

Disclosure Statements

**INTESA SANPAOLO S.p.A.
Hong Kong Branch**

31 December 2018

INTESA SANPAOLO S.p.A.
Hong Kong Branch

CONTENTS

	Pages
Profit and loss account	1
Balance sheet	2
Additional information	3 - 18
Bank information (consolidated basis)	19
Chief Executive's declaration	20

INTESA SANPAOLO S.p.A.
Hong Kong Branch

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2018

	31 December 2018 Note	31 December 2017 HK\$'000
NET INTEREST INCOME		
Interest income	1,242,838	1,069,735
Interest expenses	<u>(914,907)</u>	<u>(767,263)</u>
	327,931	302,472
OTHER OPERATING INCOME		
Gains less losses arising from trading in foreign currencies	44,401	103,494
Gains less losses on securities held for trading purposes	(38,198)	(15,215)
Gains less losses from other trading activities	49,043	39,239
Net fees and commission income	1 <u>115,263</u>	<u>154,717</u>
TOTAL INCOME	498,440	584,707
OPERATING EXPENSES		
Staff expenses	(80,840)	(86,108)
Rental expenses	(30,696)	(23,958)
Other expenses	<u>(27,282)</u>	<u>(25,286)</u>
	(138,818)	(135,352)
IMPAIRMENT LOSSES AND PROVISIONS FOR IMPAIRED LOANS AND RECEIVABLES	<u>(40,295)</u>	<u>(235,217)</u>
PROFIT BEFORE TAXATION	319,327	214,138
TAX EXPENSE	(44,032)	(28,054)
EXTRAORDINARY PROFIT NET OF TAX	<u>1,682</u>	<u>4,552</u>
PROFIT AFTER TAXATION	<u><u>276,977</u></u>	<u><u>190,636</u></u>

INTESA SANPAOLO S.p.A.
Hong Kong Branch

BALANCE SHEET

31 December 2018

	Notes	31 December 2018 HK\$'000	30 June 2018 HK\$'000
ASSETS			
Cash and balances with banks		176,956	158,925
Due from Exchange Fund		-	35,531
Amount due from overseas offices of the institution		20,225,039	19,166,838
Trade bills		518,640	400,075
Securities held for trading purposes		9,481,542	10,290,712
Loans and receivables	2	14,435,247	19,596,479
Property, plant and equipment and investment properties		<u>1,405</u>	<u>1,718</u>
Total assets		<u>44,838,829</u>	<u>49,650,278</u>
LIABILITIES			
Deposits and balances from banks		3,288,048	1,805,035
Due to Exchange Fund		175,987	-
Deposits from customers	3	1,354,734	2,126,831
Amount due to overseas offices of the institution		37,286,063	43,908,262
Sale and repurchase agreement		854,404	-
Other liabilities		<u>1,879,593</u>	<u>1,810,150</u>
Total liabilities		<u>44,838,829</u>	<u>49,650,278</u>

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

1. NET FEES AND COMMISSION INCOME

	31 December 2018 HK\$'000	30 December 2017 HK\$'000
Commission income, gross	133,007	167,155
Commission expenses, gross	(17,744)	(12,438)
Net fees and commission income	<u>115,263</u>	<u>154,717</u>

2. LOANS AND RECEIVABLES

	Notes	31 December 2018 HK\$'000	30 June 2018 HK\$'000
(i) Loans and advances to customers	5	13,099,626	16,442,665
Provisions for impaired loans			
- Collective provisions	2 (iv), 4	(66,841)	(223,538)
- Specific provisions	4	<u>(648,533)</u>	<u>(605,924)</u>
		12,384,252	15,613,203
(ii) Loans and advances to banks		379,187	1,969,227
Provisions for impaired loans			
- Collective provisions	4	<u>(155)</u>	<u>(353)</u>
		379,032	1,968,874
(iii) Other accounts		1,675,394	2,018,333
Provisions for impaired loans			
- Collective provisions	4	<u>(3,431)</u>	<u>(3,931)</u>
		1,671,963	2,014,402
		<u>14,435,247</u>	<u>19,596,479</u>

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

2. LOANS AND RECEIVABLES (continued)

(iv) With the implementation of IFRS 9 since 1 January 2018, the collective provisions for impaired loans and advance was calculated and recorded by the Branch.

(v) Impaired loans and advances :

	31 December 2018 HK\$'000	30 June 2018 HK\$'000
Impaired loans and advances to customers	847,902	834,586
Specific Provisions	452,215	441,690
Percentage of such advances to total advances to customers	<u>6.47%</u>	<u>5.08%</u>

As of 31 December 2018 and 30 June 2018, there were collaterals of HK\$420,285,319 and HK\$240,968,515 for impaired loans and advances to customers respectively.

(vi) There was no impaired loans and advances to banks as of 31 December 2018 and 30 June 2018.

3. DEPOSITS FROM CUSTOMERS

	31 December 2018 HK\$'000	30 June 2018 HK\$'000
Demand deposits and current accounts	1,129,316	1,533,806
Time, call and notice deposits	<u>225,418</u>	<u>593,025</u>
	<u>1,354,734</u>	<u>2,126,831</u>

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

4. PROVISIONS FOR IMPAIRED LOANS AND ADVANCES

31 December 2018

	Collective HK\$'000	Specific HK\$'000	Total HK\$'000
As of 31 December 2017	29,670	606,917	636,587
Impact of adoption IFRS 9	<u>244,143</u>	<u>-</u>	<u>244,143</u>
Restated opening balance under IFRS 9 as of 1 January 2018	273,813	606,917	880,730
Charge for the period	29,551	250,234	279,785
Amounts recoveries	-	152	152
Amounts released	(232,524)	(6,966)	(239,490)
Amounts written-off	-	(203,143)	(203,143)
Exchange differences	<u>(414)</u>	<u>1,340</u>	<u>926</u>
As of 31 December 2018	<u>70,426</u>	<u>648,534</u>	<u>718,960</u>
Provisions against:			
Advances to banks	155	-	155
Advances to customers	66,840	452,216	519,056
Trade bills	193	-	193
Contingent liabilities and commitments	3,238	-	3,238
Accrued interest	<u>-</u>	<u>196,318</u>	<u>196,318</u>
	<u>70,426</u>	<u>648,534</u>	<u>718,960</u>

30 June 2018

	Collective HK\$'000	Specific HK\$'000	Total HK\$'000
As of 31 December 2017	29,670	606,917	636,587
Impact of adoption IFRS 9	<u>244,143</u>	<u>-</u>	<u>244,143</u>
Restated opening balance under IFRS 9 as of 1 January 2018	273,813	606,917	880,730
Charge for the period	83,945	138,509	222,454
Amounts recoveries	-	(11)	(11)
Amounts released	(130,434)	(2,974)	(133,408)
Amounts written-off	-	(138,944)	(138,944)
Exchange differences	<u>498</u>	<u>2,427</u>	<u>2,925</u>
As of 30 June 2018	<u>227,822</u>	<u>605,924</u>	<u>833,746</u>
Provisions against:			
Advances to banks	353	-	353
Advances to customers	223,538	441,690	665,228
Trade bills	218	-	218
Contingent liabilities and commitments	3,713	-	3,713
Accrued interest	<u>-</u>	<u>164,234</u>	<u>164,234</u>
	<u>227,822</u>	<u>605,924</u>	<u>833,746</u>

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

5. ANALYSIS OF LOANS AND ADVANCES TO CUSTOMERS

(i) Sectoral analysis of gross advances to customers

The information concerning gross amount of loans and advances to customers by industry sectors has been classified according to the business activity of the borrowers or usage of the loans.

	31 December 2018		30 June 2018	
	Loan HK\$'000	Collateral HK\$'000	Loan HK\$'000	Collateral HK\$'000
Loans and advances for use in Hong Kong				
Industrial, Commercial and financial:				
Wholesale and retail trade	43,325	-	44,179	-
Manufacturing	14,499	-	15,355	-
Information Technology	207,382	-	83,603	-
Trade finance	583,951	8,101	344,973	9,025
Loans and advances for use outside Hong Kong	<u>12,250,469</u>	<u>723,110</u>	<u>15,954,555</u>	<u>822,557</u>
Total gross amount of loans and advances to customers	<u>13,099,626</u>	<u>731,211</u>	<u>16,442,665</u>	<u>831,582</u>

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

5. ANALYSIS OF LOANS AND ADVANCES TO CUSTOMERS (continued)

(ii) Geographical analysis of loans and advances to customers

The analysis of loans and advances to customers by geographical segment is classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when the loans and advances are guaranteed by a party in a country which is different from that of the customers. The loans and advances to customers by major geographical segment are as follows:

31 December 2018

Countries	Gross amount of loans and advances to customers HK\$'000	Overdue loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000
Australia	2,475,314	-	-
Italy	1,703,013	-	-
Marshall Islands	1,374,348	-	-
India	1,214,332	-	-
Others	6,332,619	842,969	847,902
	<u>13,099,626</u>	<u>842,969</u>	<u>847,902</u>

30 June 2018

Countries	Gross amount of loans and advances to customers HK\$'000	Overdue loans and advances to customers HK\$'000	Impaired loans and advances to customers HK\$'000
Australia	3,341,769	-	-
Italy	1,354,660	-	-
Marshall Islands	1,410,478	-	-
India	723,455	-	-
Others	9,612,303	829,555	834,586
	<u>16,442,665</u>	<u>829,555</u>	<u>834,586</u>

The overdue and impaired loans and advances to customers are attributed to the exposures in Brazil, Hong Kong, Indonesia, Panama and British Virgin Islands as at 31 December 2018 and 30 June 2018.

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

6. ANALYSIS OF OVERDUE AND RESCHEDULED ADVANCES

(i) Overdue loans and advances to customers

	31 December 2018		30 June 2018	
	Amount HK\$'000	% of total advances to customers	Amount HK\$'000	% of total advances to customers
Gross advances overdue for:				
3 months or less but over 1 months	-	-	197,435	1.20%
6 months or less but over 3 months	-	-	-	-
1 year or less but over 6 months	204,032	1.56%	-	-
Over 1 year	<u>638,937</u>	<u>4.88%</u>	<u>632,120</u>	<u>3.84%</u>
Total overdue advances	<u>842,969</u>	<u>6.44%</u>	<u>829,555</u>	<u>5.04%</u>

- (ii) There was rescheduled loan of HK\$204,031,997 as 1.56% to total loans and advances to customers with collateral of HKD179,748,775, which have been overdue for 1 year or less but over 6 months and HK\$197,434,861 as 1.20% to total loans and advances to customers with no collateral, which have been overdue for 3 month or less but over 1 month as of 31 December 2018 and 30 June 2018.
- (iii) There were no overdue or rescheduled advances to banks and other assets (trade bills and debt securities) as of 31 December 2018 and 30 June 2018.
- (iv) As of 31 December 2018 and 30 June 2018, there were collaterals of HK\$420,285,319 and \$240,968,515 in respect of the overdue loans and advances respectively. The collaterals of the overdue loans and advances mainly include the equity shares and fixed assets of the borrower.
- (v) There were no repossessed assets held as of 31 December 2018 and 30 June 2018.
- (vi) There were HK\$452,215,220 and HK\$441,689,209 specific provisions for overdue loans and advances as of 31 December 2018 and 30 June 2018 respectively.

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

7. NON-BANK MAINLAND EXPOSURES

31 December 2018

Types of Counterparties	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total HK\$'m
1. Central government, central government-owned entities and their subsidiaries and JVs	275	333	608
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	553	64	617
4. Other entities of central government not reported in item 1 above	1,067	-	1,067
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	241	2,545	2,786
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	1,226	77	1,303
Total	3,362	3,019	6,381
Total assets after provision	44,839		
On-balance sheet exposures as percentage of total assets	7.50%		

30 June 2018

Types of Counterparties	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total HK\$'m
1. Central government, central government-owned entities and their subsidiaries and JVs	3,420	511	3,931
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	287	137	424
4. Other entities of central government not reported in item 1 above	1,107	-	1,107
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	243	2,550	2,793
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	1,260	88	1,348
Total	6,317	3,286	9,603
Total assets after provision	49,650		
On-balance sheet exposures as percentage of total assets	12.72%		

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

8. INTERNATIONAL CLAIMS

International claims are disclosed by country or geographical segment based on the physical location of the counterparty in which not less than 10% of total international claims (including Hong Kong) after taking into account the transfer of risks. In general, such transfer of risk takes place if the claims are guaranteed by party in a country, which is different from that of the counterparty, or if the claims are on an overseas branch of a bank whose head office is located in another country.

As at 31 December 2018

	<u>Banks</u>	<u>Official sector</u>	<u>Non-bank private sector</u>		<u>Total</u>
			<u>Non-bank financial institutions</u>	<u>Non-financial private sectors</u>	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1. Developed countries	23,635	1,502	1,409	5,769	32,315
of which					
- Italy	20,639	-	-	1,148	21,787
2. Developing Asia and Pacific	1,783	-	431	5,019	7,233

30 June 2018

	<u>Banks</u>	<u>Official sector</u>	<u>Non-bank private sector</u>		<u>Total</u>
			<u>Non-bank financial institutions</u>	<u>Non-financial private sectors</u>	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
1. Developed countries	22,015	2,362	1,919	6,511	32,807
of which					
- Italy	19,853	-	-	1,224	21,077
2. Developing Asia and Pacific	3,041	-	3,572	4,541	11,154

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

9. FOREIGN CURRENCY EXPOSURES

The foreign currency exposures are prepared in accordance with the HKMA banking return of "Foreign Currency Position" completion instructions. Foreign currencies, which constitutes not less than 10% of the total net position in all foreign currencies of the Branch, are disclosed as follows:

31 December 2018

	USD HK\$m	EUR HK\$m	JPY HK\$m	AUD HK\$m	Others HK\$m	Total HK\$m
Spot assets	22,027	4,157	12,357	3,193	2,034	43,768
Spot liabilities	(31,040)	(5,523)	(4,735)	(1,974)	(1,220)	(44,492)
Forward purchases	43,613	16,650	7,134	2,155	14,022	83,574
Forward sales	(34,612)	(15,273)	(14,748)	(3,372)	(14,838)	(82,843)
Net long / (short) position	<u>(12)</u>	<u>11</u>	<u>8</u>	<u>2</u>	<u>(2)</u>	<u>7</u>
Net structural position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

30 June 2018

	USD HK\$m	EUR HK\$m	JPY HK\$m	AUD HK\$m	Others HK\$m	Total HK\$m
Spot assets	27,953	5,526	8,915	3,838	2,485	48,717
Spot liabilities	(33,960)	(7,733)	(5,009)	(2,526)	(61)	(49,289)
Forward purchases	43,168	18,986	7,442	728	12,577	82,901
Forward sales	(37,017)	(16,779)	(11,334)	(2,035)	(14,997)	(82,162)
Net long / (short) position	<u>144</u>	<u>-</u>	<u>14</u>	<u>5</u>	<u>4</u>	<u>167</u>
Net structural position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

10. OFF-BALANCE SHEET EXPOSURES

(i) Contingent Liabilities and commitments

The following is a summary of the contractual or notional amounts of each material class of contingent liability and commitment outstanding:

	31 December 2018 HK\$'000	30 June 2018 HK\$'000
Direct credit substitutes	918,758	1,328,552
Transaction-related contingencies	-	-
Trade-related contingencies	1,280,601	1,009,972
Note issuance and revolving underwriting facilities	-	-
Other commitments	16,214,728	13,107,103
Others - Forward forward deposits placed	<u>19,198</u>	<u>2,606,992</u>
	<u>18,433,285</u>	<u>18,052,619</u>

(ii) Derivatives

The following is a summary of the total contractual or notional amount of derivative transactions:

	31 December 2018 HK\$'000	30 June 2018 HK\$'000
Exchange rate-related derivative contracts (exclude forward foreign exchange contracts arising from swap deposit arrangements)	89,609,049	84,444,928
Interest rate derivative contracts	141,978,288	151,842,263
Others	<u>-</u>	<u>-</u>
	<u>231,587,337</u>	<u>236,287,191</u>

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

10. OFF-BALANCE SHEET EXPOSURES (continued)

(ii) Derivatives (continued)

The total fair value of the above off-balance sheet derivative transactions which have been taken into account the effects of bilateral netting arrangement are as follows:

	31 December 2018 HK\$'000	30 June 2018 HK\$'000
Exchange rate-related contracts	(96,763)	73,648
Valid bilateral netting agreement	-	-
	<u>(96,763)</u>	<u>73,648</u>
Interest rate derivative contracts	9,536	(84,333)
Valid bilateral netting agreement	-	-
	<u>9,536</u>	<u>(84,333)</u>
Others	-	-
	<u>(87,227)</u>	<u>(10,685)</u>

The notional amounts of the off-balance sheet instruments indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.

11. LIQUIDITY RATIOS

	For the period from 1 October 2018 to 31 December 2018	For the period from 1 July 2018 to 30 September 2018	For the period from 1 January 2017 to 31 December 2017
Average Liquidity Maintenance Ratio ("LMR")	<u>38.96%</u>	<u>38.46%</u>	<u>40.74%</u>

The average LMR is calculated based on the arithmetic mean of each calendar month's average LMR calculated during the reporting period in accordance with the Banking (Liquidity) Rules and complies with the minimum requirement of 25% as stipulated by the Hong Kong Monetary Authority (HKMA).

ADDITIONAL INFORMATION

31 December 2018

11. LIQUIDITY RATIOS (continued)

Liquidity risk management

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

Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies (i.e. Board of Directors, Management Control Committee, Risk Committee, Managing Director and CEO) of Intesa Sanpaolo. These guidelines contain the latest regulatory provisions on liquidity risk and illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of such risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.

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

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

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

Intesa Sanpaolo has adopted the liquidity management framework at Head Office level. Hong Kong Branch is part of the bank and follows the Group Liquidity Risk Management Guidelines. In addition, the Branch has set up the Local Implementing Procedure for the Governance of Liquidity Risk to take into account of the relevant local liquidity guidelines and requirements.

The Group Liquidity Risk Management Guidelines describes in details roles and responsibilities of the different Corporate Bodies and Functions that are in charge of ensuring prudential approaches to liquidity management and control in order to prevent crisis situation. For example, the departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Head Office Department, the Active Value Management Head Office Department, responsible for liquidity management, and the Financial and Market Risks Head Office Department, directly responsible for measuring liquidity risk on a consolidated basis.

At Hong Kong Branch level, Treasury Department is responsible for the management of the liquidity risk of the Branch. Risk Management Department, in collaboration with the Accounting Department, is responsible for the monitoring of the liquidity position of the Branch. Hong Kong Branch set up an Asset & Liability Committee to monitor the branch's exposure to financial risks and liquidity risks of the Branch.

ADDITIONAL INFORMATION

31 December 2018

11. LIQUIDITY RATIOS (continued)

Liquidity risk management (continued)

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

In line with the Group Guidelines, Hong Kong Branch also holds reserves of high quality liquid assets, sets up liquidity limits and indicators, liquidity reports such as maturity ladder, stress tests, etc. for the liquidity risk management. Hong Kong Branch monitors the HKMA liquidity maintenance ratio and the cumulative projected wholesale imbalances indicator. The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. Hong Kong Branch is part of the Bank and stress tests performed at Intesa Sanpaolo Group level include the Hong Kong Branch's positions. Moreover, stress tests are set up and implemented for Hong Kong Branch to cater for the specific features of Hong Kong Branch such as the local market environment, business nature, size and complexity. The stress test results are discussed in the Hong Kong local ALCO or other risk committee meetings. Hong Kong Branch will periodically review the scenarios to ensure the stress tests can effectively help in the identification of the potential liquidity risks and in the management of the liquidity positions of the Branch. In 2018, Hong Kong Branch set up the recovery plan. The recovery plan sets out the basis of the situation where the plan should be activated, the recovery governance, a menu of recovery options and a recovery (liquidity stress) scenario to validate the feasibility, suitability and adequacy of recovery options.

Funding strategy

Our Group adopts a Centralized Treasury Model. Treasury Head Office Department "ensures integrated management of the Group's liquidity, both in Euro and in other Currencies"(p.19 Group Liquidity Risk management Guidelines).

On Policy On Diversification in the sources and tenors of funding;

"in its ordinary operations, the Group diversifies its funding instruments, counterparties and reference financial markets, keeping the various liquidity sources and their development over time under control, to avoid excessive concentrations or dependence on specific sources, while optimising the cost of funding" (p.7 Group Liquidity Risk management Guidelines).

Contingency funding plan

Head Office "CFO Governance Area (TD and AVMD) is in charge to draw up the Contingency Funding Plan (CFP), that itemize the list of mitigating actions to be applied in a short period (6 months) in order to preserve the Group liquidity position;... contain the different mitigating actions that can be activated, aimed to cope potential stress situations, specifying the size of mitigating effects that can be done in the above period of time." (p.52 Group Liquidity Risk management Guidelines)

Regarding Contingency Funding Plan, in Principle

"Action lines to generate liquidity:

- fully use (ordinary and extraordinary) refinancing tools with the Central Banks of the countries where the Intesa Sanpaolo Group operates through Branches or Companies;
- maintain a continuous exchange of information with the reference Central Banks;
- be willing to co-operate with central banks and other major European banks to make the situation more fluid;
- solicit any required measures/actions from the central banks (including the possible extension of the types of assets eligible for refinancing);
- use back-up lines;
- liquidate securities other than those eligible for refinancing with the ECB: government securities, corporate securities and shares, starting from the most liquid instruments;
- securitisations of mortgage loans and/or public assets in the framework of Covered Bonds;
- liquidate high quality loans (p.52 Group Liquidity Risk management Guidelines)."

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

11. LIQUIDITY INFORMATION (Continued)

(v) The table below analyses the Branch's on and off balance assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date with the resulted liquidity gap.

31 December 2018

	1 month or less HK\$'000	Over 1 month to 3 months HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	Over 5 years HK\$'000	Undated or overdue HK\$'000	Total HK\$'000
Assets :							
Cash and balances with banks (except those included in amount due from head office and overseas offices of institution)	176,956	-	-	-	-	-	176,956
Due from Exchange Fund	-	-	-	-	-	-	-
Due from Banks	12,883	6,291	12,298	-	347,715	-	379,187
Amount due from head office and overseas offices of the institution	9,704,256	2,871,088	962,947	2,935,669	3,751,079	-	20,225,039
Trade Bills	80,000	371,678	66,962	-	-	-	518,640
Securities held for trading purposes	9,481,542	-	-	-	-	-	9,481,542
Advances to customers	359,990	392,626	863,719	7,216,886	3,293,490	972,915	13,099,626
Others	58,445	207,566	48,056	386,760	453,364	521,203	1,675,394
Impairment allowance	-	-	-	-	-	718,960	718,960
Fixed Assets	-	-	-	-	-	1,405	1,405
	-	-	-	-	-	-	-
Total Assets	19,874,072	3,849,249	1,953,982	10,539,315	7,845,648	776,563	44,838,829
Liabilities :							
Deposits and balances of bank and other financial institutions (except those included in amount due to head office and overseas offices of the institution)	3,288,048	-	-	-	-	-	3,288,048
Due to Exchange Fund	175,987	-	-	-	-	-	175,987
Deposit from customers	1,349,083	1,342	-	4,309	-	-	1,354,734
Amount due to head office and overseas offices of the institution	19,670,708	2,184,545	1,223,539	8,868,856	5,338,415	-	37,286,063
Sale and repurchase agreement	854,404	-	-	-	-	-	854,404
Other liabilities	728,557	286,388	50,359	327,661	407,721	78,907	1,879,593
Total Liabilities	26,066,787	2,472,275	1,273,898	9,200,826	5,746,136	78,907	44,838,829
Off-balance sheet exposures - claims							
Irrevocable loan commitments or facilities	17,935,000	-	-	-	-	-	17,935,000
Forward forward deposits taken	19,247,241	-	7,049	12,150	-	-	19,266,440
Total Off-balance sheet exposures - claims	37,182,241	-	7,049	12,150	-	-	37,201,440
Off-balance sheet exposures - obligations							
Guarantees, acceptances and other financial facilities	20,015,108	969,061	450,281	12,150	-	-	21,446,600
Loan Commitments	4,348,821	297,848	-	-	-	-	4,646,669
Forward forward deposits placed	19,198	-	-	-	-	-	19,198
Total Off-balance sheet exposures - obligations	24,383,127	1,266,909	450,281	12,150	-	-	26,112,467
Net Liquidity Gap	6,606,399	110,065	236,852	1,338,489	2,099,512	697,656	11,088,973

No concentration limits on collateral pools.

ADDITIONAL INFORMATION

31 December 2018

11. LIQUIDITY INFORMATION (Continued)

30 June 2018

	1 month or less HK\$'000	Over 1 month to 3 months HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	Over 5 years HK\$'000	Undated or overdue HK\$'000	Total HK\$'000
Assets :							
Cash and balances with banks (except those included in amount due from head office and overseas offices of institution)	158,925	-	-	-	-	-	158,925
Due from Exchange Fund	35,531	-	-	-	-	-	35,531
Due from Banks	242,308	230,857	1,138,980	-	357,082	-	1,969,227
Amount due from head office and overseas offices of the institution	5,738,789	3,662,484	2,831,410	3,116,562	3,817,593	-	19,166,838
Trade Bills	53,764	87,422	258,889	-	-	-	400,075
Securities held for trading purposes	10,290,712	-	-	-	-	-	10,290,712
Advances to customers	263,765	3,445,825	812,341	6,823,525	4,267,654	829,555	16,442,665
Others	424,669	23,385	45,588	466,149	493,933	564,609	2,018,333
Impairment allowance	-	-	-	-	-	833,746	833,746
Fixed Assets	-	-	-	-	-	1,718	1,718
Total Assets	17,208,463	7,449,973	5,087,208	10,406,236	8,936,262	562,136	49,650,278
Liabilities :							
Deposits and balances of bank and other financial institutions (except those included in amount due to head office and overseas offices of the institution)	1,805,035	-	-	-	-	-	1,805,035
Due to Exchange Fund	-	-	-	-	-	-	-
Deposit from customers	1,912,250	210,069	202	4,310	-	-	2,126,831
Amount due to head office and overseas offices of the institution	22,276,343	5,315,593	1,430,123	9,453,656	5,432,547	-	43,908,262
Sale and repurchase agreement	-	-	-	-	-	-	-
Other liabilities	812,992	3,737	35,876	426,168	452,329	79,048	1,810,150
Total Liabilities :	26,806,620	5,529,399	1,466,201	9,884,134	5,884,876	79,048	49,650,278
Off-balance sheet exposures - claims							
Irrevocable loan commitments or facilities	18,293,600	-	-	-	-	-	18,293,600
Forward forward deposits taken	21,663,860	48,478	-	317,549	53,735	-	22,083,622
Total Off-balance sheet exposures - claims	39,957,460	48,478	-	317,549	53,735	-	40,377,222
Off-balance sheet exposures - obligations							
Guarantees, acceptances and other financial facilities	19,931,784	915,752	781,807	-	185,811	-	21,815,154
Loan Commitments	4,180,491	-	-	-	-	-	4,180,491
Forward forward deposits placed	2,606,992	-	-	-	-	-	2,606,992
Total Off-balance sheet exposures - obligations	26,719,267	915,752	781,807	-	185,811	-	28,602,637
Net Liquidity Gap	3,640,036	1,053,300	2,839,200	839,651	2,919,310	483,088	11,774,585

No concentration limits on collateral pools.

INTESA SANPAOLO S.p.A.
Hong Kong Branch

ADDITIONAL INFORMATION

31 December 2018

12. DISCLOSURE ON REMUNERATION

According to the Supervisory Policy Manual (“SPM”) CG-5 “Guideline on a Sound Remuneration System” issued by HKMA, the Branch, as an overseas-incorporated Authorized Institution is not required to make separate disclosures in respect of the remuneration system applicable to their Hong Kong operations. The disclosures made by Head Office in the Annual Report also cover information as set out in the said Guideline, where appropriate. The relevant Annual Report can be viewed in the Investor Relations section of the Intesa Sanpaolo website: www.group.intesasanpaolo.com.

INTESA SANPAOLO S.p.A.
BANK INFORMATION (CONSOLIDATED BASIS)

31 December 2018

The following information is based on the consolidated financial statements of Intesa Sanpaolo S.p.A. as of 31 December 2018, 30 June 2018 and 31 December 2017.

(i) Capital adequacy ratio and shareholders' funds

	31 December 2018	30 June 2018
Capital adequacy ratio	<u>17.70%</u>	<u>17.10%</u>

The capital adequacy ratio is computed in accordance with the Basel Capital Accord taking into consideration of an allowance for market risk.

	31 December 2018 EUR'm	30 June 2018 EUR'm
Aggregate amount of shareholders' funds	<u>54,024</u>	<u>50,863</u>

(ii) Other financial information

	31 December 2018 EUR'm	30 June 2018 EUR'm
Total assets	787,721	793,718
Total liabilities	733,697	742,855
Total loans and advances	476,503	481,214
Total customer deposits	<u>564,440</u>	<u>582,514</u>

	Year ended 31 December 2018 EUR'm	Year ended 31 December 2017 EUR'm
Profit before taxation	<u>5,458</u>	<u>7,818</u>

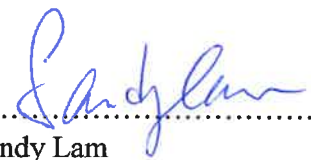
The financial information of Intesa Sanpaolo S.p.A. have been prepared in accordance with International Financial Reporting Standards and the comparative information have been restated to conform with the current period's presentation.

CHIEF EXECUTIVE'S DECLARATION

This is to certify that the information disclosed above complies with the Banking (Disclosure) rules and the disclosure standards set out in the Supervisory Policy Manual - "Guideline on the Application of the Banking (Disclosure) Rules" issued by the Hong Kong Monetary Authority and is not false or misleading.



.....
Marco Brancadoro
Alternate Chief Executive



.....
Sandy Lam
Head of Accounting

29 April 2019