19,162 | 691,796 | 985,777 | -34,833 | 950,944 |
| Tax effects | -219,181 | 7,408 | -211,773 | -315,348 | 13,299 | -302,049 |
| **Total** | **491,777** | **-11,754** | **480,023** | **670,429** | **-21,534** | **648,895** |

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

(in thousands of euro)

| | Debt instruments | Equity instruments | UCI shares | 31.12.2016 | 31.12.2015 |
|---|---|---|---|---|---|
| **Opening balance** | **628,027** | **14,866** | **6,002** | **648,895** | **590,534** |
| **Increases** | **-130,526** | **4,889** | **9,726** | **-115,911** | **60,731** |
| Unrealized gains | 11,999 | 6,064 | 7,127 | 25,190 | 117,003 |
| Accruals | 1,011 | 561 | 3,744 | 5,316 | 3,568 |
| Other increases | -143,536 | -1,736 | -1,145 | -146,417 | -59,840 |
| **Decreases** | **-57,401** | **2,342** | **2,098** | **-52,961** | **-2,370** |
| Unrealized losses | -98,687 | -4,904 | -5,705 | -109,296 | -64,834 |
| Impairment losses | - | - | - | - | 3,525 |
| Utilisations | -10,907 | 7,388 | 8,311 | 4,792 | -95,417 |
| Other decreases | 52,193 | -142 | -508 | 51,543 | 154,356 |
| **Closing balance** | **440,100** | **22,097** | **17,826** | **480,023** | **648,895** |

## Other provisions (caption 2)

The caption amounts to €11,992 thousand at 31 December 2016 (€13,922 thousand at 31 December 2015) and comprises other provisions of €5,892 thousand (€10,328 thousand at 31 December 2015). Other provisions mainly include accruals for future personnel expense and for product disputes. The remainder relates to accruals made for tax purposes. The other decreases principally consist of savings on expenses provided for in relation to Intesa Sanpaolo Vita's merger.

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

(in thousands of euro)

| | Tax provisions | Other provisions | 31.12.2016 | 31.12.2015 |
|---|---|---|---|---|
| **Opening balance** | **3,594** | **10,328** | **13,922** | **10,648** |
| **Increases** | **90** | **5,739** | **5,829** | **7,211** |
| – Additions | - | - | - | - |
| – Accruals | - | 726 | 726 | 477 |
| – Other increases | 90 | 5,013 | 5,103 | 6,734 |
| **Decreases** | **-3,648** | **-4,111** | **-7,759** | **-3,937** |
| – Decrease | - | - | - | - |
| – Utilisations | -3,648 | - | -3,648 | -2,858 |
| – Other decreases | - | -4,111 | -4,111 | -1,079 |
| **Closing balance** | **36** | **11,956** | **11,992** | **13,922** |

## Insurance provisions (caption 3)

The table below provides a breakdown of the caption at 31 December 2016:

(in thousands of euro)

| | Direct business | Indirect business | 31.12.2016 | 31.12.2015 |
|---|---|---|---|---|
| **Non-life insurance provisions** | **592,728** | **-** | **592,728** | **504,426** |
| Provision for unearned premiums | 419,304 | - | 419,304 | 335,630 |
| Provision for outstanding claims | 172,044 | - | 172,044 | 167,926 |
| Other insurance provisions | 1,380 | - | 1,380 | 870 |
| *of which following the liability adequacy test* | - | - | - | - |
| **Life insurance provisions** | **79,543,400** | **-** | **79,543,400** | **78,730,459** |
| Mathematical provisions | 69,938,648 | - | 69,938,648 | 68,925,485 |
| Provision for outstanding claims | 303,578 | - | 303,578 | 381,281 |
| Insurance provisions where investment risk is borne by policyholders and provisions arising from pension fund management | 3,803,754 | - | 3,803,754 | 3,652,463 |
| Other insurance provisions | 5,497,420 | - | 5,497,420 | 5,771,230 |
| **Total** | **80,136,128** | **-** | **80,136,128** | **79,234,885** |

The technical provisions of the life business grew by 1%. This change can be attributed to the portfolio's performance which records net cash inflows, the revaluation of benefits and the trend of the shadow accounting provision (included in the other provisions), which shows a slight decrease in line with the financial markets' performance.

The Group performed the liability adequacy test (LAT) to check that the net provisions are sufficient to meet its commitments with policyholders. The related results are shown in the technical provisions and amount to €32.5 million (€8.7 million at 31 December 2015).

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

(in thousands of euro)

| | Mathematical provisions | Insurance provisions where investment risk is borne by policyholders | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|---|
| **Opening balance** | **68,925,485** | **3,652,463** | **72,577,948** | **67,755,710** |
| New entities included in the consolidation scope | - | - | - | - |
| Change in premiums | 7,026,655 | 410,628 | 7,437,283 | 11,584,316 |
| Benefits and claims paid to policyholder | 1,283,221 | 36,682 | 1,319,903 | 1,619,947 |
| Exchange rate differences | - | - | - | - |
| Portfolio transactions | - | 39,073 | 39,073 | 513,909 |
| Change in payments | -7,209,543 | -320,180 | -7,529,723 | -8,799,567 |
| Other variations | -87,170 | -14,912 | -102,082 | -96,367 |
| **Closing balance** | **69,938,648** | **3,803,754** | **73,742,402** | **72,577,948** |

### Technical provisions and financial liabilities of the life business

Technical provisions and financial liabilities amount to €114,076,033 thousand (€104,500,978 thousand at 31 December 2015). Contracts falling within the scope of IFRS 4, insurance contracts and investment contracts with DPF account for roughly 92% of the life portfolio (77% at 31 December 2015), while the investment contracts falling within the scope of IAS 39 account for about 8% (23% at 31 December 2015).

## Non-life technical provisions

In the non-life segment, the technical provisions are substantially in line with the previous year end (+18% at 31 December 2015). They mainly refer to the portfolio held by Intesa Sanpaolo Assicura.

The breakdown by line of business of the premium provisions at 31 December 2016 is detailed in the following table:

(in thousands of euro)

| | Provision for unearned premiums | Provision for unexpired risks | Total provision for unearned premiums | Claims provisions | Other provisions |
|---|---|---|---|---|---|
| Accident | 57,474 | - | 57,474 | 12,323 | 24 |
| Health | 93,302 | - | 93,302 | 26,939 | 1,356 |
| Land vehicles | 4,585 | - | 4,585 | 1,848 | - |
| Railway rolling stock | - | - | - | - | - |
| Aircraft | - | - | - | - | - |
| Ships | - | - | - | - | - |
| Goods in transit | - | - | - | - | - |
| Fire and natural events | 101,865 | - | 101,865 | 6,216 | - |
| Other damage to property | 2,566 | - | 2,566 | 4,062 | - |
| Credit | 8,820 | - | 8,820 | 3,521 | - |
| Surety | 688 | - | 688 | 1,703 | - |
| Motor third party liability | 30,863 | - | 30,863 | 75,612 | - |
| Aircraft liability | - | - | - | - | - |
| Ships third party liability | 5 | - | 5 | 54 | - |
| Legal protection | 564 | - | 564 | 2,416 | - |
| General third party liability | 3,832 | - | 3,832 | 9,353 | - |
| Miscellaneous financial loss | 112,102 | - | 112,102 | 27,193 | - |
| Assistance | 2,637 | - | 2,637 | 805 | - |
| **Total** | **419,303** | **-** | **419,303** | **172,045** | **1,380** |

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

(in thousands of euro)

| | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|
| Accident | 57,474 | 42,772 |
| Health | 93,302 | 61,224 |
| Land vehicles | 4,585 | 5,194 |
| Railway | - | - |
| Aircraft | - | - |
| Ships | - | - |
| Goods in transit | - | - |
| Fire and natural events | 101,865 | 80,490 |
| Other damage to property | 2,566 | 2,768 |
| Credit | 8,820 | 10,025 |
| Surety | 688 | 1,278 |
| Motor third party liability | 30,863 | 32,819 |
| Aircraft third party liability | - | - |
| Ships third party liability | 5 | 6 |
| Legal protection | 564 | 509 |
| General third party liability | 3,832 | 3,546 |
| Miscellaneous financial losses | 112,102 | 92,465 |
| Assistance | 2,637 | 2,534 |
| **Total** | **419,303** | **335,630** |

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

(in thousands of euro)

| | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|
| Accident | 12,323 | 9,724 |
| Health | 26,939 | 28,613 |
| Land vehicles | 1,848 | 2,031 |
| Railway | - | - |
| Aircraft | - | - |
| Ships | - | - |
| Goods in transit | - | - |
| Fire and natural events | 6,216 | 5,179 |
| Other damage to property | 4,062 | 3,655 |
| Credit | 3,521 | 2,100 |
| Surety | 805 | 884 |
| Motor third party liability | 75,612 | 75,560 |
| Aircraft third party liability | - | - |
| Ships third party liability | 54 | 63 |
| Legal protection | 2,416 | 1,499 |
| General third party liability | 9,353 | 8,131 |
| Miscellaneous financial loss | 27,193 | 29,711 |
| Assistance | 1,703 | 776 |
| **Total** | **172,045** | **167,926** |

With reference to the claims provision, the tables below show the triangular matrix of development of the claims for the main lines in which the Group operates (gross of reinsurance) for the last five years from 2012 to 2016. The amounts are stated in thousands of Euros. Given the marginality of the parent's non-life portfolio, the report on the development of the claims is only detailed with reference to Intesa Sanpaolo Assicura S.p.A..

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

- the "Estimate of ultimate cumulative claims costs" is the result of the sum, by each accident year N, of the cumulative amounts paid and the residual claims provisions at the end of the development year N+t. The amounts thus obtained represent the revision over time of the estimated ultimate cost of the claims in the accident year N with the evolution of their run-off;
- the "Cumulative amounts paid to date" represent the cumulative amount of the payments made until 31 December 2015 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 2016;
- the "Other claims provisions" identify the claims provision from accident years prior to 2012.

| **Accident insurance** | **Year of generation/occurrence** | **2012** | **2013** | **2014** | **2015** | **2016** | **Total** |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate cost of cumulative claim | at 31/12 of generation year N | 4,089 | 4,358 | 5,213 | 5,562 | 7,910 | |
| | at 31/12 of year N+1 | 3,098 | 3,749 | 2,964 | 3,561 | | |
| | at 31/12 of year N+2 | 2,700 | 2,813 | 2,928 | | | |
| | at 31/12 of year N+3 | 2,556 | 2,568 | | | | |
| | at 31/12 of year N+4 | 2,371 | | | | | |
| Cumulative amounts paid to date | | 2,242 | 2,154 | 2,040 | 1,528 | 656 | 8,620 |
| Claims provision at the reporting date | | 129 | 414 | 888 | 2,033 | 7,254 | 10,718 |
| Final claims provision for year before 2012 | | | | | | | 211 |
| **Total claims provision at 31.12.2016** | | | | | | | **10,929** |

| **Health insurance** | **Year of generation/occurrence** | **2012** | **2013** | **2014** | **2015** | **2016** | **Total** |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate cost of cumulative claim | at 31/12 of generation year N | 16,121 | 18,733 | 21,030 | 21,701 | 20,759 | |
| | at 31/12 of year N+1 | 16,505 | 17,174 | 16,078 | 15,494 | | |
| | at 31/12 of year N+2 | 15,745 | 15,562 | 15,125 | | | |
| | at 31/12 of year N+3 | 15,451 | 14,327 | | | | |
| | at 31/12 of year N+4 | 15,223 | | | | | |
| Cumulative amounts paid to date | | 13,928 | 13,052 | 12,732 | 11,035 | 5,493 | 56,240 |
| Claims provision at the reporting date | | 1,295 | 1,275 | 2,393 | 4,459 | 15,266 | 24,688 |
| Final claims provision for year before 2012 | | | | | | | 2,251 |
| **Total claims provision at 31.12.2016** | | | | | | | **26,939** |

| **Motor property damage** | **Year of generation/occurrence** | **2012** | **2013** | **2014** | **2015** | **2016** | **Total** |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate cost of cumulative claim | at 31/12 of generation year N | | 7,646 | 5,638 | 5,915 | 6,556 | |
| | at 31/12 of year N+1 | 4,277 | 7,290 | 5,253 | 5,372 | | |
| | at 31/12 of year N+2 | 3,967 | 7,273 | 5,232 | | | |
| | at 31/12 of year N+3 | 3,950 | 7,249 | | | | |
| | at 31/12 of year N+4 | 3,955 | | | | | |
| Cumulative amounts paid to date | | 3,939 | 7,181 | 5,209 | 5,333 | 5,397 | 27,059 |
| Claims provision at the reporting date | | 16 | 68 | 23 | 39 | 1,159 | 1,305 |
| Final claims provision for year before 2012 | | | | | | | 543 |
| **Total claims provision at 31.12.2016** | | | | | | | **1,848** |

| Fire | Year of generation/occurrence | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate cost of cumulative claim | at 31/12 of generation year N | 4,137 | 4,548 | 4,043 | 4,695 | 5,763 | |
| | at 31/12 of year N+1 | 3,079 | 2,964 | 2,919 | 2,936 | | |
| | at 31/12 of year N+2 | 2,778 | 2,819 | 2,840 | | | |
| | at 31/12 of year N+3 | 2,844 | 2,710 | | | | |
| | at 31/12 of year N+4 | 2,850 | | | | | |
| Cumulative amounts paid to date | | 2,635 | 2,528 | 2,400 | 2,272 | 1,349 | 11,184 |
| Claims provision at the reporting date | | 215 | 182 | 440 | 664 | 4,414 | 5,915 |
| Final claims provision for year before 2012 | | | | | | | 301 |
| **Total claims provision at 31.12.2016** | | | | | | | **6,216** |

| Miscellaneous damage | Year of generation/occurrence | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate cost of cumulative claim | at 31/12 of generation year N | 3,242 | 2,979 | 3,632 | 3,853 | 4,353 | |
| | at 31/12 of year N+1 | 1,936 | 1,827 | 2,388 | 2,383 | | |
| | at 31/12 of year N+2 | 1,764 | 1,742 | 2,292 | | | |
| | at 31/12 of year N+3 | 1,744 | 1,744 | | | | |
| | at 31/12 of year N+4 | 1,738 | | | | | |
| Cumulative amounts paid to date | | 1,667 | 1,695 | 1,781 | 2,026 | 1,615 | 8,784 |
| Claims provision at the reporting date | | 71 | 49 | 511 | 357 | 2,738 | 3,726 |
| Final claims provision for year before 2012 | | | | | | | 336 |
| **Total claims provision at 31.12.2016** | | | | | | | **4,062** |

| Motor vehicle third party liability | Year of generation/occurrence | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate cost of cumulative claim | at 31/12 of generation year N | 34,354 | 46,001 | 52,603 | 51,320 | 56,519 | |
| | at 31/12 of year N+1 | 35,168 | 50,031 | 45,974 | 45,514 | | |
| | at 31/12 of year N+2 | 33,249 | 49,695 | 43,995 | | | |
| | at 31/12 of year N+3 | 33,529 | 49,601 | | | | |
| | at 31/12 of year N+4 | 34,247 | | | | | |
| Cumulative amounts paid to date | | 26,606 | 39,657 | 35,815 | 35,309 | 22,975 | 160,362 |
| Claims provision at the reporting date | | 7,641 | 9,944 | 8,180 | 10,205 | 33,544 | 69,514 |
| Final claims provision for year before 2012 | | | | | | | 6,153 |
| **Total claims provision at 31.12.2016** | | | | | | | **75,667** |

| GTPL | Year of generation/occurrence | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate cost of cumulative claim | at 31/12 of generation year N | 2,702 | 3,487 | 3,588 | 4,792 | 5,311 | |
| | at 31/12 of year N+1 | 3,352 | 2,065 | 2,745 | 3,321 | | |
| | at 31/12 of year N+2 | 2,645 | 1,890 | 2,500 | | | |
| | at 31/12 of year N+3 | 2,517 | 1,830 | | | | |
| | at 31/12 of year N+4 | 2,654 | | | | | |
| Cumulative amounts paid to date | | 1,663 | 1,582 | 1,695 | 1,617 | 822 | 7,379 |
| Claims provision at the reporting date | | 991 | 248 | 805 | 1,704 | 4,489 | 8,237 |
| Final claims provision for year before 2012 | | | | | | | 1,116 |
| **Total claims provision at 31.12.2016** | | | | | | | **9,353** |

| Pecuniary losses | Year of generation/occurrence | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|
| Estimate of ultimate cost of cumulative claim | at 31/12 of generation year N | 23,225 | 24,342 | 23,469 | 17,292 | 14,360 | |
| | at 31/12 of year N+1 | 23,536 | 21,312 | 19,088 | 13,069 | | |
| | at 31/12 of year N+2 | 24,397 | 21,588 | 19,172 | | | |
| | at 31/12 of year N+3 | 23,981 | 21,491 | | | | |
| | at 31/12 of year N+4 | 22,902 | | | | | |
| Cumulative amounts paid to date | | 20,208 | 17,687 | 15,311 | 9,695 | 2,420 | 65,321 |
| Claims provision at the reporting date | | 2,694 | 3,804 | 3,861 | 3,374 | 11,940 | 25,673 |
| Final claims provision for year before 2012 | | | | | | | 1,520 |
| **Total claims provision at 31.12.2016** | | | | | | | **27,193** |

## Financial liabilities (caption 4)

Financial liabilities amount to €36,212,320 thousand (€27,363,880 thousand at 31 December 2015). The related breakdown by category and investment type is given in the annex to the notes "Breakdown of financial liabilities".

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

They amount to €34,620,738 thousand (€25,913,726 thousand at 31 December 2015) and include financial liabilities held for trading and financial liabilities at fair value through profit or loss. The breakdown by level is shown in the annex to the notes "*Breakdown of financial assets and liabilities by level*".

(in thousands of euro)

| | Level 1 | Level 2 | Level 3 | 31.12.2016 |
|---|---|---|---|---|
| Financial liabilities held for trading | - | 88,105 | - | 88,105 |
| Financial liabilities designates at fair value through profit or loss | - | 34,532,633 | - | 34,532,633 |
| **Total** | **-** | **34,620,738** | **-** | **34,620,738** |

| | Level 1 | Level 2 | Level 3 | 31.12.2015 |
|---|---|---|---|---|
| Financial liabilities held for trading | - | 143,111 | - | 143,111 |
| Financial liabilities designates at fair value through profit or loss | 96 | 25,770,519 | - | 25,770,615 |
| **Total** | **96** | **25,913,630** | **-** | **25,913,726** |

### Financial liabilities held for trading

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

### Financial liabilities designated at fair value through profit or loss

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 non-hedging derivatives with negative fair values.

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Liabilities from index-linked and unit-linked contracts issued by the group | 34,532,633 | 25,770,519 |
| Non-hedging derivatives | - | 96 |
| **Total** | **34,532,633** | **25,770,615** |

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)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Subordinated liabilities | 1,316,249 | 1,313,499 |
| Financial liabilities associated with policies with eligible assets | - | - |
| Other financial liabilities | 270,758 | 130,324 |
| Deposits received from reinsurers | 4,575 | 6,331 |
| **Total** | **1,591,582** | **1,450,154** |

## 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 the Group's liquidation.

Subordinated liabilities, amounting to €1,316,249 thousand, are broken down as follows:

(in thousands of euro)

| Issuer | Interest rate | Grant date | Maturity date | Carrying amount |
|---|---|---|---|---|
| Intesa Sanpaolo | 12-month Euribor + 35 bps | 27/06/2005 | 29/06/2015 | - |
| Intesa Sanpaolo | For first 5 years 3-month Euribor + 300 bps | 30/12/2008 | 30/12/2018 | 30,003 |
| Intesa Sanpaolo | 1-year Euribor + 150 bps | 30/06/2011 | not applicable | 3,796 |
| Intesa Sanpaolo | 1-year Euribor + 170 bps | 30/06/2011 | not applicable | 1,960 |
| Intesa Sanpaolo | For first 10 years +4.80% - afterwards 3-month Euribor 360 + 140 bps | 30/06/2011 | not applicable | 4,900 |
| Intesa Sanpaolo | For first ten years +4.86% | 30/06/2011 | not applicable | 2,940 |
| Intesa Sanpaolo | For first ten years +5.06% | 30/06/2011 | not applicable | 2,450 |
| Intesa Sanpaolo | For first ten years +5.06% | 30/06/2011 | not applicable | 490 |
| Cassa di Risparmio di Firenze | 1-year Euribor + 150 bps | 20/04/1999 | not applicable | 3,962 |
| Cassa di Risparmio di Firenze | 6-month Euribor + 170 bps | 17/04/2000 | not applicable | 2,046 |
| Cassa di Risparmio di Firenze | For first 10 years +4.80% - afterwards 3-month Euribor 360 + 140 bps | 15/05/2003 | not applicable | 5,106 |
| Cassa di Risparmio di Firenze | For first 10 years +4.86% - afterwards 3-month Euribor 360 + 1.70% | 22/12/2004 | not applicable | 3,061 |
| Cassa di Risparmio di Firenze | For first 10 years +5.06% - afterwards 3-month Euribor 360 + 6.80% | 26/10/2006 | not applicable | 2,556 |
| Cassa di Risparmio di Firenze | For first 10 years +5.06% - afterwards 3-month Euribor 360 + 6.80% | 26/10/2006 | not applicable | 511 |
| Intesa Sanpaolo Vita S.p.A. | Dated Subordinated Notes due 18 September 2018 5.35% | 18/09/2013 | 18/09/2018 | 506,158 |
| Intesa Sanpaolo Vita S.p.A. | Fixed-to-Floating Undated Subordinated Notes (first call 17/12/2024) | 17/12/2014 | not applicable | 746,310 |
| **Total** | | | | **1,316,249** |

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

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

## Payables (caption 5)

The following table sets out details of the caption at 31 December 2016:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Direct insurance liabilities | 138,709 | 138,989 |
| Reinsurance liabilities | 1,710 | 1,598 |
| Other liabilities | 613,875 | 478,348 |
| **Total** | **754,294** | **618,935** |

The caption "Direct insurance liabilities" of €138,709 thousand mainly includes commissions payable to distribution networks, as well as items to be settled deriving from co-insurance agreements.

"Other liabilities" mainly include trade payables arising from direct and indirect insurance transactions of €191,228 thousand and the IRES payments on account, IRAP liabilities of €35,827 thousand and investment management fees of €31,504 thousand. The caption also comprises the liability for post-employment benefits.

### Post-employment benefits

This caption shows the following changes during the year:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| **Opening balance** | **2,886** | **3,145** |
| **Increases** | **284** | **403** |
| – New entities included in the consolidation scope | - | - |
| – Current service cost | - | 366 |
| – Transfers between group companies | - | - |
| – Interest cost | 284 | 37 |
| – Other increases | - | - |
| **Decreases** | **- 107** | **- 662** |
| – Benefits paid | - | - |
| – Current service cost | - | - |
| – Curtailments | - | - |
| – Other decreases | - 107 | - 662 |
| – Entities excluded from the consolidation scope | - | - |
| **Closing balance** | **3,063** | **2,886** |

## 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 increased during the year from €634,352 thousand to €494,084 thousand.

The following table sets out details of the caption at 31 December 2016:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Deferred tax liabilities through profit or loss | 282,132 | 332,130 |
| Deferred tax liabilities through equity | 211,952 | 302,222 |
| **Total** | **494,084** | **634,352** |

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

(in thousands of euro)

| | Profit or loss | Equity | Total 31.12.2016 | Total 31.12.2015 |
|---|---|---|---|---|
| **Opening balance** | **332,130** | **302,222** | **634,352** | **602,399** |
| **Increases** | **31,406** | **244** | **31,650** | **104,600** |
| – Deferred tax liabilities recognised in the year | 15,306 | 244 | 15,550 | 74,080 |
| – New taxes or tax rate increases | - | - | - | - |
| – New entities included in the consolidation scope | - | - | - | - |
| – Other increases | 16,100 | - | 16,100 | 30,520 |
| **Decreases** | **- 81,404** | **- 90,514** | **- 171,918** | **- 72,647** |
| – Deferred tax liabilities derecognised in the year | | | - | - |
| – Reversals | - 80,828 | - 89,832 | - 170,660 | - 14,195 |
| – Tax rate reductions | - | - | - | - |
| – Other decreases | - 576 | - 682 | - 1,258 | - 2,993 |
| – Entities excluded from the consolidation scope | | | - | - |
| **Closing balance** | **282,132** | **211,952** | **494,084** | **634,352** |

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, amounting to €416,895 thousand (€363,568 thousand at 31 December 2015), 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 2017.

### Other liabilities (caption 6.4)

The following table sets out details of this caption:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Deferred liabilities relating to investment contracts | 1,022 | 1,704 |
| Pension funds | 399 | 353 |
| Seniority bonuses | 2,534 | 2,190 |
| Deferred operating costs | - | - |
| Other liabilities | 153,412 | 149,657 |
| **Total** | **157,367** | **153,904** |

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

Deferred liabilities relating to investment contracts refer to unit-linked policies of €1,022 thousand (€1,236 thousand at 31 December 2015).

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

Other liabilities mainly include 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

Following the preliminary assessment report issued by the Guardia di Finanza (Italian tax police) on 12 September 2005, the Turin 1 Tax Office served an assessment report to the former Assicurazioni Internazionali di Previdenza S.p.A. (formerly Noricum Vita S.p.A), concerning income tax relating to 2003 on 22 March 2006.

The tax authorities alleged that the income calculation had taken into account costs pertaining to other years. These referred to commissions relating to life insurance contracts and fees for technical/administrative consultancies amounting to €807 thousand.

The parent lodged an appeal against this assessment before the Turin Provincial Tax Commission which cancelled the assessment report with its judgement no. 106 filed on 9 February 2007.

The tax authorities appealed before the Piedmont Regional Tax Commission. The second level judges upheld the decision already handed down by the lower court in their judgement no. 1 filed on 12 January 2009, thereby reconfirming the full cancellation of the assessment report. With deed served on 4 March 2010, the tax authorities lodged an appeal before the Supreme Court.

On 29 April 2010, the parent lodged a counter-appeal with the secretary’s office of the Supreme Court. The date of the hearing for the discussion of the dispute has not yet been scheduled.

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 just 2003, containing five separate claims: four for VAT purposes and one for IRAP purposes, assessing an overall higher VAT amount of €3,700 thousand and a higher IRAP amount of €28.6 thousand, thereby imposing a fine of €6,638 thousand.

On 26 July 2007, the parent challenged the assessment reports and lodged appeals before the Provincial Tax Commission of Turin, which cancelled the aforesaid reports with 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 Commission upheld the full cancellation of the assessment reports referred to 2003.

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

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

On 8 November 2007, the parent challenged the assessment reports and lodged appeals before the Turin Provincial Tax Commission, which cancelled them with the judgements filed on 11 November 2008. The Turin 1 Tax Office lodged appeals 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. At the date of this report, the date of the hearing for the discussion of the dispute has not yet been scheduled.

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

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

The parent challenged the assessment on 14 February 2011. The hearing before the Turin Provincial Tax Commission took place on 14 December 2011 and, with 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 Provincial Tax Commission of Turin, with judgement no. 38 filed on 18 March 2013, partially rejected the appeal lodged by the parent. The decision was unfavourable with regard to the recognition of the VAT exemption for the delegation commissions, whereas it was favourable with regard to the inapplicability of the fines. On 9 September 2013, the parent lodged an appeal before the Piedmont Regional Tax Commission.

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

On 20 June 2012, an assessment report was served to the parent in its role as the entity merging former Centrovita Assicurazioni S.p.A. (merged into it on 31 December 2011). The report disputed, for 2006, a higher VAT amount of €312 thousand and fines of €313 thousand.

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

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

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

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

The tax assessments addressed to former Centrovita Assicurazioni S.p.A. have a common basis and refer to the failure to recognise the exemption, for VAT purposes, of the delegation commissions in co-insurance contracts. As such, these same findings also concerned former Eurizon Vita with regard to the tax periods from 2003 to 2006, already described in the previous paragraphs, disputes which the parent considers possible to settle with favourable outcomes given that it has always obtained extremely positive results at every stage of the court proceedings.

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 allowed the appeals made by the parent with its judgement no. 939 filed on 15 July 2014, after having grouped the proceedings. Accordingly, it fully cancelled the above four challenged assessment reports.

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. A date for the appeal hearing had not yet been set at the date of this report.

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

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

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

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

**Intesa Sanpaolo Assicura**

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

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

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

With reference to the first issue, on 26 July 2013, the Piedmont Regional Tax Office 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 annulled by internal review the finding in June while the appeal for the proxy commission worth approximately €2 thousand is still pending.

With regard to the second issue, on 12 July 2010, the Turin 1 Revenue Office upheld the company's grounds and ruled on the 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 and the court cancelled it with the judgement filed on 24 July 2013. The Regional Tax Office presented a counter-appeal in February 2014 and the Regional Tax Commission handed down ruling no. 425/36/15 on 10 March 2015 allowing its appeal. On 29 October 2015, the company appealed to the Supreme Court. The amount in question is about €10 thousand.

On 15 December 2016, the Turin tax police squad commenced an inspection into the correct calculation of IRES and IRAP and VAT in 2014 and 2015.

**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 €7,902,618 thousand, showing a decrease of 34% compared to 2015.

(in thousands of euro)

| | 31.12.2016 | | | 31.12.2015 | | |
|---|---|---|---|---|---|---|
| | **Gross amount** | **Reinsurers' share** | **Net amount** | **Gross amount** | **Reinsurers' share** | **Net amount** |
| Non-life gross earned premiums | 310,083 | - 8,771 | 301,312 | 258,373 | - 8,061 | 250,312 |
| *Gross written premiums* | *393,757* | *- 6,311* | *387,446* | *285,850* | *- 6,516* | *279,334* |
| *Change in provision for unearned premiums* | *- 83,674* | *- 2,460* | *- 86,134* | *- 27,477* | *- 1,545* | *- 29,022* |
| Life gross written premiums | 7,601,806 | - 500 | 7,601,306 | 11,752,645 | - 502 | 11,752,143 |
| **Total** | **7,911,889** | **- 9,271** | **7,902,618** | **12,011,018** | **- 8,563** | **12,002,455** |

### Commission income (caption 1.2)

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

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

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

(in thousands of euro)

| | **31.12.2016** | **31.12.2015** |
|---|---|---|
| Unit-linked financial products | 530,165 | 384,599 |
| Index-linked financial products | 468 | 2,629 |
| Other commission income | 34,646 | 54,665 |
| **Total** | **565,279** | **441,893** |

### Gain (losses) on financial instruments at fair value through profit or loss (caption 1.3)

This caption is a net gain of €23,863 thousand (net loss of €47,722 thousand for 2015). It is broken down in the annex "Gains and losses on financial instruments and investments".
The larger net gains on financial instruments at fair value through profit or loss are due to the smaller change in fair value observed on financial markets compared to the previous year which affected both instruments designated at fair value through profit or loss and investments held for trading.

### Income from other financial instruments and lands and buildings (caption 1.5)

This caption amounts to €2,586,412 thousand (€2,831,931 thousand for 2015). The increase is substantially due to the larger volume of average assets under management and the higher gains on disposals compared to 2015.

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

### Other income (caption 1.6)

This caption amounts to €198,153 thousand (€253,916 thousand for 2015) and mainly consists of other technical income (€94,601 thousand), mostly relating to the management commissions for unit-linked products and exchange rate gains on investments (€91,751 thousand).

## Costs

### Net insurance benefits and claims (caption 2.1)

The caption amounts to €8,851,004 thousand (€13,253,199 thousand for 2015) as follows:

(in thousands of euro)

| | 31.12.2016 | | | 31.12.2015 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Reinsurers' share | Net amount | Gross amount | Reinsurers' share | Net amount |
| **Non-life net insurance benefits and claims** | **-97,931** | **2,629** | **-95,302** | **-97,347** | **4,979** | **-92,368** |
| Claims paid | -94,807 | 3,906 | -90,901 | -105,929 | 7,864 | -98,065 |
| Change in provision for outstanding claims | -4,120 | -1,277 | -5,397 | 7,174 | -2,885 | 4,289 |
| Change in recoveries | 1,506 | - | 1,506 | 1,364 | - | 1,364 |
| Change in other insurance provisions | -510 | - | -510 | 44 | - | 44 |
| **Life net insurance benefits and claims** | **-8,754,557** | **-1,145** | **-8,755,702** | **-13,160,894** | **63** | **-13,160,831** |
| Claims paid | -7,526,372 | 190 | -7,526,182 | -8,672,828 | 331 | -8,672,497 |
| Change in provision for outstanding claims | 77,704 | -1,005 | 76,699 | -74,655 | -251 | -74,906 |
| Change in mathematical provisions | -1,047,813 | -330 | -1,048,143 | -4,327,058 | -17 | -4,327,075 |
| Change in insurance provisions whereinvestment risk is borne by policy holders and provisions arising from pension fund management | -151,291 | - | -151,291 | -46,332 | - | -46,332 |
| Change in other insurance provisions | -106,785 | - | -106,785 | -40,021 | - | -40,021 |
| **Total** | **-8,852,488** | **1,484** | **-8,851,004** | **-13,258,241** | **5,042** | **-13,253,199** |

### Fee and 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)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Commission expense for management and dealing services | 1,687 | 1,378 |
| Unit-linked financial products | 353,381 | 258,470 |
| Index-linked financial products | 37,129 | 24,133 |
| Retroceded commission income on unit-linked funds | 5,178 | 3,380 |
| Other commission expense | 784 | 1,410 |
| **Total** | **398,159** | **288,771** |

### Expenses from other financial instruments and lands and buildings (caption 2.4)

The caption amounts to €205,781 thousand (€344,734 thousand at 31 December 2015).

Its breakdown is provided in the annex to the notes “Gains and losses on financial instruments and investments”. The caption mainly consists of realised losses of €277,290 thousand on investments classified as financial assets at fair value through profit or loss, fair value losses of €98,068 thousand and interest expense of €66,646 thousand.

### Operating expenses (caption 2.5)

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

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| **Gross commissions and other acquisition costs** | **319,785** | **332,694** |
| Acquisition commissions | 250,880 | 222,143 |
| Other acquisition costs | 30,483 | 35,866 |
| Change in deferred acquisition costs | - 10 | 41 |
| Premium collection commissions | 38,432 | 74,644 |
| **Profit participation and other commissions received from reinsurers** | **- 825** | **- 789** |
| **Investment management costs** | **51,017** | **57,751** |
| **Other administrative costs** | **84,169** | **55,458** |
| **Total** | **454,146** | **445,114** |

The investment management costs mainly consist of costs of financial instruments and investment management commissions and custody expenses (€28,711 thousand).

The change in other administrative costs is due to the rise in personnel expense (mainly for the parent), design and IT costs and the costs of the "Vicino a Te" project carried out with the ultimate parent, Intesa Sanpaolo.

### Other expenses (caption 2.6)

This caption, equal to €436,564 thousand (€387,079 thousand for 2015), includes, inter alia, the net accruals to the provisions for risks and charges (€726 thousand), depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets (€190 thousand), exchange rate losses (€35,182 thousand) and other technical costs (€382,663 thousand). The latter amount mostly consists of retention commissions paid to the sales network.

## Income taxes (caption 3)

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

The following table sets out details of this caption:

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| Current taxes | 348,986 | 231,346 |
| Change in current taxes of previous years | - | - |
| Change in deferred tax assets | 8,497 | 4,832 |
| Change in deferred tax liabilities | -65,522 | 10,347 |
| **Total** | **291,961** | **246,525** |

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

(in thousands of euro)

| | 31.12.2016 | 31.12.2015 |
|---|---|---|
| *Profit before taxes* | *930,671* | *859,017* |
| Theoretical tax expense | *319,406* | *294,815* |
| Ordinary rate applicable | 34,32% | 34,32% |
| *Tax impacts relating to:* | *-27,445* | *-48,289* |
| Different tax rates for foreign subsidiaries | -19,027 | -15,673 |
| Effect of realignment of reversal due to reduction in IRES rate to 24% | 3,580 | -12,804 |
| Effect of increase (decrease) compared to ordinary rate | -20,498 | -15,291 |
| Other | 8,500 | -4,522 |
| **Effective tax expense** | **291,961** | **246,525** |
| **Effective rate** | **31,37%** | **28,70%** |

## 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 2016 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)

| Tyoe of service | Party providing the service | Beneficiary | Note | Fees |
|---|---|---|---|---|
| Audit | KPMG S.p.A. | Intesa Sanpaolo Vita | | 1,283 |
| Attestation services | KPMG S.p.A. | Intesa Sanpaolo Vita | (1) | 969 |
| Other services | KPMG S.p.A. | Intesa Sanpaolo Vita | (2) | 312 |
| Audit | KPMG S.p.A. | Subsidiaries | | 475 |
| Attestation services | KPMG S.p.A. | Subsidiaries | (1) | 84 |
| Other services | KPMG S.p.A. | Subsidiaries | (2) | 35 |
| **Total** | | | | **3,158** |

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

# 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 advantage. The Group did not carry out atypical and/or unusual transactions during the year, either intragroup, with related parties or third parties.

(in thousands of euro)

| | Ultimate parent | Entities controlled by the ultimate parent | Other related parties | Total |
|---|---|---|---|---|
| Loans and receivables | 0 | 0 | 0 | 0 |
| Available-for-sale financial assets | 3,426,933 | 50,000 | 0 | 3,476,933 |
| Financial assets at fair value through profit | 398,324 | 80,889 | 0 | 479,213 |
| Other receivables | 142,001 | 7,776 | 334 | 150,111 |
| Other assets | 780,466 | 110,996 | 0 | 891,462 |
| Cash and cash equivalents | 1,282,276 | 30,880 | 0 | 1,313,156 |
| **ASSETS** | **6,030,000** | **280,541** | **334** | **6,310,875** |
| Insurance provision | 743,670 | 0 | 5,783 | 749,453 |
| Financial liabilities | 46,540 | 20,477 | 0 | 67,017 |
| Unrealized gains and losses equity reserve | 223,269 | -39 | 0 | 223,230 |
| Liabilities | 340,999 | 103,557 | 0 | 444,556 |
| Other liabilities | 33,096 | 26,339 | 0 | 59,435 |
| **LIABILITIES** | **1,387,574** | **150,334** | **5,783** | **1,543,691** |
| Net earned premiums | 0 | 0 | 1,939 | 1,939 |
| Fee and commission income | 1,393 | 6,268 | 0 | 7,661 |
| Gains on investments | 9,752 | -11,286 | 0 | -1,534 |
| Net gains on available-for-sale financial assets | 115,363 | 1,797 | 253 | 117,413 |
| Other income | 21,018 | 22,344 | 353 | 43,715 |
| Net insurance benefits and claims | -17,329 | -919 | -50 | -18,298 |
| Fee and commissions expenses | -143,499 | -137,385 | 0 | -280,884 |
| Commission and other acquisition cost | -164,548 | -107,572 | 0 | -272,120 |
| Investment management cost | 0 | -28,612 | 0 | -28,612 |
| Other administrative costs | -6,138 | -6,337 | 0 | -12,475 |
| Other costs | -147,620 | -129,062 | 0 | -276,682 |
| **INCOME STATEMENT** | **-331,608** | **-390,764** | **2,495** | **-719,877** |

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;

- liabilities relating to an insurance capitalisation contract for the partial accumulation of post-employment benefits of employees of Intesa Sanpaolo;
- subordinated loans;
- commissions payable to the Intesa Sanpaolo networks accrued by the latter against the placement of products of insurance companies;
- receivables and payables with the ultimate parent Intesa Sanpaolo for the tax consolidation scheme for IRES purposes;
- payables to Intesa Sanpaolo Group companies that provide IT services.

Income and expense refer mainly to:

- net gains on the financial instruments issued by group companies;
- fees that have accrued on current accounts opened with banks;
- costs and income from existing service contracts involving the reciprocal secondment of personnel or making available equipped spaces;
- other net expenses from liquidations of insurance services 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

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

– a fundamental part of the Group's governance system, designed to ensure that its operations comply with strategies and internal rules and based on healthy 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 parent has provided the Group with the tools (methodological, organisational and procedural, etc.) to protect and guarantee to all stakeholders that the individual group companies and the insurance group as a whole operate(s) correctly.

Specifically, the parent has:

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

In addition, the parent has:

– a suitable system of powers and proxies to ensure the normal performance of its operations without ambiguity; this system provides for independent decision-making powers of the various internal units to allow them to carry out their duties, in line with the organisational delegation and control principles;
– an organisational structure that ensures segregation of duties and responsibilities among the operating units and control units, as well as the latters' independence.

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

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

– proportionality: the activities that ensure implementation of company orders are proportionate to the nature, scope and complexity of its inherent risks;
– segregation of duties and responsibilities: duties and responsibilities are divided among company bodies in a clear manner;

– formalisation: the actions of the boards of directors and delegated parties are always documented;
– independence of controls: the necessary independence of the control structures from the operational units must be assured.

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

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

## 3. Identification

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

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

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

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

Risks are allocated to the following categories:

- Market, which includes the main financial risks that could impact each group company's portfolio (interest rates, currency rates, credit spreads, share prices, real estate market performance, liquidity risk and issuer default risk).
- Legislative, which includes non-compliance with existing or future expected laws.
- Operational, which includes all those events that could cause losses for the group companies due to errors, dysfunctions and damage caused by processes, systems and resources.
- Product, which includes risks related to the product's development (e.g., tariff risks, technological risks due to non-compliance with the electronic device regulations).
- Reputation, which includes all those events that could damage the group companies' reputation or image.
- Strategic, which includes the risk of losses due to wrong 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 performance of insurance operations by different companies and in different jurisdictions).
- Technical, which includes insurance risks (underwriting risk, risk of catastrophic events and provisioning risks).

## 4. Governance

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

- Internal control directives

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

  - fundamental principles of the internal controls, i.e., the tools (methodological, organisational, procedural, etc.) designed by the parent, incorporating the integrated internal controls regulation issued by Intesa Sanpaolo, as ultimate parent, to safeguard and ensure the good working of the Group and the parent;
  - the directives and criteria to circulate and collect the data and information useful for the supplementary supervisory exercise;
  - the duties and responsibilities of the company bodies and risk management, compliance and audit units and the exchange of information among the units, the board committees and company bodies, especially

as regards coordination among the control functions; the information flows have been reorganised and greater importance has been given to the role of each organisation unit in communicating irregularities, which could substantially damage the parent and the Group's health and prudent management, the control bodies that report to the boards of directors and statutory auditors;

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

– Risk Appetite Framework (RAF) rules

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

– Risk assessment rules (ORSA)

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

– Risk management rules and contingency plan

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

– Investment master resolution

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

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

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

– Outsourcing rules

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

– Rules for the valuation of eligibility

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

– Reporting rules

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

– ALM and liquidity management rules

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

– Capital management rules

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

- how to calculate own funds, especially as regards tiering and assessments about transferability and feasibility;
- the rules for the efficient management of own funds and capital planning;
- the principles underlying capital volatility measurement and containment;
- the main aspects of dividend distribution policies;
- the organisational and governance model, which encompasses the definition of the roles and responsibilities of internal bodies, departments and units involved in capital management;
- the main monitoring and reporting activities.

– Data quality rules

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

– Group regulation

This regulation was prepared in accordance with article 27 of ISVAP regulation no. 20 to:

- describe the Group's organisational structure;
- define its operational guidelines;
- specify the guidance and coordination mechanisms and tools of the Group as a whole and the subsidiaries' obligations.

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

## 5. Monitoring

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

– interest rate risk: this affects assets and liabilities, whose carrying amount is affected by changes in forward interest rates or interest rate volatility;
– equity risk: this derives from the level or volatility of the market prices of equities 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 2016, the carrying amount of investment portfolios relating to financial assets amounted to €117,804 million. Of these, the part regarding traditional revaluable life policies, the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on segregated assets are determined, non-life policies and unrestricted capital amounted to €79,485 million. The other component, whose risk is borne solely by the policyholders, mainly consists of investments related to index-linked policies, unit-linked policies and pension funds and amounted to €38,319 million.

Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the financial assets allocated to traditional revaluable life policies, non-life policies and unrestricted capital.

### Financial assets in segregated assets, non-life policies and unrestricted capital

In terms of breakdown by asset class, net of derivatives (-€72 million at their carrying amount) detailed below, 86.76% of the assets (€69,020 million) consisted of bonds, whereas assets subject to equity price risk represented 1.94% of the total and amounted to €1,541 million. The remainder (11.31%, €8,995 million) consisted of investments relating to OEIC, private equity and hedge fund units.

Investments relating to the unrestricted capital of Intesa Sanpaolo Vita amounted to €1,390 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 €45 million.

### Interest rate risk exposure

The breakdown by maturity of bonds showed 7.14% short-term (under one year), 36.37% medium-term and 56.50% long-term (over five years).

(in thousands of euro)

| | Carrying amount | % | Duration |
|---|---|---|---|
| **Fixed rate bonds** | **62,644,594** | **78.74%** | **6.41** |
| within one year | 3,343,368 | 4.20% | |
| from 1 to 5 years | 22,312,272 | 28.05% | |
| after 5 years | 36,988,954 | 46.49% | |
| **Floating rate/indexed bonds** | **6,375,871** | **8.01%** | **3.10** |
| within one year | 1,582,796 | 1.99% | |
| from 1 to 5 years | 2,787,851 | 3.50% | |
| after 5 years | 2,005,224 | 2.52% | |
| **Sub Total** | **69,020,465** | **86.76%** | |
| **Equity investments** | **1,541,458** | **1.94%** | |
| **UCI, Private Equity, Hedge Fund** | **8,994,912** | **11.31%** | |
| **Total** | **79,556,835** | **100.00%** | |

The modified duration of the bond portfolio, or the synthetic financial term of assets, is roughly 6.1 years.

The sensitivity of the fair value of the portfolio of financial assets to interest rate movements is summarised in the table below which highlights both exposure of the securities portfolio and the effect of positions represented by hedging derivatives which reduce its sensitivity. For example, a parallel shift in the yield curve of +100 basis points leads to a fair value loss on the bond portfolios of €3,965 million.

(in thousands of euro)

| | Carrying amount | % | Fair value gains (losses) | |
|---|---|---|---|---|
| | | | +100 bps | -100 bps |
| Fixed rate bonds | 62,644,594 | 90.76% | -3,774.688 | 4,194,177 |
| Floating rate/indexed bonds | 6,375,871 | 9.24% | -191.127 | 207,353 |
| **Sub Total** | **69,020,465** | **100.00%** | **-3,965,815** | **4,401,530** |
| Effect of interest rate hedges | 0 | | 0 | 0 |
| **Total** | **69,020,465** | | **-3,965,815** | **4,401,530** |

### Credit risk exposure

The table below sets forth the distribution of the bond portfolio by rating class: AAA/AA bonds represented 3.31% of total investments and single A bonds represented 4.79%. Low investment grade securities (BBB) were 76.39% of the total, while the portion of speculative grade or unrated was minimal (2.26%).

Breakdown of financial assets by rating of the issuer

(in thousands of euro)

| | Carrying amount | % |
|---|---|---|
| **Bonds** | **69,020,465** | **86.76%** |
| AAA | 1,690,991 | 2.13% |
| AA | 940,393 | 1.18% |
| A | 3,811,248 | 4.79% |
| BBB | 60,774,549 | 76.39% |
| Speculative grade | 1,704,031 | 2.14% |
| Unrated | 99,252 | 0.12% |
| **Equity investments** | **1,541,458** | **1.94%** |
| **UCI, Private Equity, Hedge Fund** | **8,994,912** | **11.31%** |
| **Total** | **79,556,835** | **100.00%** |

The analysis of the exposure in terms of the issuers/counterparties produced the following results: bonds issued by governments, central banks and other public entities made up 75.18% of bonds, whereas the bonds of corporate issuers contributed around 24.78%.

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 2016, are shown in the table below:

(in thousands of euro)

| | Carrying amount | % | Fair value gains (losses) due to change in credit spread | |
|---|---|---|---|---|
| | | | +100 bps | -100 bps |
| Government bonds | 51,888,793 | 75.18% | -3,149,601 | 3,527,036 |
| Corporate bonds | 17,131,672 | 24.82% | -890,790 | 927,930 |
| **Sub total** | **69,020,465** | **100.00%** | **-4,040,391** | **4,454,966** |
| Effect of credit risk hedges | 0 | | 0 | 0 |
| **Total** | **69,020,465** | | **-4,040,391** | **4,454,966** |

## Equity risk exposure

The sensitivity of the equity portfolio to a hypothetical deterioration in share prices of 10% amounts to €154 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 | 158,610 | 10.29% | -15,861 |
| Shares of non-financial and other companies | 1,382,848 | 89.71% | -138,285 |
| Effect share price risk hedge | - | 0.00% | - |
| **Total** | **1,541,458** | **100.00%** | **-154,146** |

## Currency risk exposure

The investment portfolio is not significantly exposed to currency risk: approximately 97% of investments are made up of assets denominated in Euro. Against the residual exposure to currency risk, positions in derivatives, above all domestic currency swaps, in the same currency, were entered into.

## Derivatives

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

Liquidity risk associated with derivatives is primarily attributable to plain vanilla derivatives (chiefly interest rate swaps, constant-maturity swaps and credit default swaps) traded on OTC markets with significant liquidity characteristics and sizes. These instruments are thus also liquid and easily liquidable both with the counterparty with which they were traded and with other market operators.

The following table shows the carrying amounts of derivatives at 31 December 2016 (derivatives with negative fair value are included):

(in thousands of euro)

| | Carrying amounts | | | | | |
|---|---|---|---|---|---|---|
| | Interest rates | | Equity instruments, indices and exchange rates | | Total | |
| | Listed | Unlisted | Listed | Unlisted | Listed | Unlisted |
| Hedging derivatives | - | - | - | | - | - |
| Effective operating hedges | - | -80,356 | 3,094 | 5,464 | 3,094 | -74,892 |
| **Total** | **-** | **-80,356** | **3,094** | **5,464** | **3,094** | **-74,892** |

## Financial assets allocated to unit-linked and index-linked policies

The financial assets at fair value through profit or loss include the assets allocated to meet obligations assumed for the issue of unit-linked and index-linked policies whose investment risks are borne by the policyholders; fair value changes in the financial liabilities for these contracts mirrors that of the assets allocated to them.

The following table shows the carrying amounts of the index-linked policy portfolio classified by rating of the issuer/guarantor or issuer:

(in thousands of euro)

| | Intesa Sanpaolo Vita | | Intesa Sanpaolo Life | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | % | Fair value | % | Fair value | % |
| Aaa/AAA/AAA | - | 0,00% | - | 0,00% | - | 0,00% |
| Aa1/AA+/AA+ | - | 0,00% | - | 0,00% | - | 0,00% |
| Aa2/AA/AA | - | 0,00% | - | 0,00% | - | 0,00% |
| Aa3/AA-/AA- | - | 0,00% | - | 0,00% | - | 0,00% |
| A1/A+/A+ | - | 0,00% | - | 0,00% | - | 0,00% |
| A2/A/A | - | 0,00% | - | 0,00% | - | 0,00% |
| A3/A-/A- | - | 0,00% | - | 0,00% | - | 0,00% |
| Baa1/BBB+/BBB+ | - | 0,00% | 806 | 100,00% | 806 | 100,00% |
| Baa2/BBB/BBB | - | 0,00% | - | 0,00% | - | 0,00% |
| Baa3/BBB-/BBB- | - | 0,00% | - | 0,00% | - | 0,00% |
| Ba1/BB+/BB+ | - | 0,00% | - | 0,00% | - | 0,00% |
| Ba2/BB/BB | - | 0,00% | - | 0,00% | - | 0,00% |
| Ba3/BB-/BB- | - | 0,00% | - | 0,00% | - | 0,00% |
| B1/B+/B+ | - | 0,00% | - | 0,00% | - | 0,00% |
| B2/B/B | - | 0,00% | - | 0,00% | - | 0,00% |
| B3/B-/B- | - | 0,00% | - | 0,00% | - | 0,00% |
| Not rated | - | 0,00% | - | 0,00% | - | 0,00% |
| **Total** | **-** | **0,00%** | **806** | **100,00%** | **806** | **100,00%** |
| of which guaranteed | - | | - | | - | 0,00% |

The fair values of investments for unit-linked policies amount to €34,550 million at 31 December 2016.

Their classification by risk profile shows a concentration of investments in medium and medium-high risk funds (approximately 68.3%).

(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 | 6 | 55,223 | 0.69% | 8 | 61,684 | 0.23% | 14 | 116.907 | 0.34% |
| Medium low | 19 | 66,295 | 0.83% | 32 | 880,717 | 3.32% | 51 | 947.012 | 2.74% |
| Medium | 36 | 2,905,031 | 36.28% | 58 | 10,769,726 | 40.57% | 94 | 13,674,757 | 39.58% |
| Medium high | 28 | 3,239,757 | 40.47% | 50 | 6,682,700 | 25.18% | 78 | 9,922,457 | 28.72% |
| High | 30 | 1,738,033 | 21.71% | 80 | 2,438,298 | 9.19% | 110 | 4,176,331 | 12.09% |
| Very high | 1 | 1,940 | 0.02% | 1 | 41,773 | 0.16% | 2 | 43,713 | 0.13% |
| Protected | - | - | 0.00% | 9 | 5,669,590 | 21.36% | 9 | 5,688,590 | 16.41% |
| Guaranteed | - | - | 0.00% | - | - | 0.00% | - | - | 0.00% |
| Not defined | - | - | 0.00% | - | - | 0.00% | - | - | 0.00% |
| **Total** | **120** | **8,006,278** | **100.00%** | **238** | **26,543,488** | **100.00%** | **358** | **34,549,766** | **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** | **407,024** | **5.08%** | **60** | **878,590** | **3.31%** | **87** | **1,285,614** | **3.72%** |
| of which Italian equities | 1 | 13,300 | 0.17% | 8 | 47,028 | 0.18% | 9 | 60,328 | 0.17% |
| of which European equities | 8 | 71,499 | 0.89% | 10 | 237,690 | 0.90% | 18 | 309,189 | 0.89% |
| of which North American equities | 3 | 48,523 | 0.61% | 11 | 229,779 | 0.87% | 14 | 278,302 | 0.81% |
| of which Pacific equities | 3 | 14,195 | 0.18% | 8 | 72,946 | 0.27% | 11 | 87,141 | 0.25% |
| of which global equities | 11 | 241,094 | 3.01% | 13 | 186,217 | 0.70% | 24 | 427,311 | 1.24% |
| of which specialised equities | 1 | 18,413 | 0.23% | 10 | 104,930 | 0.40% | 11 | 123,343 | 0.36% |
| **Total balanced** | **28** | **1,850,999** | **23.12%** | **26** | **1,016,401** | **3.83%** | **54** | **2,867,400** | **8.30%** |
| of which balanced-equities | 2 | 1,913 | 0.02% | 7 | 74,636 | 0.28% | 9 | 76,549 | 0.22% |
| of which balanced | 14 | 220,968 | 2.76% | 15 | 899,751 | 3.39% | 29 | 1,120,719 | 3.24% |
| of which balanced-bonds | 12 | 1,628,118 | 20.34% | 4 | 42,014 | 0.16% | 16 | 1,670,132 | 4.83% |
| **Total bonds** | **32** | **888,920** | **11.10%** | **67** | **9,114,176** | **34.34%** | **99** | **10,003,096** | **28.95%** |
| of which pure Euro short-term government bonds | - | - | 0.00% | 1 | 13,172 | 0.05% | 1 | 13,172 | 0.04% |
| of which pure Euro medium to long-term government bonds | 9 | 77,898 | 0.97% | 9 | 269,997 | 1.02% | 18 | 347,895 | 1.01% |
| of which pure Euro corporate bonds | 1 | 51,307 | 0.64% | 4 | 214,865 | 0.81% | 5 | 266,172 | 0.77% |
| 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 | 22,402 | 0.28% | 23 | 280,243 | 1.06% | 24 | 302,645 | 0.88% |
| of which pure international corporate bonds | - | - | 0.00% | 4 | 319,518 | 1.20% | 4 | 319,518 | 0.92% |
| of which mixed Eurozone bonds | 7 | 36,629 | 0.46% | 5 | 76,433 | 0.29% | 12 | 113,062 | 0.33% |
| of which mixed international bonds | 14 | 700,684 | 8.75% | 21 | 7,939,948 | 29.91% | 35 | 8,640,632 | 25.01% |
| **Total liquidity** | **3** | **39,404** | **0.49%** | **11** | **284,124** | **1.07%** | **14** | **323,528** | **0.94%** |
| of which Eurozone liquidity | 2 | 38,295 | 0.48% | 10 | 278,632 | 1.05% | 12 | 316,927 | 0.92% |
| of which other currency liquidity | 1 | 1,109 | 0.01% | 1 | 5,492 | 0.02% | 2 | 6,601 | 0.02% |
| **Total flexible** | **22** | **4,624,915** | **57.99%** | **65** | **9,581,607** | **36.10%** | **87** | **14,224,522** | **41.17%** |
| **Total protected** | **8** | **177,016** | **2.21%** | **9** | **5,668,590** | **21.36%** | **17** | **5,845,606** | **16.92%** |
| **Total guaranteed** | **-** | **-** | **0.00%** | **-** | **-** | **0.00%** | **-** | **-** | **0.00%** |
| **N/D** | **-** | **-** | **0.00%** | **-** | **-** | **0.00%** | **-** | **-** | **0.00%** |
| **Total** | **120** | **8,006,278** | **100.00%** | **238** | **26,543,488** | **100.00%** | **358** | **34,549,766** | **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: tariff 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 2016.

(in thousands of euro)

| | Mathematical provision | % |
|---|---|---|
| up to 1 year | 1,381,474 | 1.87% |
| from 1 to 5 years | 4,714,832 | 6.39% |
| from 6 to 10 years | 743,283 | 1.01% |
| from 11 to 20 years | 590,907 | 0.80% |
| after 20 years | 66,311,909 | 89.92% |
| **Total** | **73,742,405** | **100.00%** |

(in thousands of euro)

| | Total provision | % |
|---|---|---|
| Insurance and investment products with annual return quarantee | | |
| 0% -1% | 10,239,720 | 12.94% |
| from 1% to 3% | 53,022,986 | 67.02% |
| from 3% to 5% | 6,675,945 | 8.44% |
| Insurance products | 3,803,753 | 4.81% |
| Shadow accounting provision | 5,367,077 | 6.78% |
| **Total** | **79,109,483** | **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 | 31.12.2016 | 31.12.2015 |
|---|---|---|---|---|
| Unit-linked | 125 | 34,531,702 | 34,531,827 | 25,494,674 |
| Index-linked | - | 806 | 806 | 275,845 |
| Subordinated liabilities | - | 1,316,249 | 1,316,249 | 1,313,499 |
| **Total** | **125** | **35,848,757** | **35,848,882** | **27,084,018** |

## Non-life business

The typical risks of the non-life insurance portfolio (managed through Intesa Sanpaolo Assicura and Intesa Sanpaolo Vita) mainly relate to tariff and provisioning risks.

Tariff risks are monitored initially during definition of the technical features and product pricing, and over the life of the instrument 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 tariff. 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 tariff 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 2016:

| Year of generation/occurrence | | 2012 | 2013 | 2014 | 2015 | 2016 | Totale |
|---|---|---|---|---|---|---|---|
| Provision: | | | | | | | |
| Estimate of ultimate cost of cumulative claims | at 31/12 of generation year N | 92,482 | 116,234 | 123,914 | 121,698 | 127,851 | - |
| | at 31/12 of year N+1 | 92,033 | 110,140 | 101,844 | 98,405 | | - |
| | at 31/12 of year N+2 | 88,353 | 107,505 | 98,803 | | | - |
| | at 31/12 of year N+3 | 87,861 | 105,664 | | | | - |
| | at 31/12 of year N+4 | 87,106 | | | | | - |
| Cumulative amounts paid to date | | 73,853 | 89,421 | 81,096 | 73,285 | 42,456 | 360,111 |
| Claims provision at the reporting date | | 13,342 | 16,858 | 17,876 | 25,345 | 85,689 | 159,110 |
| Final claims provision for years before 2012 | | - | - | - | - | - | 12,934 |
| **Total claims provision at 31.12.2016** | | **-** | **-** | **-** | **-** | **-** | **172,044** |

## Operational risk

### Qualitative information

The second Basel Accord (Basel II) defines operational risk as the risk of incurring losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual, out-of-contract responsibilities or other disputes; strategic and reputational risks are not included.

Following approval by Bank of Italy, Intesa Sanpaolo Group introduced an internal Model (AMA, Advanced Measurement Approach). Control of the operational risks has been attributed to the management board, which identifies risk management policies, and to the supervisory board, 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.

The tasks of the group compliance and operational risk committee include periodically reviewing the Group's 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 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 Intesa Sanpaolo Group, in particular, the operational risk management 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, worst case. The consistency analysis is used to verify any discrepancies between historical and future loss data.

The self-diagnosis process has helped to increase a corporate culture which aims at continuously controlling operational risks.

Intesa Sanpaolo Group implements a traditional policy of operational risk transfer (insurance) with the aim of mitigating the impact of any unexpected losses, thus helping to reduce the risk capital.

Operational risks are monitored by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.

In order to support the operational risk management process on a continuous basis, a structured training programme was defined for employees actively involved in the process of managing and mitigating operational risk.

In particular, Intesa Sanpaolo Vita S.p.A. follows the directives of the ultimate parent on operational risks and, at the same time, continues its checks of the adequacy of the full process in accordance with specific, and not only regulatory, developments for insurance companies, both at an international level (ORX Insurance Sector Database consortium) and at a European (Solvency II) and national (IVASS and CROFI) level.

## 6. Assessment

Risks are monitored using an assessment process using methods that comply with the ORSA process. This latter process is the tool designed to make the governance and operations of the parent and the Group efficient and effectively create value considering the risk taken on and the available capital.

The method applied to calculate economic capital absorption for risks identified by the Group is compliant with the parameters and modules defined by the Solvency II regulations.

The risk assessment process includes ongoing stress tests. They comprise a number of techniques used by the Group to:

- measure its vulnerability to exceptional but plausible events;
- allow the board of directors and senior management to understand the link between risk taken on and the risk appetite and the adequacy of the available capital.

The parent's risk committee approves the stress test methods.

The risk management unit presents the stress test results to the risk committee and to the board of directors of each group company at least once a year.

# 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 a few years.

Therefore:

- with respect to the 2011 results and the resolution taken by the shareholders on 28 May 2012, the Group acquired (through Banca IMI, appointed as the programme agent) 12,894,692 ordinary Intesa Sanpaolo shares on 26 June 2012 (equal to roughly 0.08% of its ordinary shares) for an average price per share of €0.97969 and a total of €12,632,743;
- with respect to the 2012 results and the resolution taken by the shareholders on 22 April 2013, the Group acquired (through Banca IMI, appointed as the programme agent) 8,920,413 ordinary Intesa Sanpaolo shares on 8 October 2013 (equal to roughly 0.06% of its ordinary shares) for an average price per share of €1.72775 and a total of €15,412,287;
- with respect to the 2014 results and to implement the resolutions taken by the shareholders on 8 May 2014 and 27 April 2015, the Group acquired (through Banca IMI, appointed as the programme agent) 6,885,565 ordinary Intesa Sanpaolo shares on 9 October 2015 (equal to roughly 0.04% of its ordinary shares) for an average price per share of €3.197 and a total of €22,012,769.
- with respect to the 2015 results and the resolution taken by the shareholders on 27 April 2016, the Group acquired (through Banca IMI, appointed as the programme agent) 8,440,911 ordinary Intesa Sanpaolo shares on 17 November 2016 (equal to roughly 0.05% of its ordinary shares) for an average price per share of €2.149 and a total of €18,139,446.

On the same dates, the shareholders also authorised the sale of shares in excess of the Group's actual requirements on the market or their retention to serve possible future incentive plans.

These shares will be assigned to the beneficiaries in line with the regulations for the incentive systems which usually require that the beneficiary be with the company up until the effective assignment of the shares and subject each deferred part of the incentive (cash or financial instruments) to an ex post correction mechanism (malus condition), whereby the amount paid and the shares assigned may be decreased depending on whether specific financial-equity objectives, which measure the sustainability of the results achieved over time, are met in the year to which the deferred part relates.

Given the 2013 results, the share-based incentive plan was not activated and the Group did not purchase shares for this purpose in 2014.

As a result of the above purchases, the Group holds 562,201 shares of the ultimate parent, Intesa Sanpaolo.

## 2. Employee benefit plans

The long-term share-based payment plans are designed to motivate and encourage the loyalty of all group employees, alongside introduction of the 2014-2017 business plan. Specifically, the plan has the aim of encouraging identification with the Group, pursuit of medium to long-term objectives and sharing value created over time.

The Group offers two long-term instruments 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 offer has two stages:

1. launch of a stock option plan which allows each employee to share in the parent's value (ownership) and, hence, increase their involvement in the Group;
2. allow each employee to decide what to do with the shares received and:
   - keep them in their securities account to sell them at a later date, or sell them immediately;
   - invest them in the leveraged employee co-investment plans (the LECOIP certificates) for a period equal to that of the business plan.

These financial instruments were both purchased on the market and are the result of capital increases.

The free assignment of ordinary Intesa Sanpaolo shares (PAD) entailed their purchase on the market (free shares) while the LECOIP certificates, issued by a third party financial company, have additional newly issued ordinary Intesa Sanpaolo shares as their underlying assignable to employees as part of a bonus capital increase (matching shares) and the employees' subscription of newly issued ordinary Intesa Sanpaolo shares arising from a capital increase against payment reserved to the employees at a discounted price compared to the market prices (discounted shares).

The LECOIP certificates are divided into three categories and have different characteristics depending on whether they are attributable to Risk Taker employees, managers or other employees. These certificates include:

- the right to receive a cash amount (or ordinary Intesa Sanpaolo shares) upon their maturity, equal to their original reference value (the average market price for November 2014) of the free shares and the matching shares ("protected capital"); and
- the right to receive, again upon maturity, a portion of the appreciation of the shares' value (free shares, matching shares and discounted shares) compared to the above original reference value.

The employees did not have to pay cash to join the plans. Rather, concurrently with subscription of the certificates, the employees agreed a forward sales contract for the free shares, the matching shares and the discounted shares with the certificate issuer. The sales price was used by the employees to subscribe the discounted shares and, for the remainder, to purchase the certificates.

The shareholders of Intesa Sanpaolo approved the co-investment plans in their ordinary meeting on 8 May 2014. The ultimate parent's shareholders also authorised the repurchase of own shares (pursuant to article 2357.2 of the Italian Civil Code), needed to assign the free shares. On the same day, Intesa Sanpaolo's shareholders resolved in their extraordinary meeting to authorise the management board to:

- increase share capital (bonus issue) to assign matching shares to the employees; and
- increase share capital against consideration for the employees, excluding options, by issuing shares at a discounted price compared to the market price for ordinary Intesa Sanpaolo shares.

The insurance group companies were authorised by their shareholders to purchase ordinary Intesa Sanpaolo shares to service the free share assignment plan for their employees.

Bank of Italy authorised the co-investment plans on 30 September 2014, after which the management board took the necessary resolutions to implement the plans on 2 October 2014.

The offering period for the co-investment plan closed on 31 October 2014. The shares were assigned to the employees on 1 December 2014, which is the start date of the vesting period that will end in April 2018.

Under IFRS 2, the PAD and LECOIP are presented using two different methods:

– as a cash-settled share-based payment transaction for the free shares: the insurance group companies purchased ordinary Intesa Sanpaolo shares directly on the market to assign their employees;
– as an equity-settled share-based payment transaction for the discounted and matching shares: Intesa Sanpaolo took on the obligation to assign shares to the employee beneficiaries of the group companies. The insurance group companies recognised an increase in equity, balancing the cost of the service received, being the ultimate parent's contribution for this component.

Given the impossibility of estimating the fair value of the services received from employees reliably, the cost of the benefit for the employees is the fair value of the assigned shares, calculated at the assignment date, to be recognised in profit or loss as "Other administrative costs". The fair value of the free shares and the matching shares was calculated based on the market price of the shares on the assignment date. The fair value of the subscription discount of the discounted shares was calculated based on the market price of the shares on the assignment date. The market price of the shares assigned to the Risk Takers was adjusted to reflect the obligation to transfer the shares after the holding period.

The cost was fully expensed for those employees who only joined the stock option plan and not the LECOIP investment plans (i.e., who only received the free shares) as these shares are not subject to vesting conditions.

The employees who joined the LECOIPs are required to remain in service for the plan's term and there are additional performance objectives for the Risk Takers and managers (attainment of specific objectives related to the company's capitalisation and results). If the vesting conditions are not met, Intesa Sanpaolo takes over the rights that would have been recognised to the employees as per the certificates and the amounts of these rights are retroceded to the group companies. The financial effects of the plan, estimated by weighing the defined vesting conditions (including the probability that an employee will remain with the Group over the plan term), will be recognised over the vesting period, i.e., over the plan term.

The quantitative elements of the above plans are set out below.

As a result of the decisions taken by each employee, on 1 December 2014, the employee beneficiaries were assigned and delivered ordinary Intesa Sanpaolo shares as part of the PAD or LECOIP. The shares assigned for the PAD do not have vesting conditions (although the Risk Takers are required to hold them for two years) while the benefit from participation in the LECOIP plans will vest when the 40-month vesting period ends (April 2018). The Risk Takers are required to hold them for another year.

The cost of the LECOIP in 2015 was roughly €2.1 million (12/40 of the plan's total value).

The Group has not recognised liabilities for the cash-settled payments to employees under the plan's operating mechanism.

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 185,274 Intesa Sanpaolo shares during the year at an average unit price of €2.149 to serve the deferred variable component tied to management's attainment of its 2015 targets. If the targets are met, the shares will be made available to the eligible beneficiaries.

# Annexes to the notes to the consolidated financial statements

# STATEMENT OF FINANCIAL POSITION BY SEGMENT

(value in euro)

| | | Non-life segment | | Life segment | | Consolidation adjustements | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 |
| **1** | **INTANGIBLE ASSETS** | **205,000** | **28,000** | **635,339,000** | **635,518,000** | **0** | **0** | **635,544,000** | **635,546,000** |
| **2** | **TANGIBLE ASSETS** | **38,000** | **60,000** | **4,877,000** | **1,466,000** | **0** | **0** | **4,915,000** | **1,526,000** |
| **3** | **AMOUNT CEDED TO REINSURERS FROM INSURANCE PROVISIONS** | **16,654,000** | **20,391,000** | **657,000** | **1,992,000** | **0** | **0** | **17,311,000** | **22,383,000** |
| **4** | **INVESTMENTS** | **798,739,000** | **625,876,000** | **117,177,323,000** | **106,534,427,000** | **-83,863,000** | **-83,863,000** | **117,892,199,000** | **107,076,440,000** |
| 4.1 | Lands and buildings (investment properties) | 0 | 0 | 0 | 19,249,000 | 0 | 0 | 0 | 19,249,000 |
| 4.2 | Investments in subsidiaries, associates and joint ventures | 0 | 0 | 83,863,000 | 83,863,000 | -83,863,000 | -83,863,000 | 0 | 0 |
| 4.3 | Investments held to maturity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4.4 | Loans and receivables | 0 | 0 | 16,315,000 | 572,878,000 | 0 | 0 | 16,315,000 | 572,878,000 |
| 4.5 | Financial assets available for sale | 789,694,000 | 617,118,000 | 77,267,227,000 | 74,651,009,000 | 0 | 0 | 78,056,921,000 | 75,268,127,000 |
| 4.6 | Financial assets at fair value through profit and loss | 9,045,000 | 8,758,000 | 39,809,918,000 | 31,207,428,000 | 0 | 0 | 39,818,963,000 | 31,216,186,000 |
| **5** | **RECEIVABLES** | **24,788,000** | **19,722,000** | **381,824,000** | **300,919,000** | **-2,996,000** | **-479,000** | **403,616,000** | **320,162,000** |
| **6** | **OTHER ASSETS** | **19,087,000** | **23,922,000** | **2,281,897,000** | **1,899,774,000** | **-1,124,000** | **0** | **2,299,860,000** | **1,923,696,000** |
| 6.1 | Deferred acquisition costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6.2 | Other assets | 19,087,000 | 23,922,000 | 2,281,897,000 | 1,899,774,000 | -1,124,000 | 0 | 2,299,860,000 | 1,923,696,000 |
| **7** | **CASH AND CASH EQUIVALENTS** | **53,732,000** | **97,637,000** | **1,441,315,000** | **2,905,525,000** | **0** | **0** | **1,495,047,000** | **3,003,162,000** |
| **TOTAL ASSETS** | | **913,243,000** | **787,636,000** | **121,923,232,000** | **112,279,621,000** | **-87,983,000** | **-84,342,000** | **122,748,492,000** | **112,982,915,000** |
| **1** | **SHAREHOLDERS' EQUITY** | | | | | | | **4,565,412,000** | **4,599,469,000** |
| **2** | **OTHER PROVISIONS** | **5,000** | **46,000** | **11,987,000** | **13,876,000** | **0** | **0** | **11,992,000** | **13,922,000** |
| **3** | **INSURANCE PROVISIONS** | **592,728,000** | **504,426,000** | **79,543,400,000** | **78,730,459,000** | **0** | **0** | **80,136,128,000** | **79,234,885,000** |
| **4** | **FINANCIAL LIABILITIES** | **5,576,000** | **7,336,000** | **36,206,744,000** | **27,356,544,000** | **0** | **0** | **36,212,320,000** | **27,363,880,000** |
| 4.1 | Financial liabilities at fair value through profit or loss | 0 | 0 | 34,620,738,000 | 25,913,726,000 | 0 | 0 | 34,620,738,000 | 25,913,726,000 |
| 4.2 | Other financial liabilities | 5,576,000 | 7,336,000 | 1,586,006,000 | 1,442,818,000 | 0 | 0 | 1,591,582,000 | 1,450,154,000 |
| **5** | **PAYABLES** | **44,842,000** | **39,851,000** | **712,863,000** | **579,595,000** | **-3,411,000** | **-511,000** | **754,294,000** | **618,935,000** |
| **6** | **OTHER LIABILITIES** | **14,981,000** | **18,828,000** | **1,054,155,000** | **1,132,996,000** | **-790,000** | **0** | **1,068,346,000** | **1,151,824,000** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | | | | | | | **122,748,492,000** | **112,982,915,000** |

# INCOME STATEMENT BY SEGMENT

(value in euro)

| | | Non-life segment | | Life segment | | Consolidation adjustements | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 |
| 1.1 | Net earned premiums | 301,312,000 | 250,312,000 | 7,601,306,000 | 11,752,143,000 | 0 | 0 | 7,902,618,000 | 12,002,455,000 |
| 1.1.1 | *Gross earned premiums* | *310,083,000* | *258,373,000* | *7,601,806,000* | *11,752,645,000* | *0* | *0* | *7,911,889,000* | *12,011,018,000* |
| 1.1.2 | *Earned premiums ceded* | *-8,771,000* | *-8,061,000* | *-500,000* | *-502,000* | *0* | *0* | *-9,271,000* | *-8,563,000* |
| 1.2 | Commission income | 0 | 0 | 565,279,000 | 441,893,000 | 0 | 0 | 565,279,000 | 441,893,000 |
| 1.3 | Gains (losses) on financial instruments at fair value through profit and loss | 245,000 | 580,000 | 23,618,000 | 47,142,000 | 0 | 0 | 23,863,000 | 47,722,000 |
| 1.4 | Income from investments in subsidiaries, associates and joint ventures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1.5 | Income from other financial instruments and lands and buildings | 28,041,000 | 33,491,000 | 2,558,371,000 | 2,798,440,000 | 0 | 0 | 2,586,412,000 | 2,831,931,000 |
| 1.6 | Other income | 19,769,000 | 16,945,000 | 185,752,000 | 239,145,000 | -7,368,000 | -2,174,000 | 198,153,000 | 253,916,000 |
| **1** | **TOTAL INCOME** | **349,367,000** | **301,328,000** | **10,934,326,000** | **15,278,763,000** | **-7,368,000** | **-2,174,000** | **11,276,325,000** | **15,577,917,000** |
| 2.1 | Net insurance benefits and claims | -95,302,000 | -92,368,000 | -8,755,702,000 | -13,160,831,000 | 0 | 0 | -8,851,004,000 | -13,253,199,000 |
| *2.1.2* | *Claims paid and change in insurance provisions* | *-97,931,000* | *-97,347,000* | *-8,754,557,000* | *-13,160,894,000* | *0* | *0* | *-8,852,488,000* | *-13,258,241,000* |
| *2.1.3* | *Reinsurers' share* | *2,629,000* | *4,979,000* | *-1,145,000* | *63,000* | *0* | *0* | *1,484,000* | *5,042,000* |
| 2.2 | Fee and commission expense | 0 | 0 | -398,159,000 | -288,771,000 | 0 | 0 | -398,159,000 | -288,771,000 |
| 2.3 | Expenses from investments in subsidiaries, associates and joint ventures | 0 | 0 | 0 | -3,000 | 0 | 0 | 0 | -3,000 |
| 2.4 | Expenses from other financial instruments and lands and buildings | -2,401,000 | -5,295,000 | -203,380,000 | -339,439,000 | 0 | 0 | -205,781,000 | -344,734,000 |
| 2.5 | Operating expenses | -130,375,000 | -100,044,000 | -331,955,000 | -347,517,000 | 8,184,000 | 2,447,000 | -454,146,000 | -445,114,000 |
| 2.6 | Other expenses | -55,621,000 | -53,896,000 | -380,208,000 | -332,910,000 | -735,000 | -273,000 | -436,564,000 | -387,079,000 |
| **2** | **TOTAL EXPENSES** | **-283,699,000** | **-251,603,000** | **-10,069,404,000** | **-14,469,471,000** | **7,449,000** | **2,174,000** | **-10,345,654,000** | **-14,718,900,000** |
| | **PROFIT (LOSS) BEFORE TAXES FOR THE PERIOD** | **65,668,000** | **49,725,000** | **864,922,000** | **809,292,000** | **81,000** | **0** | **930,671,000** | **859,017,000** |

# CONSOLIDATION AREA

| Company | Country of registered office | Country of operating office (5) | Method (1) | Activity (2) | Shareholding Direct % | % Total stake (3) | % Available voting rights at ordinary shareholders' meeting (4) | % of consolidation |
|---|---|---|---|---|---|---|---|---|
| INTESA SANPAOLO VITA S.p.A. | 086 | | G | 1 | 0.00% | 0.00% | | 100.00% |
| INTESA SANPAOLO LIFE LTD | 040 | | G | 2 | 100.00% | 100.00% | | 100.00% |
| INTESA SANPAOLO ASSICURA S.p.A. | 086 | | G | 1 | 100.00% | 100.00% | | 100.00% |
| INTESA SANPAOLO SMART CARE S.r.l. | 086 | | G | 11 | 100.00% | 100.00% | | 100.00% |

(1) Consolidation method: Line-by-line =L, Proportionate =P, Line-by-line by common control =C
(2) 1=Italian insurance; 2=EU insurance; 3=non-EU insurance; 4=insurance holding; 5=EU reinsurance; 6=non-EU reinsurance; 7=banking; 8=fund management; 9=other holding; 10=real estate 11=other
(3) the sum of the investments of all the companies that along the investment chain lie between the company preparing the consolidated financial statements and the company being consolidated. If more than one subsidiary has an investment in the latter company, the single amounts should be summed.
(4) total voting rights percentage available in ordinary meetings if different from the direct or indirect investment percentage.
(5) this information is required only when the Country of operating office is different from the Country of registered office

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

| | | | | | Financial highlight | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name | Non-controlling interests investment % | Voting rights % available at ordinary share/ quotaholders' meetings to non-controlling interests | Profit (loss) for the year attributable to non-controlling interests | Equity attributable to non-controlling interests | Total assets | Investments | Technical provisions | Financial liabilities | Equity | Profit (loss) for the year | Dividends distributed to third parties | Gross premiums |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

# NON-CONSOLIDATED EQUITY INVESTMENTS

| Name | Country of registered office | Country of operating office (5) | Business (1) | Type (2) | Direct investment % | Total investment % (3) | Voting rights % available at ordinary share/ quotaholders' meetings (4) | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

(1) 1=Italian insurance; 2=EU insurance; 3=non-EU insurance; 4=insurance holding; 5=EU reinsurance; 6=non-EU reinsurance; 7=banking; 8=fund management; 9=other holding; 10=real estate 11=other
(2) a=subsidiary (IAS 27) ; b=associate (IAS 28); c=joint venture (IAS 31); indicate with an asterisk (*) investments classified as held for sale pursuant to IFRS 5 and show the key at the foot of the table
(3) the sum of the investments of all the companies that along the investment chain lie between the company preparing the consolidated financial statements and the company being consolidated. If more than one subsidiary has an investment in the latter company, the single amounts should be summed.
(4) total voting rights percentage available in ordinary meetings if different from the direct or indirect investment percentage.
(5) this information is required only when the Country of operating office is different from the Country of registered office

## INTERESTS IN NON-CONSOLIDATED STRUCTURED ENTITIES

(value in euro)

| Name | Revenue received from the structured entity during the year | Carrying amount (at the transfer date) of the assets transferred to the structured entity during the year | Carrying amount of the assets recognised by the reporting entity related to the structured entity | Matching statement of financial position asset caption | Carrying amount of liabilities recognised by the reporting entity related to the structured entity | Matching statement of financial position liability caption | Maximum exposure to risk of losses |
|---|---|---|---|---|---|---|---|
| FIPF 1 A2 (FIPF 1 A2) | 14,099 | - | 1,549,218 | A 4,5 | - | - | 1,391,333 |
| E-MAC NL05-3 A (E-MAC NL05-3 A) | 22,396 | - | 4,616,718 | A 4,5 | - | - | 4,388,337 |
| AVONDALE SECURITIES S.A. A2 EON 2032 | 34,035 | - | 1,178,831 | A 4,4 | - | - | 1,178,831 |

## BREAKDOWN OF TANGIBLE AND INTANGIBLE ASSETS

(value in euro)

| | Cost | Deemed cost or fair value | Book value |
|---|---|---|---|
| Lands and buildings (investment properties) | 0 | | 0 |
| Lands and buildings (self used) | 0 | | 0 |
| Other tangible assets | 4,915,000 | | 4,915,000 |
| Other intangible assets | 964,000 | | 964,000 |

## BREAKDOWN OF FINANCIAL ASSETS

(value in euro)

| | Held to maturity investments | | Loans and receivables | | Financial assets available for sale | | Financial assets at fair value through profit and loss | | | | Total Book value | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Financial assets held for trading | | Financial assets designated at fair value through profit and loss | | | |
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Equity securities and derivatives measured at cost | 0 | 0 | 0 | 0 | 63,000 | 52,000 | 0 | 0 | 0 | 0 | 63,000 | 52,000 |
| Equity securities at fair value | 0 | 0 | 0 | 0 | 1,540,352,000 | 1,322,137,000 | 0 | 0 | 687,631,000 | 530,336,000 | 2,227,983,000 | 1,852,473,000 |
| *of which listed securities* | *0* | *0* | *0* | *0* | *1,540,352,000* | *1,322,136,000* | *0* | *0* | *687,631,000* | *530,336,000* | *2,227,983,000* | *1,852,472,000* |
| Debt securities | 0 | 0 | 0 | 0 | 68,471,211,000 | 67,007,064,000 | 256,602,000 | 300,560,000 | 3,295,917,000 | 3,471,093,000 | 72,023,730,000 | 70,778,717,000 |
| *of which listed securities* | *0* | *0* | *0* | *0* | *68,354,483,000* | *66,962,967,000* | *256,602,000* | *291,474,000* | *3,293,196,000* | *3,426,960,000* | *71,904,281,000* | *70,681,401,000* |
| UCI shares | 0 | 0 | 0 | 0 | 8,045,295,000 | 6,938,874,000 | 248,595,000 | 438,523,000 | 34,671,243,000 | 25,700,550,000 | 42,965,133,000 | 33,077,947,000 |
| Loans and receivables from banking customers | 0 | 0 | 16,048,000 | 16,179,000 | 0 | 0 | 0 | 0 | 0 | 0 | 16,048,000 | 16,179,000 |
| Interbank loans and receivables | 0 | 0 | 0 | 556,374,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 556,374,000 |
| Deposits under reinsurance business | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial asset components of insurance contracts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other loans and receivables | 0 | 0 | 267,000 | 325,000 | 0 | 0 | 0 | 0 | 0 | 0 | 267,000 | 325,000 |
| Non-hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 82,285,000 | 107,324,000 | 0 | 0 | 82,285,000 | 107,324,000 |
| Hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 576,690,000 | 667,800,000 | 576,690,000 | 667,800,000 |
| **Total** | **0** | **0** | **16,315,000** | **572,878,000** | **78,056,921,000** | **75,268,127,000** | **587,482,000** | **846,407,000** | **39,231,481,000** | **30,369,779,000** | **117,892,199,000** | **107,057,191,000** |

## BREAKDOWN OF ASSETS AND LIABILITIES RELATED TO POLICIES WHERE THE INVESTMENT RISKS IS BORNE BY THE POLICYHOLDERS AND TO PENSION FUND

(value in euro)

| | Policies where the investment risk is borne by policyholders | | Policies related to pension funds | | Total | |
|---|---|---|---|---|---|---|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Assets in the balance sheet | 35,123,668,000 | 26,479,952,000 | 3,262,442,000 | 2,993,867,000 | 38,386,110,000 | 29,473,819,000 |
| Intercompany assets * | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Assets** | **35,123,668,000** | **26,479,952,000** | **3,262,442,000** | **2,993,867,000** | **38,386,110,000** | **29,473,819,000** |
| Financial liabilities in the balance sheet | 34,532,633,000 | 25,770,615,000 | 0 | 0 | 34,532,633,000 | 25,770,615,000 |
| Insurance provisions in the balance sheet | 541,312,000 | 658,596,000 | 3,262,442,000 | 2,993,867,000 | 3,803,754,000 | 3,652,463,000 |
| Intercompany liabilities * | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Liabilities** | **35,073,945,000** | **26,429,211,000** | **3,262,442,000** | **2,993,867,000** | **38,336,387,000** | **29,423,078,000** |

* Assets and liabilities adjusted in the consolidation process

## BREAKDOWN OF AMOUNT CEDED TO REINSURERS FROM INSURANCE PROVISIONS

(value in euro)

| | Direct business | | Indirect business | | Total (book value) | |
|---|---|---|---|---|---|---|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| **Non-life insurance provisions** | **16,654,000** | **20,391,000** | **0** | **0** | **16,654,000** | **20,391,000** |
| Provision for unearned premiums | 7,300,000 | 9,760,000 | 0 | 0 | 7,300,000 | 9,760,000 |
| Provisions for outstanding claims | 9,354,000 | 10,631,000 | 0 | 0 | 9,354,000 | 10,631,000 |
| Other insurance provisions | 0 | 0 | 0 | 0 | 0 | 0 |
| **Life insurance provisions** | **657,000** | **1,992,000** | **0** | **0** | **657,000** | **1,992,000** |
| Provisions for outstanding claims | 652,000 | 1,657,000 | 0 | 0 | 652,000 | 1,657,000 |
| Mathematical provisions | 5,000 | 335,000 | 0 | 0 | 5,000 | 335,000 |
| Provisions for policies where the investment risk is borne by the policyholders and provisions for pension fund | 0 | 0 | 0 | 0 | 0 | 0 |
| Other insurance provisions | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total amount ceded to reinsurers from insurance provisions** | **17,311,000** | **22,383,000** | **0** | **0** | **17,311,000** | **22,383,000** |

## BREAKDOWN OF INSURANCE PROVISIONS

(value in euro)

| | Direct business | | Indirect business | | Total (book value) | |
|---|---|---|---|---|---|---|
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| **Non-life insurance provisions** | **592,728,000** | **504,426,000** | **0** | **0** | **592,728,000** | **504,426,000** |
| Provision for unearned premiums | 419,304,000 | 335,630,000 | 0 | 0 | 419,304,000 | 335,630,000 |
| Provisions for outstanding claims | 172,044,000 | 167,926,000 | 0 | 0 | 172,044,000 | 167,926,000 |
| Other insurance provisions | 1,380,000 | 870,000 | 0 | 0 | 1,380,000 | 870,000 |
| *– of which reserves posted following liability adequacy test* | *0* | *0* | *0* | *0* | *0* | *0* |
| **Life insurance provisions** | **79,543,400,000** | **78,730,459,000** | **0** | **0** | **79,543,400,000** | **78,730,459,000** |
| Provisions for outstanding claims | 303,578,000 | 381,281,000 | 0 | 0 | 303,578,000 | 381,281,000 |
| Mathematical provisions | 69,938,648,000 | 68,925,485,000 | 0 | 0 | 69,938,648,000 | 68,925,485,000 |
| Provisions for policies where the investment risk is borne by the policyholders and provisions for pension fund | 3,803,754,000 | 3,652,463,000 | 0 | 0 | 3,803,754,000 | 3,652,463,000 |
| Other insurance provisions | 5,497,420,000 | 5,771,230,000 | 0 | 0 | 5,497,420,000 | 5,771,230,000 |
| *– of which reserves posted following liability adequacy test* | *32,500,000* | *8,700,000* | *0* | *0* | *32,500,000* | *8,700,000* |
| *– of which deferred liabilities due to policyholders* | *5,334,579,000* | *5,655,885,000* | *0* | *0* | *5,334,579,000* | *5,655,885,000* |
| **Total insurance provisions** | **80,136,128,000** | **79,234,885,000** | **0** | **0** | **80,136,128,000** | **79,234,885,000** |

# BREAKDOWN OF FINANCIAL LIABILITIES

(value in euro)

| | Financial liabilities at fair value through profit and loss | | | | Other financial liabilities | | Total Book value | |
|---|---|---|---|---|---|---|---|---|
| | Financial liabilities held for trading | | Financial liabilities designated at fair value through profit and loss | | | | | |
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| Financial equity instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subordinated liabilities | 0 | 0 | 0 | 0 | 1,316,249,000 | 1,313,499,000 | 1,316,249,000 | 1,313,499,000 |
| Liabilities related to investment contracts from: | 0 | 0 | 34,532,633,000 | 25,770,519,000 | 0 | 0 | 34,532,633,000 | 25,770,519,000 |
| *policies where the investment risk is borne by the policyholders* | *0* | *0* | *34,532,633,000* | *25,770,519,000* | *0* | *0* | *34,532,633,000* | *25,770,519,000* |
| *pension funds* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| *other contracts* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* |
| Deposits under reinsurance business | 0 | 0 | 0 | 0 | 4,575,000 | 6,331,000 | 4,575,000 | 6,331,000 |
| Financial liability components of insurance contracts | 0 | 0 | 0 | 0 | 270,758,000 | 130,298,000 | 270,758,000 | 130,298,000 |
| Issued debt securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Payables to banking customers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interbank payables | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financing and loans payable | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-hedging derivatives | 88,105,000 | 143,111,000 | 0 | 96,000 | 0 | 0 | 88,105,000 | 143,207,000 |
| Hedging derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial liabilities | 0 | 0 | 0 | 0 | 0 | 26,000 | 0 | 26,000 |
| **Total** | **88,105,000** | **143,111,000** | **34,532,633,000** | **25,770,615,000** | **1,591,582,000** | **1,450,154,000** | **36,212,320,000** | **27,363,880,000** |

# BREAKDOWN OF TECHNICAL INSURANCE CAPTIONS

(value in euro)

| | 31.12.2016 | | | 31.12.2015 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Ceded amount | Net Amount | Gross amount | Ceded amount | Net Amount |
| **Non-life business** | | | | | | |
| **NET PREMIUMS** | **310,083,000** | **-8,771,000** | **301,312,000** | **258,373,000** | **-8,061,000** | **250,312,000** |
| a Recognised premiums | 393,757,000 | -6,311,000 | 387,446,000 | 285,850,000 | -6,516,000 | 279,334,000 |
| b Change in premiums provision | -83,674,000 | -2,460,000 | -86,134,000 | -27,477,000 | -1,545,000 | -29,022,000 |
| **NET CHARGES RELATING TO CLAIMS** | **-97,931,000** | **2,629,000** | **-95,302,000** | **-97,347,000** | **4,979,000** | **-92,368,000** |
| a Amounts paid | -94,807,000 | 3,906,000 | -90,901,000 | -105,929,000 | 7,864,000 | -98,065,000 |
| b Change in claims provisions | -4,120,000 | -1,277,000 | -5,397,000 | 7,174,000 | -2,885,000 | 4,289,000 |
| c Change in recovered | 1,506,000 | 0 | 1,506,000 | 1,364,000 | 0 | 1,364,000 |
| d Changes in other technical provisions | -510,000 | 0 | -510,000 | 44,000 | 0 | 44,000 |
| **Life business** | | | | | | |
| **NET PREMIUMS** | **7,601,806,000** | **-500,000** | **7,601,306,000** | **11,752,645,000** | **-502,000** | **11,752,143,000** |
| **NET CHARGES RELATING TO CLAIMS** | **-8,754,557,000** | **-1,145,000** | **-8,755,702,000** | **-13,160,894,000** | **63,000** | **-13,160,831,000** |
| a Amounts paid | -7,526,372,000 | 190,000 | -7,526,182,000 | -8,672,828,000 | 331,000 | -8,672,497,000 |
| b Change in provisions for payable amounts | 77,704,000 | -1,005,000 | 76,699,000 | -74,655,000 | -251,000 | -74,906,000 |
| c Change in mathematical provisions | -1,047,813,000 | -330,000 | -1,048,143,000 | -4,327,058,000 | -17,000 | -4,327,075,000 |
| d Change in technical provisions where investment risk is borne by the policyholders and provisions arising from pension fund management | -151,291,000 | 0 | -151,291,000 | -46,332,000 | 0 | -46,332,000 |
| e Changes in other technical provisions | -106,785,000 | 0 | -106,785,000 | -40,021,000 | 0 | -40,021,000 |

# INCOME AND EXPENSES FROM FINANCIAL ASSETS

(value in euro)

| | Interests | Other income | Other expenses | Gain on disposal | Losses on disposal | Total realised income and expenses | Unrealized gains | | Unrealized losses | | Total unrealised gains and losses | Total income and expenses 31.12.2016 | Total income and expenses 31.12.2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Unrealized gains | Reversal of impairment losses | Unrealized losses | Impairment losses | | | |
| **Result of investments** | **1,931,716,000** | **468,989,000** | **-721,102,000** | **1,084,245,000** | **-380,618,000** | **2,383,230,000** | **969,593,000** | **5,000** | **-410,356,000** | **-59,956,000** | **499,286,000** | **2,882,516,000** | **2,898,190,000** |
| a From land and buildings (investment properties) | 0 | 1,563,000 | 0 | 21,055,000 | 0 | 22,618,000 | 0 | 0 | 0 | -165,000 | -165,000 | 22,453,000 | 1,399,000 |
| b From investments in subsidiaries, associates and joint ventures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -3,000 |
| c From investments held to maturity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| d From loans and receivables | 635,000 | 0 | 0 | 11,862,000 | -2,859,000 | 9,638,000 | 0 | 0 | 0 | 0 | 0 | 9,638,000 | 3,025,000 |
| e From available for sale financial assets | 1,850,532,000 | 201,221,000 | -1,000 | 498,410,000 | -72,012,000 | 2,478,150,000 | 0 | 5,000 | 0 | -59,791,000 | -59,786,000 | 2,418,364,000 | 2,547,410,000 |
| f From financial assets held for trading | 20,941,000 | 0 | -3,605,000 | 50,332,000 | -28,457,000 | 39,211,000 | 18,188,000 | 0 | -38,078,000 | 0 | -19,890,000 | 19,321,000 | -24,434,000 |
| g From financial assets designated at fair value through profit and loss | 59,608,000 | 266,205,000 | -717,496,000 | 502,586,000 | -277,290,000 | -166,387,000 | 951,405,000 | 0 | -372,278,000 | 0 | 579,127,000 | 412,740,000 | 370,793,000 |
| **Result of receivables** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Result of cash and cash equivalents** | **1,129,000** | **0** | **0** | **0** | **0** | **1,129,000** | **0** | **0** | **0** | **0** | **0** | **1,129,000** | **1,932,000** |
| **Result of financial liabilities** | **-85,457,000** | **0** | **-95,000** | **75,030,000** | **-140,855,000** | **-151,377,000** | **5,606,000** | **0** | **-333,380,000** | **0** | **-327,774,000** | **-479,151,000** | **-365,206,000** |
| a From financial liabilities held for trading | -13,145,000 | 0 | -95,000 | 75,030,000 | -140,855,000 | -79,065,000 | 5,381,000 | 0 | -16,582,000 | 0 | -11,201,000 | -90,266,000 | -70,381,000 |
| b From financial liabilities designated at fair value through income statement | -1,359,000 | 0 | 0 | 0 | 0 | -1,359,000 | 225,000 | 0 | -316,798,000 | 0 | -316,573,000 | -317,932,000 | -228,256,000 |
| c From other financial liabilities | -70,953,000 | 0 | 0 | 0 | 0 | -70,953,000 | 0 | 0 | 0 | 0 | 0 | -70,953,000 | -66,569,000 |
| **Result of payables** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total** | **1,847,388,000** | **468,989,000** | **-721,197,000** | **1,159,275,000** | **-521,473,000** | **2,232,982,000** | **975,199,000** | **5,000** | **-743,736,000** | **-59,956,000** | **171,512,000** | **2,404,494,000** | **2,534,916,000** |

# BREAKDOWN OF INSURANCE EXPENSES

(value in euro)

| | Non-life segment | | Life segment | |
|---|---|---|---|---|
| | **31.12.2016** | **31.12.2015** | **31.12.2016** | **31.12.2015** |
| Gross commissions and other acquisition costs | -110,578,000 | -78,501,000 | -209,207,000 | -254,193,000 |
| a Acquisition commissions | -99,370,000 | -67,836,000 | -151,510,000 | -154,307,000 |
| b Other acquisition expenses | -10,485,000 | -9,908,000 | -19,998,000 | -25,958,000 |
| c Change in deferred acquisition costs | 10,000 | -41,000 | 0 | 0 |
| d Collection commissions | -733,000 | -716,000 | -37,699,000 | -73,928,000 |
| Commissions and profit sharing from reinsurers | 736,000 | 715,000 | 89,000 | 74,000 |
| Investment management expenses | -498,000 | -443,000 | -50,519,000 | -57,308,000 |
| Other administrative expenses | -20,035,000 | -21,815,000 | -72,318,000 | -36,090,000 |
| **Total** | **-130,375,000** | **-100,044,000** | **-331,955,000** | **-347,517,000** |

## BREAKDOWN OF OTHER COMPREHENSIVE INCOME

(value in euro)

| | Allocations | | Reclassification adjustments to Income statement | | Other changes | | Total changes | | Taxes | | Balance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 | Total 31.12.2016 | Total 31.12.2015 |
| **Other comprehensive income after taxes without reclassification in the income statement** | **-103,000** | **380,000** | **-** | **-** | **-** | **-** | **-103,000** | **380,000** | **-** | **-** | **-409,000** | **-306,000** |
| Change in shareholders' equity of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - |
| Changes in the revaluation reserve of intangible assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Changes in the revaluation reserve of tangible assets | - | - | - | - | - | - | - | - | - | - | - | - |
| Gains (losses) of non-current assets held for sale and discontinued operations | - | - | - | - | - | - | - | - | - | - | - | - |
| Actuarial gains (losses) arising from defined benefit plans | -103,000 | 380,000 | - | - | - | | -103,000 | 380,000 | - | - | -409,000 | -306,000 |
| Other items | - | - | - | - | - | - | - | - | - | - | - | - |
| **Other comprehensive income after taxes with reclassification in the income statement** | **-** | | **-10,108,000** | **-88,324,000** | **-178,980,000** | **146,645,000** | **-166,872,000** | **58,231,000** | **-** | **-** | **480,023,000** | **648,895,000** |
| Foreign currency translation differences | - | | - | - | | -40,000 | | -40,000 | - | - | - | |
| Net unrealized gains (losses) on available for sale financial assets | - | - | -10,108,000 | -88,324,000 | -178,980,000 | 146,685,000 | -168,872,000 | 58,361,000 | - | - | 480,023,000 | 648,895,000 |
| Net unrealized gains (losses) on cash flow hedging derivatives | - | - | - | - | - | - | - | - | - | - | - | - |
| Net unrealized gains (losses) on hedge of a net investment in foreign operation | - | - | - | - | - | - | - | - | - | - | - | - |
| Change in shareholders' equity of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - |
| Gains (losses) of non-current assets held for sale and discontinued operations | - | - | - | - | - | - | - | - | - | - | - | - |
| Other items | - | - | - | - | - | - | - | - | - | - | - | - |
| **TOTAL OF OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME** | **-103,000** | **380,000** | **10,108,000** | **-8,8324,000** | **-178,980,000** | **146,654,000** | **-166,975,000** | **58,701,000** | **-** | **-** | **479,614,000** | **648,589,000** |

## 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 year at the reclassification date | Carrying amount at 31.12.2016 of the reclassified assets | | Fair value at 31.12.2016 of the reclassified assets | | Assets reclassified in 2016 | | Assets reclassified up to 2016 | | Assets reclassified in 2016 | | Assets reclassified up to 2016 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| out of | into | | | Assets reclassified in 2016 | Assets reclassified up to 2016 | Assets reclassified in 2016 | Assets reclassified up to 2016 | 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 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 in other comprehensive income if the reclassification had not been made |
| **Totale** | | | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

# ASSETS AND LIABILITIES AT FAIR VALUE ON A RECURRING AND NON-RECURRING BASIS: BREAKDOWN BY FAIR VALUE LEVELS

(value in euro)

| | | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| **Assets and liabilities at fair value on a recurring basis** | | | | | | | | | |
| Financial assets available for sale | | 75,781,179,000 | 72,599,611,000 | 1,624,738,000 | 2,191,940,000 | 651,004,000 | 476,576,000 | 78,056,921,000 | 75,268,127,000 |
| Financial assets at fair value through profit and loss | Financial assets held for trading | 438,236,000 | 605,402,000 | 103,859,000 | 184,607,000 | 45,387,000 | 56,398,000 | 587,482,000 | 846,407,000 |
| | Financial assets designated at fair value through profit and loss | 38,247,513,000 | 28,758,773,000 | 384,992,000 | 879,824,000 | 598,976,000 | 731,182,000 | 39,231,481,000 | 30,369,779,000 |
| Lands and buildings (investment properties) | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tangible assets | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Intangible assets | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total assets at fair value on a recurring basis** | | **114,466,928,000** | **101,963,786,000** | **2,113,589,000** | **3,256,371,000** | **1,295,367,000** | **1,264,156,000** | **117,875,884,000** | **106,484,313,000** |
| Financial liabilities at fair value through peofit and loss | Financial liabilities held for trading | 0 | 0 | 88,105,000 | 143,111,000 | 0 | 0 | 88,105,000 | 143,111,000 |
| | Financial liabilities designate at fair value through profit and loss | 0 | 96,000 | 34,532,633,000 | 25,770,519,000 | 0 | 0 | 34,532,633,000 | 25,770,615,000 |
| **Total liabilities at fair value on a recurring basis** | | **0** | **96,000** | **34,620,738,000** | **25,913,630,000** | **0** | **0** | **34,620,738,000** | **25,913,726,000** |
| **Assets and liabilities at fair value on a non-recurring basis** | | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Non-current assets held for sale and discontinued operations | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities of non-current assets held for sale and discontinued operations | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

# BREAKDOWN OF CHANGES TO ASSETS AND LIABILITIES OF LEVEL 3, AT FAIR VALUE ON A RECURRING BASIS

(value in euro)

| | Financial assets available for sale | Financial assets at fair value through profit and loss | | Land and buildings (investment properties) | Tangible assets | Intangible assets | Financial liabilities at fair value through profit and loss | |
|---|---|---|---|---|---|---|---|---|
| | | Financial assets held for trading | Financial assets designated at fair value through profit and loss | | | | Financial liabilities held for trading | Financial liabilities designated at fair value through profit and loss |
| **Initial amount** | **476,576,000** | **56,398,000** | **731,182,000** | **0** | **0** | **0** | **0** | **0** |
| Purchases/Issues | 183,165,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sales/Repurchases | -61,884,000 | -1,887,000 | -21,699,000 | 0 | 0 | 0 | 0 | 0 |
| Refunds | -103,000 | -7,363,000 | -44,662,000 | 0 | 0 | 0 | 0 | 0 |
| Profit (loss) income statement | -358,000 | 1,994,000 | -950,000 | 0 | 0 | 0 | 0 | 0 |
| *– of which unrealized gains/losses* | *-385,000* | *1,925,000* | *312,000* | *0* | *0* | *0* | *0* | *0* |
| Profit (loss) in other components of comprehensive income statement | -54,070,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers to level 3 | 3,853,000 | 36,069,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers to other levels | -9,768,000 | -9,768,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other changes | 113,593,000 | -30,056,000 | -64,895,000 | 0 | 0 | 0 | 0 | 0 |
| **Final amount** | **651,004,000** | **45,387,000** | **598,976,000** | **0** | **0** | **0** | **0** | **0** |

# ASSETS AND LIABILITIES NOT AT FAIR VALUE: BREAKDOWN BY FAIR VALUE LEVELS

(value in euro)

| | Book value | | Fair value | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Level 1 | | Level 2 | | Level 3 | | Total | |
| | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 | 31.12.2016 | 31.12.2015 |
| **Assets** | | | | | | | | | | |
| Financial assets held to maturity | - | - | - | - | - | - | - | - | - | - |
| Loans and receivables | 16,315,000 | 572,878,000 | - | - | | 556,699,000 | 16,315,000 | 16,179,000 | 16,315,000 | 572,878,000 |
| Investments in subsidiaries, associates and joint ventures | - | - | - | - | - | - | - | - | - | - |
| Land and buildings (investment properties) | - | 19,249,000 | - | - | - | - | - | 24,990,000 | - | 24,990,000 |
| Tangible assets | 4,915,000 | 1,526,000 | - | - | - | - | 4,915,000 | 1,526,000 | 4,915,000 | 1,526,000 |
| **Total Assets** | **21,230,000** | **593,653,000** | **-** | **-** | | **556,699,000** | **21,230,000** | **42,695,000** | **21,230,000** | **599,394,000** |
| **Liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Other financial liabilities | 1,591,582,000 | 1,450,154,000 | - | - | 1,342,914,000 | 1,325,722,000 | - | - | 1,342,914,000 | 1,325,722,000 |

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 Giulio Cesare n. 268
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 (riferito alle sole società soggette a controllo partecipativo) chiuso al 31/12/2016

Il bilancio consolidato al 31 dicembre 2016 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 638,7 milioni di euro, interamente di pertinenza del gruppo, e un patrimonio complessivo di 4.565,4 milioni di euro.

Esso risulta redatto in conformità ai principi contabili internazionali e secondo gli schemi e le istruzioni previsti dall'ISVAP con il regolamento n. 7 del 13.07.2007 e successive modifiche ed integrazioni.

Esso include oltre al bilancio della controllante Intesa Sanpaolo Vita, quello delle società controllate Intesa Sanpaolo Life, Intesa Sanpaolo Assicura e Intesa Sanpaolo Smart Care.

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Il Collegio Sindacale ha preso atto mediante l'informativa acquisita in sede consiliare ai sensi dell'art. 2381 comma 5 C.C. da parte degli Organi delegati nonché per il tramite delle funzioni aziendali di tutte le operazioni di particolare rilevanza condotte nell'esercizio.

Si dà atto dell'adeguata illustrazione nella Relazione sulla gestione al Bilancio consolidato dell'andamento della gestione del Gruppo in particolare con riferimento agli aspetti di rilievo caratterizzanti le principali grandezze patrimoniali e finanziarie e la loro evoluzione nell'esercizio.

Il Collegio sindacale dà atto che la Nota integrativa riporta le indicazioni richieste dalle norme e contiene tra l'altro l'informativa sulle operazioni con parti correlate e sulla gestione dei rischi. Con particolare riferimento a questi ultimi all'interno della Nota integrativa sono evidenziati in particolare la natura e l'entità dei rischi finanziari cui il Gruppo è esposto nonché i rischi legati ai portafogli d'investimento. Il Collegio rileva a tal fine che gli stessi sono oggetto di periodico controllo e monitoraggio in considerazione di quanto disciplinato dalla Delibera Quadro sugli Investimenti.

Il Collegio ha preso atto della significativa revisione dell'assetto organizzativo che ha riguardato la Compagnia e le società del gruppo in una logica di integrazione dei business nell'ambito della divisione assicurativa, di rafforzamento del ruolo della capogruppo assicurativa e di allineamento alla normativa Solvency II.

Con riferimento alle attività interessanti le società controllate, il Collegio Sindacale ricorda che la normativa secondaria di settore è contenuta nel Regolamento IVASS n. 22/2016 in materia di Gruppo assicurativo.

L'esercizio delle funzioni di vigilanza attribuite al Collegio sindacale è avvenuto attraverso lo scambio di informazioni con l'alta direzione e le funzioni di controllo delle società controllate e con i Collegi sindacali delle società controllate, anche in virtù della compresenza di taluni membri di tali organi oltre che con società di revisione. Nel corso dell'anno è stata acquisita evidenza delle attività di direzione e controllo svolte nell'anno 2016 da parte delle funzioni di controllo della Capogruppo assicurativa che confluiranno nella relazione predisposta dalla Capogruppo ai sensi dell'art. 28 bis del Regolamento 20.

Per quanto attiene alla controllata IS Life il Collegio ha sottolineato l'importanza del rafforzamento del presidio sul sistema dei controlli interni, attualmente in corso, attraverso idonea formalizzazione di una complessiva ed esaustiva attività progettuale mentre per le altre controllate, i punti di attenzione emersi sui presidi delle attività esternalizzate sono stati oggetto di implementazione di tempestive azioni di risoluzione.

Sulla base delle informative dirette e delle informazioni assunte diamo atto di quanto segue:

- Il Collegio non ha riscontrato, nell'ambito della propria attività, elementi di criticità in relazione all'assetto organizzativo della Capogruppo confermando l'adeguatezza anche con riferimento ai flussi informativi provenienti dalle società rientranti nel perimetro di consolidamento e con riferimento alle operazioni di consolidamento stesse.
- I bilanci presi a base del processo di consolidamento integrale sono quelli riferiti al 31 dicembre 2016 come approvati dai competenti organi delle società controllate, eventualmente rettificati ove necessario per adeguarli ai principi contabili omogenei della Capogruppo.
- Il bilancio consolidato consta di quattro società controllate direttamente. Sono altresì inclusi nell'area di consolidamento i veicoli, le Sicav e i fondi comuni d'investimento mobiliari nei quali sono investiti i fondi interni dei prodotti *unit linked,* qualora la compagnia ne detenga il controllo secondo quanto previsto dall'IFRS10.
- 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, esaurientemente illustrati dagli Amministratori nella nota integrativa, sono conformi alle prescrizioni di legge e sono stati applicati correttamente.
- La nota integrativa e la relazione sulla gestione contengono tutte le informazioni richieste dalla legge e sono congruenti con i dati del bilancio.
- Il Collegio ha preso visione della relazione resa dalla Società di Revisione e a tale riguardo osserva che essa non reca rilievi o richiami d'informativa.

Con riferimento ai compiti di Comitato per il controllo interno – ai sensi del D. Lgs. 39/2010 – ed in particolare per quanto relativo alla revisione legale dei conti consolidati il Collegio Sindacale ha preso atto, sulla scorta di quanto relazionato dalla Società di revisione, dell'assenza di situazioni di incertezza o eventuali limitazioni nelle verifiche.

Diamo atto che tutta l'informativa inerente il bilancio consolidato al 31 dicembre 2016 viene presentata agli Azionisti unitamente a quella inerente il bilancio di esercizio a tale data.

Torino lì, 1° marzo 2017

Il Collegio sindacale

Massimo Broccio: Massimo Broccio

Paolo Mazzi: Mazzi

Riccardo Ranalli: Riccardo Ranalli

# Report of the Independent Auditors

KPMG

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

# Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010 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 consolidated financial statements

We have audited the accompanying consolidated financial statements of the Intesa Sanpaolo Vita Insurance Group (the "group"), which comprise the statement of financial position as at 31 December 2016, the income statements and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto.

### *Directors' responsibility for the consolidated financial statements*

The parent's 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 regulations implementing article 90 of Legislative decree no. 209/05.

### *Independent auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2016 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. 209/05.

## Report on other legal and regulatory requirements

### *Opinion on the consistency of the management report with the consolidated financial statements*

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the management report, which is the responsibility of the parent's directors, with the consolidated financial statements. In our opinion, the management report is consistent with the consolidated financial statements of the Intesa Sanpaolo Vita Insurance Group as at and for the year ended 31 December 2016.

Milan, 28 February 2017

KPMG S.p.A.

(signed on the original)

Maurizio Guzzi
Director of Audit

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# GALLERIE D'ITALIA.
# THREE MUSEUM CENTRES: A CULTURAL NETWORK FOR THE COUNTRY.

Through the Gallerie d'Italia project, Intesa Sanpaolo intends to share its artistic and architectural heritage with the public at large: 1,000 works of art displayed in historic palazzi in three cities, forging the links in a museum network that is unique of its kind.

In an architectural complex of great value, the **Gallerie di Piazza Scala** in Milan host a selection of two hundred nineteenth-century works of the Lombard school, along with a display itinerary dedicated to Italian art of the twentieth century.

The **Gallerie di Palazzo Leoni Montanari** in Vicenza display the most important collection of Russian icons in the West, examples of eighteenth-century Veneto art and a collection of ceramics from Attica and Magna Graecia.

In Naples, the **Gallerie di Palazzo Zevallos Stigliano** present the *Martyrdom of Saint Ursula*, one of Caravaggio's last masterpieces, along with works of southern Italian art ranging from the seventeenth to the early twentieth century.

Cover photo:

HENDRIK FRANS VAN LINT *(Antwerp, 1684 - Rome, 1763)*
**Church of Santa Maria della Salute with Punta della Dogana, ca. 1750**
Oil on canvas, 46.5 x 71.5 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Palazzo Leoni Montanari, Vicenza

Van Lint's view of the *Church of Santa Maria della Salute with Punta della Dogana* belongs to the Intesa Sanpaolo's 18$^{th}$ century Venetian art collection, which is part of the permanent exhibition at Gallerie d'Italia - Palazzo Leoni Montanari, the Bank's museum venue in Vicenza.
The collection offers a review of all the pictorial genres - particularly landscape painting - that won Venice and its school a central role on the international artistic scene in the 18$^{th}$ century. Views of many Italian locations, including Venice, painted by Gaspar van Wittel (late 1600s) were crucial for the success met by this genre in the 1700s. Among his main followers, we cannot fail to mention Hendrik Frans van Lint, a famous Flemish painter who was much sought after for the extreme refinement of his works.