INTESA SANPAOLO
GROUP SERVICES

Annual Report 2018

A company of the Group INTESA SANPAOLO

REPORT AND FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Intesa Sanpaolo Group Services S.c.p.a. *Registered office: Piazza San Carlo, 156 – 10121 Turin Registered capital:273,320,813 euros fully paid in Listed in the Companies Register of Turin under no./tax no. 07975420154 Company subject to the direction and coordination of Intesa Sanpaolo S.p.A. and a member of the "Intesa Sanpaolo S.p.A." banking group*

Table of contents

Governing and supervisory bodies **5**

Report on operations **7**
1. Background 9
2. Organisational chart and management structure 17
3. Principal operations 19
4. Results for the period 25
5. Related party and intragroup transactions 30
6. Outlook for operations 30
7. Treasury shares and parent company shares/holdings 31
8. Secondary headquarters 31
9. Risk and asset management 31
10. Significant events after the end of the financial year 31
11. Proposal for approval of the financial statements 32

Financial statements **33**
1. Balance sheet 35
2. Income statement 36
3. Statement of comprehensive income 37
4. Statement of changes in shareholders' equity 38
5. Cash flow statement 39

Notes to the financial statements **41**
1. Accounting policies 43
2. Information on the balance sheet 53
3. Information on the income statement 72
4. Other information 78

Appendices **87**
A. Breakdown of revenue per client 89
B. Reconciliation of statutory and reclassified statements 90

Independent Auditors' Report **93**

Report by the Management Control Committee of Intesa Sanpaolo S.p.A. **97**

Governing and supervisory bodies

Board of directors*

Chairman	Eliano LODESANI
Directors	Fabrizio DABBENE
	Giovanni Angelo Carlo GILLI
	Paolo Maria Vittorio GRANDI
	Alfonso GUIDO
	Massimo Enrico PROVERBIO
	Eugenio ROSSETTI
	Rosario Giacomo STRANO

Board of Statutory Auditors

Chairman	*Riccardo RANALLI*
Permanent auditors	*Marco Antonio Modesto DELL'ACQUA*
	Paolo MAZZI
Deputy auditors	*Eugenio Mario BRAJA*
	Luciano Matteo QUATTROCCHIO

Independent auditors

	KPMG S.p.A.

* *Executive directors: Giovanni Angelo Carlo Gilli, Paolo Maria Vittorio Grandi, Alfonso Guido, Massimo Enrico Proverbio, Rosario Giacomo Strano.*

Report on operations

1. Background

1.1 CHANGES IN THE ITALIAN BANKING SYSTEM IN THE CURRENT MACRO-ECONOMIC CONTEXT

THE GENERAL CONTEXT

The global economic data show an improvement in all areas, in developed as well as emerging economies. Growth has mainly been driven by the United States, and the dollar has continued to strengthen thanks to the protectionist policies of the Trump administration. The Chinese economy is feeling the effects of the trade war with the United States, and the customs levies imposed over the course of the year have caused a slowdown in Chinese demand.

In September 2018 (the most recent month for which data are available), world trade was 4.0% higher than in the same month of the previous year, while year-on-year industrial production was up by 3.4%. In commodities/raw materials, oil prices recovered strongly with an increase of 23% over the year.

As for the performance of national economies in the third quarter of 2018, the US economy recorded annualized quarterly variation of +3.5%, lower than the +4.1% increase recorded for the previous quarter. China grew by 6.5% relative to the same period in 2017, as did Brazil (1.3%) and India (7.1%).

In the eurozone, GDP grew by 0.6% in the third quarter of 2018 (against +1.7% in the previous quarter). The unemployment rate fell to 8.1%. Consumer and business confidence indexes have been improving. Meanwhile, inflation is growing in the eurozone, which entered October 2018 with consumer prices increasing by +2.2%.

In Italy, GDP fell by 0.5% in the 3rd quarter of 2018 relative to the same period in 2017. The country's economy was sustained by an increase in industrial production, which grew by 1.1% relative to the corresponding period in 2017.

THE NATIONAL BANKING SYSTEM

At the end of 2018, loans awarded by banks operating in Italy came to 1,732 billion euros, 15 billion euros more than collections on loans (1,717 billion euros). More specifically, lending to the economy increased by 2.2%.

In November 2018, new loans for real estate purchases recorded a positive variation of 2.3% relative to the same period in the previous year, in confirmation of a recovery in the market.

Net overdue and bad debts at the end of November 2018 came to 37.5 billion euros, slightly lower than the October figure (38.3 billion euros) and significantly lower than the figure at the end of 2016 (86.8 billion euros); The overdue/bad debts to total expenditure ratio came to 2.18% in November 2018. By the end of 2018, total collections on loans had fallen substantially (0.6%) over the course of the year.

In December 2018, the average interest rate on total collections on loans by banks to Italian clients was 0.66% (against 0.67% the previous month). Interest on deposits came to 0.38% (unchanged from the previous month), while interest on purchase agreements came to 1.00% (against 1.07% the previous month). Bond yields came to 2.34% (2.40% the previous month).

The spread between the average rate on loans and the average rate on collections to families and non-financial entities remains particularly narrow in Italy: in December 2018 it stood at 189 base points (against 190 base points the previous month). Before the financial crisis, this spread stood at over 300 points (355 points in late 2007).

1.2 INTESA SANPAOLO GROUP SERVICES – AREAS OF OPERATION

Intesa Sanpaolo Group Services operates primarily, but not exclusively, on behalf of member companies of the Intesa Sanpaolo Group, providing services governed by special service contracts through its internal resources in the following areas:

- information services
- back office operations services
- organisational and security services
- real estate facility management services
- investment management services
- personnel training and management services
- credit recovery services
- consulting and legal assistance services
- internal communication services

The primary objective in choosing to concentrate in a single special purpose vehicle the activities and services enjoyed by a number of other companies was to improve their operating efficiency by centralising them. The results achieved by ISGS in recent years demonstrate that this objective can be reached in a short period of time. However, we should not overlook the benefits generated over time by a continuous improvement in operating flexibility, and the higher quality of service achievable with better knowledge of corporate processes and exploitation of the know-how which this solution makes possible.

The constitution of a single "service provider" for the whole Group has resulted in the emergence of a centre of excellence which is capable of generating continuous improvements in terms of efficiency and effectiveness by allowing professionals from different backgrounds to exchange experiences, and by providing a benchmark of comparison with other, similar offerings on the market.

Various company decisions within the Italian banking system led the Group to create special purpose vehicles working across a wide range of activities, generally with a particular focus on information system management and back office activities.
Below we examine the "missions" of the various ISGS structures in relation to the relevant fields of activity cited above.

INFORMATION SYSTEMS

The principal functions of ISGS's Central Information Systems Division (DSI) are:

- definition of the ICT strategy and technology standards, oversight of their implementation; the Group's ICT units report functionally to the DSI;
- management and oversight of information systems and telecommunications;
- design, deployment and management of the application fleet and technology infrastructure;
- analysis of developments in technology.

The provision of IT services via Service Management structures with control over service level agreements (SLA), planning of IT goods and services procurement and the monitoring of supplier activities to guarantee compliance and observance of SLAs are concentrated within the perimeter of the new structures of Digital Business Partner and Transformation Center, created following the organisational review of the Chief IT, Digital and Innovation Officer governance area.

The Group's DSI and the bank as a whole are operating in a context marked by intensified renovation in the ICT sector, across all areas of the economy and on a global scale, whose potential

seems limitless and which increasingly places the client at the centre of business processes. The transformations underway in the digital sphere are raising all kinds of challenges: the need to rethink business models, develop opportunities in the data-driven economy, and orchestrate channels and instruments of digital interaction.
The Assintel report released in March revealed an expenditure pattern in ICT characterised by two apparently opposed trends: increased investment in research and the application of new technologies, and reduced expenditure on ICT services and products with no potential as new business drivers. We find ourselves in a situation where business are not only deploying new technologies but also beginning to rethink their own organisational models (e.g. industrial cloud solutions) in which innovative entrepreneurial capacities may play a key role in accelerating the transformations already underway in the digital world.

The ISP industrial plan for 2018-2021 anticipates and accommodates these tendencies, acknowledging the importance of the digital revolution which has been gathering momentum in the bank over the last three decades and increasing levels of investment to create a "digital company" capable of foreseeing requirements and client behaviour patterns, promoting innovation and transforming operating models while constantly striving to discipline costs and improve efficiency.
The organisational changes announced in the IT and innovation spheres in light of the new Business Plan already point in this direction, for digital transformation entails the ability to govern a process which permeates the entire organisation and requires skills to be applied in a context - operational, relational and informational - which is extended like never before.

DIGITAL FACTORY

Digital Factory was launched in the second half of 2015. Its objective: to drive evolution of our operating model, accelerating innovation and the digitalisation of processes, and spreading a new approach to work based on collaboration and creation which draw on internal and external input framed from the perspective of clients. In 2018, the Digital Factory initiative was instrumental in the continued digitalisation of our Core Processes on a co-location model, with new Digital Business Partner structures coming on board.
Under the new model, the activities contained in each process are articulated across three principal phases:

- redesign phase: lasts 16 to 20 weeks depending on the complexity of the process. On completion of this phase, the Minimum Viable Product (MVP) enters production in selected branches - a package of internally consistent functionalities for testing the efficacy of the applicational and organisational solutions identified.
- industrial rollout phase: lasts 3-6 months, during which time the process is readied for rollout across all corporate structures.
- refinement phase – an optional phase during which operations with high business content can be refined and consolidated.

Digital Factory is organised to facilitate "agile" approaches to work, with strong participation by business units and governance areas and the dedicated involvement of high-value personnel interacting continuously and co-located in a single team room (physical or virtual); continuous feedback from these workgroups enables maximum efficiency gains in terms of times and richness of content. Since launching, Digital Factory has redesigned 19 processes, 14 of which are now complete, and has extended its reach to create new business processes and services for the Group's business divisions. The results obtained show the benefits of simplifying and streamlining processes, and are also evident in the increased and expanded skills of the resources involved.

OPERATIONS

The mission of Operations Head Office Department is to:

- contribute, in accordance with company strategies and objectives, to defining the Group's orientation in terms of operations by making the relevant proposals to Intesa San Paolo's Chief IT, Digital and Innovation Officer;
- centrally manage operations relating to finance, securities, banking services, loans, domestic and international payment and collection systems for the parent company and companies taking out special service contracts;
- ensure levels of service agreed upon with users, overseeing their quality and providing associated periodic reports;
- guarantee the effectiveness and efficiency of operational processes, contributing to the definition of these in collaboration with the Transformation Centre, Organisation Head Office Department and other group structures and making proposals regarding the evolution of the ICT systems driving these processes;
- pursue ongoing cost-to-serve reduction by optimising operational processes while maintaining an adequate risk profile;
- guarantee compliance with the accounting and administrative requirements for the completion of operations, ensuring that data is in line with accounting results and consistent for the purposes of mandatory reports to the supervisory and control bodies;
- provide adequate assistance to users via a help desk and problem solving service working in coordination with the responsible Group structures;
- perform user tests for IT procedures
- monitor the activities of suppliers, ensuring compliance with and respect for agreed SLAs and contractual agreements.

To support the new Industrial Plan, the Operations Head Office Department has launched an initiative designed to increase automation through new technologies, freeing up resources currently occupied in activities with low added value and re-assigning them to new, emerging activities.

HUMAN RESOURCES AND ORGANISATION

The Organisation Head Office Department has the task of defining organisational scenarios for improving efficacy and efficiency across the Group and proposing corporate governance mechanisms to the Head of the Chief Operating Officer Governance Area in line with corporate strategies and objectives, defining organisational solutions for the Group and overseeing projects for organisational change and development.
It also has the task of defining quantitative requirements in terms of personnel numbers necessary for achieving the strategic objectives of the Group, developing and managing the necessary systems and models, and providing divisions, business structures, Group companies, governance bodies and central managements with support on all matters of an organisational nature, forming a full and integrated vision of their priorities and business needs.
In regard to skills profiles, it contributes to the analysis of the impact of new regulations and supports the competent functions in the valuation of investments in the regulatory sphere. Working in coordination with the other functions concerned, it ensures internal regulations and governance documents are kept up to date and distributed. It contributes within its own scope of competence to the technical and specialist evaluation of relevant Group projects in coherence with the defined rules and methods.
With personnel, this department also contributes to the definition of People Care policies in an attempt to guarantee at Group level the efficient design and implementation of services and interventions designed to improve the quality of company life, working in support of, and in collaboration with, the other responsible functions. It directly manages personnel services such as travel and fleet management, corporate accommodation, restaurant expenses, health treatment and vending.

CYBERSECURITY AND BUSINESS CONTINUITY MANAGEMENT

The Cybersecurity and Business Continuity Management structure was created on 10 May 2018 as an evolved version of the earlier Information Security and Business Continuity Department. Its duties are to:

- Contribute, in accordance with corporate strategies and objectives, to the definition of policy and orientation on issues relating to cybersecurity and business continuity
- Oversee the implementation of the aforementioned policy and orientation, guaranteeing the levels of service agreed with users and monitoring the adoption of the defined orientations at Group level
- Perform all the tasks assigned to Special Functions for managing the risk of non-compliance with regulations, as addressed in the Group Compliance Guidelines and as these relate to IT security and business continuity.
- Contribute to the overall management of operating and reputational risk, developing a dynamic risk analysis model for a risk-based approach to security
- Provide support to the digitalisation of the Group's services and products and conducting research into the adoption of innovative technology paradigms

Special attention is dedicated to the fight against cybercrime and the protection of clients using direct channels (Internet banking, phone banking, mobile banking, payment cards and ATMs). Cybercrime is on the rise in the banking system as a whole and is increasingly perpetrated using advanced and sophisticated tools. In particular:

- attacks tend to concentrate on client workstations, for while the infrastructure protection solutions developed by financial institutions have reached advanced levels of maturity and efficacy, end users still lack the skills and technology required to resist the threats to their security;
- Cybercrime is now the preserve of complex organisations, while the malware they use is becoming increasingly sophisticated, and in some cases can defeat OTP (One Time Password) systems;
- the increasing use of smartphones, tablets and other devices allowing access to online banking services is making new channels an increasingly attractive target for cybercriminals;
- clients of Internet banking services are now targeted by real-time phishing campaigns;
- the widespread use of social media by clients and bank employees increases the risk of information theft via "social engineering" techniques deployed over such channels.
- faced with these increasing risks to cybersecurity, Italian and European legislators have in recent years passed measures which became law in the first semester of 2018 (these include the Payment Services Directive 2 - PSD2, the Network and Information Security Directive - NIS, and the General Data Protection Regulation - GDPR).

In light of the above, mechanisms which can guarantee not only the confidentiality and integrity of corporate data (IT security) but also its constant availability (business continuity) are of increasing importance.

PHYSICAL SECURITY

The mission of the structure is to contribute, in coherence with corporate strategies and objectives, to the definition of Group policy and orientation on physical security, to promote and orient evolution and innovation of security models, measures and solutions, with the support of the competent company functions, in compliance with the Group's general guidelines, with development trends and with best practices; to ensure the physical security of company premises and property; to ensure the security of top management at departmental headquarters and throughout the country.
With regard to the "market" context, and to bank robberies in particular, the trend in Italy is sharply downward: in 2018 in Italy there were approximately 340 bank robberies (provisional ABI figures on 31.11.18), a reduction of approximately 95% relative to 2009. Theft of ATM machines is on the rise, however: in 2018 in Italy there were approximately 450 ATM thefts (provisional ABI figures for Q4 2018), an increase of approximately 20% relative to 2009.

REAL ESTATE AND LOGISTICS

The mission of the structure is:

- management of owner-occupied and non-owner-occupied real estate assets to guarantee maximum efficiency and efficacy in design, restructuring and maintenance services for the bank and Group companies;
- identifying and proposing investment and disposal strategies for the bank and group companies with regard to owner-occupied real estate, optimising real estate assets owned and rented by the company to obtain the best possible cost: usage ratio, and with regard to non-owner-occupied real estate to guarantee maximum value and yield;
- services for the management and valuation of real estate assets deriving from non-performing loans;
- management of business logistics support services and central structures in regard to supplies and central archives, processing and delivery of correspondence, production of cheque books and management of branch fitting out operations for advertising campaigns.

The Group's business units which carry out similar real estate-related activities and the real estate subsidiaries of the group report to the Real Estate and Logistics Head Office Department.

PROCUREMENT

The mission of the Procurement Head Office Department is to contribute, in accordance with corporate strategies and objectives, to the definition of shared policies and best practices in all “Procurement” activities across the Intesa Sanpaolo Group.
The Procurement Head Office Department oversees procurement processes and makes sure they are consistent with the orientations identified during the demand phase and the subsequent sourcing and contract award phases.

Suppliers of the Intesa Sanpaolo Group are selected in accordance with the principles of transparency and equity enshrined in the Code of Ethics, and undergo pre-contractual screening designed to evaluate their financial, technical and organisational abilities; only suppliers receiving a positive assessment are entered on the Group's list of official suppliers. The Procurement Department constantly monitors activities at every stage in the supply chain to ensure that the requirements for the supplier's continuing inclusion in the Group's suppliers' website are met. Contractual requirements on organic, structured processes, supported by dedicated applications, taking various factors into account (e.g. duration of service, volumes, imports, type of supply/task), characteristics of the contract (general and specialist questionnaires) and requiring preliminary/continuous analysis of financial solidity, economic reliability, and suitability in light of a battery of predefined parameters.
The procurement process is based on corporate procedures founded on sound business ethics and the competitive analysis of the technical and economic characteristics of the bids submitted by selected suppliers and their respective sub-supply chains.
Contract notices are the standard procurement procedure in Italy as well as abroad, and are the only option capable of guaranteeing equity and transparency in the management and award of procurement processes and contracts.
"Direct" negotiation is used only in cases where it is permitted under the Procurement regulations (e.g. where only one bidder/supplier exists, where technical obstacles prevent the change of supplier, or where required in cases of emergency or unforeseen circumstances).

TRAINING

The mission is to devise and implement training and career development actions which are accessible to all Group personnel at any time and in any place, guided by the values of the Code of Ethics and with an emphasis on digital access via the development of innovative, integrated methods designed to maximise efficiency in terms of learning times and locations.

The new Business Plan for 2018 consolidates the mission of the Management School to promote a shared managerial identity. It now offers over 7800 managers and emerging talents the tools they need to keep developing. Over the course of the year the Management School worked to extend its international reach with the involvement of managers from foreign branches and those resident in other countries, bringing the total number of those involved to over 1000 people.

In pursuit of the Group's goals, training and development actions are in constant renewal with the following objectives:
- to develop distinct professional and managerial skills in all Group professions;
- to promote the transmission of key values, correlating principles with everyday conduct to strengthen corporate identity and transform it into action;
- to drive the growth of the Group by encouraging innovation, inclusion and an international outlook;
- to support the development of Group clients and disseminate a financial-minded, entrepreneurial culture that promotes the know-how and image of the Group.

DEBT RECOVERY

The ISGS Debt Recovery Department manages the accounts receivable of the banks in the Group. Under the current organisational model, special outsourcing contracts concentrate all management, supervision and monitoring activities in this department.
In 2012, the scope of activities of ISGS expanded to include credit recovery services for debts classified as non-performing, with the competent structures reporting functionally directly to Intesa Sanpaolo's Capital Light Bank.
Note in regard to non-performing debts that in 2015 the Group adopted a new organisational model based on the specialisation of management remits across internal and external structures, with the most significant and complex accounts internally managed by dedicated structures. This organisation is in line with a consolidated tendency in the leading international banking groups, whereby the management of non-performing debt is unified in a specially-created company or a dedicated division of the parent company. This solution offers benefits in terms of operating synergies, standardisation of procedures and valuation methods, and savings on legal costs and expenses. Nearly all banks now conduct their credit recovery operations from their central offices, while a third also operate dedicated units operating on the territorial level.

LEGAL AND DISPUTES - GROUP GENERAL COUNSEL

Under the organisational model, the Legal and Disputes Department oversees legal risks at Group level, provides consulting and legal advice services, and manages and coordinates judicial and extra-judicial disputes, issuing directives and conducting enquiries as appropriate. As part of its consulting activities, the Department also monitors changes in external regulatory instruments and their interpretation, while its dispute management duties include the evaluation of risks for purposes of provisions.
In accordance with the governance orientations, its activities are directed by the parent company on behalf of the Group members which have taken out service contracts. This procedure improves service quality and times, while also achieving efficiency gains and economies of scale. It also ensures effective risk control via policies, guidelines and uniform indicators. The Department works with the Chief Risk Officer on the measurement and control of operational risk and the identification of the relative mitigation actions, collecting loss data as required. It also functionally coordinates the legal structures of the companies in the Group.
Over the course of 2018, legal activities occurred in a context marked by a number of regulatory changes with an impact on the business of the ISP Group. Intense support has been given to the

advocacy activities conducted by the Group as part of major regulatory reform projects in Italy and Europe, together with other ISP functions involved. A significant increase was also registered in design projects connected with new development and efficiency initiatives.
Disputes under management remained at high levels, in terms both of volume and complexity.
Operations for the acquisition of certain assets, liabilities and legal relationships belonging to the former "Banche Venete" have signified an additional workload in terms both of consulting activities and the management of disputes.

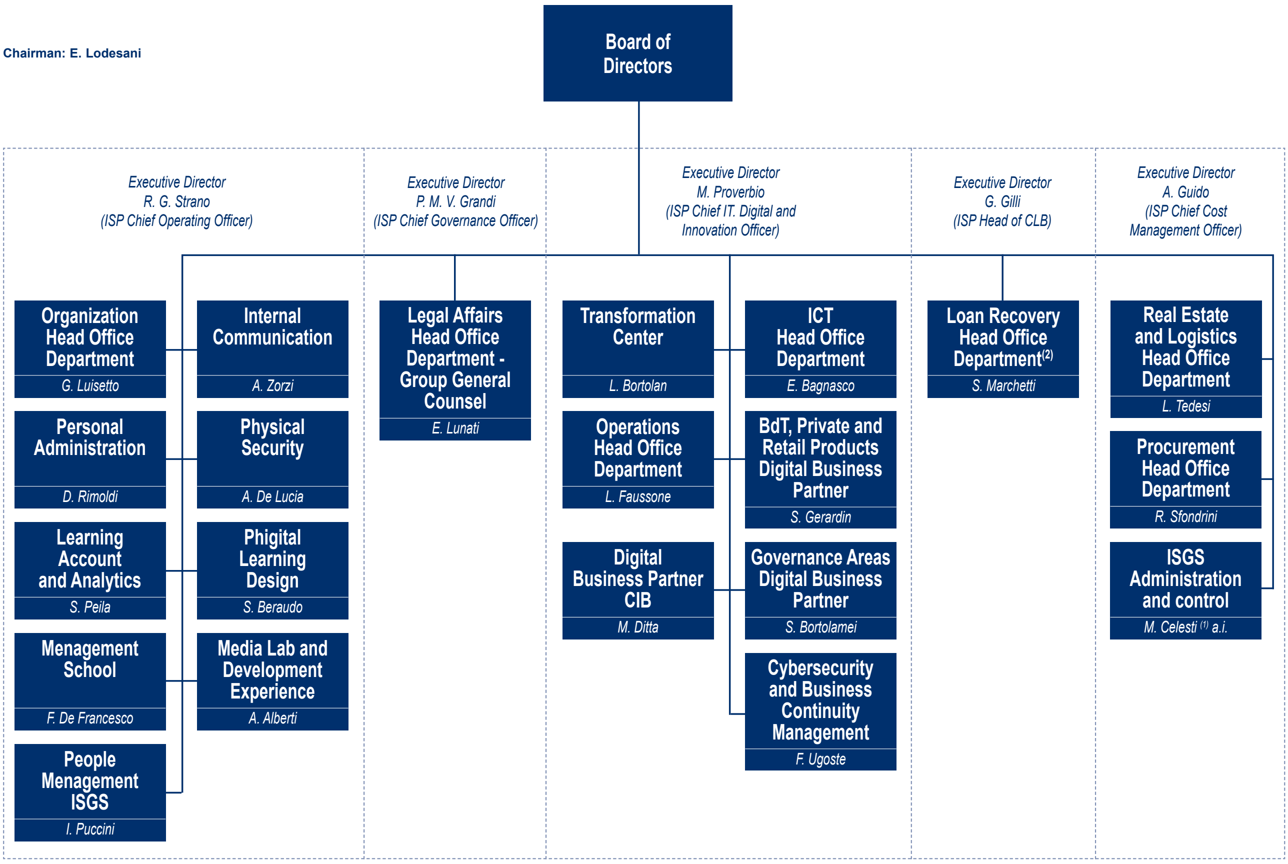
INTERNAL COMMUNICATION

The purpose of internal communication is to promote the development of Group values and culture and a sense of belonging via structured information campaigns, listening to the people who work in the group, in Italy and abroad, and getting them involved.
This takes the form of a wide range of articulated activities, which can be divided into two principal categories: consulting and support for all Group structures for effective communication with the people who work for the company, with management and constant innovation in a set of instruments ranging from Intranet (management of sections dedicated to individual company structures, each with its own news area), Italian and international Web TV, the online internal newsletter *Mosaico*, and its English-language version, *Mosaico International*, which launched last year, the fortnightly BdT newsletter, and the *interComm* app (a digest combining stories from the Intranet site, Web TV clips and Mosaico articles, available to employees via their work or personal smartphones). These instruments are accompanied by a structured approach towards listening to the views of the company's employees and gathering feedback, and by the organisation of internal events.
2018 was especially marked by communication on the launch and progress of Intesa Sanpaolo's Business Plan 2018-21, and confirmed the wisdom of the decision to centre activity on consulting and the ongoing supervision of structures, and to constantly refine the chosen instruments with the objective of offering all employees timely, accurate and comprehensive information to help them with their lives in the company and make their professional activity more efficient.
In a company like Intesa Sanpaolo, in fact, most people work on the frontline of communication with millions of clients (private, families, businesses, institutions), and quality internal communication is vital if they are to perform their roles properly. Not only is it a service directed at people who are members of our Group, it is a platform for the development of our business.

2. Organisational chart and management structure

2.1 ORGANISATIONAL CHART

On 31 December 2018, the Chairman of our company was Eliano Lodesani. The Board of Directors comprises five executive directors, each with specific duties and each the head of a reporting structure as shown in the organisational chart.
The ISGS internal auditing function is headed by the Chief Risk Officer and the ISP Internal Auditing Head Office Department.



(1) The financial reporting officer.
(2) On 1 December 2018, under internal order no. 54/2018, the Loan Recovery Head Office Department was abolished and the Special Input Unit created.

On 31 December 2018, the workforce of the company came to 7.544 people, of whom 7.514 work in the company and 30 are detached to other Group companies. The following were registered over the course of the year: 588 terminations (53 resignations/dismissals, 508 departures under employment terms and 27 for other reasons), 105 appointments (104 on permanent employment contracts, under § 44 art. 46 of CCNL collective agreement with entry-level salary tier, and 1 on fixed-term contract) and 1 re-admission. The net balance of contractual terminations with group companies was +508 (596 incoming and 88 outgoing).

The workforce was structured as follows:
- 3.033 women (40,2%) and 4,511 men (59,8%);
- 7.542 permanent contracts, 1 fixed-term contract and 1 apprenticeship agreement;
- COO area: 124 attending Managerial Skills development and Management School (1,6%), 292 in the Organisation Department (3,9%), 33 in Internal Communications, 98 in Physical Security

(1,3%), 162 in Human Resources Administration (2,1%), 22 in ISGS Personnel Management; CIDIO area: 150 in Transformation Center (2%), 3.201 in Operations Department (42,4%), 2.234 in IT Systems (29,6%), 135 in Cybersecurity and Business Continuity Management (1,8%), 1 attached to staff of former Integrated Operating Strategies Area, 56 in Digital Business Partner Governance Areas, 44 in Digital Business Partner BdT, Private and Retail Products, 45 in Digital Business Partner CIB; CCMO area: 509 in Real Estate and Logistics Department (6,7%), 87 in Procurement Department (1,2%), 2 in Administration and Control Office; CGO area: 324 in Legal Affairs Head Office Department - Group General Counsel (4,3%); Capital Light Bank: 25 in Special Input Unit.

The workforce of the company (7.514 people) is joined by 263 resources detached from other Group companies. Therefore the effective workforce (IAS) of the company on 31 December 2018 was 7.777 people.

2.2 ADMINISTRATION AND CONTROL

The company's administration, control and management office oversaw intervention and activities in the following areas:

- Budget: in coordination with all affected departments, the Operating Expenses Budget of ISGS was prepared in accordance with the KPI assigned to the individual structures under the Group Operating Expenses Budget. With regard to the Capital Budget, the ISGS investment budget ordered individual investment proposals by their priority in relation to the strategic plan, their economic and financial evaluation, cost-benefit analysis and production capability of the "factories".
- Forecasting: preparation of forecasts relating to ISGS Operating Expenses, in coordination with the affected structures, showing offsets relative to the budget. Preparation of ISGS capital budget investment forecasts per individual project, showing offsets relative to the budget and indicating the corrective actions taken to ensure end-of-year targets are met.
- Purchasing cycle and reporting: monthly production of Reporting on ISGS operating expenses, ensuring the posting to account of management data per department, indicating offsets relative to targets and the respective corrective actions. Direct oversight of the analytical accounting data production process (operating costs per profit centre and investments per project/order) directly touching on the Target system. With regard to the Capital Budget, continuous monitoring of the state of progress relative to the allocated budget and initial rollout schedule of investment projects now underway, indicating corrective actions in the event of offsets.
- Service contracts and assets: applying the internal pricing model for the determination of pricing, work began on the preparation, negotiation and formalisation of intergroup service contracts. The initial sessions of the Coordination and Control Committees overseeing services provided to some 20 client companies are now being organised. These committees are explicitly provided for in the contracts and have consultative, advisory and supervisory functions, working to guarantee transparency, quality and supervision of service levels from a perspective of continuous improvement.
- Cash management: forecasting and supervision of cash flow transactions for continuous monitoring of the allocation of circulating capital and financial debt. This includes continuous monitoring of proceeds, payments and balances, sending clients reminders when necessary and liaising with the parent company's Receivables desk.
- Financial statements and intermediate relations: preparation of management report and coordination of notes to the financial statements in conjunction with the outsourcer. Presentation of the results for the period under review to the Board of Directors of ISGS
- Relations with control bodies: organisation of and participation in meetings of the Board of Statutory Auditors, management of dealings with the Independent Auditors, interfacing with the Agency of Revenue and providing all supporting documentation necessary for inspection purposes.

3. Principal operations

This chapter describes the principal activities pursued by the structures of ISGS over the course of 2018 to guarantee the provision of ordinary services, as well as the management and implementation of project initiatives, especially those with an impact on the group as a whole.

DIGITALISATION OF CORE GROUP PROCESSES

Digitalisation of our core processes has continued under the new Digital Business Partner structures. The objective remains to evolve the operating model via innovation and the new, customer-driven approach to work. Since the launch of the initiative, 17 processes have been fully digitalised; in the final quarter of 2018 the following processes were completed:
- Digital Wallet and payment engine: this resulted in the creation of the XME Pay section, included in the Intesa Sanpaolo Mobile app and available to all clients of banks in the Group holding an O-Key Smart token.
- Industrial dialogue: this resulted in the creation of an instrument allowing SME managers to conduct more effective dialogue with their business clients thanks to improved knowledge of the industrial contexts in which their clients operate.
- NPL phase 2: development of the Single Instrument for supporting specialists in the management of bad debt was completed, with a focus on SME clients and the sustainability evaluation of debt restructuring in light of expected cash flows. The new platform provides a structured representation of the client's current situation and the market context, simulating future scenarios via the application of algorithms and banking rules driving the business strategy.

Work on the Insurance Wallet, Remote Manager and Digital Collaboration projects continues:
- Insurance Wallet: with the release of XME Protection to the subsidiary network, bank clients can now insert guarantees covering a variety of risks (health, family, property) in a single policy, adding or removing guarantees during the lifecycle of their insurance agreements.
- Remote Manager: the objective of this ongoing project is to offer a new “remote” consulting service to clients who, for professional or personal reasons, are unable to visit a branch or prefer to use remote channels with dedicated assistance over extended opening hours. The pilot scheme involves a nucleus of remote managers working in the online sections of our Moncalieri, Padua and Milan branches.
- Digital Collaboration: the Digital Collaboration project was launched in parallel with the Remote Manager project, and over the coming three years will evolve the collaboration instruments available to online branches, Remote Manager and network branches. The first stage in the rollout of the project is scheduled for the first half of 2019.

BIG FINANCIAL DATA (BFD)

Design activities in the Big Data Engine programme launched in 2017 have concentrated on the pursuit of earlier strands intended for use of the data loaded into the single “data lake” repository and as input for priority areas of BFD (Big Financial Data), with particular focus on activities of a regulatory nature. Effort has particularly focused on the Anacredit project, in whose scope the new reporting system has been implemented. The first reports have been passed to the Bank of Italy on the prosecution of activities in CRMS (Credit Risk Management System) High Frequency and the Accounting and Profitability areas, where definition of the work plans is now being finalised.

G20 REFORMS PROJECT

The G20 Reforms project is designed to ensure the ability of the Group's operating model to respond to the regulatory obligations deriving from the reforms in the regulations on investment in financial instruments introduced by the G20.
As part of *EMIR* activities over the course of 2018, work continued on the management of IT interventions designed to improve the quality of regulatory reporting, as did work on the revision of control methods, especially reconciliation.
As part of the work undertaken in the scope of the *Dodd Frank Act*, following the completion of the external assessment by an independent consultant all urgent actions included in the intervention plan have now been implemented. The reconstruction process for the reporting of transactions performed within the perimeter of DFA and in regard to which the Regulator may demand evidence (Pre-trade Reconstruction obligation) is now being strengthened.
In regard to the *Volcker Rule*, preparations for the expansion of the automatic monitoring of positions held in funds and structured products in Eurizon and the Group's insurers are now complete. The Governance Guidelines for the Volcker Rule have been defined and preparations for the automatic reporting function for control of the ISP NY branch are in place. External assessment by an independent company is now nearing completion.

SECURITY PLAN

As part of the new Regulatory System for Security, the *newly-defined Intesa Sanpaolo* Security Plan also provides details on the Cybersecurity Business Plan for the 2018-21 period, its strategy orientation and the investments necessary for sustaining this strategy.
More particularly, the plan includes the implementation of the Group Strategy for Cybersecurity, whose priority objectives include: (i) strengthening security with innovative solutions for secure digitalisation of Group services; (ii) extending the solutions already implemented at parent company level to all Group entities; (iii) managing cyber risks in coherence with the measures defined at Risk Appetite Framework (RAF) level for the Group; (iv) systematically using the most innovative technologies; and (v) playing a proactive role as an influencer on international cybersecurity forums.
A number of projects were launched in 2018: the new IT Security Model, *Security by Design* (verification of extension initiatives and evolution of security solutions), identification of the logical and technological framework and target architecture for Single Digital Identity, assessment of security and monitoring of suppliers' performance, extension of the Global Security Operation Center, feasibility study for enhanced Business Continuity Resilience, the awareness and training plan, review of the Regulatory System for Security, and increased national and international collaboration on the strategic and operational aspects of cybersecurity.

NEW GROUP DATABASE

The objective of this project, launched in 2016, is to define a new operating model for the acquisition, management and control of the personal data of clients, economic groups and related parties at Group level, providing a new and unique client management platform with innovative features that can be shared across Group entities for a unified view of individual clients relative to all existing channels of communication.
Rollout of the new platform began in 2018: the New Group Database was launched as master customer records platform first in a pilot implementation (Mediocredito Italiano) and then in Banca Prossima, Intesa Sanpaolo Private Banking and Banca IMI.
The first months of 2019 will see implementation continue in other banks in the Intesa Sanpaolo Group, according to the defined schedule. The project is due to end in March 2019 with implementation in Intesa Sanpaolo.

THE NEW CREDIT DATA/CREDIT RISK COLLECTION SYSTEM (ANACREDIT)

The goal of this project is to equip the bank's systems with the functionality necessary for meeting ECB requirements (EU Regulation 2016/867) on the collection of granular (loan-by-loan) and harmonised (coherent with FinRep and CoRep indications) data for the purposes of the creation of a central analytical archive of the loans awarded by banking operators in the UME/SSM with the objective of obtaining an analytic vision of the credit risk to which banks are exposed. This initiative, implemented as part of the Big Data Engine programme, includes a number of interventions in terms of supply sources and new engines.
After completion of the new reporting structure in Q3 and Q4, all regulatory deadlines for the sending of the new reporting data to the Bank of Italy were met.

DUAL-FORMAT EMPLOYMENT (MINOTAUR PROJECT)

With the Protocol for sustainable development signed by Intesa Sanpaolo Group on 1 February 2017, the parent company and labour unions launched - for the first time in Italy - an innovative "dual-format" approach to employment with the goal of providing a service more oriented to the various demands of our clients and expanding business opportunities.
The "dual-format" solution combines part-time and independent employment in non-HQ financial consulting. The first appointments were made from existing and external resources in 2018, with the respective roles, responsibilities and processes defined at the same time. The dual-format solution is also to be adopted by ISP Home, with launch scheduled for the first half of 2019.

BANCA 5 PROJECT

The project for the integration of Banca 5 in the group continues. The distinctive characteristics of this bank are to be preserved, with the regulatory framework of the parent company transposed to the new member, complete with the necessary adjustments to accommodate the special character of Banca 5.
Activities for the transfer of control (Audit, Compliance, Risk and Anti-money Laundering), treasury and procurement functions to the parent company.

INTEGRATION OF THE FORMER "VENETO" BANKS IN INTESA SANPAOLO (VIVALDI PROGRAMME)

The purpose of this project is to oversee the integration of the former "Veneto" banks and their subsidiaries listed in the respective Deed of Transfer, with the integration process phased over a series of specific project milestones. Over the course of 2018 a second project phase was launched, partly focused on new issues which had emerged in the meantime. Activities continue to unfold according to the initial schedule.
The new project phase oversaw the integration of Banca Apulia, which was concluded on 7 April 2018 with the launch of a new dedicated clone under the Target information system, and Banca Nuova, integrated in Intesa Sanpaolo via merger by incorporation.
Preparations also continued for the launch of the operating model of Società Gestione Attività (SGA), the entity which purchased the non-performing loans of banks subject to compulsory liquidation and not transferred to Intesa Sanpaolo; more specifically, a project designed to facilitate the migration of documentation on non-performing loans and instruments to SGA ("Migration Protocol") was launched, while the operating procedures in regard to requests from debtors ("Convention on loans") were also established. The procedures for the management of the repurchase of so-called High Risk receivables, which will be triggered in the presence of the conditions indicated in the agreement of 26/07/17, were also prepared. Finally, procedures were defined for the acquisition and subsequent integration of the non-Italian operations of the former Veneto Banca. These procedures vary from one country to another and have resulted in the integration of the three banks, and the Romanian subsidiary, in the Group.

RETAIL SYSTEM EARLY WARNING PROJECT

The goal of this project is to strengthen and improve processes for the evaluation of counterparty risk and the interception and classification of non-performing loans, via the implementation of an Early Warning System (EWS). This system permits:
- monitoring of a set of "impairment triggers" linked to the classification;
- calculation and monitoring of a series of indicators signalling deterioration in credit positions.

As part of the progressive rollout of the new model across all regulatory segments, the EWS replaces (July for private clients and late September for retail SMEs) the previous system in regard to counterparty status alerts and the risk of deterioration of credit quality in the short term.

PROCUREMENT CENTRALISATION PROJECT – PHASE 2

This project launched in 2018 with the objective of completing the activation of the Group's Centralised Procurement Model. Under the project the local procurement functions of the leading Italian members of the Group are pooled in a centralised structure, with the attendant remodulation of powers and verification of the operating model to be adopted; for non-Italian companies, the project involves the expansion of orientation and control via Advisory Opinion and centralised sourcing of the most relevant expenditure. The project will extend the "Suppliers Portal" to other companies in the perimeter, which will assist in the centralisation of sourcing, the classification and control of all suppliers, and oversight of contract matters within the entire Italy perimeter.
Action is now underway to upgrade the new Operating Model and project activities designed to rationalise the sourcing process and inclusion of requirements on the Suppliers Portal to adapt the application to the new operating requirements emerging with the integration of the new companies.

ENIF - Enabling Integrated Financial Crime

The goal of the ENIF project is to reinforce measures designed to counter money laundering and embargoes, with a radical revision of the organisational model and the strengthening/rebalancing of the resources allocated at Group level via centralisation in a "competence centre" of the principal activities pursued at the subsidiary and Anti-money laundering Head Office Department levels.
In line with the plan included in phase 2, design of the Due Diligence, Transaction Monitoring and Penalties/Embargoes core processes is now complete, and phase 3 of the project - addressing the priority implementations for 2019 - is now being prepared.

PULSE

This project for the creation of the "Pulse" dedicated collection unit was launched early in 2018. The unit commenced operations on 1 July 2018 simultaneously with the extension of the retail position management process to the whole network, of which Pulse constitutes one phase. The project continued with the launch of the formalisation platform on 3 December 2018, and will proceed in 2019 with the launch of the collection platform.

OMEGA

Launched in 2018, the Omega project culminated in the disposal and securitisation of a portfolio of defaulted loans of Intesa Sanpaolo Group and the constitution of a servicing platform for Credit Collection. This platform is owned 51% by Intrum Italy (a subsidiary of the Swedish group Intrum) and 49% by Intesa Sanpaolo. The project included the definition of dedicated structures for interfacing with outsourcers and monitoring/supporting the assets entrusted to the latter, and management of non-delegated or disposed positions. On 1 December 2018, with the allocation to Intrum Italy of a significant part of the stock and new default flows as well as the servicing platform, the processes were published for management of defaulted loans, defaulted leasing agreements, management of moveable and immoveable assets, mortgage collateral and personal guarantees, management of goods acquired by auction, regarding the activities of the Group on "sensitive" positions which remained under internal management, and interfacing activities conducted inside the Group in regard to the external servicer. The credit revaluation process will be updated in the credit evaluation and cost process programme, while the default reporting process will be updated in line with the reporting process for April 2019.

CREDIT COST EVALUATION PROCESS PROGRAMME

The credit cost evaluation process programme launched in July 2018 with the following macro-objectives: reinforcement of managerial governance of credit costs, root and branch revision of credit evaluation and classification processes, and completion of the interventions undertaken as part of IFRS 9. Adjustments to the credit evaluation process are now being defined in support of the tactical solutions identified by the project, and root and branch revision of the credit evaluation process is underway to guarantee the uniformity and coherence of interventions.

MUTUI POSTE

This initiative involves the creation of a dedicated proposals model via which the Banca dei Territori Division acts as a "product factory" relative to non-Group third-party distribution networks which place Intesa Sanpaolo products, continuing to manage relations with the client base. As part of this initiative, indirect distribution channels are being relaunched with the creation of commercial partnerships with approved non-Group networks. The first partner to be identified was Poste Italiane, while the first product packaged as part of the partnership agreement was the loans range (Mutuo BancoPosta), whose market offering is directed at retail clients. The Mutui BancoPosta offering was launched in July, and was initially restricted to employees of Poste Italiane. It was extended to all Poste clients in October 2018. Work on the Personal Loans range began in September. ISGS structures play supporting roles in this initiative, helping with the definition and formalisation of the processes dedicated to the new business model, the supply of IT services, and operations.

ORIGINATE TO SHARE

This project is structured around a four-year programme whose objective is the implementation of the Originate to Share (OtS) model for the Corporate and Investment Banking division, based principally on: i) new processes entailing a significant change of approach relative to current practices, with the objective of seizing new business opportunities; ii) an IT platform dedicated to OtS and fully integrated with other Group systems. The programme is articulated across three successive waves (Banca IMI, Intesa Sanpaolo and Foreign Network): OtS functionality will be enabled in Banca IMI from early 2019, while work on the application upgrade and the full enablement of ISP and Foreign Network is scheduled for completion by 2021.

CORPORATE STREAMLINING

As provided in the business plan, we launched a number of projects on corporate streamlining, and in particular the reduction in the number of legal entities. The entities addressed over the course of the year were CR Veneto and CR Friuli (whose merger became effective on 20 July 2018), Banco di Napoli, CR Forlì e Romagna (merger effective on 26 November 2018) and IMI Investimenti (merger effective on 1 October 2018).
ISGS structures have provided the necessary support for the successful outcome of migrations to the parent company, especially with regard to the IT, organisational and process management components.
In Q3, the project was launched for the integration of Intesa Sanpaolo Group Services in the parent company (with the merger effective in January 2019). In Q4 the preliminary work on the forthcoming incorporations began, in line with the Business Plan.

NEW CREDIT PROGRAMME

Among the many credit-related initiatives introduced by the Group in coherence with its Business Plan, the New Credit Programme is defining and implementing a new Business and Corporate process.
Under this programme, a working party was appointed with members from the CLO, CIB, BdT, CRO and CITDIO functions. This working party has now completed the preliminary phase for the identification and definition of guidelines for future conduct. The newly-appointed "Agile" working party has implemented a preliminary instance for the detailed definition of the credit capacity mechanism and finalisation of the simplified revision process. Times and methods are now being defined for the other instances.

PEOPLE CARE PROJECT

To improve quality of life in the company by listening to the needs expressed by colleagues: this project aims to create a People Care model that can be rolled out across the group. It's developed over two vectors: improving services already offered to personnel by the various internal actors and contributing to the development of new solutions, drawing on the input of an internal/external observatory; introduction of a confidential advice process for colleagues experiencing personal difficulties/problems.

BREXIT

The Brexit project was launched with the aim of defining and implementing an Action Plan, consistent with the strategy defined by the Group for dealing with the United Kingdom's exit from the European Union, for ensuring full business continuity. Project activities in the early part of the year included mapping the potential impacts of Brexit, defining contingency options, identifying target solutions, defining action plans and submitting them to Supervisors for verification of their correspondence with demands and recommendations. In its current phase, the project is monitoring changes in the regulatory scenario, including continuous dialogue with European institutions and supervisors, putting the finishing touches to the action plans, and working to ensure their timely implementation to guarantee business continuity after 31 March 2019.

PROCESS INTEGRATED GOVERNANCE

Over the course of 2018 the new-look Group process structure, already implemented in Intesa Sanpaolo, Banca IMI, Mediocredito Italiano and Banca Fideuram/Intesa Sanpaolo Private Banking, was extended to cover the Asset Management and Insurance divisions. The rationalisation, simplification and redrafting of process requirements, in a manner compatible with the impacts on the latter of ongoing project initiatives, reorganisation of reference structures and requirements for additional investigation signalled by Process Owners, maintaining close oversight of the overall coherence of Group requirements on processes, guaranteed by the assistance provided to the companies. 333 processes have been handled in all, of which 279 have been published. A further 366 processes have still to be addressed.

4. Results for the period

4.1 RECLASSIFIED INCOME STATEMENT

The reclassified income statement for the year ending 31 December 2018, with the previous year's figures posted alongside, is given below.

(values in euro thousands)

	31.12.2018	31.12.2017 Pro-forma	Absolute variation	%
Revenues from services rendered	**1,767,573**	**1,821,957**	**-54,384**	**-3.0%**
Other income	6,935	4,470	2,465	55.1%
Gains/losses on real estate assets	-	-3,267	3,267	n.s.
Raw materials and supplies used	-926	-1,012	86	-8.5%
Other administrative expenses	-654,259	-724,374	70,115	-9.7%
Personnel expenses	-517,239	-551,833	34,594	-6.3%
Amortisation and depreciation	-578,195	-523,766	-54,429	10.4%
Other expenses (incl. write-offs)	-6,338	-10,813	4,475	-41.4%
Finance expenses	-13,599	-12,616	-983	7.8%
Finance income	1,021	2,224	-1,203	-54.1%
Profit before tax	**4,973**	**970**	**4,003**	**n.s.**
Taxes on income	-4,973	-6,580	1,607	-24.4%
Taxes not falling under core business	-	1,417	-1,417	n.s.
Income from integration	114,341	179,230	-64,889	-36.2%
Integration expenses	-55,471	-40,507	-14,964	36.9%
Integration expenses (Banche Venete)	-58,870	-138,723	79,853	-57.6%
Profit for the year	**-**	**-4,193**	**4,193**	**n.s.**

Revenue from services in 2018 came to 1,767.6 million euros, down 54.4 million euros relative to the previous year (1,822.0 million euros). Total revenue was calculated by application of the Internal Pricing Model and also includes expense components such as direct taxes, improvements to third party assets included in service contracts, and costs inherent to guidance and governance activities within the Consortium and on behalf of the parent company.

Over the course of the year, revenue from services with our five leading clients represented around 93% (1,641 million euros) of the total. Revenue from the parent company Intesa Sanpaolo S.p.A. came to 1,335 million euros (75% of total revenue), while revenue from Banca IMI S.p.A. came to 175 million euros (10%), from Banca CR Firenze S.p.A. 56 million euros (3%), from Fideuram – Intesa Sanpaolo Private Banking S.p.A. 38 million euros (2%) and from Banca CR Bologna S.p.A. 37 million euros (2%). The remainder of 126 million euros was invoiced across 67 different clients, as described in more detail in the appendix.

Other income of 6.9 million euros primarily refers to insurance reimbursements of 4.5 million euros and the recovery of contractual penalties and expenses to the value of 1.9 million euros.

Total operating expenses for the year ending 31 December 2018 came to 1,750.6 million euros – subdivided into administrative expenses of 655.2 million euros (37% of total operating expenses), amortisation and depreciation of 578.2 million euros (33%) and personnel costs of 517.2 million euros (30%) – and fell by 50.4 million euros (-2.8%) relative to the pro-forma figure for the corresponding period in 2017 (1,801.0 million euros). In particular, administrative expenses fell by 70.1 million euros (-9.7%) and personnel costs by 34.6 million euros (-6.3%), essentially due to reductions in staff numbers; amortisation and depreciation, on the other hand, increased by 54.4 million euros (+10.4%) as a result of increased investments in recent years.

Other expenses, which came to 6.3 million euros (against 10.8 million euros on 31 December 2017), principally comprised the cost quotas respective to the period of improvements to third party assets (3.0 million euros) and write-downs on capital assets posted during the period under review (3.1 million euros).

Financial expenses came to 13.6 million euros (against 12.6 million euros on 31 December 2017) and included 10.7 million euros on interest due on bank accounts. The residual value comprises 1.2 million euros deriving from the ISP shares in the service of shareholder incentive plans for company personnel and 0.6 million euros deriving from the effects of the adjustment to funds linked to personnel.

Financial income of 1.0 million euros (against 2.2 million euros on 31 December 2017) includes 0.5 million euros in interest receivable on tax reimbursements, as well as 0.4 million euros in gains and dividends on shares in the parent company.

Taxes for the year under review came to 5.0 million euros (against 6.6 million euros on 31 December 2017) and comprised 3.6 million euros in IRES corporate income tax and 1.4 million euros in IRAP regional tax on productive activities.

In observance of the fiscal obligation under which “fees due by consortium members or partners to the aforementioned consortia must not exceed the costs imputed to the services themselves”, the expenses incurred in the provision of services have been entirely "absorbed" by the revenue generated by the services, and therefore the result for the period under review is zero.

4.2 RECLASSIFIED BALANCE SHEET

The reclassified balance sheet for the year ending 31 December 2018, against the corresponding figures for the year ending 31 December 2017, is given below.

(values in euro thousands)

ASSETS	31.12.2018	31.12.2017	absolute variation	%
Non-current assets				
Tangible and intangible assets	2,020,615	1,844,390	176,225	9.6%
Equity investments	8	8	-	0.0%
Financial assets measured at fair value through profit or loss	2,736	9,450	-6,714	-71.0%
Financial assets measured at fair value through other comprehensive income	116	41	75	n.s.
Other assets	15,657	7,905	7,752	98.1%
Deferred tax assets	80,665	99,234	-18,569	-18.7%
	2,119,797	**1,961,028**	**158,769**	**8.1%**
Current assets				
Trade receivables and other receivables	546,254	320,029	226,225	70.7%
Other current assets	7,244	5,797	1,447	25.0%
	553,498	**325,826**	**227,672**	**69.9%**
Non-current assets held for sale and discontinued operations	**-**	-	**-**	**n.s.**
TOTAL ASSETS	**2,673,295**	**2,286,854**	**386,441**	**17%**
SHAREHOLDER'S EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	273,321	272,587	734	-
Additional paid-in capital	140,606	140,686	-80	-0.1%
Legal reserve	54,517	54,517	-	0.0%
Profit (losses) carried forward	16,707	20,899	-4,192	-
Other reserves	-17,519	-31,551	14,032	-44.5%
Profit (loss) for the year	-	-4,192	4,192	n.s.
Total shareholders' equity	**467,632**	**452,946**	**14,686**	**3.2%**
Non-current liabilities				
Provisions for risks and charges	188,938	213,767	-24,829	-11.6%
Liabilities for pension and other plans	133,189	242,667	-109,478	-45.1%
Other liabilities	-	3,900	-3,900	-
Deferred tax liabilities	16,631	8,940	7,691	86.0%
	338,758	**469,274**	**-130,516**	**-27.8%**
Current liabilities				
Due to banks	1,321,904	691,270	630,634	91.2%
Trade payables and other payables	544,574	661,402	-116,828	-17.7%
Other liabilities	401	4,119	-3,718	-
Payables for taxes on income	26	7,843	-7,817	-99.7%
	1,866,905	**1,364,634**	**502,271**	**36.8%**
Total liabilities	**2,205,663**	**1,833,908**	**371,755**	**20.3%**
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	**2,673,295**	**2,286,854**	**386,441**	**17%**

Tangible and intangible assets came to 2,021 million euros, an increase of 176.2 million euros against the corresponding end of year figure for 2017. This variation was mainly due to the investments made over the course of the year, especially in ICT; it was partially offset by the amortisation and depreciation posted in the period under review.

Financial assets recognised at fair value through profit and loss came to 2.7 million euros (against 9.5 million euros on 31 December 2017), and comprised shares in the parent company held in service of the shareholder incentive plans for company personnel. For more details, see the Notes to the Financial Statements.

Other assets, which came to 15.7 million euros (against 8.0 million euros on 31 December 2017), largely comprised improvements to third party assets (6.6 million euros). A further 1.3 million euros referred to early severance pay and employee salaries, and 0.5 million euros to security deposits. This item also includes 7.0 million euros for the transfer of the Credit Recovery operation to Tersia S.p.A..

Deferred tax assets of 80.7 million euros (against 99.2 million euros on 31 December 2017) mainly comprise the temporary difference between book values and the corresponding values for tax purposes posted in consequence of allocations to provisions for personnel and other provisions for risks, with especial relevance for the effects deriving from allocations to the Sector Solidarity Fund, recognition of actuarial differences referring to personnel funds under shareholders' equity, and the provision for risks relating to the NES dispute. In particular, around 40 million euros refer to the recognition of deferred taxes following allocation to the early retirement fund for personnel in connection with the transaction for the acquisition of certain assets and liabilities and legal relationships formerly held by the "Veneto" banks (hereinafter “ex-Veneto transactions”).

Trade and other receivables include, in addition to receivables for service activities, 145.1 million euros in advances to suppliers and 116.9 million euros to the parent company in allocations to the early retirement fund for personnel in connection with the ex-Veneto transaction, net of the respective tax effect.

Other current assets came to 7.2 million euros (against 5.8 million euros on 31 December 2017) and primarily consisted of prepaid expenses. More particularly, 3.7 million euros in leasing fees and 0.1 million euros in personnel costs.

Shareholders' equity came to 467.6 million euros, an increase of 14.6 million euros relative to the corresponding figure on 31 December 2017 (453.0 million euros). This increase was primarily due to the recognition of the effects of shareholder incentive plans.

Provisions for risks and charges came to 188.9 million euros (against 213.8 million euros on 31 December 2017) and refer to provisions for early retirement incentives of 145.0 million euros (including 140.0 million euros for the early retirement fund for personnel affected by the ex-Veneto transaction), provisions for seniority bonuses and variable components of employee salaries to a total of 32.9 million euros, plus 11.0 million euros in other provisions for risks. The latter item primarily comprises the provisions for risks related to the ongoing dispute relating to the 9 million euros in cash deficits missing from the vaults of NES.

Pension fund and similar liabilities of 133.2 million euros (against 242.7 million euros on 31 December 2017) comprised 125.6 million euros for the TFR provision and 7.6 million euros in pension funds.

Deferred taxes of 16.6 million euros primarily referred to the temporary differences between book values and the corresponding values for tax purposes in real estate, detected during the inspection of 2012.

Trade and other payables came to 544.6 million euros on 31 December 2018, a reduction of 116.8 million euros relative to the corresponding figure at the end of 2017 (661.4 million euros), essentially due to the combined effects of cyclical variations in debts to suppliers, debts to the parent company and Treasury/social security debts.

Due to significant ongoing investments which are paid at outset but recovered from clients in successive years via amortisation and depreciation and the undertaking by ISGS to respect the terms of payment to suppliers, the net financial position on 31 December 2018 is 1,322.0 million euros in the negative (against +691.3 million euros on 31 December 2017).

4.3 SUMMARY OF INTEGRATION AND EARLY RETIREMENT INCENTIVE COSTS

Integration revenue and expenses are shown in the summary table below.

(values in euro thousands)

	31.12.2018	31.12.2017
Administrative expenses	24,977	13,297
Administrative expenses - ex-Veneto	36,937	29,985
Amortisation\depreciation\write-offs	30,295	21,316
Amortisations\depreciation\write-offs - ex-Veneto	21,933	1,455
Other expenses for integration and early retirement incentives	199	5,893
Other expenses for integration and early retirement incentives - ex-Veneto	-	107,283
Total integration expenses	**55,471**	**40,506**
Total integration expenses - ex-Veneto	**58,870**	**138,723**
Total revenue from integration	**114,341**	**179,229**
TOTAL		**-**

Integration expenses posted to account for the period under review mainly relate to expenses incurred for the finalisation of integration projects and expenses with information technology in particular (networks, data migration, installation of data transmission lines, leasing and maintenance of hardware and software), plus amortisations of ICT investments instrumental to migration activities.

5. Related party and intragroup transactions

Related party and intragroup transactions including transactions with the parent company and other companies acting in consortium with the Intesa Sanpaolo Group but not members of the Group fall under the routine business management activities of each, and are governed by market conditions including - for service contracts - the prices determined on the basis of the costs effectively sustained by the service provider.

6. Outlook for operations

Following the incorporation of 21 January 2019, structures will continue providing services within the parent company over the course of the year. As always, provision of services sets excellence as its objective, which is achieved via the following:

- optimisation of service costs and rationalisation of demand, even in the case of significant investments;
- transparency and excellence in the levels of service provided;
- an industrial approach to the production of software and back office processes, with a consequent increase in productivity;
- simplification of processes, listening to clients to identify opportunities for improvement, and acting on these opportunities via improvement initiatives affecting all ISP structures.

Projects and initiatives at the service of all Group structures will continue to be implemented, playing an active role as drivers of change within the following guidelines:

- strict oversight of projects identified as strategic;
- reorganisation of leading processes and technology/application architectures;
- close monitoring of trends in innovation;
- implementation of a joint process with other Group structures for scouting, experimentation and realisation of innovative ideas;
- activation of new ways of sharing knowledge across the Group.

7. Treasury shares and parent company shares

In regard to the information required under art. 2428 section 3 paragraphs 3 and 4 of the Italian civil code, Intesa Sanpaolo Group Services S.c.p.A. does not hold, and has never held, treasury shares.

In regard to shares in the parent company purchased as part of the Incentive plan based on the financial instruments of the Intesa Group, the reader is referred to "Financial assets recognised at fair value through profit or loss" and "Financial assets recognised at fair value through comprehensive income" in the Notes to the Financial Statements.

8. Secondary headquarters

Pursuant to art. 2428 of the Italian civil code we declare that Intesa Sanpaolo Group Services S.c.p.A. does not have secondary headquarters.

9. Risk and asset management

In regard to the requirements of art 2428 section 3 paragraph 6 bis a and b of the Italian civil code, the reader is referred to chapter "4. Other information" of the Notes to the Financial Statements for information on risks and the relative coverage policies adopted by Intesa Sanpaolo Group Services S.c.p.A..

10. Significant events after the end of the financial year

The merger by incorporation of Intesa Sanpaolo Group Services S.c.p.A. in Intesa Sanpaolo S.p.A. became effective on 21 January of the year current, backdated for accounting and fiscal purposes to 1 January 2019. The merger operation was approved by the Intesa Sanpaolo S.p.A. Board of Directors on 8 May 2018.

11. Proposal for approval of the financial statements

Dear Shareholders,

We hereby submit for your approval the report of the Board of Directors on the situation and operations of the company and the Financial Statements for the year ending 31 December 2018, which present a net profit/loss of zero, comprising the Balance Sheet, the Income statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flow Statement, the Notes to the Financial Statements and the respective appendices.

Financial statements

1. Balance sheet

(values in euros)

ASSETS	31/12/2018	31/12/2017
Non-current assets		
Property, plant and equipment	556,710,464	572,620,391
Intangible assets	1,463,904,937	1,271,769,600
Equity investments	7,480	7,730
Financial assets measured at fair value through profit or loss	2,736,108	9,450,410
Financial assets measured at fair value through other comprehensive income	116,349	41,157
Other assets	15,657,241	7,905,318
Deferred tax assets	80,663,645	99,233,985
Total non-current assets	**2,119,796,224**	1,961,028,591
Current assets		
Trade receivables and other receivables	546,254,200	320,029,083
Other current assets	7,244,285	5,796,806
Total current assets	**553,498,485**	325,825,889
TOTAL ASSETS	**2,673,294,709**	2,286,854,480

SHAREHOLDER'S EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	273,320,813	272,586,637
Additional paid-in capital	140,605,828	140,686,428
Legal reserve	54,517,327	54,517,327
Profit (losses) carried forward	16,706,535	20,898,950
Other reserves	-17,518,856	-31,550,788
Profit (loss) for the year	-	-4,192,415
Total shareholders' equity	**467,631,647**	452,946,139
Non-current liabilities		
Provisions for risks and charges	188,937,924	213,766,830
Liabilities for pension and other plans	133,189,602	242,667,149
Other liabilities	-	3,900,000
Deferred tax liabilities	16,630,666	8,940,355
Total non-current liabilities	**338,758,192**	469,274,334
Current liabilities		
Due to banks	1,321,903,636	691,269,651
Trade payables and other payables	544,574,241	661,402,378
Other current liabilities	401,345	4,118,750
Payables for taxes on income	25,648	7,843,228
Total current liabilities	**1,866,904,870**	1,364,634,007
Total liabilities	**2,205,663,062**	1,833,908,341
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES	**2,673,294,709**	2,286,854,480

2. Income statement

(values in euros)

	31/12/2018	31/12/2017
Sale of goods	3,000	-3,267,319.00
Services rendered	1,881,914,541	1,773,318,501
Revenue	**1,881,917,541**	**1,770,051,182**
Other income	10,519,652	111,753,402
Raw materials and supplies used	-925,887	-1,012,194
Other administrative expenses	-716,173,703	-701,132,140
Personnel expenses	-521,984,333	-653,778,246
Amortisation	-633,472,450	-550,568,601
Provisions for risks	-30,217	-1,281,953
Other expenses	-3,259,711	-6,027,883
Finance expenses	-12,638,812	-11,144,400
Finance income	1,020,615	2,223,916
Profit before tax	**4,972,695**	**-40,916,917**
Taxes on income	-4,972,695	36,724,502
Profit/loss for the year	**-**	**-4,192,415**

3. Statement of comprehensive income

(values in euros)

	31/12/2018	31/12/2017
Profit (loss) for the period	**-**	-4,192,415
Other income components net of taxes without reversal to the income statement		
Equity instruments designated at fair value through other comprehensive income	*- 9,375*	*3,884*
Property and equipment	*190,437*	*3,255,689*
Employee defined benefit plans	*29,690,201*	*-11,105,116*
Total other income components net of taxes	29,871,263	-7,845,543
Comprehensive income	**29,871,263**	-12,037,958

4. Statement of changes in shareholders' equity

(values in euros)

	Share capital	Share premium	Legal reserve	Other reserves	Profit (losses) carried forward	Profit (loss) for the year	Shareholders' equity
Shareholders' equity at 31/12/2016	**272,586,637**	**141,722,163**	**54,457,327**	**-31,824,411**	**-**	**20,958,950**	**457,900,666**
Allocation of results from previous year							
- reserves			60,000		20,898,950	-20,958,950	-
Variations in the year							
Variations to reserves							
- Changes in Intesa Sanpaolo shares - directors' bonus		-1,030,624		1,030,624			-
- Changes in Intesa Sanpaolo shares - Lecoip		-5,111		7,088,542			7,083,431
Comprehensive income at 31/12/2017				-7,845,543		-4,192,415	-12,037,958
Shareholders' equity at 31/12/2017	**272,586,637**	**140,686,428**	**54,517,327**	**-31,550,788**	**20,898,950**	**-4,192,415**	**452,946,139**
Allocation of results from previous year							
- reserves					-4,192,415	4,192,415	-
Variations in the year							
Variations to reserves							
- Changes in Intesa Sanpaolo shares - directors' bonus		207,065		-207,065			-
- Changes in Intesa Sanpaolo shares - Lecoip		-287,665		13,910,078			13,622,413
Other changes							
Operations on shareholders' equity							-
- CS increase by incorporation of ISPIC	734,176						734,176
- retirement fund reserve				-29,542,344			-29,542,344
- revaluation of owner-occupied property at fair value							-
Comprehensive income at 31/12/2018				29,871,263		-	29,871,263
Shareholders' equity at 31/12/2018	**273,320,813**	**140,605,828**	**54,517,327**	**-17,518,856**	**16,706,535**	**-**	**467,631,647**

5. Cash flow statement

(values in euros)

	31/12/2018	31/12/2017
Profit before tax	**4,972,695**	**-40,916,917**
Non-monetary flows:		
Depreciation and impairment of property, plant and equipment	149,237,297	127,205,939
Amortisation and impairment of intangible fixed assets	484,235,153	422,933,365
Increase/decrease in financial assets recognised at fair value through profit or loss	6,714,302	-1,030,624
Increase/decrease in financial assets recognised at fair value through comprehensive income	-75,192	17,786
Income from disposal of property, plant and equipment		
Other changes to capital assets	-18,696,783	-598,999,169
Changes to pension funds and allocations	-120,274,521	155,917,729
Variations in working capital:		
Changes in trade receivables and other short-term receivables	-226,225,117	-148,566,002
Changes in trade payables and other short-term payables	-116,828,137	13,928,396
Net variation to assets/liabilities under deferred/prepaid taxes	26,260,651	-50,213,272
Taxes on income paid/collected	-6,076,627	-11,645,424
Variation in payables for current taxes	-7,817,580	-11,378,716
Other variations in assets and liabilities	-15,793,475	66,666,734
Net cash flows from operating activities	**154,659,971**	**-35,163,258**
Investment activities		
Investments made in the period under review: tangible fixed assets	-132,510,185	-163,487,717
Investments made in the period under review: intangible fixed assets	-658,493,892	-66,527,427
Acquisition of financial assets recognised at fair value through profit or loss	-	-1,195,927
Acquisition of financial assets recognised at fair value through comprehensive income	-	-5,850,000
Acquisition/sale of equity investments	250	-730
Net cash flow allocated to investment activities	**-791,003,827**	**-237,061,801**
Financing activities		
Share capital payments	734,176	-
Bank overdrafts	630,633,985	288,301,404
Proceeds from sale of property, plant and equipment	3,000	19,473,982
Payments under financial leasing liabilities	-	131,560
Sale of financial instruments held for sale	-	5,235,030
Net cash flow allocated to financing activities	**631,371,161**	**313,141,976**
Net increase to cash and cash equivalents	-	-
Net exchange rate differences		
Cash and cash equivalents on 1 January	-	-
Cash and cash equivalents on 31 December	**-**	**-**

Note that the information required under paragraph 44 of IAS 7 is directly reported in the Cash Flow Statement.

Notes to the Financial Statements

1. Accounting policies

SECTION 1 - DECLARATION OF CONFORMITY TO INTERNATIONAL ACCOUNTING STANDARDS

These financial statements have been prepared in compliance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as provided for by EU Regulation 1606 of 19 July 2002. In preparing the financial statements as at 31 December 2018, the IAS/IFRS accounting standards approved and in force on the same date were applied.

These financial statements are in any event compliant with the provisions of articles 2423 and following of the Italian Civil Code, as shown in these Explanatory Notes, prepared pursuant to article 2427 of the Italian Civil Code, and constitute, pursuant to and for the purposes of the aforementioned article 2423, an integral part of the financial statements.

SECTION 2 - GENERAL PREPARATION PRINCIPLES

The Financial Statements consist of the Balance sheet, Income statement, Comprehensive income statement, Statement of changes in shareholders' equity, Cash flow statement and Explanatory notes to the financial statements, and are also accompanied by a report on operations, operating results and the financial position. These Financial Statements are subject to review by the independent auditors KPMG S.p.A. in execution of the shareholders' meeting resolution of 21 December 2011 which granted them the assignment for the 2012-2020 period.

These financial statements have been prepared in compliance with the general principles provided for in IAS 1 "Presentation of Financial Statements" as amended by EU Regulation No. 1274/2008:

- accrual principle: the effect of events and transactions is recognised when they occur and not when the related collections and payments take place;
- going concern principle: the financial statements are prepared on the basis of operational continuity for the foreseeable future.
- substance over form principle: in recognising transactions in the financial statements, priority was given to economic substance over legal form;
- comparability principle: comparative information is provided for the previous period where significant.

Furthermore, except where permitted, assets and liabilities, costs and revenue have not been netted.

Amounts in the financial statements are expressed in units of euros unless otherwise indicated.

With particular reference to the financial statements, it should be noted that the balance sheet and income statement, as well as complying with the official format as required by IAS 1, have also been prepared in a reclassified format to take into account:

- the consolidation of tangible and intangible assets in relation to the balance sheet, in line with the presentation methods adopted at Group level;
- in relation to the income statement, personnel expenses, administrative expenses and depreciation/amortisation of tangible and intangible assets relating to integration and incentive processes in progress within the Group are allocated to the specific item "Integration and incentive charges net of taxes".

The comparative figures shown in the official statements refer to the Company data as of 31 December of the previous year in relation to the balance sheet and the same period of operation of the previous year in relation to the income statement.

2017 comparative data, following the entry into force of the new IFRS 9 and IFRS 15 international accounting standards, has not been restated in line with the provisions of the same standards and given no significant impacts have been detected.

The reconciliation statements between the official and reclassified formats of the compared periods are attached.

In addition, all complementary information deemed necessary to give a true and fair view of the evolution of the company's financial position and economic performance is provided.

The company, although falling within the application scope of Art. 2 of Legislative Decree 254/2016, did not prepare a disclosure of non-financial information making use of the exemption pursuant to Art. 6 of the Decree itself, as a subsidiary company included in the Intesa Sanpaolo S.p.A. Consolidated Disclosure of non-financial information.

SECTION 3 - EVENTS SUBSEQUENT TO THE REPORTING DATE

The merger by incorporation of Intesa Sanpaolo Group Services S.c.p.A. with Intesa Sanpaolo S.p.A. on 21 January and with accounting and tax effects from 1 January 2019 is noted. The merger operation was approved by the Intesa Sanpaolo S.p.A. Board of Directors on 8 May 2018.

SECTION 4 - NEW IFRS 9, IFRS 15 and IFRS 16 INTERNATIONAL ACCOUNTING STANDARDS

As of 1 January 2018, the new IFRS 9 (Financial Instruments) and IFRS 15 (Revenues from contracts with customers) international accounting standards entered into force. These standards replaced IAS 39, which regulated the recognition, classification and measurement of financial instruments and IAS 11 and 18, which respectively regulated the recognition of long-term contracts and revenues.
IFRS 9 introduced important changes in the classification and measurement of financial instruments and, in line with the other entities of the Intesa Sanpaolo Group, the Company introduced the application of the new standards from 1 January 2018. Despite the significant changes compared to IAS 39 on the treatment of financial instruments, the impact on ISGS relating to the loan portfolio is not considered material as the Company exclusively holds trade receivables and other current receivables. In relation to financial instruments classified as financial assets measured at fair value based on IAS 39, there are no substantial changes with respect to the recognition methods of changes in fair value in the Income Statement, other than the different name of the balance sheet item.
Finally, in relation to financial assets classified as available for sale on the basis of IAS 39, being mainly made up quotas of UCIs, these are comparable to debt securities based on IFRS 9 and therefore, as they are not "solely payments of principal and interest on the principal amount outstanding" based on the SPPI test required by the new standard, they are now valued by recognising the differences in fair value against the Income Statement.

Comparison of financial instruments 31/12/17 vs. 31/12/18

(values in euros)

Financial assets	IAS 39 Classification	Carrying amount IAS 39 31/12/17	IFRS 9 Classification	Carrying amount IAS 9 31/12/18
Senior management incentive plan equities	Financial assets measured at fair value	2,686,393	Financial assets measured at fair value through profit or loss	2,479,328
Quotas of UCI	Financial assets available for sale	5,850,000	Financial assets measured at fair value through profit or loss	-
Receivables for Lecoip certificates	Other receivables	914,017	Financial assets measured at fair value through profit or loss	256,779
Employees incentive plan equities	Financial assets available for sale	41,157	Financial assets measured at fair value through other comprehensive income	28,822

IFRS 15, on the other hand, introduced a new five-step model for the recognition of revenues from contracts with customers but, given the consortium nature of the company and the monthly/quarterly invoicing method of the Group's consortium companies based on the progress of the work, no significant differences emerged in relation to the recognition of revenues resulting from the application of the new international accounting standard.

As of 1 January 2019, the new international accounting standard IFRS 16 Leasing, issued by the IASB in January 2016 and approved by the European Commission through the Regulation No. 1986/2017, entered into force replacing IAS 17 "Leasing", the related interpretations and regulations for leasing contract accounting.

In view of the fact that the company was merged by incorporation into Intesa Sanpaolo S.p.A., with accounting and tax effects from 1 January 2019, the effects of the new standard are not reported, having been widely dealt with by the incorporating company.

1.2 PART RELATING TO THE MAIN AGGREGATES

The main aggregates for the balance sheet and income statement, the recognition, classification, measurement and derecognition criteria adopted in preparing the Financial Statements are illustrated below.

BUSINESS COMBINATIONS OF COMPANIES SUBJECT TO JOINT CONTROL

These types of transactions do not constitute "business combinations".
transactions:
- aimed at controlling one or more companies that do not constitute a business activity,
- aimed at transitory control,
- carried out for reorganisation purposes, between two or more companies already part of the Intesa Sanpaolo Group and that do not involve a change in control structures regardless of the percentage of third-party rights before and after the operation (so-called business combinations of companies subject to joint control),

they are, in fact, not considered to have economic substance. Therefore, since there are no specific provisions in the IAS/IFRS and in compliance with IAS 8 which requires – in the absence of a specific Standard – that the reporting entity must use its judgement in applying an accounting policy that results in information that is relevant, reliable, prudent and that reflects the economic substance of the transaction, these are accounted for safeguarding the continuing values of the acquiree in the financial statements of the acquirer.
Mergers are examples of combinations between companies and represent the most complete business combinations, since they imply the legal and economic unification of the merged entities. Mergers which entail the establishment of a new legal entity and mergers by incorporation (which entail that an entity is absorbed by another existing entity) are treated according to the criteria illustrated above, that is:
- if the transaction leads to the transfer of control of a company, it is accounted for as a business combination as provided for by IFRS 3;
- if the transaction does not lead to the transfer of control, it is accounted for by privileging the continuity of the values of the merged company.

PROPERTY, PLANT AND EQUIPMENT

Classification criteria

This includes land, owner-occupied properties, investment property, valuable art assets, technical plants, furniture and fittings and any type of equipment.
These are tangible assets held for use in the production or supply of goods and services, to be rented to third parties and that are expected to be used during more than one period.

Recognition criteria

Tangible assets are initially measured at cost which comprises in addition to their purchase price any costs directly attributable to the purchase and required for them to be operational.
Extraordinary maintenance expenses which lead to a rise in future economic benefits are attributed to increase the value of assets, while other ordinary maintenance costs are recorded in the income statement.

Measurement criteria

It is noted that, compared to the previous financial statements, from the 2017 financial statements the Intesa Sanpaolo Group has modified the accounting criteria adopted for the recognition and measurement of the following classes of tangible assets:
- properties used in operations and valuable art assets (governed by IAS 16 "Property, plant and equipment");
- properties held for investment purposes (governed by IAS 40 "Investment Property").

In more detail, the changes in this area involved:
- the transition from the cost model to the value restating of properties used in operations and valuable art assets from measurement subsequent to their initial recognition;
- the transition from cost to fair value accounting for properties held for investment purposes.

This is makes it possible, consistent with IAS 8 provisions for situations where it is allowable to modify the application of an accounting standard, to provide reliable and more relevant information on the effects of corporate management and, in the latest analysis, on the Group's overall financial position and economic result.
The recognition of owner-occupied properties at current values, pursuant to the “Revaluation model” provided for by IAS 16, and according to the fair value method suggested by IAS 40 for investment properties, allows:

- greater alignment of financial reporting with future management strategies of the group's property assets;
- a more immediate understanding of the financial effects of the actions envisaged by the business plan;
- a constant alignment of the recognition values of the vast range of property and artistic assets with market values.

As already highlighted, the aforementioned changes involved in particular:

- the transition from the cost model to the value restating of properties used in operations and valuable art assets from measurement subsequent to their initial recognition;
- the transition from cost to fair value accounting for properties held for investment purposes.

Usually for voluntary changes to accounting policy, as is the case here, there is an obligation to redetermine the initial balances and provide comparative information. However, for the case in question, IAS 8 introduced an exception to this rule: in more detail, paragraph 17 of the standard states that changes in measurement methods must be carried out in accordance with the provisions of IAS 16 in relation to value restating, without requiring the restatement of previous positions.
Therefore, with effect from the 2018 Financial Statements, property held for operational uses, valued with the value restating criteria according to IAS 16, continue to be depreciated over their useful life; while property held for investment purposes, according to IAS 40, is valued at fair value through the income statement, is no longer subject to depreciation.
Tangible assets not detailed above are valued at cost, after deducting any depreciation and impairment losses.
Assets are systematically depreciated, adopting the straight-line method for depreciation over their useful life. The depreciable value is represented by the cost of the assets since the residual value at the end of the depreciation process is not considered significant. Owner-occupied property is depreciated by a share deemed appropriate to represent the assets' deterioration over time following their use, taking into account extraordinary maintenance costs, which are added to the value of the assets.
However, land is not depreciated, whether it was acquired individually or as part of the value of buildings, as it has an indefinite useful life.
If there is any indication that an asset may have suffered impairment losses, the asset's carrying value is compared with its recovery value. Any adjustments are recognised in the income statement.
If the reasons that led to the loss recognition no longer exist, a write-back is carried out, which cannot exceed the value that the asset would have had, net of calculated depreciation, in the absence of previous impairment losses.

Derecognition criteria

Property and equipment are derecognised from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

INTANGIBLE ASSETS

Classification criteria

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. They include application software.

Recognition and measurement criteria

Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. If this is not the case, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.

For assets with finite useful life, the cost is amortised on a straight-line basis.

If there is any indication that an asset may have suffered impairment losses, the asset's recoverable amount is estimated. The impairment loss, which is recorded in the income statement, is equal to the difference between the carrying value of the assets and the recoverable amount.

In particular, intangible assets include technology related intangibles, such as software, which are amortised on the basis of their expected technological obsolescence.

The costs incurred internally for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met:

i) the cost attributable to the intangible asset during its development can be measured reliably,

ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale,

iii) he future economic benefits to be generated by the asset can be demonstrated.

Software development capitalised costs only comprise the costs directly attributable to the development process.

Capitalised software development costs are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity from the beginning of production over the product's estimated life.

Derecognition criteria

Intangible assets are derecognised from the balance sheet on disposal and if no future economic benefits are expected.

EQUITY INVESTMENTS

Classification, recognition and measurement criteria

This item includes investments in Group companies.

Equity investments are recorded in the financial statements at cost, adjusted in the event of identified impairment losses.

If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.

If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

Derecognition criteria

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Classification criteria

This category contains the financial assets not classified as Financial assets measured at fair value through other comprehensive income or as Financial assets measured at amortised cost. In particular, the item includes:

- financial assets held for trading, essentially consisting of debt securities and equity instruments and the positive value of derivative contracts held for trading;
- financial assets mandatorily measured at fair value through the income statement, consisting of financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not solely envisage payments of principal and interest on the principal amount

outstanding (SPPI Test not passed) or that are not held under a Hold to Collect business model or a Hold to Collect and Sell business model;

- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through the income statement only if it eliminates or significantly reduces a measurement inconsistency.
  This item therefore includes:
- debt securities and receivables that are included in an Other/Trading business model (i.e., that do not come under the Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI Test, including the portions of syndicated loans subscribed that are originally intended to be sold and are not part of a Hold to Collect and Sell business model;
- equity instruments – that do not qualify as investments in subsidiaries, associates or joint ventures – held for trading purposes or for which the option was not exercised, upon initial recognition, to designate them at fair value through other comprehensive income;
- quotas of UCIs.

This item also includes the derivatives, recognised under financial assets held for trading, which are presented as assets if the fair value is positive and as liabilities if the fair value is negative. The positive and negative current values arising from transactions with the same counterparty may be offset only when the legal right to offset amounts recognised for accounting purposes currently exists and the net settlement of positions subject to offsetting is carried out.

Derivatives also include those embedded in combined financial contracts – where the host contract is a financial liability – which are subject to separate accounting when:

- their economic characteristics and risks are not closely related to the characteristics of the host contract;
- the embedded instruments, even though separate, fully meet the definition of derivative;
- the combined instruments are not measured at fair value with changes in fair value recognised through the Income Statement.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets. In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through the income statement to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

Recognition criteria

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments, at disbursement date for loans and at trade date for derivative contracts.

On initial recognition, financial assets measured at fair value through the income statement are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.

Measurement criteria
After initial recognition, the financial assets measured at fair value through the income statement are recorded at fair value. The effects of the application of this measurement criterion are recorded in the income statement.
For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: measurement of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equities and derivative instruments that have equities as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
Derecognition criteria
Financial assets are derecognised solely if the disposal leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of disposed assets disposed and to variations in the relevant cash flows.
Lastly, financial disposed assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Classification criteria
This category includes the financial assets that meet both the following conditions:
- the financial asset is held under a business model whose objective is achieved both through the collection of expected contractual cash flows and through sale (Hold to Collect and Sell business model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).
- This item also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.

In particular, this item includes:
- debt securities that can be attributed to a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income;
- loans that are attributable to a Hold to Collect and Sell business model and have passed the SPPI Test, including the portions of syndicated loans subscribed that are originally intended to be sold and are part of a Hold to Collect and Sell business model.

According to the general rules established by IFRS 9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets.
In such cases, which are expected to be highly infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through the income statement). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost

category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through the income statement category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to net income (loss).

Recognition criteria

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments and at disbursement date for loans. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument.

Measurement criteria

After initial recognition, the Assets classified at fair value through other comprehensive income, other than equity instruments, are measured at fair value, with the recognition in the income statement of the impact resulting from the application of the amortised cost, the impairment effects and any exchange rate effect, whereas the other gains and losses resulting from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon the total or partial sale, the cumulative gain or loss in the valuation reserve is transferred, in whole or part, to the income statement.

Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in equity (Statement of comprehensive income) cannot be subsequently transferred to the income statement, not even if they are sold. The only component related to these equities that is recognised through the income statement is their dividends.

Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through the income statement.

For the equities included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

Financial assets measured at fair value through other comprehensive income – both in the form of debt securities and receivables – are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, in the same way as Assets measured at amortised cost, with the consequent recognition through the income statement of a value adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination, when not impaired, and instruments for which there has not been a significant increase in credit risk since the initial recognition date), a 12-month expected loss is recognised on the initial recognition date and at each subsequent reporting date. For instruments classified as stage 2 (performing for which there has been a significant increase in credit risk since the initial recognition date) and as stage 3 (credit-impaired exposures), a lifetime expected loss for the financial instrument is recognised. Equity instruments are not subject to the impairment process.

Derecognition criteria

Financial assets are derecognised solely if the disposal leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the disposed financial assets is maintained, they continue to be recorded in the financial statements, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of disposed assets disposed and to variations in the relevant cash flows.

Lastly, financial disposed assets are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, without significant delay to third parties.

TAX ASSETS AND DEFERRED TAXES LIABILITIES

Taxes on income, determined in accordance with current national legislation, are accounted for on an accrual basis and therefore represent the balance of current and deferred taxation relating to the income for the year.

Current tax assets and liabilities include the net balance between liabilities calculated on the basis of a prudent forecast of the tax burden due for the year and the assets represented by advances, withholding taxes and other tax receivables.
Deferred tax assets and liabilities are determined based on the temporary differences between the carrying amount attributed to an asset or a liability and the corresponding values assumed for tax purposes.
If the component from where the difference originates has affected the income statement, the deferred taxation offset is the taxes on income item, while if the component directly affected the net equity also the offset of the deferred tax effect directly affects the net equity.
Current and differed tax assets are recognised in the financial statements to the extent of their recovery probability, assessed on the basis of the capacity of the related company or the Parent to continuously generate positive taxable income, through the "tax consolidation" option.
Assets and liabilities recorded for advance and deferred taxes are systematically assessed to take into account any changes in the rules or rates.
Deferred tax assets and liabilities are shown separately taking into account the foreseeable offsetting.

TRADE AND OTHER RECEIVABLES

Receivables are non-interest bearing and recorded at nominal value, appropriately adjusted to take into account the actual collectability, comparable to the amortised cost.

CASH AND CASH EQUIVALENTS

Cash and short-term deposits include cash on hand and sight or short-term deposits.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES

Non-current assets/liabilities for which a disposal process has commenced and for which disposal is deemed to be extremely probable are recorded in assets under Non-current assets held for sale and discontinued operations and in liabilities under Liabilities associated with non-current assets held for sale and discontinued operations. These assets/liabilities are measured at the lower of the carrying amount and fair value less cost to sell.
The income and charges (net of tax) attributable to non-current assets held for sale and discontinued operations or recorded as such in the year are recognised in the income statement in a separate item.

PROVISIONS FOR RISKS AND CHARGES

The other provisions for risks and charges include provisions for employment relationships obligations or disputes, including tax disputes, originating from a past event which involve the probable outlay of economic resources to fulfil the obligations, again providing a reliable estimate of the amount can be made.
Where the time element is significant, the provisions are discounted using current market rates. The provision and increases due to the time factor are recognised in the income statement.
The item also includes long-term benefits to employees, whose charges are determined with the same actuarial criteria described for post-employment benefits. Actuarial gains and losses are all immediately recognised in the income statement.

LIABILITIES FOR PENSION AND OTHER PLANS

Company post-employment benefits are based on agreements and qualify as defined benefit plans. Liabilities related to such plans and the relative cost of current service are determined on the basis of actuarial assumptions based on the Projected Unit Credit Method. This method sets out that future obligations are forecast using past time-series analyses and the demographic curve and that such future cash flows are discounted based on a market interest rate. The provisions made in each year of service are considered separately and give rise to an additional unit of benefit entitlement for the purposes of the final obligation. The discounting rate is determined on the basis of market returns, surveyed as at the date of measurement. The present value of the liability at the reference date of the financial statements is also adjusted by the fair value of any plan assets. The same item includes employee severance indemnities as being similar to pre-employment funds, subject to actuarial valuation according to the international accounting standard IAS 19 and recognised with the same criteria used for the recognition of defined benefit pension funds. Actuarial gains and losses are recognised in the statement of comprehensive income.

COMMERCIAL PAYABLES AND OTHER PAYABLES

Payables include financial liabilities deriving from commercial relationships and from any current account overdrafts.
At the initial recognition date, payables are recognised at their fair value, normally corresponding to the consideration received, to which are added any directly attributable transaction costs/income, if material and determinable.

RECOGNITION OF COSTS AND REVENUES

Revenues for services are recognised in the financial statements at the fair value of the consideration received/paid and are recognised in the period the services were rendered.
Revenues from the sale of goods are recognised at the fair value of the consideration received in the event that ownership-related control was transferred to the buyer. Costs are recognised in the income statement on an accruals basis in the period the relative revenues are recognised. Costs that cannot be associated with income are immediately recognised in the income statement.

TAXES ON INCOME

Income tax, calculated according to domestic tax regulations, is accounted for as a cost in compliance with the accruals concept, in line with the method followed to include, in the financial statements, the costs and income that generated it. Therefore, it represents the balance of current and deferred income taxes for the year. Current tax assets and liabilities include the tax balances of the company due to the relevant Italian and foreign tax authorities. More specifically, these items include the net balance of current tax liabilities for the year, calculated on the basis of a prudent estimate of the tax charges due for the year, assessed according to the tax regulations currently in force, and the current tax assets represented by advances paid and other tax receivables for withholding taxes borne or tax receivables of previous years that the company claimed against taxes payable in future years.
Current tax assets also include tax receivables in respect of which the company has requested reimbursement from the applicable fiscal authorities. Considering the Group’s adoption of the national fiscal consolidation provisions, tax positions which may be referred to the company is managed separately from an administrative standpoint.
Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, “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 tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). 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 relative deferred tax assets are recorded in the assets of the Balance sheet under Deferred tax assets. In the years where taxable temporary differences are greater than deductible temporary differences, the relative deferred tax liabilities are recorded in the liabilities of the Balance sheet under Deferred tax liabilities. If deferred tax assets and liabilities refer to items affecting the Income statement, the balancing entry is represented by income taxes. Where deferred tax assets and liabilities relate to transactions that have been recorded in shareholders’ equity without affecting earnings the balancing entry is made in shareholders’ equity, under specific reserves where so provided (e.g. valuation reserves).
No provision is made for reserves subject to taxation only in the event of distribution, since the size of the available reserves which have already been taxed leads to the belief that no transactions which may cause taxation of the untaxed reserves will be undertaken.
Deferred tax liabilities referred to companies included in the fiscal consolidation are reported in their financial statements, in application of the accrual basis principle and in consideration of the fact that the effects of fiscal consolidation are limited to the settlement of current tax positions.

2. Information on the balance sheet

PROPERTY, PLANT AND EQUIPMENT

This item, equal to 556,710,464 euros (572,620,391 at 31 December 2017), is represented by tangible assets for use in operations not encumbered by guarantees in favour of third parties.
The following tables summarise the breakdown of the net carrying amount at the end of the period separated into assets valued at cost (405,342,700 euros) and revalued assets (151,367,764 euros). It should be remembered, starting with the 2017 Financial Statements, the Group changed the accounting criteria for recognition and measurement for some classes of tangible assets; for ISGS this change concerned properties used in operations.

Breakdown of assets measured at cost

	31/12/2018	31/12/2017
1. Property and equipment owned	**404,314,208**	417,738,870
a) land	-	-
b) buildings	-	-
c) furniture	4,211,357	6,125,879
d) electronic equipment	399,641,302	411,090,343
e) other	461,549	522,648
2. Property and equipment acquired under finance lease	**1,028,492**	1,101,521
d) electronic equipment	1,028,492	1,101,521
Total	**405,342,700**	418,840,391

Breakdown of revalued assets (*)

	31/12/2018			31/12/2017		
	L1	L2	L3	L1	L2	L3
1. Property and equipment owned	**-**	**-**	**151,367,764**	**-**	**-**	153,780,000
a) land	-	-	41,138,000	-	-	48,218,000
b) buildings	-	-	110,229,764	-	-	105,562,000
c) furniture	-	-	-	-	-	-
d) electronic equipment	-	-	-	-	-	-
e) other	-	-	-	-	-	-
2. Property and equipment acquired under finance lease	**-**	**-**	**-**	**-**	**-**	-
d) electronic equipment	-	-	-	-	-	-
Total	**-**	**-**	**151,367,764**	**-**	**-**	153,780,000

(*) *Method to determine Fair Value: fair value measurement must be classified on the basis of a hierarchical scale reflecting the data used in the assessments. This scale must be made up of the following levels:*

L1: the measurement is the market price of the same financial instrument being measured on an active market.

L2: the measurement is determined through the "comparable approach" requiring the use of valuation models using market observables.

L3: the measurement presupposes the use of unobservable on the market parameters and therefore involve estimates and assumptions by the valuer.

The following table details tangible assets period changes.

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross initial carrying amount	48,218,000	180,974,622	31,942,410	3,043,810,993	837,721	3,305,783,746
A.1 Total net adjustments	-	-75,412,622	-25,816,531	-2,631,619,129	-315,073	-2,733,163,355
A.2 Net initial carrying amount	**48,218,000**	**105,562,000**	**6,125,879**	**412,191,864**	**522,648**	**572,620,391**
B. Increases:	-	7,885,243	680,976	131,852,958	-	140,419,177
B.1 Purchases	-	-	680,712	131,829,473	-	132,510,185
of which: business combinations	-	-	-		-	-
B.2 Capitalised improvement costs		614,806				614,806
B.3 Recoveries	-	-	-	-	-	-
B.4 Positive fair value differences recognised in:	-	190,437	-	-	-	190,437
a) shareholders' equity	-	190,437	-	-	-	190,437
b) income statement	-	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Transfer from property held for investment	-	-	-	-	-	-
B.7 Other changes	-	7,080,000	264	23,485	-	7,103,749
C. Decreases:	-7,080,000	-3,217,479	-2,595,498	-143,375,028	-61,099	-156,329,104
C.1 Sales	-	-	-	-3,000	-	-3,000
of which: business combinations	-	-	-	-	-	-
C.2 Depreciation	-	-3,217,479	-2,586,691	-142,662,594	-61,099	-148,527,863
C.3 Impairment losses recognised in:	-	-	-	-709,434	-	-709,434
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	*-709,434*	-	*-709,434*
C.4 Negative fair value differences recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Transfer to:						-
a) tangible assets held for investment	-	-	-	-	-	-
b) assets held for sale and discontinued operations	-	-	-	-	-	-
C.7 Other changes	-7,080,000	-	-8,807		-	-7,088,807
D. Net final carrying amount	**41,138,000**	**110,229,764**	**4,211,357**	**400,669,794**	**461,549**	**556,710,464**
D.1 Total net adjustments	-	-3,217,479	-28,660,229	-2,619,247,958	-375,949	-2,651,501,615
D.2 Gross final carrying amount	41,138,000	113,447,243	32,871,586	3,019,917,752	837,498	3,208,212,079
E. Revalued assets measurement at cost	39,358,459	107,721,368	-	-	-	-

INTANGIBLE ASSETS

The following table summarises the breakdown of the net carrying amount at the end of the period. It should be noted that other intangible assets is made up entirely of internally developed software licenses ("Internally generated intangible assets") or those purchased externally ("Other assets").

	31/12/2018		31/12/2017	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	-	-	-	-
A.2 Other intangible assets	1,463,904,937	-	1,271,769,600	-
A.2.1 Assets measured at cost:	1,463,904,937	-	1,271,769,600	-
a) Internally generated intangible assets	1,342,976,343	-	1,158,062,019	-
b) Other assets	120,928,594	-	113,707,581	-
TOTAL	**1,463,904,937**	**-**	1,271,769,600	-

The following table details intangible assets period changes.

	Internally generated intangible assets		Other intangible assets: other		Total
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life	
A. Gross initial carrying amount	4,331,517,413	-	861,045,844	-	5,192,563,257
A.1 Total net adjustments	-3,173,455,394	-	-747,338,263	-	-3,920,793,657
A.2 Net initial carrying amount	**1,158,062,019**	**-**	**113,707,581**	**-**	**1,271,769,600**
B. Increases	625,850,953	-	50,753,848	-	676,604,801
B.1 Purchases	608,271,350	-	50,222,542	-	658,493,892
of which: business combinations	-	-	-	-	-
B.2 Increases of intangible assets	1,966,625	-	251,076	-	2,217,701
B.6 Other changes	15,612,978	-	280,230	-	15,893,208
C. Decreases	-440,936,629	-	-43,532,835	-	-484,469,464
C.1 Sales	-	-	-	-	-
C.2 Adjustments	-440,704,286	-	-43,530,868	-	-484,235,154
- Depreciation	-438,369,017	-	-42,927,490	-	-481,296,507
- Write-downs recognised in	-2,335,269	-	-603,378	-	-2,938,647
a) shareholders' equity	-	-	-	-	-
b) income statement	-2,335,269	-	-603,378	-	-2,938,647
C.6 Other changes	-232,343	-	-1,967	-	-234,310
D. Net final carrying amount	**1,342,976,343**	**-**	**120,928,594**	**-**	**1,463,904,937**
D.1 Total net adjustments	-3,614,159,680	-	-790,869,131	-	-4,405,028,811
E. Gross final carrying amount	4,957,136,023	-	911,797,725	-	5,868,933,748
F. Measurement at cost	-	-	-	-	-

EQUITY INVESTMENTS

The amount refers to equity investments in Group consortium companies as follows:

COMPANY NAME	AMOUNT AS AT 31/12/2018	Share %	REGISTERED OFFICE	Total assets (€/000)	Total revenues (€/000)	Equity amount net (€/000)	Profit (loss) for the latter period (€/000)	Share price (Yes/No)
Intesa Sanpaolo Formazione S.c.p.A.	7,000	2.405	Naples	2,645	1,641	894	-187	NO
Intesa Sanpaolo Innovation Center S.c.p.a.	480	0.050	Vicenza	8,427	587	18,027	-17,872	NO
Total equity investments	**7,480**							

It should be noted that the balance sheet and income statement figures indicated are the latest available and refer to the financial statements as at 31 December 2018.
It should be noted that, from 1 March 2018, the Servizi Bancari S.c.p.a. company was renamed Intesa Sanpaolo Innovation Center S.c.p.a. following the transfer of an "Innovation" business unit from Intesa Sanpaolo S.p.A.
Furthermore, in November 2018, the investment in SEC, equal to 333 euros, was sold, previously included in assets held for sale and discontinued operations.

The following table details changes in equity investments over the period:

	31/12/2018	31/12/2017
A. INITIAL CARRYING AMOUNT	**7,730**	9,060
B. INCREASES	**17**	730
B1. Purchases	17	730
B2. Recoveries	-	-
B3. Revaluations	-	-
B4. Other increases		-
C. DECREASES	**-267**	-2,060
C1. Sales	-	-
C2. Impairment losses	-	-
C3. Other decreases	-267	-2,060
D. FINAL AMOUNT	**7,480**	7,730

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (*)

The item amounts to a total of 2,736,108 euros (9,450,410 euros at 31 December 2017) and is made up of:

Equities

The item, equal to 2,479,328 euros (2,686,393 euros at 31 December 2017), refers to the share incentive plan for senior management in accordance with the Group Incentive System.
The amount at the end of the period is equal to 1,278,136 shares.

Loans

The item, amounting to 256,780 euros refers to the structured loan relating to the receivable for the new Lecoip Plan 2018-2022 certificates (914,017 euros at 31 December 2017, relating to the structured adjustment receivable for Lecoip 2014-2018 joint certificates completed in the current month of May).

Breakdown

Items/Amounts	**31/12/2018**			31/12/2017		
by type	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
1. Debt securities	**-**	**-**	**-**	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equities	**2,479,328**	**-**	**-**	2,686,393	-	-
3. Quotas of UCI	**-**	**-**	**-**	-	-	5,850,000
4. Loans	**-**	**256,780**	**-**	-	914,017	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	256,780	-	-	914,017	-
Total	**2,479,328**	**256,780**	**-**	2,686,393	914,017	5,850,000
	2,736,108			9,450,410		

Borrower/issuer breakdown

	Items/Amounts *by issuer*	31/12/2018	31/12/2017
1.	**Debt securities**	**-**	-
	a) Central Banks	-	-
	b) Public administration	-	-
	c) Banks	-	-
	d) Other financial companies	-	-
	of which: insurance companies	-	-
	e) Non-financial companies	-	-
2.	**Equities**	**2,479,328**	2,686,393
	a) Banks	2,479,328	2,686,393
	b) Other financial companies	-	-
	c) Non-financial companies	-	-
3.	**Quotas of UCI**	**-**	5,850,000
4.	**Loans**	**256,780**	914,017
	a) Central Banks	-	-
	b) Public administration	-	-
	c) Banks	256,780	914,017
	d) Other financial companies	-	-
	of which: insurance companies	-	-
	e) Non-financial companies	-	-
	f) Households	-	-
	Total	**2,736,108**	9,450,410

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *

The item, amounting to 116,349 euros (41,157 euros at 31 December 2017), refers to:
- for 28,822 euros to 14,858 shares relating to the employee incentive system defined by the ISP Group in 2014;
- for 87,527 euros to 171 shares of the Immobiliare Stampa S.C.p.A. company merged after the non-proportional demerger, following the resolution by the extraordinary shareholders' meeting of Intesa Sanpaolo Innovation Center Scpa and Intesa Sanpaolo Group Services Scpa on 6 April 2018, which provided for the transfer of the business unit dealing with back office and operation activities carried out by the ISP IC operating unit named "Former Banking Services" from ISP IC to ISGS with effect from 1 July 2018.

* *Method to determine Fair Value: fair value measurement must be classified on the basis of a hierarchical scale reflecting the data used in the assessments. This scale must be made up of the following levels:*

L1: the measurement is the market price of the same financial instrument being measured on an active market.

L2: the measurement is determined through the "comparable approach" requiring the use of valuation models using market observables.

L3: the measurement presupposes the use of unobservable on the market parameters and therefore involve estimates and assumptions by the valuer.

Breakdown

Items/Amounts *by type*	31/12/2018			31/12/2017		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equities	28,822	-	87,527	41,157	-	-
3. Loans	-	-	-	-	-	-
Total	**28,822**	**-**	**87,527**	41,157	-	-
	116,349			41,157		

Borrower/issuer breakdown

Items/Amounts *by issuer*	31/12/2018	31/12/2017
1. Debt securities	**-**	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equities	**116,349**	41,157
a) Banks	28,822	41,157
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	87,527	-
3. Quotas of UCI	**-**	-
4. Loans	**-**	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**116,349**	41,157

OTHER ASSETS

Other assets refer to:

	31/12/2018	31/12/2017
Improvements and maintenance on third party properties	6,582,508	6,938,292
Credit with Tersia for transfer of business branch	7,034,728	-
Advances for employee severance indemnity	1,183,366	243,363
Advances for wages	165,086	90,849
Security deposits	540,482	537,482
Other assets	151,071	95,332
Total	**15,657,241**	7,905,318

TAX ASSETS AND LIABILITIES

Deferred tax assets, amounting to 80,663,645 euros (99,233,985 euros at 31 December 2017), are as follows:

	31/12/2018		31/12/2017	
	IRES (24%)	*IRAP (4.07%)*	*IRES (24%)*	*IRAP (4.08%)*
A. Taxable temporary differences				
Adjustments to deductible receivables in future years	12,528,463	4,754	19,648,737	4,761
Higher tax value of securities and other assets	18,528,571	15,303	19,009,905	
Recognition of actuarial gains/losses				
Other	42,416,192	7,190,464	51,404,239	10,043,461
B. Temporary taxable differences				
Costs deducted off-book	-19,389		-19,389	
Lower tax value of equity investments, securities and other assets				-849,728
Other	-713		-8,001	
Total deferred tax assets	**73,453,124**	**7,210,521**	90,035,491	9,198,494

Deferred tax liabilities, amounting to 16,630,666 euros (8,940,355 euros at 31 December 2017), are as follows:

	31/12/2018		31/12/2017	
	IRES (24%)	*IRAP (4.07%)*	*IRES (24%)*	*IRAP (4.08%)*
A. Temporary taxable differences				
Costs deducted off-book pursuant to Art. 109 TUIR				
Lower tax value of investments, securities and other assets	12,466,001	2,116,580	12,536,506	1,034,405
Reserve for UCC operations - PN counterparty				
Other	5,912,974		5,931,643	
B. Temporary deductible differences				
Adjustments to deductible receivables in future years	-5,831	-290		-290
Higher tax value of securities and other assets	-2,511,510	-2,186		
Other	-1,253,227	-91,845	-10,561,909	
Total other deferred tax liabilities	**14,608,407**	**2,022,259**	7,906,240	1,034,115

Changes in deferred tax assets as contra-entries to the Income Statement

	31/12/2018	31/12/2017
1. Initial amount	79,617,440	33,804,697
2. Increases	27,909,566	70,848,828
2.1 Deferred tax assets recognised during the year	16,470,250	59,404,320
a) relating to previous year	-	-
b) due to changes in accounting criteria	-	-
c) recoveries	-	-
d) other	16,470,250	59,404,320
2.2 New taxes or increases in tax rates		-
2.3 Other increases	11,439,316	11,444,508
2.4 Business combinations		-
3. Decreases	-37,104,052	-25,036,085
3.1 Deferred tax assets cancelled during the year	-30,894,445	-13,596,754
a) reversals	-30,894,445	-13,596,754
b) write-downs for intervening irrecoverable losses	-	-
c) changes in accounting criteria	-	-
d) other	-	-
3.2 Reductions in tax rates		-
3.3 Other decreases	-5,922,075	-11,439,331
a) transformation to tax receivables of which law No. 214/2011	-	-
b) other	-5,922,075	-11,439,331
3.4 Business combinations	-287,532	-
4. Final amount	**70,422,954**	79,617,440

In the item "Other increases" reports the reversal of the offsetting with deferred tax liabilities. The item "Other decreases" refers to the offsetting with the deferred tax liabilities of the year.

Changes in deferred tax assets as contra-entries to Shareholder's equity

	31/12/2018	31/12/2017
1. Initial amount	19,616,545	16,109,652
2. Increases	-	3,557,102
2.1 Deferred tax assets recognised during the year	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	3,557,102
2.4 Business combinations	-	-
3. Decreases	-9,375,853	-50,209
3.1 Deferred tax assets cancelled during the year	-9,375,853	-
a) reversals		
b) write-downs for intervening irrecoverable losses		
b) due to changes in accounting criteria		
d) other	-9,375,853	
3.2 Reductions in tax rates	-	-
3.3 Other decreases		-50,209
3.4 Business combinations	-	-
4. Final amount	**10,240,692**	19,616,545

Changes in deferred tax liabilities as contra-entries to the Income Statement

	31/12/2018	31/12/2017
1. Initial amount	7,668,005	9,833,991
2. Increases	11,439,316	10,257,614
2.1 Deferred tax liabilities recognised during the year	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	11,439,316	10,257,614
2.4 Business combinations	-	-
3. Decreases	-3,746,061	-12,423,600
3.1 Deferred tax liabilities cancelled during the year	-27,147	-984,283
a) reversals	-27,147	-984,283
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-3,718,914	-11,439,317
3.4 Business combinations	-	-
4. Final amount	**15,361,260**	**7,668,005**

The item "Other increases" reports the reversal of the offsetting with deferred tax liabilities. The item "Other decreases" refers to the offsetting with the deferred tax liabilities of the year.

Changes in deferred tax liabilities as contra-entries to Shareholder's equity

	31/12/2018	31/12/2017
1. Initial amount	1,272,350	-
2. Increases	-	1,272,350
2.1 Deferred tax liabilities recognised during the year	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	1,272,350
2.4 Business combinations	-	-
3. Decreases	-2,944	-
3.1 Deferred tax liabilities cancelled during the year	-2,944	-
c) other	-2,944	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Final amount	**1,269,406**	1,272,350

It should be noted that during the year deferred tax assets and liabilities had an economic counterparty for a total negative value of 14.4 million euros relating to effects pertaining to the current year (for more details, see the specific comments on the income statement items).

TRADE AND OTHER RECEIVABLES

The item details are shown below:

	31/12/2018	31/12/2017
Trade receivables	379,584,151	184,886,931
with Parent	*156,627,444*	*1,828,728*
with Group Companies	*57,096,114*	*86,887,747*
- of which receivables for advances	*-*	*602,186*
with other third parties	*165,860,593*	*96,170,456*
- of which receivables for advances	*145,073,227*	*91,710,933*
Other receivables	166,670,049	135,142,152
- receivables for taxes	*13,792,249*	*13,936,242*
- receivable with ISP for former Venetian banks charges for integration	*116,884,747*	*107,538,215*
- receivable with ISP for Fiscal Consolidation	*19,699,170*	*-*
- receivable with ISP for Tax Litigation	*13,836,247*	*13,362,685*
- other	*2,457,636*	*305,010*
Total	**546,254,200**	320,029,083

It should be noted that the trade receivables shown expired within the following quarter and their carrying amount is considered to approximate their *fair value*.

OTHER CURRENT ASSETS

The item details are shown below:

	31/12/2018	31/12/2017
Prepaid expenses on broad-based share ownership plan	3,369,717	2,180,057
Prepaid expenses on rent liabilities	3,688,169	3,301,962
Accrued income on rents recovered	116,066	116,067
Prepaid expenses for personnel	55,333	55,333
Accrued income on compensation for board positions	15,000	143,387
Total	**7,244,285**	5,796,806

SHAREHOLDERS' EQUITY

The Shareholders' Equity resulting from the position closed on 31 December 2018 is made up of the following:

	31/12/2018	31/12/2017
Share capital	273,320,813	272,586,637
Additional paid-in capital	140,605,828	140,686,428
Legal reserve	54,517,327	54,517,327
Profit (losses) carried forward	16,706,535	20,898,950
Other reserves	-17,518,856	-31,550,788
Profit (loss) for the year	-	-4,192,415
Total	**467,631,647**	452,946,139

The item other reserves includes:

- a negative reserve of 32,428,858 euros relating to the recognition in equity of actuarial gains and losses at 31 December 2018 on defined benefit funds net of taxes, as regulated by IAS 19 - Employee benefits;
- an available reserve of 24,321,255 euros against the cost of personnel pertaining to the period 12/2014-3/2018 and relating to the Parent contribution to the company for the quota of matching shares and discounted shares issued directly by the Parent and relating to employees who joined the Lecoip investment plan 2014-2018 paid back in the current month of May;

- an available reserve of 11,054,068 euros against the cost of personnel pertaining to the period 6-12/2018 and relating to the Parent contribution to the company for the quota shares issued directly by the Parent and relating to employees who joined the Lecoip investment plan 2018-2022;
- an available reserve of 833,411 euros against the cost of personnel pertaining to the period 6-12/2018 and relating to the Parent contribution to the company for the quota shares issued directly by the Parent and relating to senior management, risk takers and key managers employees who joined the POP investment plan 2018-2021;
- an unavailable reserve of 3,446,126 euros deriving from the adjustment of owned properties;
- an available reserve of 2,330,100 euros deriving from the initial transfer operations under common control by Intesa Sanpaolo S.p.A.;
- three unavailable reserves of 2,502,694 euros, relating to shares of the parent which are recognised in the financial statements as financial assets measured at fair value with an impact on the income statement and as financial assets measured at fair value with impact on comprehensive income. These shares are part of the Group's senior managers incentive system based on financial instruments, as well as the terminated share broad-based ownership plan Lecoip 2014-2018 and the related unavailable reserves must be established and maintained until the shares are transferred or cancelled;
- a negative reserve of 29,577,652 euros against use of the provision for the settlement of the deficit of the former Banco di Napoli provision.

The extraordinary shareholders' meeting of Intesa Sanpaolo Innovation Center Scpa and Intesa Sanpaolo Group Services Scpa resolution on 6 April 2018 provided for the transfer of the business unit dealing with back office and operation activities carried out by the ISP IC operating unit named "Former Banking Services" from ISP IC to ISGS with effect from 1 July 2018.
As a result of the demerger, ISGS increased its share capital from 272,586,637 euros to 273,320,813 euros, through the issue of 279 shares which were assigned to Intesa Sanpaolo S.p.A.

On 19 November 2018, the ISGS non-proportional partial demerger deed was signed in favour of Tersia with legal effect from 30 November 2018. The demerger relates to a branch of the company organised to carry out reminder and debt collection activities for a recognised net equity of 300,000 euros. ISGS shareholders other than Intesa Sanpaolo were not assigned shares but, in order to maintain the economic value of their equity investment, 11,009 ISGS shares held by Intesa Sanpaolo were cancelled with a consequent increase in percentage for the other shareholders. The ISGS share capital remains unchanged.

The breakdown of the share capital at the Financial statement date is as follows:

Share Type	Unit Value	Quantity	Nominal Value
Ordinary Shares	999.61	273,427	273,320,813

The table below shows the indication of the individual items of the net equity reserves, distinguished in relation to their availability, their origin and their use, pursuant to Art. 2427, paragraph 7 – bis, of the Italian Civil Code:

	Amount	Possibility of utilisation	Amount available	Summary uses	
				for absorption of losses	for other reasons
Share capital	273,320,813				
Capital reserves:					
Additional paid-in capital	140,605,828	*A, B, C*	78,599,318	-	
Other reserves:					
- Unavailable Parent Shares Reserve for senior managers incentive plan	2,508,139	*unavailable*			
Profit reserves:					
Legal reserve	54,517,327	*B*	-	-	-
Previous years' profit	16,706,535	*A, B, C*	16,706,535	-	-
Other reserves:					
- Operational Under Common Control reserve with ISP	2,330,100	*A, B, C*	2,330,100	-	-
- Actuarial gains and losses reserve for deficits repayment	-29,577,652	*A, B, C*			
- Parent Shares Reserve for personnel incentive plan - Lecoip	35,375,323	*A*			
- Parent Shares Reserve for personnel incentive plan - POP	833,411	*A*			
Valuation reserves:					
- Reserve for fair value adjustment of property	-4,065,887	*unavailable*			
- Actuarial gains and losses reserve on defined benefit funds net of taxes	-32,428,858				
- Parent AFS Shares Reserve for personnel incentive plan - Lecoip	-5,445	*unavailable*			
Total	**467,631,647**		**97,635,953**	**-**	**-**
Amount not distributable	146,836				

Key:

A: *for share capital increase*

B: *for absorption of losses*

C: *for distribution to shareholders*

Finally, it should be noted that the reserves amount to be considered fiscally binding pursuant to Art. 109, c. 4 of the D.P.R. 917/86 as amended by Legislative Decree 247/2005 is equal to 5 million euros.

PROVISIONS FOR RISKS AND CHARGES

The provisions for risks and charges are detailed below:

	31/12/2018	31/12/2017
Departure Incentive Provision	144,961,672	162,514,984
Part Variable Bonus Provision	21,791,215	25,041,145
Long-service Employees Bonus Provision	10,816,472	14,246,576
Broad-based Lecoip Shareholders Provision	331,108	331,229
Risk Provision - Personnel legal disputes	1,225,514	1,292,363
Provision for other Risks and Charges	9,811,943	10,340,533
Total	**188,937,924**	213,766,830

The Departure Incentive Provision includes the provisions set aside for the agreements signed between the Parent and Trade Unions from 2011 to 2017, to implement the Group reorganisation, including the departure incentive fund for personnel connected to the acquisition of some assets, liabilities and legal relationships pertaining to the former Venetian Banks, amounting to 140 million euros.

The item Provision for other Risks and Charges mainly includes:
- the provision for risks related to the dispute concerning the 2014 cash shortfalls in the subcontractor NES' vaults (9,000,000 euros);
- the remainder of the provision (729,954 euros) set up during the same year relating to possible fines by the Ministry of the Economy and Finance on the issue of dormant relationships. The current residual amount represents the estimate of the fine (plus interest) that could be recalculated on the reawakened relationships that followed the cancellation of the appeal of all the Banks involved in relation to the sanctioning procedure relating to non-payment.

The details of the period changes are as follows:

	31/12/2018	31/12/2017
A. Initial carrying amount	213,766,830	67,759,247
B. Increases	41,023,950	181,990,468
B.1 Provisions in the year	29,558,838	181,672,024
B.2 Time value changes	399,492	130,982
B.3 Changes due to discount rate variations	-	-
B.4 Other increases	11,065,620	187,462
of which: business combinations	*10,998,010*	-
C. Decreases	-65,852,856	-35,982,885
C.1 Uses in the year	-53,058,278	-32,678,767
C.2 Changes due to discount rate variations	-399,180	-344
C.3 Other decreases	-12,395,398	-3,303,775
of which: business combinations		-
D. Final carrying amount	**188,937,924**	213,766,830

LIABILITIES FOR PENSION AND OTHER PLANS

Provisions for pensions refer to:

	31/12/2018	31/12/2017
Provision for employee severance indemnities	125,596,447	156,964,490
Pension provisions	7,593,155	85,702,659
- Pension Fund former Sanpaolo	*6,578,612*	*84,801,514*
- Supplementary Pension Fund former Banco di Napoli section A	*1,014,543*	*901,145*
Total	**133,189,602**	242,667,149

The details of the period changes are as follows:

	Employee severance indemnity provision	**Pension provisions**	**Total**
A. Initial carrying amount	156,964,490	85,702,659	242,667,149
B. Increases	11,210,068	3,879,009	15,089,078
B.1 Provisions in the year	474,389	345,253	819,642
B.2 Time value changes	1,247,310	151,401	1,398,711
B.4 Other changes	9,488,370	3,382,355	12,870,725
of which: business combinations	-	-	-
C. Decreases	-42,578,111	-81,988,513	-124,566,625
C.1 Uses in the year	-23,533,394	-81,964,541	-105,497,935
C.3 Other	-19,044,717	-23,973	-19,068,690
of which: business combinations	-	-	-
D. Final carrying amount	**125,596,447**	**7,593,155**	**133,189,602**

Illustration of the characteristics of the provisions and related risks

The Provision for Employee Severance Indemnities corresponds to the current value of the liability defined on the basis of IAS 19 by an independent actuary. The discount rate adopted for the calculations corresponds to the yield curve of the Euro Area AA rates.
With reference to supplementary pension funds with defined benefits, the determination of actuarial values required by the application of IAS 19 "Employee benefits" is carried out by an independent actuary, using the Project Unit Credit Method.
The defined benefit funds, for which ISGS is jointly liable, are external (with independent legal status) and include:

- the supplementary pension fund for the San Paolo Banking Institute of Turin personnel, a fund with legal status, full financial autonomy and independent asset management. ISGS is jointly and severally responsible for fund commitments to registered employees, pensioners and third parties;
- the supplementary pension fund for Banco di Napoli personnel - section A, entity with legal status and independent asset management. ISGS is jointly and severally responsible for fund commitments to registered employees coming from the former Banco di Napoli; of the employees coming from the Cassa di Risparmio in Bologna, already registered with the supplementary pension fund for Cassa di Risparmio personnel, merged with the Banco di Napoli personnel fund during 2004; of personnel coming from the former Banca Popolare dell'Adriatico, already registered in the personnel pension fund of Banca Popolare dell'Adriatico, merged into the fund in question on 30 June 2006; of personnel already enrolled in the pension fund for former Crediop Personnel hired up to 30 September 1989, transferred to the fund in question on 1 January 2016;
- the pension fund of the Cassa di Risparmio of Florence: fund with legal status and full financial autonomy whose purpose is to guarantee a supplementary pension for personnel of the Cassa, in service as of 31 December 1990 and already registered with the pre-existing "formerly exempt fund".

As required by international accounting standards in relation to plans with risks shared between various entities under common control, the information indicated in the tables below refers to the plans as a whole, with a note of the Company's share.

It should also be noted that on 1 January 2013, as specified in Part 1 - Accounting policies, the new revised IAS 19 entered into force which established, amongst other things, that actuarial profits and losses must be recognised against a specific equity reserve.

Change in the year of net defined benefit liabilities and repayment rights

Values in euro millions

Defined benefit obligations	31/12/2018		31/12/2017	
	employee severance indemnity	External plans	employee severance indemnity	External plans
Initial carrying amount	**156.96**	**2,860.29**	**166.35**	**2,748.51**
Social security service cost	0.48	4.22	-	26.93
Social security service past costs	-	-	-	-
Interest expenses	1.25	16.16	1.47	51.05
Actuarial losses recognised due to changes in financial assumptions	-	13.99	-	52.95
Actuarial losses recognised due to changes in demographic assumptions	-	-	0.12	5.85
Actuarial losses based on past experience	0.03	10.92	-	134.87
Positive foreign exchange differences	-	-	-	-
Increases - business combinations	-	-	-	-
Plan participants contribution	-	-	-	-
Actuarial gains recognised due to changes in financial assumptions	-3.06	-5.58	0.96	-0.43
Actuarial gains recognised due to changes in demographic assumptions	-0.04	-25.53	-	-
Actuarial gains based on past experience	-0.49	-22.59	-0.83	-37.10
Negative foreign exchange differences	-	-	-	-
Paid indemnity	-23.57	-84.63	-7.89	-122.34
Decreases - business combinations	-	-	-	-
Fund reduction effect	-	-1,675.89	-	-
Fund extinction effect	-	-	-	-
Other increase changes	10.88	5.60	1.90	-
Other decrease changes	-16.84	-	-5.12	-
Final carrying amount	**125.59**	**1,096.96**	**156.96**	**2,860.29**

Values in euro millions

Liabilities for dbo pension plan	31/12/2018		31/12/2017	
	employee severance indemnity	External plans	employee severance indemnity	External plans
Non-financed plans	125.59		156.96	
Partially financed plans				
Fully financed plans		1,096.96		2,860.29

Based on the results of the actuarial calculations, the current value of the defined-benefit obligations, excluding employee severance indemnity, is separated as follows:

- 269.35 million euros relating to the pension fund for personnel of the San Paolo Banking Institute of Turin (of which 16.16 million euros pertains to Intesa Sanpaolo Group Services S.c.p.A.);
- 471.58 million euros relating to the supplementary pension fund for Banco di Napoli personnel (of which 5.85 million euros pertains to Intesa Sanpaolo Group Services S.c.p.A.);
- 356.03 million euros relating to the Cassa di Risparmio of Florence pension fund (of which 4.99 million euros pertains to Intesa Sanpaolo Group Services S.c.p.A.).

Changes in plan assets during the year and other information

Values in euro millions

Plan assets	31/12/2018	31/12/2017
	External plans	External plans
Initial carrying amount	**1,924.61**	**1,950.81**
Return on assets net of interest	-47.28	48.24
Interest income	14.60	34.27
Positive foreign exchange differences	-	-
Increases - business combinations	-	-
Employers contribution	-	0.18
Plan participants contribution	-	0.03
Negative foreign exchange differences	-	-
Decreases - business combinations	-	-
Paid indemnity	-84.64	-122.34
Fund reduction effect	-808.01	-
Fund extinction effect	-	-
Other changes	6.10	13.42
Final carrying amount	**1,005.38**	**1,924.61**

The final carrying amounts of the external plans are divided as follows:
- 159.70 million euros relating to the pension fund for the personnel of the San Paolo Banking Institute of Turin;
- 424.55 million euros relating to the supplementary pension fund for Banco di Napoli personnel;
- 421.13 million euros relating to the social security fund of the Cassa di Risparmio of Florence.

The "other changes" relate to the former Banco di Napoli fund and in particular the settlement of the deficit by the jointly liable banks.

Information on fair value of plan assets

Values in euro millions

	31/12/2018		31/12/2017	
	External plans	**%**	External plans	%
Equity instruments	118.00	11.74%	363.38	18.88%
-of which level 1	*99.39*		*338.38*	
Common investment funds	94.02	9.35%	251.73	13.08%
-of which level 1	*49.73*		*244.43*	
Debt securities	334.51	33.27%	908.12	47.18%
-of which level 1	*334.51*		*908.12*	
Property and equity investment in property companies	233.72	23.25%	267.59	13.90%
-of which level 1	*96.42*		*-*	
Insurance management	-	0.00%	-	
-of which level 1	*-*		*-*	
Other assets	225.13	22.39%	133.79	6.95%
TOTAL	**1,005.38**	**100.0%**	1,924.61	100.0%

Values in euro millions

	31/12/2018	
	External plans	**%**
Equity instruments	**118.00**	11.74%
- financial companies	24.46	
- non-financial companies	93.54	
Common investment funds	**94.02**	9.35%
Debt securities	**334.52**	33.27%
Government bonds	207.35	
-of which investment grade rating	*204.50*	
-of which speculative grade rating	*2.85*	
Financial companies	53.19	
-of which investment grade rating	*25.63*	
-of which speculative grade rating	*27.56*	
Non-financial companies	73.98	
-of which investment grade rating	*35.22*	
-of which speculative grade rating	*38.76*	
Property and equity investment in property companies	**233.72**	23.25%
Insurance management	-	0.00%
Other assets	**225.13**	22.39%
TOTAL	**1,005.39**	**100.0%**

In relation to external funds, the portion of liabilities recognised with Intesa Sanpaolo Group Services is equal to:

- 6.58 million euros relating to the pension fund for personnel of the San Paolo Banking Institute of Turin;
- 1.01 million euros relating to the supplementary pension fund for Banco di Napoli personnel.

No liabilities are recognised for the formerly exempt fund of CR Firenze since the plan's assets are higher than the liabilities.

Description of the main actuarial assumptions

Actuarial assumptions	**31/12/2018**		31/12/2017	
	employee severance indemnity	**External plans**	employee severance indemnity	External plans
Discount rate	1.07%	1.41%	0.85%	1.51%
Expected return rate		2.86%		3.98%
Expected salary increases rate (a)	2.72%	2.65%	2.66%	2.53%
Annual inflation rate	1.50%	1.50%	1.50%	1.50%
Annual GDP nominal increase rate				

Information on the amount, timing and uncertainty of cash flows

Values in euro millions

Sensitivity analysis	**31/12/2018**			
	employee severance indemnity		**External plans**	
	+50 bps	**-50 bps**	**+50 bps**	**-50 bps**
Discount rate	120	131	1,036	1,164
Salary increases rate	126	126	1,122	1,073
Inflation rate	129	122	1,145	1,052

No sensitivity analysis is carried out on the expected rate of return, as it has no effect on liability calculation.

Intesa Sanpaolo Group Services has no defined benefit plans relating to multiple employers.
The supplementary pension fund for the personnel of the San Paolo Banking Institute of Turin and for the former Banco di Napoli personnel - Section A, and the social security fund of the Cassa di Risparmio of Florence, are defined-benefit plans that share the risks between different Group companies. These companies issue a joint and several guarantee for their employees and retired members in relation to the pension entities in question.
Each jointly liable Company reports in this section, for each table, the data for total liabilities/assets of the funds for which it is jointly liable, highlighting at the bottom of the tables, its share of liabilities/activities.

DUE TO BANKS

The amount due to banks at the end of the period refers to:

	31/12/2018	31/12/2017
Due to banks for credit line on a current account	1,320,685,488	689,995,493
Due to banks for finance leasing	1,218,148	1,274,158
Total	**1,321,903,636**	691,269,651

The assignment in the form of a credit line was contracted with the Parent to meet the financial needs linked to the Company's operations. The current conditions are as follows:

- amount: 1,150,000,000 euros
- duration: temporary until 31/12/18
- rate: average monthly Euribor plus 150 b.p.

Payables for finance leases refer to the residual debt of three twenty-year finance leases, entered into in 2012 with fees effective from February 2013, for the purchase of photovoltaic systems installed in owned buildings in Moncalieri, Settimo Torinese and Rubano and broken down as follows:

Finance leases	**Residual debt at 31/12/2018**	***Maturity before 1 year***	***Maturity between 1 and 5 years***	***Maturity over 5 years***
Moncalieri - Corso Savona, 58	654,762	*31,978*	*149,081*	*473,703*
Settimo Torinese - Via della Costituzione, 3	309,995	*15,140*	*70,582*	*224,273*
Rubano - Via Adige, 6	253,391	*12,375*	*57,694*	*183,322*
Total	**1,218,148**	***59,493***	***277,357***	***881,298***

TRADE PAYABLES AND OTHER PAYABLES

The total amount of payables at the end of the period is as follows:

	31/12/2018	31/12/2017
Due to suppliers	488,780,387	525,606,799
Due to ISP for advances	-	89,106,848
Due to personnel	15,022,409	8,590,685
Due to social security institutions	20,275,946	20,269,997
Due to tax authorities	19,523,560	17,020,317
Other payables	971,939	807,732
Total	**544,574,241**	661,402,378

It should be noted that trade payables and other payables, with reference to 31 December 2018, are payable within the next financial year and it is considered that their carrying amount approximates their fair value.

OTHER CURRENT LIABILITIES

The amount of other current liabilities at the end of the period refers to:

	31/12/2018	31/12/2017
Amounts to be credited and items under processing	25,462	3,765,424
Deferred income	375,883	255,224
Accrued liabilities	-	98,102
Total	**401,345**	4,118,750

DUE FOR TAXES

The amount represents the payables for taxes on income for the current period and is made up of the following:

	31/12/2018	31/12/2017
IRES payables to the parent for taxes for the year	-	5,461,749
IRAP payables to the tax authorities for taxes for the year	-	2,381,479
IRAP payables to the tax authorities for taxes for the previous year	25,648	-
Total	**25,648**	7,843,228

OTHER INFORMATION

Commitments and financial guarantees given

At the end of the year, no guarantees were given by the Company to third parties.
Purchase commitments for intangible assets amounted to 12.5 million euros

Information on operating leases

It should be noted that costs recorded, based on the nature of the asset, during the year for expenses related to office machines and centralised and distributed software, do not include potential lease fee payments. The future minimum payments due for non-cancellable operating leases are as follows:

Amounts in euro thousands

Future minimum payments due for non-cancellable leases	**< 1 year**	**1<> 5 years**	**> 5 years**	**unspecified maturity**	**Total**
Electronic equipment - Hardware	5,763	679	-	-	6,441
Other - vehicles (including cars)	4,312	5,981	-	-	10,293
Software	38,097	26,674	-	-	64,770
Total	**48,171**	**33,334**	**-**	**-**	**81,505**

In view of the application of IFRS 16, from 1 January 2019, it should be noted that future lease payments relating to non-cancellable property contracts amount to 0.1 billion euros.

3. Information on the income statement

SALE OF GOODS

Sales of goods amounts to 3,000 euros (-3,267,319 euros at 31 December 2017) and refers to a sale of used ATMs.

SERVICES RENDERED

Revenues from services rendered during the period amounted to 1,881,914,541 euros (1,773,318,501 euros at 31 December 2017) and are as follows:

	31/12/2018	31/12/2017
with Parent	1,440,643,753	1,084,795,369
- of which chargebacks for integration charges	*105,333,857*	*62,503,002*
with Italian Group Companies	411,870,741	664,076,102
- of which chargebacks for integration charges	*3,058,906*	*4,303,485*
with Foreign Group Companies	26,940,965	22,303,275
- of which chargebacks for integration charges	*5,948,415*	*5,140,020*
with other third parties	2,459,082	2,143,755
Total	**1,881,914,541**	1,773,318,501

OTHER INCOME

Other income amounted to 10,519,652 euros (111,753,402 euros at 31 December 2017) and consisted of:

	31/12/2018	31/12/2017
Shareholder payment to cover “former Veneto transaction” charges	3,587,299	107,283,044
Income from contractual penalties	769,672	643,730
Miscellaneous recovered service expenses	1,052,236	695,186
Recovered car expenses	135,123	135,396
Insurance compensation	4,460,000	2,503,845
Recovered asset expenses	385,656	197,992
Other income	129,666	294,209
Total	**10,519,652**	111,753,402

RAW MATERIALS AND SUPPLIES USED

The item in question, amounting to 925,887 euros (1,012,194 euros at 31 December 2017), includes costs for printed material, paper, forms and other office materials used in customer services.

OTHER ADMINISTRATIVE EXPENSES

Amount to 716,173,703 euros (701,132,140 euros at 31 December 2017), and refer to expenses as follows:

	31/12/2018	31/12/2017
for services	-541,656,955	-547,723,936
Of which:		
IT expenses	-367,577,944	-362,299,914
Telephone and data transmission	-39,732,378	-47,753,003
Infoproviders	-65,510,226	-64,255,101
Electricity, water, gas, heating	-16,958,623	-16,651,839
Maintenance	-9,214,675	-13,995,360
Car expenses	-6,878,459	-5,962,871
Banking services	-1,824,543	-3,617,877
Services	-10,482,140	-6,263,391
Consulting	-4,209,860	-5,798,411
Security	-1,669,249	-1,631,446
Cleaning	-2,948,772	-3,231,684
Legal and notary	-1,770,679	-1,693,313
Post and couriers	-1,275,014	-1,298,771
Audit expenses	-415,957	-314,367
Other services	-11,188,436	-12,956,586
lease and rental	-87,728,986	-73,580,133
Of which:		
IT equipment hire	-52,542,542	-37,133,306
Rent liabilities	-25,113,298	-26,525,429
Sub-rents (rents liabilities recovered)	4,882,385	4,794,728
Condominium expenses	-2,568,421	-2,840,960
Car hire	-12,665,500	-13,125,675
Other hire	278,391	1,250,508
other personnel expenses	-21,032,362	-32,533,533
Of which:		
Expenses for business trips	-6,424,938	-6,231,472
Lodging	-869,191	-875,368
Training	-12,544,563	-24,264,531
Other expenses	-1,193,670	-1,162,161
other expenses	-3,841,950	-4,012,304
Of which:		
Insurance	-956,245	-1,032,960
Indirect taxes and duties	-2,471,411	-2,611,453
Membership fees	-332,146	-406,279
Gifts and entertainment	-117,879	-111,697
Advertising	-560	-
Other expenses	36,291	150,084
integration expenses	-61,913,450	-43,282,234
Total	**-716,173,703**	-701,132,140

For more details with regard to integration and incentive charges, see the Report on Operations.

PERSONNEL EXPENSES

Amount to 521,984,333 euros (653,778,246 euros as of 31 December 2017), and refer to expenses for personnel as follows:

	31/12/2018	31/12/2017
1) Employees	-521,509,475	-653,277,305
- salary and wages	*-353,497,163*	*-336,415,606*
- social security expenses	*-92,809,813*	*-90,218,944*
- provisions for termination indemnities	*-22,407,488*	*-21,258,152*
- payments to external pension funds	*-17,971,548*	*-19,518,884*
- costs deriving from payment agreements based Parent equity instruments	*-16,383,874*	*-15,022,783*
- other benefits in favour of employees	*-18,439,589*	*-170,842,936*
2) Other non-retired personnel	-	-27,449
3) Directors and Statutory Auditors	-474,858	-473,492
Total	**-521,984,333**	-653,778,246

The item "*costs deriving from payment agreements based Parent equity instruments*" quantifies the economic impact for the period referring to Parent shares assigned under the Group plan named Lecoip, as better described in the section on "Financial assets measured at fair value with impact on comprehensive income".
For more details regarding changes in labour costs and the relative share of integration and incentive charges, see the Report on Operations.
It should be noted that the item includes integration and incentive charges for 3,498,503 euros. For more details, see the Report on Operations.

Other benefits in favour of employees

The balance of the item at the end of the period amounted to 18.4 million euros (170.8 million euros at 31 December 2017), the main items refer to:
- 8.4 million euros contributions for the assistance fund,
- 5.7 million euros for restaurant tickets,
- 3.5 million euros to provisions for the 2017 redundancy fund.

Average number of employees by category

	Workforce at 31/12/2018	Workforce at 31/12/2017	***Average* workforce**
Employees in actual workforce			
Senior Managers	91	87	85.3
Middle Managers	3,317	3,449	3,313.6
Remaining personnel	4,106	4,457	4,110.7
Total employees in workforce	**7,514**	**7,993**	**7,509.6**
Personnel seconded to Group companies			
Senior Managers	19	5	11.5
Middle Managers	89	294	131.8
Remaining personnel	155	495	260.4
Total seconded in workforce	**263**	**794**	**403.7**
Total general workforce	**7,777**	**8,787**	**7,913.3**
Atypical employment contracts	**-**	**-**	**-**
Total actual workforce	**7,777**	**8,787**	**7,913.3**
Employee personnel seconded from Group companies	*30*	*16*	*32.1*

DEPRECIATION AND AMORTISATION

The item totals 633,472,450 euros (550,568,601 euros at 31 December 2017) and refers to depreciation/amortisation for the period determined on the basis of the useful life of the assets.

The item relates, for 149,237,296 euros, to tangible assets as detailed below:

Assets/Income component	Depreciation	Impairment losses	Fair value adjustment	Net result
A. Assets				
A.1 Owned	-148,454,833	-709,434	-	-149,164,267
- used in operations	*-148,454,833*	*-709,434*	-	*-149,164,267*
- for investment	-	-	-	-
A.2 Acquired under finance lease	-73,029	-	-	-73,029
- used in operations	*-73,029*	-	-	*-73,029*
- for investment	-	-	-	-
Total	**-148,527,862**	**-709,434**	**-**	**-149,237,296**

of which 28,730,439 euros for integration and incentive charges.

The remaining 484,235,154 euros refer to intangible assets as follows:

Assets/Income component	Amortisation	Impairment losses	Recoveries	Net result
A. Intangible assets				
A.1 Owned	-481,296,507	-2,938,647	-	-484,235,154
- internally generated	*-438,369,016*	*-2,335,269*	-	*-440,704,285*
other	*-42,927,491*	*-603,378*	-	*-43,530,869*
Total	**-481,296,507**	**-2,938,647**	**-**	**-484,235,154**

of which 23,498,109 euros for integration and incentive charges.

PROVISIONS FOR RISKS

The item, amounting to 30,217 euros (1,281,953 euros at 31 December 2017), refers to:

	31/12/2018	31/12/2017
Provisions for tax litigation	-	-11,446
Provisions/adjustments for personnel cases	-423,902	-1,013,272
Fund excess release due to personnel case termination	177,134	-
Other provisions and releases	216,551	-257,235
Total	**-30,217**	-1,281,953

OTHER EXPENSES

Amount to 3,259,711 euros (6,027,883 euros at 31 December 2017), and refer to charges as follows:

	31/12/2018	31/12/2017
Improvements on third party properties	-2,999,393	-3,022,838
Operating errors	-120,841	-
Contractual penalties for rental agreement withdrawal	-	-2,784,628
Settlements for legal disputes	-34,463	-
Compensation for personnel damages	-10,362	-4,649
Charges on assets	-23,945	-126,825
Fines and penalties	-68,520	-48,802
Other expenses	-2,187	-40,141
Total	**-3,259,711**	-6,027,883

FINANCIAL EXPENSES

Amount to 12,638,812 euros (11,144,400 euros at 31 December 2017), and refer to charges as follows:

	31/12/2018	31/12/2017
Interest expenses on current accounts	-10,730,754	-7,146,333
Interest on official AdE tax audit report of 8/11/17	-	-1,165,319
Personnel fund IAS adjustment over time	-112,009	-129,589
Post- employment fund IAS adjustment over time	-151,401	-1,524,183
Departure incentive fund IAS adjustment over time	-287,475	-1,338
Charges on current leases	-75,550	-78,832
Losses on Parent's shares	-1,220,146	-1,096,570
Investment losses	-138	-
Exchange losses	-60,427	-
Other interest expenses	-912	-2,236
Total	**-12,638,812**	-11,144,400

It should be noted that the item includes integration and incentive charges for 287,475 euros. For more details, see the Report on Operations.

FINANCIAL INCOME

Amounts to 1,020,615 euros (2,223,916 euros at 31 December 2017), and refers to income as follows:

	31/12/2018	31/12/2017
Exchange gains	-	848,473
Dividends on Parent's shares	-	106,260
Gains on Parent's shares	366,430	553,742
Dividends on shares of property funds	170,848	163,137
Profits on the sale of shares in property funds	550	60,030
Dividends on equity investments	-	523
Gains on sale of equity investments	-	762
Interest income on tax refund requests	473,562	436,067
Revaluations of Lecoip certificates with Parent	9,225	53,328
Sundry interest income	-	1,594
Total	**1,020,615**	2,223,916

TAXES ON INCOME FOR THE YEAR

The taxes amount to 4,972,695 euros (36,724,502 euros as at 31 December 2017) and are as follows:

	31/12/2018	31/12/2017
1. Current taxes (-)	6,154,811	-11,955,326
2. Changes in current taxes of previous years (+/-)	3,269,542	1,887,979
3. Reduction in current taxes of the year (+)	-	-
4. Changes in deferred tax assets (+/-)	-14,424,195	45,807,566
5. Changes in deferred tax liabilities (+/-)	27,147	984,283
6. Taxes on income for the year (-)	**-4,972,695**	36,724,502
of which: - taxes on continuing operations	*-4,972,695*	*36,724,502*
- taxes on groups of assets held for sale and discontinued operations	-	-

Taxes for the period of 6.2 million euros refer to IRES for the current year.

Reconciliation between tax expenses in financial statements and theoretical tax expenses

	Taxes	%
Taxes on income - theoretical tax expenses	**1,387,382**	**27.9%**
Other tax increase changes	**6,848,641**	**137.7%**
Higher effective tax rate and higher IRAP tax base	1,248,364	25.1%
Non-deductible IRES costs (IMU, personnel expenses, telephony, etc.)	4,597,080	92.4%
Non-deductible IRAP costs (IMU, personnel expenses, etc.)	1,003,197	20.2%
Other tax decrease changes	**-3,263,328**	**-65.6%**
Adjustment of tax assets and liquidation of previous years taxes	-3,263,328	-65.6%
Total changes in taxes	**3,585,313**	**72.1%**
Tax expenses in financial statements	**4,972,695**	**100.0%**
of which: - tax expenses on continuing operations	*4,972,695*	
- actual tax expenses (+) / income (-) on components not charged back to the consortium members	-	
Actual tax expenses of goodwill realignment (pursuant to LD 185/2008)	**4,972,695**	
of which: - tax expenses on continuing operations	*4,972,695*	
- actual tax expenses (+) / income (-) on components not charged back to the consortium members	-	

COMPREHENSIVE INCOME

Below is a summary of the overall comprehensive income for the period, as required by IAS 1:

	Gross amount	Taxes on income	Net amount
Profit (loss) for the period	4,972,695	-4,972,695	**-**
Other income components net of taxes without reversal to the income statement			
Equity instruments designated at fair value through other comprehensive income	*-12,335*	*2,961*	*-9,374*
Property and equipment	*190,437*	-	*190,437*
Employee defined benefit plans	*39,066,053*	*-9,375,853*	*29,690,200*
Total other income components net of taxes	39,244,155	-9,372,892	29,871,263
Comprehensive income	44,216,850	-14,345,587	**29,871,263**

4. Other information

INFORMATION ON RISKS AND RELATED HEDGING POLICIES

This part of the Explanatory Notes provides quantitative information on the risks for the Company.

Section 1 – Credit Risk
At 31 December 2018 the Intesa Sanpaolo Group Services S.p.A. Company does not hold risks of this type, as the company carries out almost all of its business with counterparties belonging to the Intesa Sanpaolo Group which, moreover, given the company's consortium nature, are also shareholders.

Section 2 - Market risks
2.1. Interest rate risk and price risk
The Intesa Sanpaolo Group Services company does not hold a trading portfolio.

2.2. Interest rate risk and price risk - banking portfolio
The Intesa Sanpaolo Group Services company does not hold risks of this type.
The banking portfolio is made up exclusively of a credit line, contracted with the Parent.

2.3. Foreign exchange risk
Intesa Sanpaolo Group Services does not hold risks of this type.

Section 3 - Liquidity risk
Liquidity risk is defined as the risk that the company will not be able to meet its payment obligations. In relation to this risk, the company has entered into an agreement with the Parent in the form of a credit line, aimed at covering cash requirements.

Section 4 - Operational risk
4.1 General aspects, definition and objectives

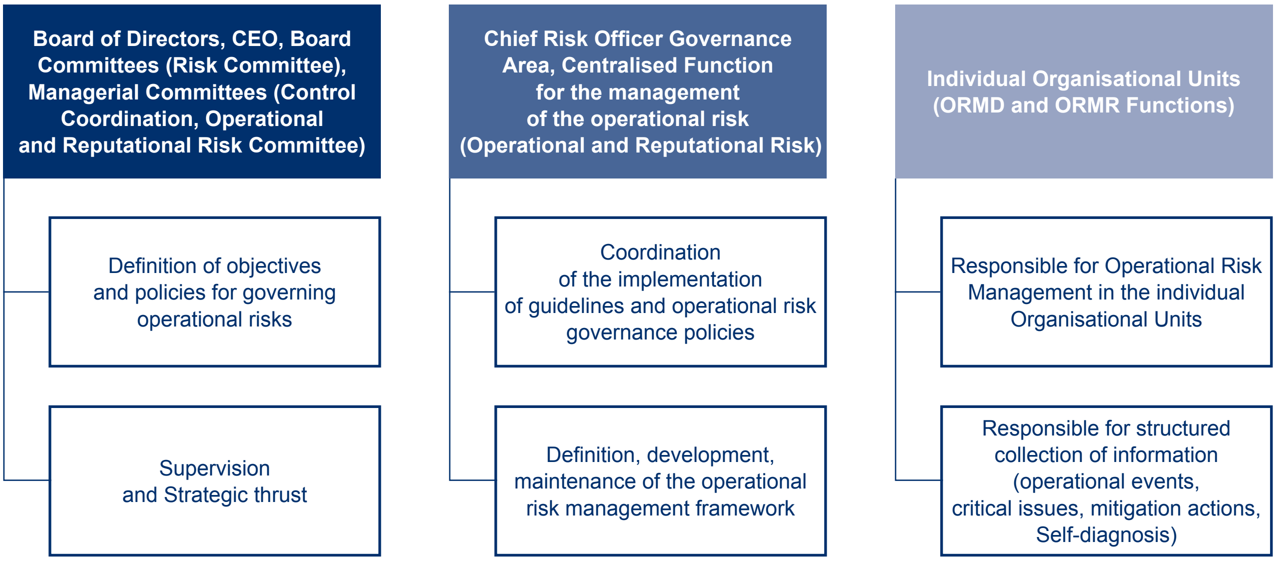
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

The Intesa Sanpaolo Group adopts an operational risk assumption and management strategy oriented towards prudent management criteria and aimed at guaranteeing solidity and long-term business continuity. Furthermore, the Group pays particular attention to achieving an optimal balance between growth and profitability objectives and consequent risks.

In line with these aims, the Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

4.2 Governance model

The management of the Intesa Sanpaolo Group's Operational Risk Management activities involves interacting bodies, committees and units with differentiated responsibilities and roles to create an effective operational risk management system that is closely integrated in the decision-making processes and management of business operations.



4.3 Group Operating Risk Management Process

The Intesa Sanpaolo Group Operating Risk Management Process is made up of the following phases:

- *Identification*

The identification phase envisages:
- the structured collection and timely updating of data on operational events, decentralised to Organisational Units;
- the detection of critical operational issues;
- the carrying out of the annual Self-diagnosis process;
- the identification of potential operational risks deriving from the introduction of new products, services, the start-up of new activities and entry into new markets as well as the risks associated with outsourcing;
- the analysis of operational events and indicators coming from external consortia (O.R.X. - Operational Riskdata eXchange Association);
- the identification of operational risk indicators (including IT and cyber risks, non-compliance risks, etc.) by the individual Organisational Units.

- *Measurement and assessment*

Measurement is the transformation of surveys (internal and external operational loss data, Scenario Analysis and Operating Context Evaluation) into a specific summary risk measurement model. These measurements give adequate detail to provide an overall Group risk profile and allow the capital at risk to be quantified for units of the Group itself.

- *Monitoring and control*

Monitoring of operational risks consists of the analysis and organisation of the results of identification and/or measurement activity to verify and monitor over time exposure to operational risk evolution (including ICT and cyber risk) and to prevent harmful events.

- *Mitigation*

Mitigation activities, defined on the basis of information emerging during identification, measurement and monitoring, consist of:

- identifying, defining and implementing risk mitigation and transfer actions, consistent with the established risk tolerance level;
- the analysis and acceptance of residual operational risks;
- the rationalisation and optimisation of costs and benefits of insurance coverage and other possible forms of risk transfer adopted by the Group.

In this regard, in addition to the traditional insurance programme (to protect against illegal activities such as employee disloyalty, theft and damage, loss of valuables in transit, ICT fraud, forgery, cyber offences and fire and earthquake as well as civil liability towards third parties) The Group has taken out the Operational Risk Insurance Program insurance policy, which offers ad hoc coverage, significantly raising the amounts covered, transferring the risk resulting from significant operating losses to the insurance market.
Furthermore, in relation to risks associated with property and infrastructure and to contain the impact of disaster events of an environmental, international crisis and social protest nature, the Group can activate its own business continuity plans.

- *Communication*

Communication is the preparation of adequate information flows related to the management of operational risks among the various involved participants, aimed at providing for process monitoring and adequate knowledge sharing of risk exposure.

4.4 Self-diagnosis

Self-diagnosis is the annual process by which Organisational Units identify their level of exposure to operational risk by assessing the control level of elements that characterise their operating context (Operating Context Evaluation, VCO) and the estimate of potential losses if potentially harmful operational events occur (Scenario Analysis, AS). The assessment considers identified critical areas and actually occurring operational events. This assessment does not replace specific risk assessments carried out by the specialist and control departments within the scope of their remit (e.g. Chief Audit Officer, Manager Responsible and Chief Compliance Officer assessments), but allows the process results to be brought to the attention of the relevant departments and for these findings to be discussed with the manager of the Organisational Unit concerned.
Detection of operational criticalities allows adequate mitigation actions to be identified and defined and their implementation to be monitored over time to reduce operational risk exposure.

4.5 ICT Risk

IT or ICT risk refers to the risk of incurring economic, reputation and market share losses in relation to the use of information and communication technology. In the prudent integrated business risk representation, this type of risk is considered, according to its specific nature, among operational, reputation and strategic risks and includes the risk of violation of confidentiality, integrity or information availability.
In line with the methodological framework for the management of business risks and, in particular, for operational risks, the Intesa Sanpaolo Group's ICT Risk management model has been developed to integrate and coordinate the specific skills of the structures involved.
Every year the ICT Departments (e.g.: Central Information Systems Department, ICT departments of the main Italian and foreign subsidiaries) and the Cybersecurity Department identify the ICT risk exposure (and the included ICT security risk) of the ICT assets managed through the (top-down) assessment of the supervision level of the relevant risk factors. In addition to this analysis, carried out in relation to the application areas and company processes, where there are situations that can change the overall risk level, innovative projects or changes to relevant parts of the ICT System, the ICT Departments and the Cybersecurity department identify the ICT risk level exposure for specific parts of the ICT system.
As part of the Self-diagnosis process, this is accompanied by the bottom-up assessment carried out by individual Group Organisational Units, which analyse their own IT risk exposure by giving an opinion on the level of control of relevant risk factors (e.g. their software's suitability for the unit's operation, etc.).

INFORMATION ON RELATED PARTIES REMUNERATION AND TRANSACTIONS

Procedural aspects
The Company has adopted the Intesa Sanpaolo "Group procedures regulating the conduct of transactions with related parties " - approved by the Supervisory Board and directed to all Group companies - which establishes the criteria for transactions in identifying related parties and sets the rules for preliminary assessment, decision making and the standards for disclosure to the Corporate bodies and the market.
In accordance with the criteria established by IAS 24, the Procedures define the rules for concretely identifying the various subjects for the categories provided for by the accounting standard (companies with a control or associate relationship, joint ventures, pension funds, key managers, close family members of key managers and relevant parties with significant influence).
The Procedures lay out the various preliminary assessments that must be undertaken by subsidiaries in executing transactions with related parties in order to satisfy the requirements of substantial transaction correctness, requesting, amongst other things, a detailed examination of the transaction reasons and its equity, economic and financial effects.

INFORMATION ON REMUNERATION TO MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES AND TO KEY MANAGERS

At 31 December 2018 there were no receivables or guarantees issued in favour of directors or managers.
To follow, a breakdown of the remuneration paid to the members of the management and control bodies, the General Manager and key managers, pursuant to the provisions of Art. 2427, paragraph 16, of the Italian Civil Code.

(amount in euros)

	31/12/2018	31/12/2017
Key managers (in actual workforce)	-	-1,612,454
- of which short term benefits (1)	-	*-776,192*
- of which benefits subsequent to the employment relationship (2)	-	*-34,619*
- of which long term benefits (3)	-	*-365,390*
- of which indemnity for employment termination (4)	-	-
- of which share-based payments (5)	-	*-436,253*
Directors	-240,916	-226,068
Statutory Auditors	-200,303	-213,167
Supervisory Body	-33,639	-34,257
Total	**-474,858**	-2,085,946

(1) Also includes Directors' fixed and variable remuneration as they are similar to labour costs and social security expenses borne by the company for employees.
(2) Includes the corporate contribution to pension funds and the provision for employee severance indemnity as provided for by law and company regulations.
(3) Includes an estimate for employee long-service bonus provisions.
(4) Includes charges paid for retirement incentive.
(5) Includes the cost for stock option plans determined with IFRS 2 criteria and recognised in the financial statements.

INFORMATION ON RELATED-PARTY TRANSACTIONS

Atypical and/or unusual transactions

In 2018, the Company did not carry out any transactions "of an atypical or unusual nature" which, due to their significance/relevance, may have resulted in doubts relating to the safeguarding of company assets.

Ordinary or recurring transactions

Ordinary or recurring transactions with related parties fall within the scope of Intesa Sanpaolo Group Services ordinary transactions and are normally carried out under market conditions and on the basis of reciprocal economic convenience assessments, in respect of the internal procedures referred to above. In relation to intragroup transactions undertaken in 2018, it should be noted that these are considered ordinary internal operations of a multi-purpose banking company. They are mostly regulated at the conditions at which the Parent accesses the reference markets, which are not necessarily the same as those that would be applicable if the counterparty companies were to operate independently. These conditions are in any event applied in compliance with substantial fairness criteria and always in pursuit of the aim of creating value for the Group.

Transactions of particular significance

No transactions of particular significance were carried out with related parties.

The table below shows details of the main financial and economic transactions that took place in 2018 with Intesa Sanpaolo Group companies.

(values in euro thousands)

Counterparty	Assets	Liabilities	Charges	Income
00000-INTESA SANPAOLO S.P.A.	306,835	1,329,539	-37,639	1,441,067
00016-Intesa Sanpaolo Re.o.co S.p.A. (Real Estate Owned Company)	746	-	-2,534	1,413
00069-INTESA SANPAOLO FORVALUE S.P.A	62	-	-	154
00100-RISANAMENTO S.P.A.	313	250	96	-
00103-FIDEURAM VITA S.P.A.	135	22	8	1,951
00141-FIDEURAM INVESTIMENTI - S.G.R. S.P.A.	15	-	-	568
00151-INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO	62	-	-	204
00185-INTESA SANPAOLO SMART CARE S.R.L.	5	-	-	12
00195-BANCA 5 S.P.A	203	8	306	224
00211-INTESA SANPAOLO CASA S.P.A	226	-	37	803
00250-FIDEURAM - Intesa Sanpaolo Private Banking S.p.A.	2,596	101	-362	38,447
00312-Eurizon SLJ Capital Ltd	269	-	261	35
00316-INTESA SANPAOLO HIGHLINE SRL	1	-	15	3
00334-BANCA APULIA SPA	711	312	-3,726	7,540
00335-Intesa Sanpaolo Innovation Center S.c.p.a.	153	21	-3,107	1,049
00365-TERSIA SPA	810	-	30	780
00380-NEVA FINVENTURES S.P.A.	13	-	0	27
00702-CASSA DI RISPARMIO DI PISTOIA E DELLA LUCCHESIA S.P.A.	1,793	28	-250	12,881
01025-BANCA IMI SECURITIES CORP.	-	51	-50	22
01104-FIDEURAM ASSET MANAGEMENT (IRELAND) DAC	15	-	-	134
01123-BANK OF ALEXANDRIA S.A.E.	1,415	1	-23	2,809
01124-INTESA SANPAOLO BANK ALBANIA SH.A.	530	-	-	1,051
02041-Banka Intesa Sanpaolo d.d.	775	-	-	1,412
02066-EURIZON CAPITAL S.A.	16	-	-	38
02106-EURIZON CAPITAL SGR S.P.A.	723	12	-63	4,183
02107-SANPAOLO INVEST S.I.M. S.P.A.	5	3	-9	565
02108-INTESA SANPAOLO BANK IRELAND PLC	52	-	-	323
02216-CASSA DI RISPARMIO DI FIRENZE S.P.A.	2,901	1,093	-2,233	56,760
02268-INTESA SANPAOLO ASSICURA S.P.A.	308	11	48	1,716
03513-CASSA DI RISPARMIO IN BOLOGNA S.P.A.	2,252	53	-1,398	36,920
03520-INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	521	-	-	984
03568-INTESA SANPAOLO VITA S.P.A.	789	6	-23	4,941
06005-BANCA IMI S.P.A.	7,553	3	90	175,004
06008-BANCA INTESA A.D. - BEOGRAD	2,918	317	-39	5,720
06010-MEDIOCREDITO ITALIANO S.P.A.	15,846	1,235	921	28,591
06011-INTESA SANPAOLO PRIVATE BANKING S.P.A.	2,409	-	155	22,132
06028-CIB BANK LTD.	480	0	-26	965
06058-INTESA SANPAOLO FORMAZIONE SOCIETA' CONSORTILE PER AZIONI	699	1,315	-2,049	96
06069-INTESA SANPAOLO PROVIS S.p.A. (formerly INTESA REAL ESTATE S.R.L.)	1,832	23	-20	3,590
06073-INTESA SEC. NPL S.P.A.	-	-	-	1
06097-PRIVREDNA BANKA ZAGREB D.D.	474	-	-	1,735
06104-INTESA SANPAOLO SERVITIA S.A.	-	724	-2,319	-
06108-SOCIETA' ITALIANA DI REVISIONE E FIDUCIARIA S.I.RE.F. S.P.A.	868	1	-	1,620
06110-Intesa Sanpaolo Bank Luxembourg S.A	124	-	-	792
06113-INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	27	-	-2	108
06114-VSEOBECNA UVEROVA BANKA A.S.	4,344	495	-328	9,506
06115-VUB ASSET MANAGEMENT SPRAVCOVSKA SPOLOCNOST A.S.	34	-	-	52
06128-INTESA SEC. 3 S.R.L.	-	-	-	1
06430-BANCA INTESA JOINT-STOCK COMPANY	-	7	-	514
06467-VSEOBECNA UVEROVA BANKA A.S. - PRAGUE BRANCH	55	-	-	238
06485-BANCA PROSSIMA S.P.A.	1,283	8	-93	9,244
06490-ISP CB IPOTECARIO S.R.L.	-	-	-	1
06491-ISP OBG SRL	-	-	-	3
06492-ISP CB PUBBLICO S.R.L.	-	-	-	1
06494-VUB LEASING A.S.	36	-	-	64
06500-EPSILON SGR S.P.A.	51	-	-	376
06514-PRAVEX BANK PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK	7	15	-	14
06588-IMMIT - IMMOBILI ITALIANI SRL	106	15	313	26
07042-INTESA SANPAOLO LIFE DAC	-6	-	-	2
Total	**364,387**	**1,335,671**	**-54,012**	**1,879,410**

Below is a breakdown by service nature of the main economic relationships with Intesa Sanpaolo Group companies highlighted in the previous table.

(Values in euro thousands)

Nature of service	Charges	Income
Relationships of a financial nature	-10,806	473
Other services	-19,013	5
Outsourcing services	-	1,878,932
Seconded personnel	-24,192	-
Total	**-54,012**	**1,879,410**

OTHER INFORMATION

Pursuant to the provisions of Legislative Decree 231/2001, on 9 March 2010 the company approved its organisational model, in line with the principles and contents of the Parent Model; subsequently, following changes in legislation on the matter and changes to the Group's organisational structure, the company updated the Model, most recently on 2 May 2017. The supervisory body appointed to monitor the correct operation of and compliance with the aforementioned organisational model is the Board of Statutory Auditors made up of 5 members: the Chairman of the Board of Statutory Auditors; two acting auditors, as well as two alternate members (chosen from two alternate auditors). It is recalled, that following the amendments and integration introduced by Art. 14, paragraph 12, Law 12 November 2011 No. 183 ("Provisions for the preparation of the annual and multi-year financial statements of the state - 2012 Stability Law") in Art. 6 of Decree 231/01, the new paragraph 4 - bis provides that "in limited companies the board of statutory auditors, the supervisory board and the management control committee may carry out the functions of the supervisory body referred to in paragraph 1, letter b)". On the basis of this regulation and of the Supervisory Body's mandate having expired, the ISGS Shareholders' Meeting of 27 July 2015 appointed the Board of Statutory Auditors as the Supervisory Body.
It should be noted that the Security Policy Document, required by Art. 34, paragraph 1, letter g) of Legislative Decree 30 June 2003 No. 196 "Italian personal data protection code" was drafted in the manner required by Rule 19 of the Technical Specifications, Annex B, of the same Decree.

As provided by Art. 165, paragraph 1 of the Consolidated Law on Finance (TUF), as a subsidiary company with listed shares that assigns auditing tasks under the aforementioned TUF, the information required by Art. 149 - duodecies of the Issuers Regulations in relation to audit fees and fees for non-audit services provided by the independent auditors and entities belonging to the audit firm's network for the year, is listed below by type. In particular, the aforementioned KPMG S.p.A. fees amount to 416 thousand euros for the year and relate to the reviewing and auditing assignments.

Finally, it should be noted that during 2018 the Company did not carry out research and development activities and at the end of the year Intesa Sanpaolo Group Services S.c.p.A. does not hold, nor has it ever held, treasury shares. In relation to shares of its parent, reference should be made to what is reported in “Financial assets measured at fair value through the income statement” and in “Financial assets measured at fair value through other comprehensive income” in the Explanatory notes.

MANAGEMENT AND COORDINATION INFORMATION

The Company is subject to management and coordination by the parent Intesa Sanpaolo S.p.A that prepares the consolidated financial statements pursuant to the law and Art. 2497 bis 4th paragraph of the Italian Civil Code. The figures of the last approved consolidated financial statements of the parent are attached.

In particular, to follow the Intesa Sanpaolo S.p.A. balance sheet and income statement as at 31 December 2017 compared with 31 December 2016.

INTESA SANPAOLO S.p.A. BALANCE SHEET

Assets

(amount in euros)

	Assets	31.12.2017	31.12.2016
10.	Cash and cash equivalents	5,749,702,612	6,213,061,883
20.	Financial assets held for trading	18,264,452,315	19,577,097,879
30.	Financial assets measured at fair value	322,287,851	371,284,919
40.	Financial assets available for sale	36,911,639,839	38,982,566,972
50.	Investments held to maturity	334,879,246	334,833,432
60.	Due from banks	157,439,934,737	126,634,511,488
70.	Loans to customers	232,692,765,694	200,548,518,866
80.	Hedging derivatives	3,822,813,304	5,720,102,749
90.	Fair value change of financial assets in hedged portfolios (+/-)	-130,633,072	160,047,319
100.	Equity investments	30,558,013,553	30,589,126,130
110.	Property and equipment	4,399,954,385	2,758,072,076
120.	Intangible assets	2,454,495,926	2,378,906,198
	Of which:		
	- goodwill	*858,532,215*	*858,532,215*
130.	Tax Assets	13,012,846,576	10,588,545,954
	a) current	*2,950,336,388*	*2,562,704,416*
	b) deferred	*10,062,510,188*	*8,025,841,538*
	- of which transformable into tax receivables (L. No. 214/2011)	*7,172,434,760*	*6,758,409,444*
140.	Non-current assets held for sale and discontinued operations	265,849,446	1,365,205
150.	Other assets	3,278,434,392	2,834,453,572
Total assets		**509,377,436,804**	**447,692,494,642**

Liabilities

(amount in euros)

	Liabilities and Shareholders' Equity	31.12.2017	31.12.2016
10.	Due to banks	173,709,711,661	139,035,582,228
20.	Due to customers	170,914,110,169	147,364,280,391
30.	Securities issued	82,665,715,208	84,823,937,105
40.	Financial liabilities held for trading	14,579,631,354	16,669,826,899
50.	Financial liabilities designated at fair value	9,133,072	7,966,878
60.	Hedging derivatives	5,555,327,525	6,517,246,619
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	323,857,059	528,416,248
80.	Tax liabilities	1,284,667,901	811,518,875
	a) current	*102,626,726*	*189,891,442*
	b) deferred	*1,182,041,175*	*621,627,433*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
100.	Other liabilities	7,194,999,999	5,761,906,598
110.	Employee termination indemnities	767,146,054	736,374,747
120.	Provisions for risks and charges	3,900,901,688	1,947,847,258
	a) post-employment benefits and similar	*883,579,918*	*835,550,285*
	b) other provisions	*3,017,321,770*	*1,112,296,973*
130.	Valuation reserves	773,748,333	-425,109,781
140.	Redeemable shares	-	-
150.	Equity instruments	4,102,750,714	2,117,321,664
160.	Reserves	3,843,194,689	3,816,072,856
170.	Share premium reserve	26,164,131,214	27,507,513,386
180.	Share capital	8,731,984,116	8,731,984,116
190.	Treasury shares (-)	-25,863,278	-19,708,272
200.	Profit (loss) for the year	4,882,289,326	1,759,516,827
Total liabilities and shareholders' equity		**509,377,436,804**	**447,692,494,642**

INTESA SANPAOLO S.p.A. INCOME STATEMENT.

(amount in euros)

Items		2017	2016
10.	Interest and similar income	6,458,141,888	6,580,673,834
20.	Interest and similar expense	-3,647,250,788	-4,066,869,038
30.	**Interest margin**	**2,810,891,100**	**2,513,804,796**
40.	Fee and commission income	3,793,854,801	3,482,123,330
50.	Fee and commission expense	-825,520,418	-653,990,646
60.	**Net fee and commission income**	**2,968,334,383**	**2,828,132,684**
70.	Dividend and similar income	1,888,660,731	1,845,156,349
80.	Profits (Losses) on trading	46,821,374	-106,060,586
90.	Fair value adjustments in hedge accounting	-17,328,451	-25,210,954
100.	Profits (Losses) on disposal or repurchase of:	181,248,529	129,989,209
	a) receivables	*-10,886,814*	*-52,084,805*
	b) financial assets available for sale	*212,407,293*	*208,575,050*
	c) investments held to maturity	-	-
	d) financial liabilities	*-20,271,950*	*-26,501,036*
110.	Profits (losses) on other financial assets and liabilities measured at fair value	2,366,331	12,975,097
120.	**Net interest and other banking income**	**7,880,993,997**	**7,198,786,595**
130.	Net losses/recoveries on impairment:	-2,017,498,209	-1,788,042,361
	a) adjustments	*-1,599,745,798*	*-1,586,917,634*
	b) financial assets available for sale	*-476,221,727*	*-231,780,004*
	c) investments held to maturity	*46,858*	*66,662*
	d) other financial activities	*58,422,458*	*30,588,615*
140.	**Net income from banking activities**	**5,863,495,788**	**5,410,744,234**
150.	Administrative expenses:	-6,384,782,140	-5,115,466,013
	a) personnel expenses	*-3,775,235,832*	*-2,576,593,491*
	b) other administrative expenses	*-2,609,546,308*	*-2,538,872,522*
160.	Net provisions for risks and charges	-818,539,821	-107,838,666
170.	Net adjustments to/recoveries on property and equipment	-123,334,124	-124,302,815
180.	Net adjustments to/recoveries on intangible assets	-12,895,800	-2,521,643
190.	Other operating expenses (income)	5,328,341,445	246,791,642
200.	**Operating expenses**	**-2,011,210,440**	**-5,103,337,495**
210.	Profits (Losses) on equity investments in associates and companies subject to joint control	166,969,444	-315,403,030
220.	Measurement differences on property, equipment and intangible assets measured at fair value	-16,560,861	-
230.	Goodwill impairment	-	-
240.	Profits (Losses) on disposal of investments	77,195,893	324,620,741
250.	**Profit (Loss) before tax from continuing operations**	**4,079,889,824**	**316,624,450**
260.	Taxes on income from continuing operations	802,399,502	368,110,138
270.	**Profit (Loss) before tax from continuing operations**	**4,882,289,326**	**684,734,588**
280.	Profit (Loss) after tax from discontinued operations	-	1,074,782,239
290.	**Net income (loss)**	**4,882,289,326**	**1,759,516,827**

Appendices

A. Breakdown of revenue per client

(values in euro thousands)

Customer	"Reclassified" revenues at 31/12/2018	% on Revenue
1. INTESA SANPAOLO	1,335,180	75.5%
2. BANCA IMI	175,004	9.9%
3. BANCA CR FIRENZE	56,572	3.2%
4. FIDEURAM - INTESA SANPAOLO PRIVATE BANKING S.P.A.	37,721	2.1%
5. CASSA DI RISPARMIO IN BOLOGNA	36,696	2.1%
6. MEDIOCREDITO ITALIANO	27,541	1.6%
7. INTESA SANPAOLO PRIVATE BANKING	21,657	1.2%
8. CASSA DI RISPARMIO DI PISTOIA E DELLA LUCCHESIA	12,815	0.7%
9. BANCA PROSSIMA	9,244	0.5%
10. VUB BANKA	6,847	0.4%
11. BANCA APULIA	7,540	0.4%
12. BANCA INTESA BEOGRAD	5,190	0.3%
13. INTESA SANPAOLO VITA	4,855	0.3%
14. EURIZON CAPITAL SGR	4,183	0.2%
15. INTESA SANPAOLO PROVIS	3,555	0.2%
16. BANK OF ALEXANDRIA	2,148	0.1%
17. MERCURY	2,072	0.1%
18. FIDEURAM VITA	1,951	0.1%
19. INTESA SANPAOLO ASSICURA	1,716	0.1%
20. PBZ - PRIVREDNA BANKA ZAGREB	1,644	0.1%
21. INTESASA SANPAOLO REOCO	1,413	0.1%
22. SIREFID	1,411	0.1%
23. ISP INNOVATION CENTER	1,049	0.1%
24. INTESA SANPAOLO CASA	803	0.0%
25. INTRUM ITALY S.P.A.	780	0.0%
26. BANCA KOPER	842	0.0%
27. INTESA SANPAOLO BANK ALBANIA	682	0.0%
28. CIB BANK	672	0.0%
29. INTESA SANPAOLO BANK ROMANIA	590	0.0%
30. FIDEURAM INVESTIMENTI	568	0.0%
OTHER 42 CUSTOMERS	4,630	0.3%
TOTAL TURNOVER	**1,767,573**	**100%**

B. Reconciliation of statutory and reclassified statements

Reconciliation of statutory and reclassified balance sheet

(values in euro thousands)

Statutory		*Reclassified*	December-18
ASSETS		***ASSETS***	
Non-current assets		***Non-current assets***	**2,119,797**
Property, plant and equipment	+		556,710
Intangible assets	+		1,463,905
		Tangible and intangible assets	*2,020,615*
Equity investments			8
		Equity i *Investments in associates*	8
Financial assets measured at fair value through profit or loss			2,736
		Financial assets measured at fair value through profit or loss	2,736
Financial assets measured at fair value through other comprehensive income			116
		Financial assets measured at fair value through other comprehensive income	116
Other assets			15,658
		Other assets	*15,658*
Deferred tax assets			80,664
		Deferred tax assets	*80,664*
Current assets		***Current assets***	**553,498**
Trade receivables and other receivables			546,254
		Trade receivables and other receivables	*546,254*
Other current assets			7,244
		Other current assets	*7,244*
TOTAL ASSETS		***TOTAL ASSETS***	**2,673,295**
SHAREHOLDER'S EQUITY AND LIABILITIES		***SHAREHOLDER'S EQUITY AND LIABILITIES***	
Shareholders' equity		***Shareholders' equity***	**467,631**
Share capital			273,321
		Share capital	*273,321*
Additional paid-in capital			140,606
		Additional paid-in capital	*140,606*
Legal reserve			54,517
		Legal reserve	*54,517*
Profit (losses) carried forward			16,707
		Profit (losses) carried forward	*16,707*
Other reserves			-17,520
		Other reserves	*-17,520*
Profit (loss) for the year			-
		Profit (loss) for the year	-
Non-current liabilities		***Non-current liabilities***	**338,759**
Provisions for risks and charges			188,938
		Provisions for risks and charges	*188,938*
Liabilities for pension and other plans			133,190
		Liabilities for pension and other plans	*133,190*
Deferred tax liabilities			16,631
		Deferred tax liabilities	*16,631*
Current liabilities		***Current liabilities***	**1,866,904**
Due to banks			1,321,904
		Due to banks	*1,321,904*
Trade payables and other payables			544,574
		Trade payables and other payables	*544,574*
Other current liabilities			401
		Other current liabilities	*401*
Payables for taxes on income			25
		Payables for taxes on income	*25*
Total liabilities		***Total liabilities***	**2,205,663**
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		***TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES***	**2,673,295**

Reconciliation of statutory and reclassified income statement

(values in euro thousands)

Statutory		Reclassified	December-18
Services rendered			1,881,915
	+	*Revenues from services rendered*	*1,767,574*
	+	*Services rendered (partial integration charges)*	*114,341*
Sale of goods			3
Other income			10,520
	+	*Other income*	*6,936*
	+	*Other income (partial integration charges)*	*3,587*
Raw materials and supplies used			-926
	-	*Raw materials and supplies used*	*-926*
Other administrative expenses			-716,174
	-	*Other administrative expenses*	*-654,259*
	-	*Other administrative expenses (partial integration charges)*	*-61,915*
Personnel expenses			-521,984
	-	*Personnel expenses*	*-517,239*
	-	*employee severance indemnity fund IAS adjustment over time*	*-1,247*
	-	*Other personnel expenses (partial integration charges)*	*-3,498*
Amortisation and depreciation			-633,472
	-	*Amortisation and depreciation*	*-578,195*
	-	*Write-downs on assets*	*-3,049*
	-	*Amortisation/Write-off (partial integration charges)*	*-52,228*
Provisions for risks			-30
Other expenses			-3,260
	-	*Other expenses*	*-6,338*
	+	*Write-downs on assets*	*3,049*
Finance expenses			-12,639
	+	*employee severance indemnity fund IAS adjustment over time*	*1,247*
	-	*Other personnel expenses (partial integration charges)*	*-287*
	-	*Finance expenses*	*-13,599*
Finance income			1,021
	-	*Finance income*	*1,021*
Taxes on income			-4,973
	-	*Taxes on income*	*-4,973*
Profit for the year		***Profit for the year***	**-**

Independent Auditors' Report

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Intesa Sanpaolo S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sanpaolo Group Services S.C.p.A. (the "company", merged into Intesa Sanpaolo S.p.A. on 21 January 2019), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Intesa Sanpaolo Group Services S.C.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

As required by the law, the company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of Intesa Sanpaolo Group Services S.C.p.A. does not extend to such data.

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") and Intesa Sanpaolo S.p.A.'s audit committee for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* and the audit committee are responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The directors of Intesa Sanpaolo S.p.A. are responsible for the preparation of the company's directors' report at 31 December 2018 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the company's financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 7 March 2019

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

Report by the Management Control Committee of Intesa Sanpaolo S.p.A.

Report by the Management Control Committee of Intesa Sanpaolo S.p.A. to the Shareholders' Meeting on the activities carried out by the Board of Statutory Auditors of Intesa Sanpaolo Group Services S.c.p.A. during the 2018 financial year pursuant to Article 2429 of the Italian Civil Code.

Distinguished Shareholders,
the draft financial statements as at 31 December 2018 of Intesa Sanpaolo Group Services S.c.p.A. ("ISGS") were approved by the Board of Directors of Intesa Sanpaolo S.p.A. ("Parent Company") on 26 February 2019, since the merger by incorporation into the Parent Company has had legal effect as from 21 January 2019. These financial statements must be submitted for approval to the Shareholders' Meeting of the Parent Company convened on 30 April 2019.
In consideration of the above, the Board of Statutory Auditors of ISGS ("Board of Statutory Auditors") handed a report to the Management Control Committee of Intesa Sanpaolo ("Committee") on the results of the activity carried out during 2018 as control body, also assigned the role of Surveillance Body pursuant to Legislative Decree 231/2001.
On the basis of the considerations expressed by the Board of Statutory Auditors, the Committee prepared this Report, taking into account - where compatible - the indications provided by CONSOB Communication no. 1025564 of 6 April 2001 and subsequent updates.

1. RESULTS OF THE FINANCIAL YEAR

It is clear from the financial statements for the year ended 31 December 2018 that, in compliance with tax regulations, the expenses incurred for the provision of services were fully absorbed by the revenues they generated. As the income statement shows, the result for the year is zero.

2. ACTIVITY OF THE BOARD OF STATUTORY AUDITORS

2.1. Frequency and number of meetings of the Board of Directors and the Board of Statutory Auditors

During 2018, 12 meetings of the Board of Directors were held, which the Board of Statutory Auditors attended, and 12 meetings of the Board of Statutory Auditors. In carrying out their role as the Surveillance Body, the Board of Statutory Auditors held 5 meetings.

2.2. Considerations on the most significant economic, financial and capital transactions performed by the consortium company and their compliance with the law and the deed of incorporation

The Board of Statutory Auditors announced that it received timely and appropriate information on general business performance and its evolution, and on the most significant transactions. The Directors promptly provided the Parent Company with all the information requested by them to fulfil the disclosure requirements described in Articles 114 and 115 of the Consolidated Law on Finance.

The Board of Directors' decision-making process appeared to be correctly based on compliance with the fundamental principle of acting in an informed manner. Delegation of powers does not infringe any decision-making limits.

The Board of Statutory Auditors highlighted that the extraordinary transactions put in place by ISGS do not need specific comments and that the process required by the nature of the transactions was complied with. However, in order to provide complete information, the Board of Statutory Auditors deemed it best to summarise the main transactions carried out over the course of the financial year.

- Partial spin-off of Intesa Sanpaolo Innovation Center (ISPIC) in favour of ISGS: the Board of Statutory Auditors examined the transaction and consequent organisational adjustments, reporting that: i) they found no need to change the existing organisational chart and/or function flow chart, as resources have been allocated to already existing operating structures in line with their responsibilities and missions; ii) the transaction involved the transfer of approximately no. 140 resources from the spin-off company to ISGS; the resources were absorbed in their respective organisational units; iii) the advisor involved, Deloitte Financial Advisory, estimated the economic value of ISPIC, of the Branch involved in the spin-off and of ISGS, in order to support their respective Boards of Directors in determining the share capital increase of 734,176 euro to service the spin-off, as well as the number of ISPIC shares to be cancelled.
- Simultaneous partial spin-off of ISGS, Intesa Sanpaolo Provis S.p.A. and Intesa Sanpaolo Re.O.Co S.p.A. in favour of Tersia S.p.A. (now Intrum Italy S.p.A.): the Board of Statutory Auditors retraced the essential elements of the transaction, focussing on its main milestones. In particular the Board of Statutory Auditors: i) established that Tersia was assigned the ISGS business line, set up in the "Loan Recovery Department" - part of its regional structure, including all the organisational units with the exception of the office called "Technical Administrative Support" - to exercise the business of solicitation and recovery of loans and accessory and instrumental assets; ii) noted that ad hoc sites have been opened to guarantee the integration of downstream processes from the corporate operation, with the introduction of constant monitoring and information flows between the various project leaders; iii) was informed of the preliminary simulations performed of the economic and financial impact of the overall transaction, including the first price update on Tersia and the impacts of the project budget; iv) ascertained that the existing cyber risk controls continue to be exercised seamlessly by the existing operational machine; v) noted the critical issues reported by the internal audit function in relation to the anti-money laundering controls with regard to bad loans for the operations of the Loan Recovery Department, the Investment Management and Extraordinary Transactions Department and the subsidiaries Provis and Re.O.Co., arising from the need for the I and II level entities to implement a structured system of controls in terms of customer due diligence, recordings in the "AUI" Centralised Computer Archive, reporting obligations and restrictions on the use of cash, identifying the responsible structures.
- Merger by incorporation of ISGS into the Parent Company: the Board of Statutory Auditors examined the aims of the transaction and the merger plan, as well as the procedural, operational and organisational effects as a result of it. The Board of Statutory Auditors: i) noted the presence of a site capable of detecting and capturing the most critical moments, as well as the adoption of mapping of the requirements to be put in place, subject to detailed analysis and monitoring by the Board of Statutory Auditors with the functions involved; ii) ascertained from an organisational point of view that the structures operating in ISGS are already functionally integrated into the Parent Company's and, therefore, the impact of the merger is mainly reflected in internal and external communications and information relating to the operation and the starting date of its effects; iii) observed the existence of controls suitable to guarantee the continuity thereof in terms of the services provided; iv) observed that the existing controls guarantee that the migration of intragroup data does not compromise the reliability of the effects of the operation and that, at every stage of the process, special teams constantly monitor and check activities as dictated by regulatory constraints and by those defined by the operational and organisational blocks; v) acknowledged that from a human resources viewpoint, the operation does not determine any staff reductions, with the exception of those on a voluntary basis envisaged by the protocols signed with the trade unions. In fact, excess production capacity, as a result of the organisational and structural synergies, will be reabsorbed into the Group; vi) noted the adequate performance, by the competent structures, of the necessary tax analyses of the operation, including in light of the reference regulatory framework particularly with regard to the recent judgments handed down by the Court of Justice and the exercising of the option to set up a VAT Group. This latter in particular, linked to the anticipated signing of the merger deed at a time subsequent to the end of 2018, has also mitigated the operational complexity arising from compliance with the reference regulatory tax framework.

2.3. Indication of the existence, if any, of atypical and/or unusual transactions, including intragroup ones or with related parties and adequacy of the information given in the report on operations

The Board of Statutory Auditors acknowledged that it has not become aware of any transactions that are unrelated to the corporate purpose, in conflict of interest with ISGS, manifestly imprudent or risky, such as to compromise the integrity of the corporate assets, or even intended to suppress or modify the rights attributed by Law or by the Articles of Association to the individual Consortium Members or in contrast with the resolutions passed by the Shareholders' Meeting and by the Board of Directors.

The Board of Statutory Auditors acknowledged compliance with the rules intended to guarantee the transparency and substantial and procedural correctness of transactions with related parties. These transactions are adequately described in the notes to the draft financial statements.

2.4. Indications on the content of the report issued to the Independent Auditors and opinion on the financial statements

On 7 March 2019, the independent auditors KPMG issued, pursuant to Article 14 of Legislative Decree 39/2010 and Article 10 of EU Regulation 537/2014, their report on the audit of the financial statements of ISGS as at 31 December 2018. In particular, the Independent Auditors:

- issued an opinion in which they affirm that the financial statements provide a true and fair presentation of the financial position and operating results of ISGS, of the profit and loss and the cash flows for the year ended at that date;
- declared they were independent of ISGS in compliance with the applicable rules and principles;
- certified that the report on operations is consistent with the accounts to which it refers and has been drawn up in accordance with the provisions of law and that no material misstatements were identified in it.

2.5. Comments and proposals on the remarks and emphases of matters in the independent auditors' report

The report submitted by the Independent auditors does not contain any observations and/or emphases of matters.

2.6. Indication of any complaints submitted pursuant to Article 2408 of the Italian Civil Code, of any actions taken and the relative outcomes

No complaints were submitted to the Board of Statutory Auditors pursuant to Article 2408 of the Italian Civil Code during the financial year.

2.7. Indication of any reports submitted, of any actions taken and the relative outcomes

No reports were submitted to the Board of Statutory Auditors during the financial year.

2.8. Indication of any further appointments granted to the independent auditors and relevant costs

On 6 March 2018, the Board of Statutory Auditors issued a "Proposal of the Board of Statutory Auditors for the integration of the fees for the statutory audit appointment made pursuant to Article 13 of Legislative Decree 39/2010" as a result of the changes made to Legislative Decree 39/2010 by Legislative Decree 135/2016, under which KPMG requested an integration of the fees originally set following some additional activities to be performed. The proposal was submitted to the Shareholders' Meeting on 6 March 2018

2.9. Indication of any appointments granted to persons linked to the independent auditors by ongoing relationships and relevant costs

No appointments pursuant to Article 17, paragraph 3, of Legislative Decree 39/2010 were granted to the entities belonging to the network, shareholders, directors, members of control bodies and employees of the independent auditors themselves and companies controlled by them or associated to them.

2.10. Indication of the existence of opinions issued pursuant to law during the financial year

No opinions were issued pursuant to the terms of law.

2.11. Comments on compliance with the principles of correct management

The Board of Statutory Auditors acknowledged that it acquired information and monitored, insofar as it falls within its remit, compliance with the fundamental principle of sound and prudent management of ISGS and more generally that of due diligence, all on the basis of its participation at meetings of the Board of Directors, documentation and timely information received from various management bodies relating to the transactions carried out by ISGS, as well as through meetings with senior management and by conducting specific checks.
The Board of Statutory Auditors acknowledged that the Directors: i) have not neglected to obtain sufficient information in relation to the transactions carried out; ii) were able to express their decision by preparing the relevant documentation in good time; iii) have put in place all the preventive precautions and checks normally required for the decisions taken.
In particular, the Board of Directors' decision-making process appeared to be correctly based on compliance with the fundamental principle of acting in an informed manner.

2.12. Observations on the adequacy of the organisational structure

The Board of Statutory Auditors acknowledged the adequacy of the organisational structure.
The organisational repercussions due to the extraordinary transactions put in place were studied in depth and evaluated with the competent structures through close examination of specific projects.
The business model is characterised by the fact that ISGS does not carry its own distinct lucrative interest with respect to that of the consortium members, despite its own financial autonomy, and reverses management costs incurred on them. This reversal takes place through an advanced pricing model, designed to measure the marginal costs of the individual services rendered with such granularity as to also allow their measurement in terms of benefits. All in compliance with tax constraints and in particular with the cost actually incurred restriction in invoicing consortium members.
The Board of Statutory Auditors continued to monitor the internal pricing model, aimed at ensuring consistency with the expense management process adopted by the Group, the timely evaluation of the cost of services rendered, and reporting in line with the obligations imposed by IFRS / IAS regulations for the purposes of *Segment Reporting* and compliance with regulatory obligations.
During the year, the Board of Statutory Auditors monitored the adequacy of the pricing procedures that appeared to be such as to allow the reversal and allocation to consortium members of the costs determined through careful monitoring of the resources used; all in compliance with the principles in the "*Group Procedures regulating the conduct of transactions with related parties of Intesa Sanpaolo S.p.A., associated entities of the Group and relevant parties pursuant to Article 136 of the Consolidated Law on Banking*". Regarding these Procedures, with particular reference to comparison of the pricing of services with respect to market prices, when possible and despite the difficulties of a comparison that is affected by the peculiarities in terms of service quality, control measures and risk mitigation tools, they provided evidence of the efficiency of ISGS's work.

2.13. Observations on the adequacy of the internal control system and in particular on the activity carried out by the persons in charge of internal control. Highlighting of any corrective measures undertaken and/or to be undertaken

The Board of Statutory Auditors conducted numerous in-depth examinations with the competent structures regarding the most important issues for ISGS. In particular, the Board of Statutory Auditors:

- held various meetings with the Internal Auditing function, which reported on the open critical issues and the closed ones during the reference period, as well as on the need for re-planning the remediation plans;
- examined the adjustments resulting from the entry into force of the General Data Protection Regulation (GDPR - EU Regulation 679/2016);
- analysed the adequacy of the cyber security controls.

2.14. Observations on the adequacy of the administrative / accounting system and its reliability to correctly represent the affairs of the company

The Board of Statutory Auditors assessed the reliability, insofar as it is within its remit, of the administrative and accounting system to consistently represent the affairs of the company both through consultation of business records and by obtaining information from the heads of the various departments, through regular meetings with the independent auditors and the analysis of the results of the work carried out by them. From the viewpoint of the reliability of the accounting system in representing the affairs of the company, the Board of Statutory Auditors acknowledged that no suspicious or potentially dangerous acts were recorded. In the absence of elements such as to justify particular inspections, in order to perform its duties, the Board of Statutory Auditors proceeded to perform a summary and general audit on the methods and procedures relating to the actual operation of the accounting system, relying on the findings and positive opinion of the auditor in relation to the regular keeping of the accounts.

2.15. Observations on the adequacy of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance.

This does not apply in this case.

2.16. Observations on any significant matters that emerged during the meetings held with the Independent Auditors pursuant to Article 150, paragraph 3, of the Consolidated Law on Finance

The Board of Statutory Auditors informed that it held 4 meetings with the independent auditors, during which no significant matters worthy of mention came to light.

2.17. Indication of the Company's possible adoption of the corporate governance code of the Corporate Governance Committee for listed companies

This does not apply in this case.

2.18. Conclusive assessments on the supervisory activity carried out, as well as on any omissions, reprehensible matters or irregularities found during same

The Board of Statutory Auditors confirmed that its own supervisory activity was conducted in a normal manner and did not bring to light material circumstances worthy of mention.

2.19. Indication of any proposals to be submitted to the Shareholders' Meeting pursuant to Article 153, paragraph 2, of the Consolidated Law on Finance in matters pertaining to the Board of Statutory Auditors

The Board of Statutory Auditors did not deem it necessary to make any specific comments.

3. COMMENTS AND PROPOSALS REGARDING THE FINANCIAL STATEMENTS AND THEIR APPROVAL

Taking into account all the above remarks, having considered the content of the opinion issued by the Independent Auditors, the Committee has not reported - in as far as it is within its remit - any impediment to the approval of the financial statements of Intesa Sanpaolo Group Services S.c.p.A. as at 31 December 2018 accompanied by the report on operations and business performance and the notes thereto, as approved by the Board of Directors of Intesa Sanpaolo S.p.A. on 26 February 2019.

Milan, 14 March 2019

For the Management Control Committee

The Chairman - Marco Mangiagalli
(signed on the original)

Prepress and printing: Agema® S.p.A.

MIX
Paper from
responsible sources
FSC® C003526
FSC
www.fsc.org

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

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

Set in an architectural context of great value, **Gallerie d'Italia - Piazza Scala in Milan** displays a selection of two hundred nineteenth-century works of the Lombard school of painting, coming from the art collections of Fondazione Cariplo and Intesa Sanpaolo, along with a collection representative of twentieth-century Italian art.

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

Gallerie d'Italia - Palazzo Zevallos Stigliano in Naples houses *The Martyrdom of Saint Ursula*, Caravaggio's last documented painting, as well as a collection of over one hundred and twenty artworks representative of Neapolitan artistic output from the early seventeenth century to the beginning of the twentieth century.

Cover photo:

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

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

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

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