FIDEURAM
INTESA SANPAOLO PRIVATE BANKING

Interim Report at 30 September 2018

Bank of INTESA SANPAOLO

Mission

To help our customers manage their assets wisely, based on a detailed analysis of their real needs and risk profile.

To offer financial advisory services covering the full spectrum of our clients' assets with the support of expert professionals, acting with total transparency and complete respect for the rules. That is **Fideuram - Intesa Sanpaolo Private Banking's mission**.

Interim Report
at 30 September 2018

Introduction

The Consolidated Interim Report of the Fideuram - Intesa Sanpaolo Private Banking Group at 30 September 2018 has been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission.

The new financial reporting standards IFRS 9 and IFRS 15 have been applied for the first time in 2018. These standards have also introduced substantial changes in bank financial statements. In particular, beginning 1 January 2018, IFRS 9 – Financial Instruments replaced IAS 39 for the classification, measurement and impairment of financial instruments and hedging transactions. The introduction of IFRS 9 has caused the Bank of Italy fully to revise its templates, which have been published as new mandatory financial statements for banks in the 5th update to Bank of Italy Circular 262/2005.

As for the procedures to be used in presenting the effects of first-time adoption of the new financial reporting standard, the Group exercised the option granted by IFRS 9 according to which, notwithstanding the retroactive application of the new measurement and presentation rules imposed by the standard, restatement of the comparative financial statement figures on a like-for-like basis when the standard is applied for the first time is not required. In accordance with the instructions published by the Bank of Italy at the end of December 2017 with the issuance of the 5 update to Bank of Italy Circular 262/2005, the banks that use their exemption from having to recalculate the comparative figures will have to include a reconciliation statement with the first financial statements prepared in accordance with the new Circular. That reconciliation statement shall show the method used and reconcile the figures between the last approved financial statements and the first financial statements prepared in accordance with the new rules. In this Report, we have published a reconciliation statement in the section dedicated to transition to the new IFRS 9. That reconciliation statement highlights the reclassifications and adjustments made to guarantee that the figures at 1 January 2018 are restated in accordance with the requirements of IFRS 9.

Moreover, the financial data and transaction data include the effects of several company transactions executed as part of the Fideuram - Intesa Sanpaolo Private Banking development project inside and outside Italy. The Group company transactions completed in the first nine months of 2018 were as follows:
- the combination on 30 June 2018 (effective 1 January 2018 for tax and accounting purposes) of the two fiduciary companies controlled by Fideuram, with the merger of Fideuram Fiduciaria S.p.A. with Sirefid S.p.A., which was subsequently renamed Siref Fiduciaria S.p.A.. This transaction, constituting a business combination of companies under common control, had no effect on the consolidated financial statements;
- the acquisition by Fideuram on 10 April 2018 of 94.6% of the share capital of Morval Vonwiller Holding, a financial company that controls the Swiss group by the same name which operates in the private banking and wealth management sector.

In regard to this last transaction, Fideuram acquired the shares of Morval Vonwiller Holding at a total price of CHF186.3m. On 10 April 2018, it paid an initial price of CHF176.1m (equal to €156.2m, inclusive of the cash flow hedge effect), and on 2 October it paid the balance of CHF10.2m (equal to €9m) as a contractual price adjustment to reflect the net value of the assets at the acquisition date. Consolidated financial statements at 31 March 2018 were prepared in accordance with IFRS for the first-time consolidation of the Morval Vonwiller Group to determine the provisional value of goodwill (€27m) in anticipation of allocating the purchase price at the end of the year in accordance with IFRS 3 - Business Combinations.

As part of the foreign development project of the Fideuram Group, its subsidiary Intesa Sanpaolo Private Bank (Suisse) ac-

quired 95% of the share capital of the Argentinian consulting firm DJ Inversiones S.A. on 27 June 2018. On 20 July, Fideuram acquired the remaining 5% of the company.
On 26 September 2018, Fideuram acquired 40% of the share capital of FIGE Fiduciaria S.p.A. owned by minority shareholders. After that transaction, which was executed on the basis of the subsequent combination of FIGE Fiduciaria S.p.A. with Siref Fiduciaria, Fideuram owns 60% of the equity capital of FIGE Fiduciaria through Banque Morval and directly owns the remaining 40% of the company.

The Consolidated Interim Report comprises the balance sheet, income statement, statement of comprehensive income and statement of changes in equity, accompanied by explanatory notes on the Group's performance. The balance sheet and income statement at 30 September 2018 referred to in the explanatory notes are a reclassified condensed balance sheet and reclassified condensed income statement to facilitate comparison of the figures for different periods and to enable a clearer and more immediate understanding of the Group's financial position. These statements were prepared using appropriate groupings of the items in the official financial statements. Detailed information on the restatements and reclassifications is presented in specific reconciliation statements provided in the schedules accompanying this Report. An analysis comparing the financial and transaction data for the first nine months of 2018 with the corresponding data for 2017 would be heavily skewed by the impact of acquisition of the Morval Vonwiller Group. The transaction and financial data presented in the reclassified balance sheet and reclassified income statement have been restated in the notes to the financial statements where necessary to reflect the effects of the changes in the scope of consolidation appropriately so that straight comparisons can be made. These restated statements were prepared making the adjustments to the historical data required to reflect retrospectively the changes in the scope of consolidation that occurred in 2018, as if the company transactions concerned had become effective as of 1 January 2017, without however changing the operating profit and shareholders' equity stated in the official financial statements published in previous periods. The net effects of the adjustments have been stated under net profit attributable to non-controlling interests in the restated income statement and under equity attributable to non-controlling interests in the restated balance sheet. In regard to the reclassified balance sheet template, the comparative data at 1 January 2018 have been calculated by applying the new IFRS 9 to the net amounts of the consolidated balance sheet at 31 December 2017, when IAS 39 was applied, so that the figures may be compared. The analytical details of the reclassifications and adjustments made to recalculate the net amounts on the balance sheet at 31 December 2017 in accordance with the requirements of IFRS 9 are shown in the section on accounting policies.

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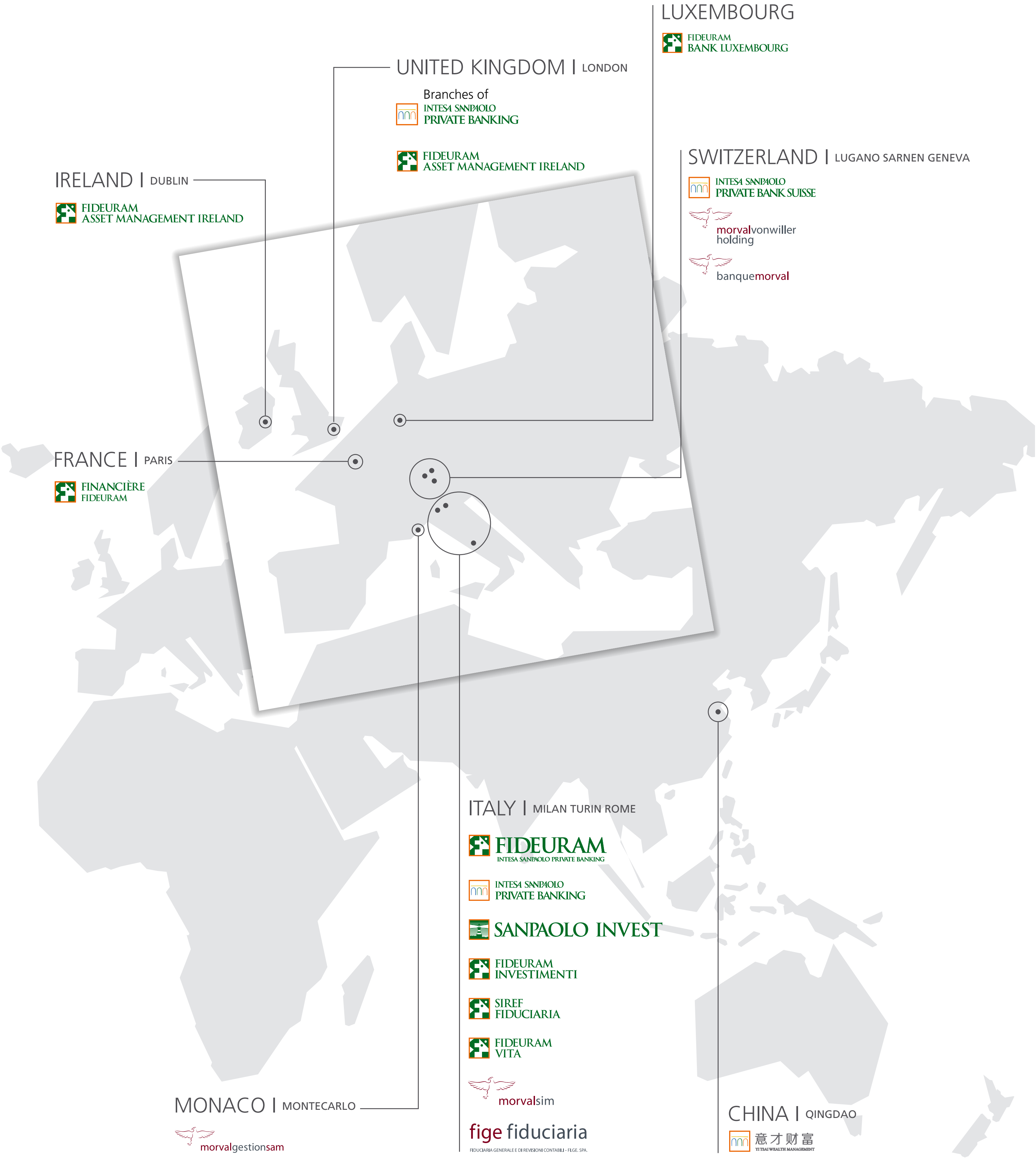
Group structure

The Fideuram - Intesa Sanpaolo Private Banking Group is composed of the following companies:



BRITISH VIRGIN ISLANDS | TORTOLA

morvalvonwillers
assets management co.

CAYMAN ISLANDS | GEORGE TOWN

southerngroup

morvalbank&trust

URUGUAY | MONTEVIDEO

morvalvonwiller
advisors

ARGENTINA | BUENOS AIRES

DJ Inversiones

FIDEURAM
INTESA SANPAOLO PRIVATE BANKING

ASSET MANAGEMENT

Fideuram Investimenti SGR S.p.A.
99.50%

Fideuram Asset Management (Ireland) dac
100.00%

Fideuram Bank (Luxembourg) S.A.
100.00%

Fideuram Vita S.p.A.
19.99%

Fideuram Asset Management (Ireland) - London Branch

PRIVATE BANKING

Intesa Sanpaolo Private Banking S.p.A.
100.00%

Sanpaolo Invest SIM S.p.A.
100.00%

Intesa Sanpaolo Private Bank (Suisse) S.A.
100.00%

DJ Inversiones S.A.
100.00%

Qingdao Yicai Wealth Management Co. Ltd
25.00%

Morval Vonwiller Group
94.58%

Intesa Sanpaolo Private Banking - London Branch

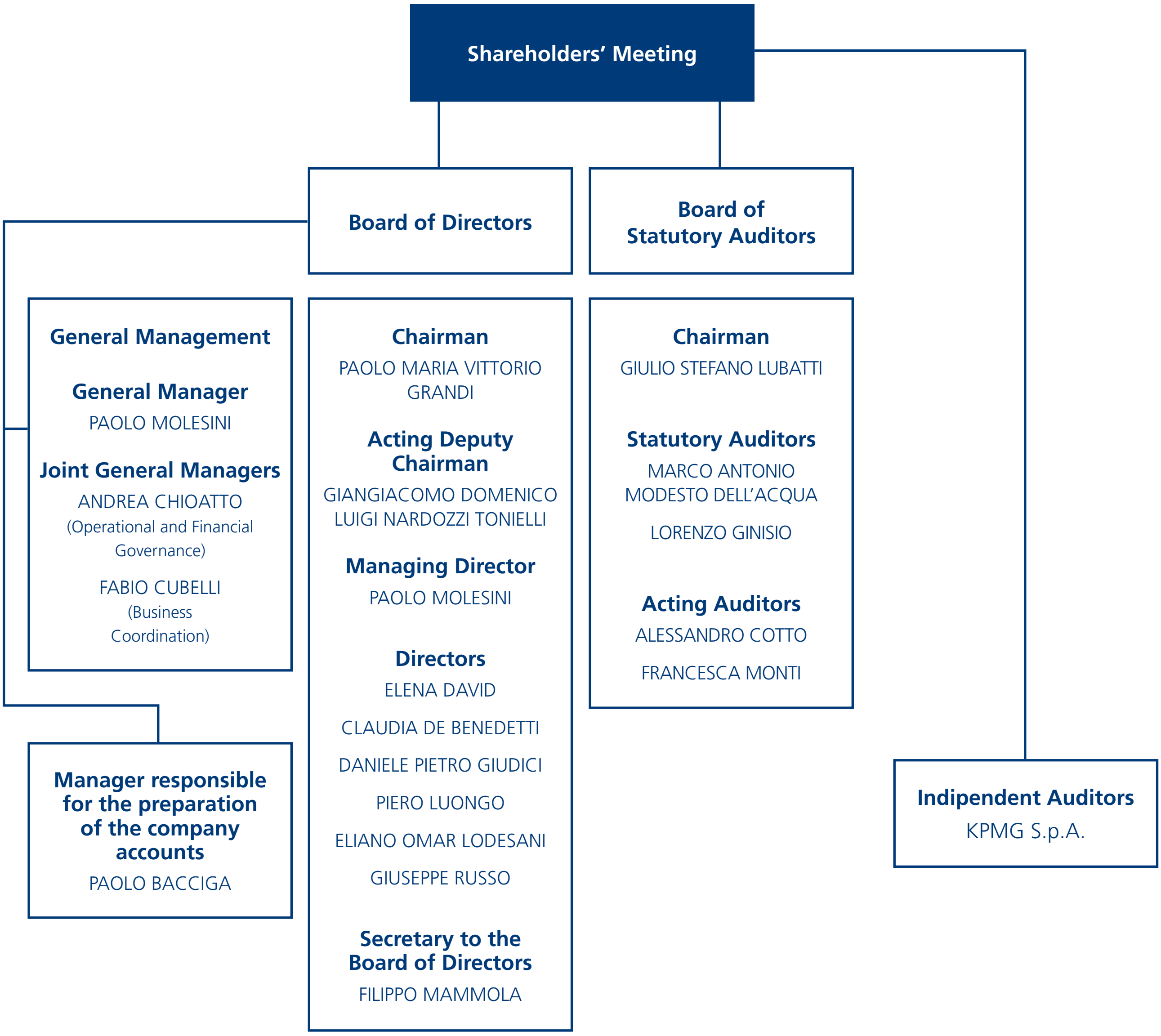
FIDUCIARY AND TREASURY SERVICES

Siref Fiduciaria S.p.A.
100.00%

Financière Fideuram S.A.
99.99%

The Morval Vonwiller Group, acquired by Fideuram on 10 April 2018, includes 9 entities (Morval Vonwiller Holding S.A., Banque Morval S.A., Morval Bank & Trust Cayman Ltd, Morval Gestion SAM, Morval SIM S.p.A., Fiduciaria Generale e di Revisioni Contabili S.p.A., Southern Group Ltd, Morval Vonwiller Advisors S.A. and Morval Vonwiller Assets Management Co. Ltd).

Company Officers



Key drivers

Key drivers of the business model

OPERATING RESULTS

Personal Financial Advisers No. 6,057

Customers

Fideuram No. 562,112

Intesa Sanpaolo Private Banking 37,386 No. of households

Intesa Sanpaolo Private Bank (Suisse) No. 574

Sanpaolo Invest No. 150,934

Morval Vonwiller Group No. 1,148

Siref Fiduciaria 2,072 No. of mandates

Total Net Inflows

€7.9 bn

of which *Net Inflows into Managed Assets*

€3.3 bn

Client Assets

€220.4 bn

of which *Managed Assets*

€154 bn

of which *Advanced Advisory Service*

€38.8 bn

FINANCIAL RESULTS (*)

Average Length of Customer Relationship

Fideuram and Sanpaolo Invest
13 years

Intesa Sanpaolo Private Banking
11 years

Net Recurring Fees
€1.2bn
+3%

Cost / Income Ratio
30%
(30% in 1st Half 2017)

Consolidated Net Profit
€657m
-1%

R.O.E.
32%
(39% in 1st Half 2017)

(*) Restated where necessary to take the changes in the scope of consolidation into account so that straight comparisons can be made.

Highlights

	30.9.2018	30.9.2017 (*)	% CHANGE
CUSTOMER FINANCIAL ASSETS			
Net inflows into managed assets (€m)	3,350	8,642	-61
Total net inflows (€m)	7,932	10,197	-22
Client Assets (€m)	220,425	214,094	3
OPERATING STRUCTURE			
Personal Financial Advisers (No.)	6,057	5,954	
Staff (No.)	3,351	3,177	
- women (No.)	1,485	1,398	
- outside Italy (No.)	316	261	
Personal Financial Advisers' Offices (No.)	324	322	
Bank Branches (No.)	228	230	
CONSOLIDATED FINANCIAL RESULTS			
Consolidated net profit (€m)	657	662	-1
Group shareholders' equity (€m)	2,652	2,554	4
Basic consolidated net earnings per share (€)	0.438	0.442	-1
Consolidated pay-out ratio (%)	90.39	90.87	
Fideuram pay-out ratio (%)	99.96	99.75	
Total assets (€m)	40,570	37,439	8
Wealth created (€m)	2,096	2,036	3
Economic value distributed (€m)	1,990	1,930	3
PROFITABILITY INDICATORS			
Return on Equity (%)	32	39	
Return on Assets (%)	2	2	
Cost / Income ratio (%)	30	30	
Payroll costs / Operating income before net impairment (%)	18	17	
Annualised net profit / Average client assets (%)	0.4	0.4	
Economic Value Added (€m)	582	600	

Counterparty rating (S&P Global)	**Long term: BBB**	**Short term: A-2**	**Outlook: Negative**

(*) Restated where necessary to take the changes in the scope of consolidation into account so that straight comparisons can be made.

Glossary

Net inflows: Total subscriptions minus disinvestments.

Client Assets: Consist of:

- Managed assets, which include mutual funds and pension funds, discretionary accounts and life insurance technical reserves.
- Non-managed assets, which include securities deposited (net of units in Group mutual funds), non-life insurance technical reserves and current account overdrafts.

Personal Financial Advisers: Professionals registered in Italy's Unified Register of Financial Advisers, including Trainee Financial Advisers.

Bank Branches: Branches where one can carry out banking transactions.

Consolidated net profit per share: Ratio of consolidated net profit to weighted average ordinary shares outstanding.

Pay-out ratio: The ratio of the dividends that Fideuram pays its shareholder Intesa Sanpaolo to net profit (separate and consolidated) at year end.

Wealth created and distributed: The increase in value generated by the production and distribution of financial services using factors of production (capital and labour). Shows how the wealth created is distributed to the company's main stakeholders.

R.O.E. (Return on Equity): The ratio of annualised consolidated net profit to average shareholders' equity.

R.O.A. (Return on Assets): The ratio of annualised consolidated net profit to total assets for the period.

Cost / Income ratio: The ratio of administrative expenses plus depreciation and amortisation to operating income before net impairment (including other income, net, and net profit on equity investments).

E.V.A. (Economic Value Added): An internal financial ratio used to calculate the monetary value created by a company in a given period. It is calculated by subtracting the shareholder's expected return on consolidated shareholders' equity from net profit. The expected return is generally taken to equal the net return on 12-month Treasury Bills issued at the beginning of the year, plus a market risk premium, which is assumed to be constant at 4.5 percent over the periods concerned.

Consolidated Interim Report

Reclassified Financial Statements

Consolidated balance sheet

(reclassified - €m)

	30.9.2018	1.1.2018 (*)	CHANGE	
			AMOUNT	%
ASSETS				
Financial assets measured at fair value through profit or loss	298	631	(333)	-53
Financial assets measured at fair value through other comprehensive income	3,151	3,786	(635)	-17
Loans and advances to banks	23,753	22,616	1,137	5
Loans and advances to customers	11,496	10,339	1,157	11
Hedging derivatives	2	5	(3)	-60
Equity investments	156	148	8	5
Property and equipment and intangible assets	294	271	23	8
Tax assets	160	175	(15)	-9
Other assets	1,260	1,230	30	2
TOTAL ASSETS	**40,570**	**39,201**	**1,369**	**3**
LIABILITIES				
Due to banks	2,469	2,644	(175)	-7
Due to customers	32,975	30,845	2,130	7
Financial liabilities held for trading	30	196	(166)	-85
Hedging derivatives	785	833	(48)	-6
Tax liabilities	97	101	(4)	-4
Other liabilities	1,115	1,154	(39)	-3
Provisions for risks and charges	447	462	(15)	-3
Share capital and reserves	1,995	1,945	50	3
Equity attributable to non-controlling interests	-	150	(150)	-100
Net profit	657	871	(214)	-25
TOTAL LIABILITIES	**40,570**	**39,201**	**1,369**	**3**

(*) Restated taking the changes in the scope of consolidation and application of IFRS 9 into account so that straight comparisons can be made.

Consolidated income statement

(reclassified - €m)

	9 MONTHS 2018	9 MONTHS 2017 (*)	CHANGE	
			AMOUNT	%
Net interest income	112	122	(10)	-8
Net profit (loss) on financial assets and liabilities	31	29	2	7
Net fee and commission income	1,276	1,267	9	1
TOTAL NET INTEREST AND TRADING INCOME	**1,419**	**1,418**	**1**	**-**
Net impairment for credit risk	(2)	(1)	(1)	100
OPERATING INCOME	**1,417**	**1,417**	**-**	**-**
Personnel expenses	(253)	(243)	(10)	4
Other administrative expenses	(172)	(169)	(3)	2
Depreciation and amortisation	(7)	(11)	4	-36
OPERATING EXPENSES	**(432)**	**(423)**	**(9)**	**2**
Net provisions for risks and charges	(11)	(22)	11	-50
Profit (loss) on equity investments	6	9	(3)	-33
Other income (expense)	(1)	1	(2)	n.s.
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**979**	**982**	**(3)**	**-**
Income taxes for the period on continuing operations	(294)	(287)	(7)	2
Expenses regarding the banking system (net of tax)	(12)	(18)	6	-33
Non-recurring income (expenses) (net of tax)	(16)	(12)	(4)	33
Net profit (loss) attributable to non-controlling interests	-	(3)	3	-100
NET PROFIT	**657**	**662**	**(5)**	**-1**

(*) Restated taking the changes in the scope of consolidation into account so that straight comparisons can be made.

n.s.: not significant

Quarterly consolidated balance sheets

(reclassified - €m)

	30.9.2018	30.6.2018	31.3.2018 (*)	1.1.2018 (*)	30.9.2017 (*)	30.6.2017 (*)	31.3.2017 (*)
ASSETS							
Financial assets measured at fair value through profit or loss	298	280	288	631	264	287	236
Financial assets measured at fair value through other comprehensive income	3,151	3,013	3,444	3,786	4,727	4,406	4,342
Loans and advances to banks	23,753	24,185	23,507	22,616	21,431	21,135	20,940
Loans and advances to customers	11,496	11,382	10,998	10,339	9,413	9,214	8,946
Hedging derivatives	2	1	2	5	3	6	4
Equity investments	156	148	151	148	146	144	141
Property and equipment and intangible assets	294	295	266	271	213	225	227
Tax assets	160	158	156	175	182	179	187
Other assets	1,260	1,192	1,182	1,230	1,060	1,112	1,096
TOTAL ASSETS	**40,570**	**40,654**	**39,994**	**39,201**	**37,439**	**36,708**	**36,119**
LIABILITIES							
Due to banks	2,469	2,464	2,566	2,644	2,671	2,741	2,934
Due to customers	32,975	33,175	31,668	30,845	29,434	28,669	28,266
Financial liabilities held for trading	30	32	18	196	44	84	19
Hedging derivatives	785	815	791	833	989	979	1,035
Tax liabilities	97	61	118	101	117	78	82
Other liabilities	1,115	1,214	1,164	1,154	1,016	1,220	1,062
Provisions for risks and charges	447	445	468	462	458	446	465
Share capital and reserves	1,995	1,994	2,814	1,945	1,892	1,885	1,863
Equity attributable to non-controlling interests	-	-	148	150	156	163	170
Net profit	657	454	239	871	662	443	223
TOTAL LIABILITIES	**40,570**	**40,654**	**39,994**	**39,201**	**37,439**	**36,708**	**36,119**

(*) Restated taking the changes in the scope of consolidation into account so that straight comparisons can be made.

Quarterly consolidated income statements

(reclassified - €m)

	2018			2017			
	Q3	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net interest income	38	37	37	38	39	43	40
Net profit (loss) on financial assets and liabilities	6	5	20	2	11	6	12
Net fee and commission income	416	423	437	443	428	424	415
TOTAL NET INTEREST AND TRADING INCOME	**460**	**465**	**494**	**483**	**478**	**473**	**467**
Net impairment for credit risk	(1)	-	(1)	3	(1)	-	-
OPERATING INCOME	**459**	**465**	**493**	**486**	**477**	**473**	**467**
Personnel expenses	(86)	(82)	(85)	(88)	(81)	(84)	(78)
Other administrative expenses	(62)	(55)	(55)	(59)	(57)	(60)	(52)
Depreciation and amortisation	(2)	(3)	(2)	(5)	(4)	(3)	(4)
OPERATING EXPENSES	**(150)**	**(140)**	**(142)**	**(152)**	**(142)**	**(147)**	**(134)**
Net provisions for risks and charges	1	(7)	(5)	(10)	(7)	(8)	(7)
Profit (loss) on equity investments	2	1	3	-	3	3	3
Other income (expense)	-	(1)	-	(1)	2	-	(1)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**312**	**318**	**349**	**323**	**333**	**321**	**328**
Income taxes for the period on continuing operations	(96)	(95)	(103)	(103)	(98)	(96)	(93)
Expenses regarding the banking system (net of tax)	(6)	(3)	(3)	2	(15)	1	(4)
Non-recurring income (expenses) (net of tax)	(7)	(5)	(4)	(12)	(1)	(5)	(6)
Net profit (loss) attributable to non-controlling interests	-	-	-	(1)	-	(1)	(2)
NET PROFIT	**203**	**215**	**239**	**209**	**219**	**220**	**223**

(*) Restated taking the changes in the scope of consolidation into account so that straight comparisons can be made.

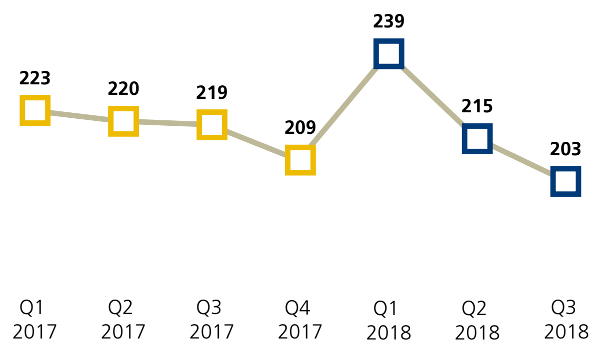
Overview of consolidated results

The Fideuram - Intesa Sanpaolo Private Banking Group ended the first nine months of 2018 with **consolidated net profit** of **€657m**, down slightly (-€5m) from the same period of 2017 due to the investments connected with the foreign development project outlined in the Business Plan 2018-2021.
The Wealth created by the Group's business totalled €2.1bn in the first nine months of 2018, up €60m on the same period last year.
The return on equity (R.O.E.) was 32%.

Analysis of the main income-statement items shows that profit before tax from continuing operations was down €3m from the first nine months of 2017. This change is attributable to the increase in operating expenses (+€9m) and lower profit on equity investments (-€3m), which were only partly offset by the reduction in provisions for risks and charges (-€11m). The Group's cost/income ratio was 30%, holding steady from the same period last year.

Consolidated net profit

(€m)



There was a total of 6,057 Personal Financial Advisers at 30 September 2018, including the sales network of the Morval Vonwiller Group acquired in the second quarter of 2018. Client assets per Personal Financial Adviser were more than €36m at 30 September 2018, in line with the total at the end of 2017. Group staff totalled 3,351, up from 3,229 at 31 December 2017, mainly as a result of the growth of our distribution and sales networks. Bank branches totalled 228 and Personal Financial Advisers' offices totalled 324.

Business model

Fideuram - Intesa Sanpaolo Private Banking is the number one Private Bank in Italy and among the largest in Europe with client assets totalling more than €220bn.
Since 2015, it has directed the business of the Intesa Sanpaolo Group Private Banking Division, which brings together the companies providing the Group's financial advisory, asset management and fiduciary services. The Division's mission is to serve high-end customers, creating value with products and services conceived for excellence, while ensuring the increased profitability of client assets through the constant development of our product range and service delivery solutions. The Fideuram Group specialises in particular in the provision of financial advisory services and the development, management and distribution of financial, insurance and banking products and services.

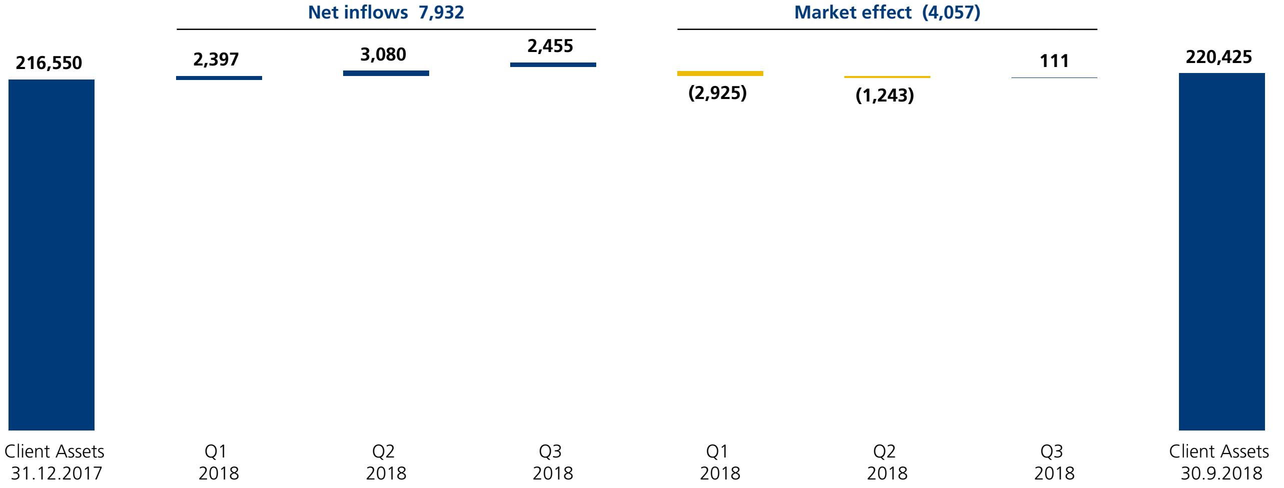
The Group's positioning is principally focused on the Private Banking and High Net Worth Individual customer segments. Our products and services are provided through over 6,000 highly-qualified professionals in four separate Networks (Fideuram, Sanpaolo Invest, Intesa Sanpaolo Private Banking and the foreign network) with their own brand identities, service models and customer profiles.
Fideuram acquired 94.6% of the share capital of Morval Vonwiller Holding on 10 April 2018. This transaction is part of the foreign development project of the Private Banking Division outlined in the Business Plan 2018-2021. That plan identifies the acquisition of the Morval Vonwiller Group as strategic. Based in Switzerland but with an international reach, the group is active in private banking and wealth management, and will be used to expand the scope of Fideuram Group activities outside Italy. With the acquisition of the Morval Vonwiller Group, the Division not only assures complete geographic coverage of the Italian market but has also undertaken an expansion of its sales networks on international markets. The Group's service model is centred on professional advisory services and the creation of long-standing relationships of trust between our customers and Personal Financial Advisers. The Group benefits from a strong and stable retail customer base, which can depend on a dedicated service model and tailored product offering. Our advisory services are offered as "Basic Advisory Services", which we provide for all customers free of charge in line with the requirements of the MiFID 2 directive, and as three "Advanced Advisory Services" (SEI, View and Private Advisory), which are paid services designed specifically for customers with greater financial assets and provided on the basis of a contract. The investment solutions proposed by our Personal Financial Advisers are for the most part developed and managed within the Group through dedicated product companies. In addition, the Group's marketing agreements with leading international investment houses mean that we are also able to offer third-party products in accordance with the "Guided Open Architecture Model" that the Group has adopted to complement its expertise and satisfy even the most complex customer needs. The Fideuram Group also engages in banking activities (asset gathering and lending), offering its customers a complete range of banking products and services. Fideuram - Intesa Sanpaolo Private Banking is a member of the Intesa Sanpaolo Banking Group and wholly owned by Intesa Sanpaolo S.p.A..

Client financial assets

Client Assets totalled **€220.4bn** at 30 September 2018, up (+€3.9bn) on the figure at 31 December 2017. This performance can be traced to the excellent results achieved with net inflows (€7.9bn), more than offsetting the market effect, which reduced assets by €4bn in the first nine months of the year.

Client Assets (*)

(€m)



(*) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made. In particular, the contribution made by the Morval Vonwiller Group was €2.3bn at 31 December 2017 and €2.2bn at 30 September 2018.

Analysis of the aggregated items shows that **managed assets** (70% of total client assets) rose to **€154bn** (+€1.1bn from 31 December 2017). Most of the increase involved mutual funds (+€1.4bn) and life insurance (+€513m), which was only partly offset by the reduction in discretionary accounts (-€955m). **Non-managed assets** totalled **€66.4bn**, up €2.8bn on the figure at year-end 2017.

Client Assets

(€m)

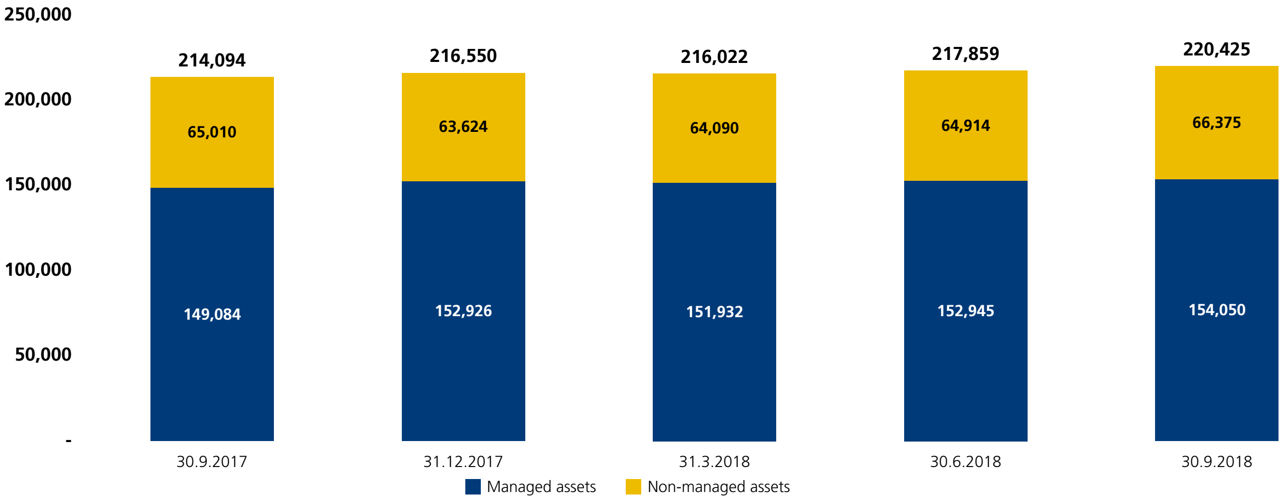
	30.9.2018	**31.12.2017 (*)**	**CHANGE**	
			AMOUNT	**%**
Mutual funds	58,371	56,950	1,421	2
Discretionary accounts	43,783	44,738	(955)	-2
Life insurance	49,908	49,395	513	1
including: Fideuram Vita / Intesa Sanpaolo Vita unit linked	*34,426*	*34,387*	*39*	*-*
Pension funds	1,988	1,843	145	8
Total managed assets	**154,050**	**152,926**	**1,124**	**1**
Total non-managed assets	**66,375**	**63,624**	**2,751**	**4**
including: Securities	*37,993*	*37,658*	*335*	*1*
Total Client Assets	**220,425**	**216,550**	**3,875**	**2**

(*) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made.

The following graphs show the quarterly trend of client assets, analysed by **type of inflow** and **sales network**.

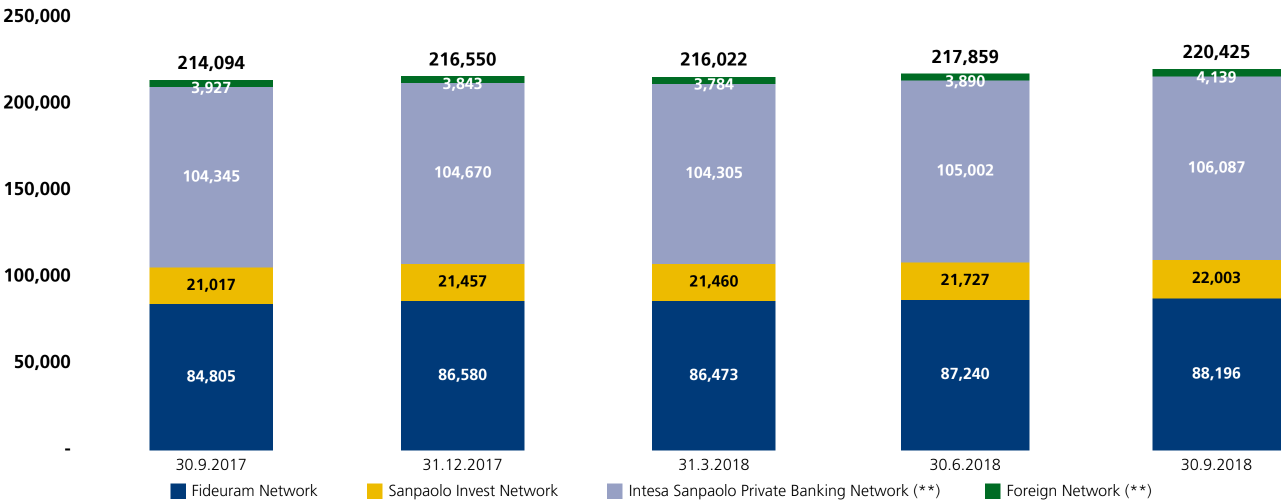
Client Assets - by type of inflows (*)

(€m)



Client Assets - by Sales Network (*)

(€m)



(*) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made, assuming that the effects of the acquisition occurred beginning from 1 January 2017.

(**) The figures for the Intesa Sanpaolo Private Banking sales network include the client assets of Siref Fiduciaria. The Foreign Network includes the client assets of the Morval Vonwiller Group, Intesa Sanpaolo Private Bank (Suisse) and the London Branch of Intesa Sanpaolo Private Banking.

Inflows into managed and non-managed assets

The Group's distribution networks generated **€7.9bn in net inflows** during the first nine months of 2018, down €2.3bn (-22%) on the total for the first nine months of 2017. The analysis of aggregated figures shows that **the inflows into managed assets**, totalling **€3.3bn**, fell (-€5.3bn) from the corresponding period of the previous year, largely due to the activities of the Group financial advisers who directed part of the new inflows from customers towards liquid instruments and the bond and monetary market in response to the market situation. **The non-managed assets component** was a **positive €4.6bn**, up €3bn from the first nine months of 2017. The reversal in the trend became very evident in the third quarter of 2018, when non-managed assets accounted for 83% of total inflows during the quarter.

Net inflows (*)

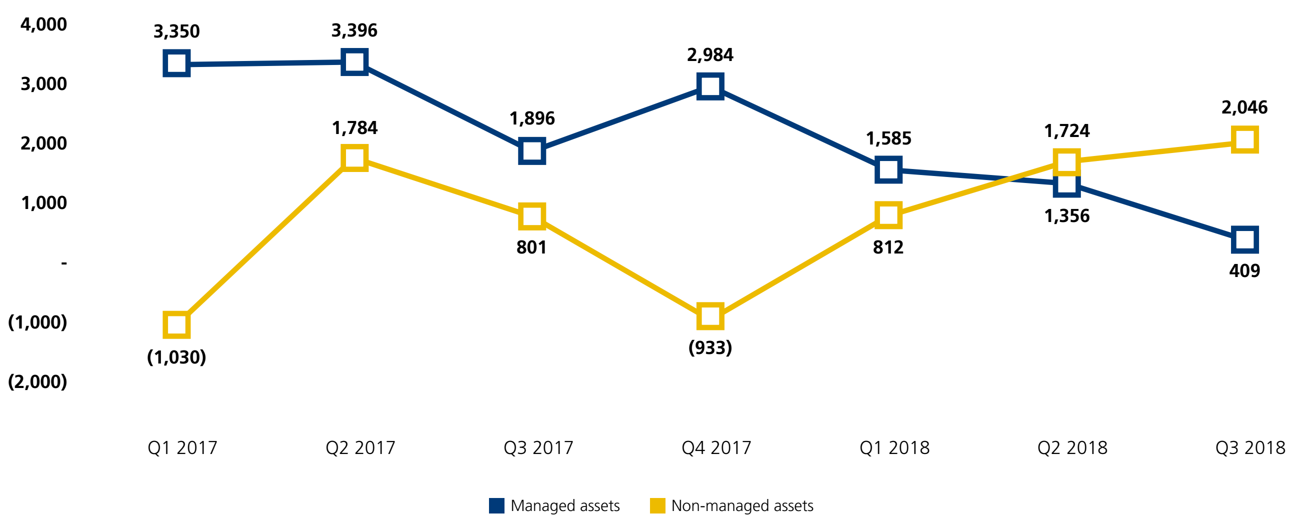
(€m)

	9 MONTHS 2018	9 MONTHS 2017	CHANGE	
			AMOUNT	%
Mutual funds	2,190	5,517	(3,327)	-60
Discretionary accounts	(169)	814	(983)	-121
Life insurance	1,212	2,218	(1,006)	-45
including: Fideuram Vita / Intesa Sanpaolo Vita unit linked	*941*	*2,340*	*(1,399)*	*-60*
Pension funds	117	93	24	26
Total managed assets	**3,350**	**8,642**	**(5,292)**	**-61**
Total non-managed assets	**4,582**	**1,555**	**3,027**	**195**
including: Securities	*2,364*	*166*	*2,198*	*n.s.*
Total Net inflows	**7,932**	**10,197**	**(2,265)**	**-22**

n.s.: not significant

Net inflows (*)

(€m)



(*) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made, assuming that the effects of the acquisition occurred beginning from 1 January 2017.

Customer segmentation

CLIENT ASSETS at 30 September 2018

- Fideuram: €88.2bn
- Sanpaolo Invest: €22bn
- Intesa Sanpaolo Private Banking: €102.9bn
- Siref Fiduciaria: €3.6bn (*)
- Intesa Sanpaolo Private Bank (Suisse): €1.5bn
- Morval Vonwiller Group: €2.2bn

(*) Does not include the fiduciary mandates regarding Group Client Assets. Total client assets came to €11.3bn.

CUSTOMERS at 30 September 2018

- Fideuram: no. 562,112
- Sanpaolo Invest: no. 150,934
- Intesa Sanpaolo Private Banking: no. 37,386 (**)
- Siref Fiduciaria: no. 2,072 mandates
- Intesa Sanpaolo Private Bank (Suisse): no. 574
- Morval Vonwiller Group: no. 1,148

(**) Number of households with client assets in excess of €250k.

Analysis of the Group's customer base shows that it is concentrated in the Private Banking and High Net Worth Individual (HNWI) segment. This focus on high-end customers (over 74% of client assets come from Private Banking and HNWI customers) enables our Personal Financial Advisers to target a segment with high growth prospects in the Italian Market. The Group supports its customers with a dedicated service model using ad hoc organisational management (Private Banking and HNWI branches) and customised products and services.

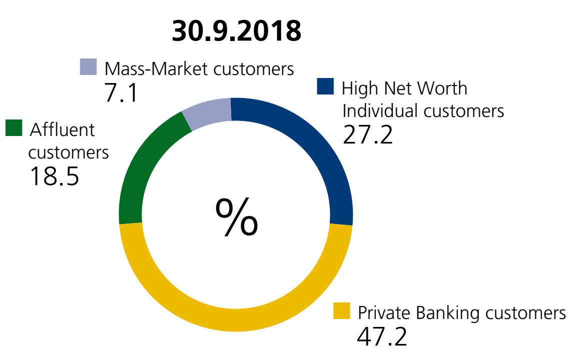
The table and graphs below analyse client assets by type of customer.

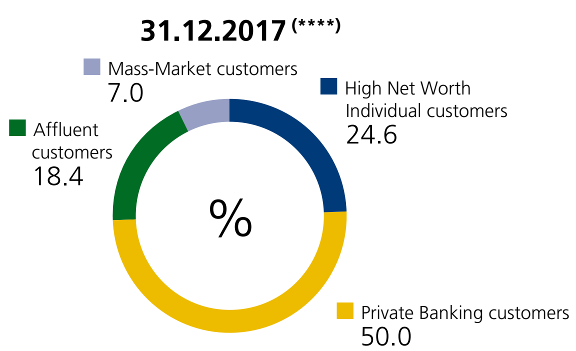
Client assets by type of customer (***)

(€m)

	30.9.2018	31.12.2017 (****)	CHANGE	
			AMOUNT	%
High Net Worth Individual customers	60,060	53,333	6,727	13
Private Banking customers	104,020	108,183	(4,163)	-4
Affluent customers	40,724	39,873	851	2
Mass-Market customers	15,621	15,161	460	3
Total	**220,425**	**216,550**	**3,875**	**2**

Analysis of client assets by type of customer





(***) The Fideuram Group's customers are segmented as follows:
High Net Worth Individuals customers: customers with financial assets potentially totalling in excess of €10,000,000.
Private Banking customers: customers with financial assets totalling between €500,000 and €10,000,000.
Affluent customers: customers with financial assets totalling between €100,000 and €500,000.
Mass-Market customers: customers with financial assets of less than €100,000.

(****) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made.

Advanced Advisory Services

The Fideuram Group is a leading Italian banking group in the provision of financial advisory services and in the distribution, development and management of financial services and products for private individuals. The Group's principal distinctive strengths, emblematic of its market leadership, are founded on a business model that anchors the distribution of products and services in the professional relationships between our Personal Financial Advisers and their customers. This is supported by the strength of a banking group with three renowned brands – Fideuram, Intesa Sanpaolo Private Banking and Sanpaolo Invest – and a network of 228 bank branches and 324 Personal Financial Advisers' offices, which make a decisive contribution to customer loyalty. Our guided open-architecture model offers third-party products to complement our Group products. The professional relationship between each Personal Financial Adviser and customer is based on a financial advisory service model governed by a specific contract. The services under this model are delivered in two ways:

- Basic Advisory Services: offered free of charge to all customers and consisting in the provision of personalised advisory services supporting each customer's investments, paying careful attention to risk management and the suitability of their overall portfolio.
- Advanced Advisory Services: provided on the basis of a dedicated contract and subject to the payment of commission.

In particular, the Group offers its customers the following fee-paying advanced advisory services:

- SEI Advanced Advisory Service: this service identifies the customer's individual requirements classified by area of need, analyses their overall position and risk/return profile, and identifies appropriate investment strategies and solutions for each individual area of need, monitoring them over time.
- Private Banking Advanced Advisory Service: a personalised advisory service with high added value for customers who want to be actively involved in their asset allocation choices with the assistance of their Personal Financial Adviser and the support of one of our Financial Advisory Unit specialists.
- VIEW (Value Investment Evolution Wealth) Advanced Advisory Service: an advisory service offered by Intesa Sanpaolo Private Banking. VIEW takes all a customer's assets into consideration and supports the Personal Financial Advisers in their work of identifying each customer's specific requirements, categorised by area of need, including with the assistance of guideline customer "archetype" profiles. VIEW provides a complete advisory service, which in addition benefits from incorporating the Bank's Active Advisory Service. VIEW also allows the customer and their Personal Financial Adviser to identify investment strategies and solutions for each individual area of need in accordance with their risk/return profile and to monitor their wealth from a global standpoint over time.

A total of approximately 70,000 customers were subscribed to our Advanced Advisory Services at the end of September 2018, accounting for approximately €38.8bn of client assets.

The customer and client assets data for our Advanced Advisory Services are shown below.

Customers subscribed to Advanced Advisory Services

(number)

	30.9.2018	31.12.2017	CHANGE AMOUNT	CHANGE %
High Net Worth Individual customers	897	682	215	32
Private Banking customers	18,021	18,344	(323)	-2
Affluent customers	33,382	34,746	(1,364)	-4
Mass-Market customers	17,236	17,044	192	1
Total	**69,536**	**70,816**	**(1,280)**	**-2**

Advanced Advisory Service client assets

(€m)

	30.9.2018	31.12.2017	CHANGE AMOUNT	CHANGE %
High Net Worth Individual customers	6,126	4,573	1,553	34
Private Banking customers	23,134	24,293	(1,159)	-5
Affluent customers	8,468	8,787	(319)	-4
Mass-Market customers	1,032	1,018	14	1
Total	**38,760**	**38,671**	**89**	**-**

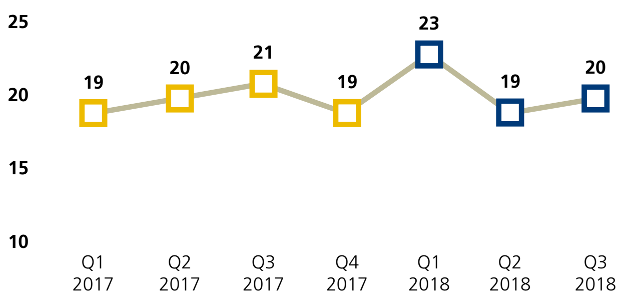
Advanced Advisory Service fee and commission income

(€m)

	9 MONTHS 2018	9MONTHS 2017	CHANGE AMOUNT	CHANGE %
Fee and commission income	98	97	1	1
Fee and commission expense	(36)	(37)	1	-3
Net fee and commission income	**62**	**60**	**2**	**3**

Quarterly net fee and commission income from Advanced Advisory Service

(€m)



Analysis of the income statement

The Fideuram - Intesa Sanpaolo Private Banking Group ended the first nine months of 2018 with consolidated net profit of €657m, down €5m (-1%) on the previous year.

Total net interest and trading income totalled €1.4bn, substantially the same as in the first nine months of 2017 (+€1m). This result is attributable to:

- growth in net fee and commission income (+€9m);
- decreased net interest income (-€10m);
- increased net profit on financial assets (+€2m).

Net interest income

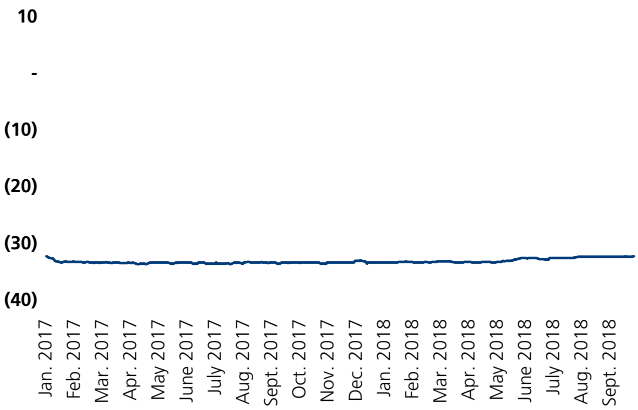
(€m)

	9 MONTHS 2018	9 MONTHS 2017	CHANGE AMOUNT	CHANGE %
Interest expense on due to customers	(26)	(24)	(2)	8
Interest expense on due to banks	(20)	(23)	3	-13
Interest income on debt securities	164	161	3	2
Interest income on loans	80	78	2	3
Net interest on hedging derivatives	(70)	(69)	(1)	1
Other net interest income	(16)	(1)	(15)	n.s.
Total	**112**	**122**	**(10)**	**-8**

n.s.: not significant

3-month Euribor rate

(bps)

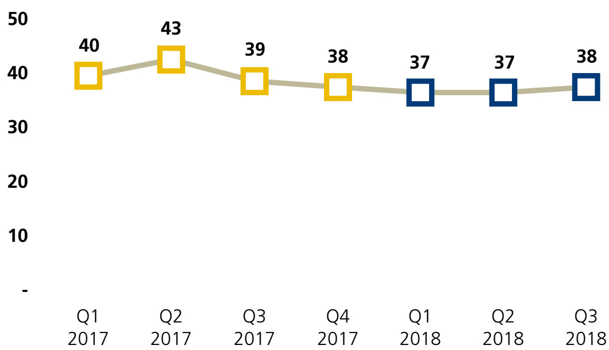


Source: Bloomberg

Net interest income totalled €112m, down €10m (-8%) from the same period last year, due to interest rates remaining very low over the whole yield curve, and still negative in the shortest term segment on the yield curve. This change was partly offset by the growth in average interest-bearing assets, which contributed to the stability of net interest income in the first nine months of 2018. The trend analysis shows the net interest income rising slightly in the third quarter of 2018, due to repositioning of the Group investment portfolio on medium-term maturities, partly in consequence of the persistently low profitability of cash pooling investments.

Quarterly change in net interest income

(€m)



Net profit (loss) on financial assets and liabilities

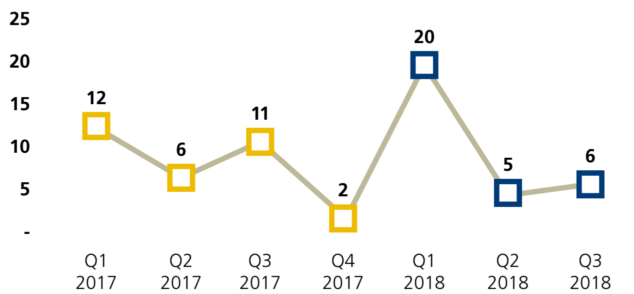
(€m)

	9 MONTHS 2018	9 MONTHS 2017	CHANGE AMOUNT	%
Net profit (loss) on sale of loans and financial assets	23	16	7	44
Net profit (loss) on trading activities	8	12	(4)	-33
Net profit (loss) on hedging derivatives	-	1	(1)	-100
Total	**31**	**29**	**2**	**7**

Net profit on financial assets and liabilities came to €31m, up €2m from the figure for the first nine months of 2017 (+7%).
Analysis of the item shows that net profit on sale of loans and financial assets (€23m) increased €7m from the figure for the corresponding period in 2017 due to increased sales of investment securities. The net profit on trading activities was €8m, down €4m from the same period last year. This was mainly due to lower foreign exchange gains. Net profit on hedging derivatives, resulting from the ineffective hedging of interest-rate derivatives, decreased by €1m from the first nine months of 2017, principally due to market rates falling towards the bottom of the market curve (3 and 6-month Euribor) to which the hedging derivative coupon flows are linked.

Quarterly net profit (loss) on financial assets and liabilities

(€m)



Fee and commission income

(€m)

	9 MONTHS 2018	9 MONTHS 2017	CHANGE AMOUNT	%
Fee and commission income	1,850	1,794	56	3
Fee and commission expense	(574)	(527)	(47)	9
Net fee and commission income	**1,276**	**1,267**	**9**	**1**

Net fee and commission income totalled €1.3bn, an increase of €9m (+1%) compared with the first nine months in 2017.

Net recurring fees

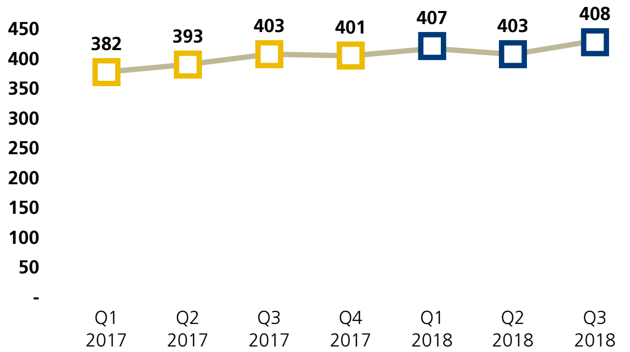
(€m)

	Q1	Q2	Q3	TOTAL
2018	407	403	408	1,218
2017	382	393	403	1,178
Change	**25**	**10**	**5**	**40**

Notwithstanding the high volatility on financial markets, **net recurring fees** continued to stabilise Group earnings. They amounted to €1.2bn in the first nine months of 2018, up €40m from the same period of last year (+3%). This result is attributable to the increase in average managed assets, which rose from €144.2bn at 30 September 2017 to €153.3bn at 30 September 2018 (+6%). This more than offset the lower profitability of products. Analysis of the quarterly changes shows the growth trend tracked by recurring fees, which have remained at higher levels in 2018 than in all quarters of 2017. Net recurring fees also benefited from the positive contribution of client assets connected with our Advanced Advisory Services, which generated net recurring fees of €62m compared with €60m in the first nine months of 2017 (+3%).

Quarterly net recurring fees

(€m)



Performance fees totalled zero in the first nine months of the year, compared with €1m in the corresponding period of 2017. The Fideuram Group charges the performance fees on individual discretionary accounts annually, except when the customer decides to close the account early. The Group calculates the performance fees on its internal insurance funds on a daily accrual basis in relation to the performance of the fund, applying a High Water Mark clause that means performance fees are only charged when the value of the fund rises above the highest value reached on the previous dates when performance fees were charged. The performance fees on the Group's mutual funds are charged annually, with the exception of three funds for which performance fees are charged half-yearly (applying a High Water Mark clause).

Net front-end fees

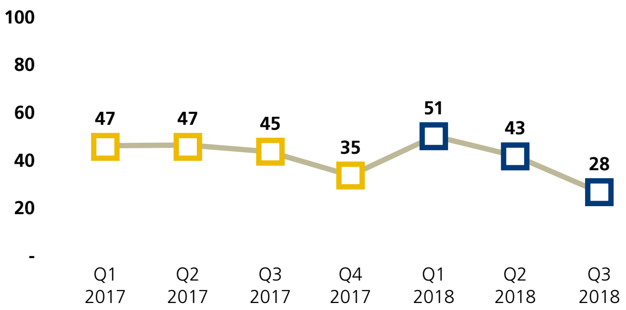
(€m)

	Q1	Q2	Q3	TOTAL
2018	51	43	28	122
2017	47	47	45	139
Change	**4**	**(4)**	**(17)**	**(17)**

Net front-end fees came to €122m, down €17m (-12%) on the figure for the first nine months of last year. The growth in front-end fee income on bonds and certificates was fully offset by the decrease in front-end fee income for managed asset and insurance product sales. The Group's sales networks distributed a number of bond loans and certificates, in addition to Italian government bonds, that brought in approximately €1.7bn gross inflows in the period, compared with €843m distributed in the first nine months of 2017.

Quarterly net front-end fees

(€m)



Other commission expense: incentives and other

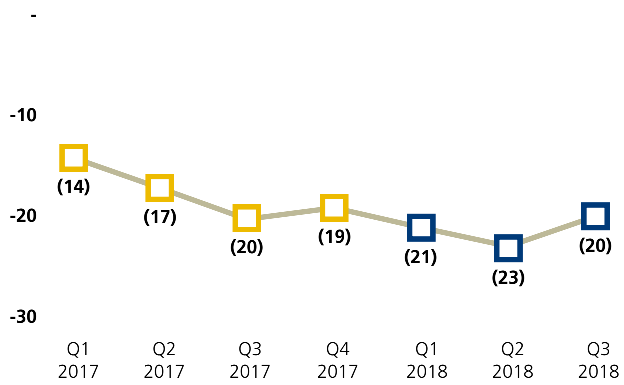
(€m)

	Q1	Q2	Q3	TOTAL
2018	(21)	(23)	(20)	(64)
2017	(14)	(17)	(20)	(51)
Change	**(7)**	**(6)**	**-**	**(13)**

Commission expense for incentives and others totalled €64m, up €13m from the same period of the previous year. That stemmed primarily from higher incentives accrued during the period and, to a lesser extent, from contingent assets on bonuses recognised in the first nine months of 2017.

Quarterly other commission expense

(€m)



Net impairment for credit risk totalled €2m, up €1m from the first nine months in 2017.

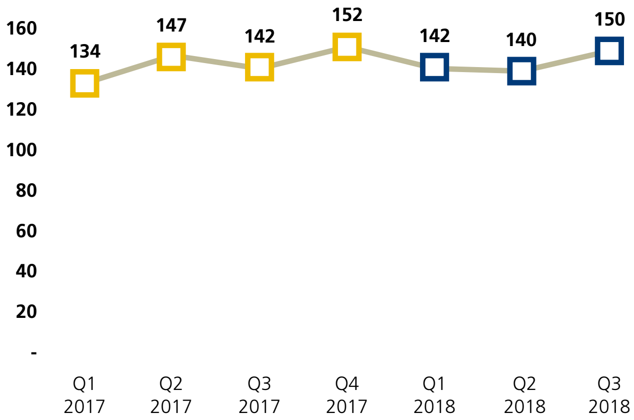
Operating expenses

(€m)

	9 MONTHS 2018	9 MONTHS 2017	CHANGE AMOUNT	CHANGE %
Personnel expenses	253	243	10	4
Other administrative expenses	172	169	3	2
Depreciation and amortisation	7	11	(4)	-36
Total	**432**	**423**	**9**	**2**

Operating expenses, totalling €432m, rose €9m (+2%) on the figure for the same period last year.
Analysis of the item shows that personnel expenses, which totalled €253m, were up €10m compared with the figure for the first nine months of 2017, consequent to the increase in headcount (+174 new employees), mainly in the sales area. Other administrative expenses totalled €172m, up €3m from the figure for same period last year, principally as a result of higher information technology and real estate expenses. Depreciation and amortisation fell by €4m. This was largely caused by revision of the useful life of proprietary software beginning 1 January 2018. This extended the average term of amortisation by about two years.

Quarterly operating expenses
(€m)



Net provisions for risks and charges
(€m)

	9 MONTHS 2018	9 MONTHS 2017	CHANGE AMOUNT	CHANGE %
Personal Financial Advisers' termination indemnities and incentives	15	17	(2)	-12
Litigation and complaints	(6)	3	(9)	n.s.
Network Loyalty Schemes	1	2	(1)	-50
Other	1	-	1	n.s.
Total	**11**	**22**	**(11)**	**-50**

Net provisions for risks and charges came to €11m, down €11m (-50%) from the figure for the first nine months of 2017. Detailed analysis of the item shows that the provision for the termination of Personal Financial Adviser agency agreements, totalling €15m, decreased by €2m. This was due to an upward shift in the interest rate curve causing the discounting of the long-term liability to have a reduced impact on the expense recorded in the income statement. The provisions set aside to cover contingent liabilities from lawsuits, litigation, claims from receivers and customer complaints decreased by €9m, largely due to the settlement of several cases at costs lower than what had been estimated. The provisions set aside for the Network Loyalty Schemes were down by €1m, mainly due to the termination of a loyalty scheme at the end of 2017.

Profit on equity investments came to €6m, corresponding to the profit from the Group's 19.99% interest in Fideuram Vita S.p.A. and 25% interest in Qingdao Yicai Ltd. It fell by €3m from the figure for the first nine months of 2017.

Other income and expense represents a residual item for miscellaneous income and expense that cannot be recognised in other items of the income statement. This item fell by €2m during the first nine months of 2018 as compared with the net amount for the same period of 2017, which included non-recurring income from settlement of an insurance claim.

Income tax, for which €294m was accrued during the period, rose by €7m from the same period of last year. The tax rate was 30%, compared with 29% in the first nine months of 2017.

The item **Expenses regarding the banking system net of tax is for the expenses** related to maintaining the stability of the banking system, recognised in the income statement in accordance with current regulations. The net amount for this item in the first nine months of 2018 was €12m, down €6m from the same period in the previous year. It includes €6m in expenses for the contribution to the Deposit Guarantee Scheme (DGS Fund) introduced by Directive 2014/49/EU and €6m in expenses accrued for the contribution to the Single Resolution Fund of credit institutions introduced by Directive 2014/59/EU.

Non-recurring income and expenses net of tax, which include income and expenses that are not ordinary operating expenses, came to €16m in net expenses (compared with €12m in the first nine months of 2017). This was principally due to the expenses incurred to integrate Intesa Sanpaolo Private Banking, Intesa Sanpaolo Private Bank (Suisse), Siref Fiduciaria and the Morval Vonwiller Group in the Fideuram Group.

Segment reporting

The Group's operating structure covers three main Business Segments related to the types of financial products offered to customers:

- **Managed Financial Assets Segment**, which extends from mutual funds to SICAVs, speculative funds and individual discretionary accounts.
- **Life Insurance Assets Segment**, which covers unit-linked and traditional managed insurance asset products as well as pension and protection products.
- **Banking Services Segment**, which covers the Group's banking and financial services.

Each segment is analysed using data that show its contribution to Group income after consolidation adjustments.

Business segmentation at 30 September 2018

(€m)

	MANAGED FINANCIAL ASSETS	LIFE INSURANCE ASSETS	BANKING SERVICES	TOTAL FOR FIDEURAM GROUP
Net interest income	-	-	112	112
Net profit (loss) on financial assets and liabilities	-	-	31	31
Net fee and commission income	859	374	43	1,276
Operating income before net impairment	**859**	**374**	**186**	**1,419**
Operating expenses	(229)	(57)	(146)	(432)
Other	(8)	(4)	4	(8)
Profit before tax from continuing operations	**622**	**313**	**44**	**979**
Average Client Assets	**102,351**	**50,968**	**64,952**	**218,271**
Client Assets	**102,154**	**51,896**	**66,375**	**220,425**
Key indicators				
Cost / Income Ratio	27%	15%	76%	30%
Annualised profit before tax / Average Client Assets	0.8%	0.8%	0.1%	0.6%
Annualised net fee and commission income / Average Client Assets	1.1%	1.0%	0.1%	0.8%

MANAGED FINANCIAL ASSETS SEGMENT

The Managed Financial Assets Segment covers the Group's discretionary account and mutual fund business, which totalled €102.1bn at 30 September 2018 (46% of total client assets), an increase on 30 September 2017 (€99.1bn) as a result of an increase in mutual funds (+€3.4bn). The inflows into managed and non-managed assets, totalling a positive €2bn, contracted by €4.3bn from the corresponding period of the previous years, largely due to the activities of the Group financial advisers who directed part of the new inflows from customers towards liquid instruments and the bond and monetary market in response to the market situation. The segment's contribution to profit before tax totalled €622m, up €8m on the previous financial year, principally due to the increase in net fee and commission income, which was only partly offset by the rise in operating costs. The ratio of net fee and commission income to client assets was 1.1%, while the ratio of profit before tax to client assets was 0.8%.

Managed financial assets

(€m)

	9 MONTHS 2018	9 MONTHS 2017 (*)	% CHANGE
Net interest income	-	-	-
Net profit (loss) on financial assets and liabilities	-	-	-
Net fee and commission income	859	838	3
Operating income before net impairment	**859**	**838**	**3**
Operating expenses	(229)	(210)	9
Other	(8)	(14)	-43
Profit before tax from continuing operations	**622**	**614**	**1**
Average Client Assets	**102,351**	**95,892**	**7**
Client Assets	**102,154**	**99,100**	**3**
Key indicators			
Cost / Income Ratio	27%	25%	
Annualised profit before tax / Average Client Assets	0.8%	0.9%	
Annualised net fee and commission income / Average Client Assets	1.1%	1.2%	

(*) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made, assuming that the effects of the acquisition occurred beginning from 1 January 2017.

LIFE INSURANCE ASSETS SEGMENT

This segment covers the Group's life insurance and pension fund business, which totalled €51.9bn at 30 September 2018 (24% of total client assets), up €1.9bn from 30 September 2017, principally due to strong life insurance performance (+€1.6bn). Total net inflows in the segment were €1.3bn, down €1bn compared with the corresponding period in the previous financial year. The contribution to gross profit was €313m, down €5m from the same period in 2017. The ratio of net fee and commission income to client assets was 1%, while the ratio of profit before tax to client assets was 0.8%.

Life insurance assets

(€m)

	9 MONTHS 2018	9 MONTHS 2017 (*)	% CHANGE
Net interest income	-	-	-
Net profit (loss) on financial assets and liabilities	-	-	-
Net fee and commission income	374	376	-1
Operating income before net impairment	**374**	**376**	**-1**
Operating expenses	(57)	(52)	10
Other	(4)	(6)	-33
Profit before tax from continuing operations	**313**	**318**	**-2**
Average Client Assets	**50,968**	**48,355**	**5**
Client Assets	**51,896**	**49,984**	**4**
Key indicators			
Cost / Income Ratio	15%	14%	
Annualised profit before tax / Average Client Assets	0.8%	0.9%	
Annualised net fee and commission income / Average Client Assets	1.0%	1.0%	

(*) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made, assuming that the effects of the acquisition occurred beginning from 1 January 2017.

BANKING SERVICES SEGMENT

The Banking Services Segment covers the Group's banking and financial services, together with its central departments, holding activities and finance activities, as well as - generally speaking - the coordination and control activities for its other operating segments. This segment includes non-managed assets, mainly securities and current accounts, which totalled €66.4bn at 30 September 2018 (30% of total client assets), up €1.4bn compared with the figure at 30 September 2017. Total net inflows in the segment were positive at €4.6bn, up €3bn due to a major shift in asset allocation to bond and monetary market instruments. The contribution of this segment to profit before tax was €44m. The €6m decrease in profit before tax compared with the corresponding period in the previous financial year was due to lower total net interest and trading income, which was partly offset by lower operating expenses. The ratio of net fee and commission income to client assets and of profit before tax to client assets was 0.1%.

Banking Services

(€m)

	9 MONTHS 2018	9 MONTHS 2017 (*)	% CHANGE
Net interest income	112	122	-8
Net profit (loss) on financial assets and liabilities	31	29	7
Net fee and commission income	43	53	-19
Operating income before net impairment	**186**	**204**	**-9**
Operating expenses	(146)	(161)	-9
Other	4	7	-43
Profit before tax from continuing operations	**44**	**50**	**-12**
Average Client Assets	**64,952**	**62,665**	**4**
Client Assets	**66,375**	**65,010**	**2**
Key indicators			
Cost / Income Ratio	76%	76%	
Annualised profit before tax / Average Client Assets	0.1%	0.1%	
Annualised net fee and commission income / Average Client Assets	0.1%	0.1%	

(*) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made, assuming that the effects of the acquisition occurred beginning from 1 January 2017.

Distribution of value

Creating value for our stakeholders is one of Fideuram's prime objectives. The Group considers it crucial to pursue this objective through constant interaction with all the stakeholders it encounters in the course of its business.

The table showing the Wealth created by the Group was prepared using the income statement figures from the Consolidated Financial Statements for the first nine months of 2018, reclassified in accordance with the instructions of the Italian Banking Association (Associazione Bancaria Italiana - ABI) following the guidelines of the Global Reporting Initiative (GRI).
The Wealth created is the economic value generated in the period, which is for the most part distributed to the stakeholders with whom the Group has relations as part of its daily operations.
The Value retained is the difference between the Wealth created and the Value distributed, and it is used for productive investments to enable economic growth and financial stability, as well as to ensure the creation of new wealth to the benefit of our stakeholders.
The Wealth created by the global business of the Group totalled €2.1bn, up €60m on the total for the first nine months of 2017.

This wealth was distributed to stakeholders as follows:

- Colleagues (employees and Personal Financial Advisers) received 37.2% of the Wealth created, amounting to a total of €779m. This included the remuneration paid to employees and the amounts set aside for and paid to the Personal Financial Adviser Networks.
- Our shareholder received 28.3% of the Wealth created, in the form of the proposed dividend pay-out totalling €594m.
- The government, public authorities, institutions and the community received €421m, principally in the form of direct and indirect taxes, amounting to 20.1% of the Wealth created.
- Suppliers received 9.3% of the Wealth created, totalling €196m paid for goods and services.
- The remainder, €106m, has been retained by the Group. This amount includes the following items in particular: deferred tax assets and liabilities, amortisation and depreciation, and provisions for risks and charges.

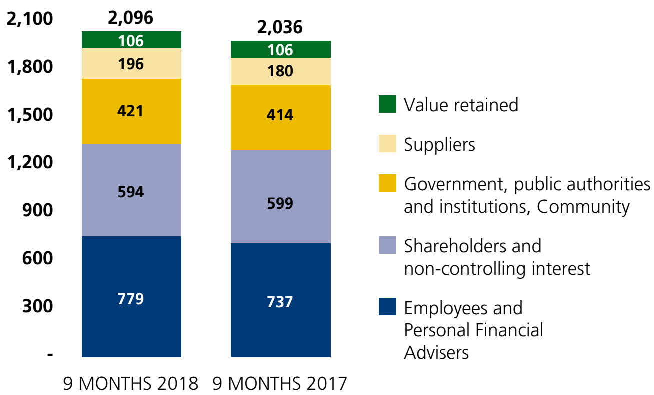
Economic value added

(€m)

	9 MONTHS 2018	9 MONTHS 2017	CHANGE AMOUNT	CHANGE %
Wealth created	**2,096**	**2,036**	**60**	**3**
Value distributed	**(1,990)**	**(1,930)**	**(60)**	**3**
Employees and Personal Financial Advisers	(779)	(737)	(42)	6
Shareholders and non-controlling interest	(594)	(599)	5	-1
Government, public authorities and institutions, Community	(421)	(414)	(7)	2
Suppliers	(196)	(180)	(16)	9
Value retained	**106**	**106**	**-**	**-**

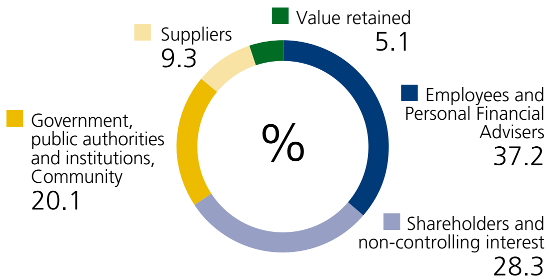
Wealth created

(€m)

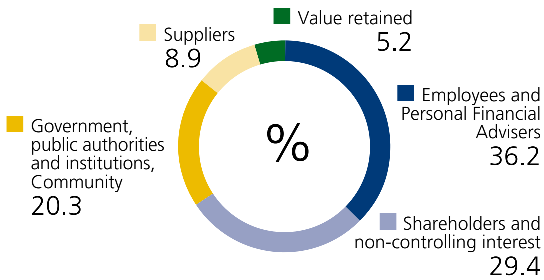


Distribution of wealth created

9 MONTHS 2018



9 MONTHS 2017



Asset and liability management

The tables below show the main balance sheet items compared with the corresponding figures at 1 January 2018. The comparative amounts at 31 December 2017 on the reclassified balance sheet were reclassified by applying IFRS 9, entered into force on 1 January 2018, and restated in the new financial statements so that comparisons may be made on a like-for-like basis. The net amounts on the balance sheet at 1 January 2018 also reflect the contribution made by the Morval Vonwiller Group, which was consolidated beginning in the second quarter of 2018.

Group **financial assets**, which pursuant to the new accounting rules are classified on the financial statements according to the business models under which they are held, totalled €3.5bn, down €1bn from 1 January 2018 (-22%).

Financial assets

(€m)

	30.9.2018	1.1.2018	CHANGE	
			AMOUNT	%
Financial assets measured at fair value through profit or loss	298	631	(333)	-53
Financial assets measured at fair value through other comprehensive income	3,151	3,786	(635)	-17
Hedging derivatives	2	5	(3)	-60
Total	**3,451**	**4,422**	**(971)**	**-22**

This performance is attributable both to the reduction in financial assets measured at fair value through profit or loss (-€333m) following the disposal of bonds hedged with interest rate derivatives that were no longer consistent with Group business models, and to the reduction in financial assets measured at fair value through other comprehensive income. These decreased by €635m, mainly due to sales of bonds during the first nine months of 2018.

Financial liabilities

(€m)

	30.9.2018	1.1.2018	CHANGE	
			AMOUNT	%
Financial liabilities held for trading	30	196	(166)	-85
Hedging derivatives	785	833	(48)	-6
Total	**815**	**1,029**	**(214)**	**-21**

Financial liabilities, consisting of derivatives, totalled €815m. This item shows a reduction of €214m (-21%) from 1 January 2018, largely attributable to the early termination of several interest rate risk hedging derivatives consequent to the previously mentioned sale of bonds which were no longer in line with Group business models.

Loans and advances to banks

(€m)

	30.9.2018	1.1.2018	CHANGE	
			AMOUNT	%
Due from Central Banks	263	636	(373)	-59
Current account	6,200	4,247	1,953	46
Term deposits	6,392	9,547	(3,155)	-33
Other	113	125	(12)	-10
Debt securities	10,785	8,061	2,724	34
Total	**23,753**	**22,616**	**1,137**	**5**

Due to banks totalled €23.8bn, up €1.1bn (+5%) on the figure at the beginning of the year. This change is mainly due to the growth in current account overdrafts and investments in debt securities, partly offset by the reduction in term deposits. Current accounts included €1.4bn in cash linked to securities lending, secured entirely by cash collateral recognised in the financial statements under Loans and advances to banks and Due to banks (Loans and advances to Intesa Sanpaolo and Due to Banca IMI).

Due to banks

(€m)

	30.9.2018	1.1.2018	CHANGE	
			AMOUNT	%
Current accounts	258	168	90	54
Term deposits	159	154	5	3
Repurchase agreements	2,029	2,286	(257)	-11
Other debts	23	36	(13)	-36
Total	**2,469**	**2,644**	**(175)**	**-7**

Due to banks totalled €2.5bn, down €175m from the figure at the beginning of 2018, mainly due to decreased inflows from repurchase agreements. The Group continued to be a net lender on the interbank market, with net interbank deposits of €21.3bn (€23.8bn in deposits and €2.5bn in loans), €20.6bn of which (approximately 97% of the total) was held by companies in the Intesa Sanpaolo Group.

Loans and advances to customers

(€m)

	30.9.2018	1.1.2018	CHANGE	
			AMOUNT	%
Current accounts	5,996	5,709	287	5
Repurchase agreements	599	-	599	n.s.
Loans	790	658	132	20
Other	1,609	1,463	146	10
Debt securities	2,490	2,499	(9)	-
Impaired assets	12	10	2	20
Total	**11,496**	**10,339**	**1,157**	**11**

n.s.: not significant

Loans and advances to customers totalled €11.5bn and mainly comprised short-term loans (repayable within 12 months or revocable loans without a specified term) and unlisted debt securities. The increase of €1.2bn from 1 January 2018 is mainly attributable to the growth in repurchase agreements with institutional customers (+€599m) and current accounts (+€287m). Net problem loans totalled €12m at 30 September 2018, up €2m (+20%) on the figure at 1 January 2018. In detail: doubtful loans totalled €2m, up €1m from the figure at the beginning of 2018. Unlikely to pay loans totalled €8m, unchanged from 1 January 2018, while Past due or overdue loans amounted to €2m, up €1m from 1 January 2018.

Due to customers

(€m)

	30.9.2018	1.1.2018	CHANGE	
			AMOUNT	%
Current accounts	30,762	28,095	2,667	9
Term deposits	1,834	2,625	(791)	-30
Repurchase agreements	290	6	284	n.s.
Other debts	89	119	(30)	-25
Total	**32,975**	**30,845**	**2,130**	**7**

Due to customers totalled €33bn, up €2.1bn (+7%) since 1 January 2018. This performance is attributable to growth in customer current account deposits (+€2.7bn) and repurchase agreements (+284m), partly offset by the reduction in term deposits (-€791m).

The table below shows the book value of the Group's exposure to sovereign-credit risk.

(€m)

	LOANS	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (*)	TOTAL
Italy	2,210	406	2,616
United States	-	166	166
France	-	131	131
Finland	-	36	36
Germany	-	25	25
Holland	-	10	10
China	-	5	5
Swiss	-	4	4
Spain	-	2	2
Austria	-	1	1
Total	**2,210**	**786**	**2,996**

(*) The Italian government bonds in the financial assets measured at fair value through other comprehensive income portfolio, which had a total face value of €240m, were covered by financial-guarantee contracts.

Property and equipment and intangible assets totalled €294m, including €167m in goodwill, of which €140m attributable to the Private Banking divisions acquired by the subsidiary Intesa Sanpaolo Private Banking between 2009 and 2013 and €27m attributable to acquisition of the Morval Vonwiller Group in the second quarter of 2018. This last value has been provisionally recognised as goodwill before allocating the purchase price pursuant to IFRS 3 – Business Combinations by the end of the year.

The **provisions for risks and charges** at 30 September 2018 were down €15m (-3%) from the figure at 1 January 2018, illustrated as follows:

Provisions for risks and charges

(€m)

	30.9.2018	1.1.2018	CHANGE	
			AMOUNT	%
Litigation, securities in default and complaints	88	100	(12)	-12
Personnel expenses	78	91	(13)	-14
Personal Financial Advisers' termination indemnities	232	221	11	5
Network Loyalty Schemes	43	44	(1)	-2
Other	6	6	-	-
Total	**447**	**462**	**(15)**	**-3**

The provision for litigation, securities in default and complaints was down €12m from the figure at the beginning of the year, mainly as a result of utilisation during the period. The provisions for personnel costs fell by €13m, mainly due to the payment of variable components of compensation. The provisions for the termination of Personal Financial Adviser agency agreements were up €11m, mainly due to new provisions. The provisions for Network loyalty schemes fell by €1m due to payments made during the period.

Shareholders' equity

Group shareholders' equity including net profit for the period totalled €2.7bn at 30 September 2018, having changed as follows:

Group Shareholders' Equity

(€m)

Shareholders' equity at 31 December 2017	**2,778**
Effect of transition to IFRS 9	38
Shareholders' equity at 1st January 2018	**2,816**
Dividend distribution	(788)
Change in valuation reserves	(54)
Other changes	21
Net profit	657
Shareholders' equity at 30 September 2018	**2,652**

The €38m change refers to the impact of first-time adoption of IFRS 9, which introduced new rules for the classification, measurement and impairment of financial assets beginning 1 January 2018. For analytical information on the effects of the transition to the new financial reporting standard used by the Fideuram Group, the reader is referred to the dedicated section in the part concerning accounting policies.

The €54m decrease largely refers to the reduction in the valuation reserves for financial assets through comprehensive income after sales on the market and changes in the fair value of the securities portfolio during the period. At 30 September 2018, the valuation reserve of financial assets measured at fair value through other comprehensive income totalled a negative €19m.

The Group did not hold any treasury shares at 30 September 2018.

Fideuram S.p.A.'s own funds and main capital ratios at 30 September 2018 are shown below. The improvement in capital ratios since the end of 2017 is attributable to the large reduction in risk-weighted assets obtained with the implementations made on the "Collateral Assets Portal" platform. These have made the collateral comprised by the pledge on the Group's discretionary accounts eligible. It is now possible to manage the look-through of the underlying assets for these discretionary accounts, which is a mandatory requirement for regulatory recognition of the mitigation.

Fideuram S.p.A. Capital Ratios

(€m)

	30.9.2018	31.12.2017
CET1	1,003	998
Tier 1	1,003	998
Own funds	1,003	999
Total risk-weighted assets	5,855	7,065
CET1 Ratio	**17.1%**	**14.1%**
Tier 1 Ratio	**17.1%**	**14.1%**
Total Capital Ratio	**17.1%**	**14.1%**

As a member of the Intesa Sanpaolo Banking Group, Fideuram is subject to the laws and regulations regarding capital requirements on the basis of its separate accounts, but is not required to present this information on a consolidated basis. Committed to providing comprehensive information, the Group voluntarily estimates its consolidated capital requirements, taking its membership of the Intesa Sanpaolo Banking Group into account. At 30 September 2018, our Common Equity Tier 1 Ratio was estimated to be 19.1% (15.8% at 31 December 2017).

Risk management and control

CREDIT RISK

The Fideuram Group's lending activities support its core business of providing investment services to private customers. Loans and advances to customers principally consist of repayable-upon-demand current account overdrafts to counterparties who also receive investment services. Loans are mainly granted in the technical form of agreeing a current account overdraft facility and are linked directly to the private banking business. Lines of credit granted are normally secured by collateral in the form of pledges on products distributed by the Group (mutual funds and discretionary accounts), or equities or bonds listed on major regulated markets, or to a marginal extent by irrevocable mandates to sell financial instruments selected from those distributed by the Group. Loans and advances to banks are comprised by short-term interbank loans, principally to leading banks in the eurozone, and by debt securities.

The credit risk policies are formulated by the Board of Directors and governed by internal lending regulations following guidelines issued by Intesa Sanpaolo. These regulations ensure appropriate loan portfolio risk management, governing the authority to grant loans and specifying the company bodies so authorised, together with their related limits. The internal regulations also specify the organisational units responsible for managing credit risk, problem loans and non-performing loans. Credit risk management is carried out by a central unit that is separate from those in charge of granting and managing loans.

The credit strategies are directed towards the efficient selection of individual borrowers. Irrespective of any collateral, the granting of any loan is always subject to an appropriate analysis of the applicant's creditworthiness and their current and prospective ability to generate adequate cash flows to repay the debt.
The quality of the loan portfolio is ensured through the adoption of special operating procedures at every stage in the life of each loan, which use special monitoring systems to obtain prompt notification of any symptoms of impairment in the collateral securing the loans granted. In addition, dedicated application procedures monitor any signs of non-performing loan positions. This monitoring is carried out during every stage in the loan management process (enquiry, granting and monitoring) and consists of a critical analysis of all the relevant indicators and the periodic review of every position. Further controls are carried out by our central departments on both the nature and quality of the overall exposures. In addition, special controls are carried out to limit the concentration of exposure within the Intesa Sanpaolo Group. Risk monitoring and measurement tools and techniques developed within the Group are also used to this end.

In order to mitigate the credit risk of loans and advances to customers, the Group normally obtains collateral, bank guarantees or irrevocable mandates to sell financial instruments.
The types of collateral obtained are principally products distributed by the Fideuram Group (mutual funds and discretionary accounts) or financial instruments listed on major regulated markets. Bonds are only accepted as collateral if the issuer or loan has an appropriate rating (by leading rating agencies).

The value of the financial instruments obtained as collateral is discounted differentially in relation to the type of product and technical form concerned, as a precautionary measure when calculating the credit limit to be granted, with a view to protecting the Group against any fluctuations in market value. The concentration of collateral in issuers is very low, excepting for mutual funds and other products distributed by the Fideuram Group. There were no encumbrances at the time this report was prepared capable of undermining the legal validity of any collateral, which is moreover subject to periodic verification.

The Group uses bilateral netting agreements, which offset creditor and debtor positions in the event of the default of one counterparty, to mitigate the counterparty risk in Security Financing Transactions (SFT), specifically securities lending transactions and repurchase agreements. Aside from what has already been indicated (bilateral netting), when OTC (unregulated) derivatives are subject to a Clearing House, counterparty risk is mitigated through an additional level of collateralization represented by centralised margining.
ISDA and ISMA/GMRA agreements were used to this end, which also enable one to reduce the regulatory capital allocation while operating in accordance with the supervisory regulations.

The potential impairment of financial assets undergoes detailed ongoing monitoring, examining overdue/past due positions and carefully analysing all the other indicators available. Loans assessed as high risk, confirmed over time, are identified and allocated to other categories appropriate to their risk profile. Exposures to insolvent parties (even if insolvency has not been declared by court order) or parties in substantially equivalent situations are classified as doubtful loans, regardless of any loss estimates prepared by the intermediary. Exposures where the borrower is assessed as being unlikely to meet their payment obligations in full (principal and/or interest) are classified as unlikely to pay loans. Lastly, loans that are past due and/or overdue which have exceeded the objective overdue payment conditions specified by the Bank of Italy are also considered problem loans.

The Group's internal lending regulations govern the procedures for transferring performing positions to non-performing assets, and specify the different types of problem loans, their management and the company bodies empowered to authorise the transfer of positions between different classes of loans.
Doubtful loans, net of adjustments, accounted for a very small percentage of total loans (0.02% of loans and advances to customers). Loss forecasts are formulated analytically for each individual loan on the basis of all the relevant valuation factors (debtor assets, employment income and estimated recovery date etc.). The valuations are examined at regular intervals and revised if any significant new elements emerge.

The impairment of performing loans and past due loans is determined on the basis of an expected loss impairment model to obtain more timely recognition of credit losses in the income statement. IFRS 9 requires entities to recognise expected credit losses in the 12 months (Stage 1) after initial recognition of a financial instrument, resulting from the product of Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD), as defined in the section on accounting policies. However, the time horizon for calculating expected loss becomes the entire residual life of the asset when there has been any significant deterioration in the credit quality of the financial instrument since initial recognition (Stage 2) or if the financial instrument is impaired (Stage 3).

As part of credit risk mitigation activities, the "Collateral Assets Portal" has been operational since September 2018. This has made proper treatment possible for the purpose of calculating the RWA of the guarantees comprised by pledges on the Group's discretionary accounts. The look-through of the underlying assets can now be managed, in compliance with a mandatory requirement for regulatory recognition of mitigation activities.
This approach has made it possible to recover about €1.8bn in risk-weighted assets, corresponding to about €150m in lower regulatory capital needed to cover the credit risk.

Loans and advances to customers: credit quality

(€m)

	30.9.2018		1.1.2018		CHANGE
	NET EXPOSURE	**%**	**NET EXPOSURE**	**%**	**NET EXPOSURE**
Doubtful loans	2	-	1	-	1
Unlikely to pay	8	-	8	-	-
Past due or overdue loans	2	-	1	-	1
Non-performing assets	**12**	**-**	**10**	**-**	**2**
Performing loans	8,994	78	7,830	76	1,164
Debt instruments	2,490	22	2,499	24	(9)
Loans and advances to customers	**11,496**	**100**	**10,339**	**100**	**1,157**

LIQUIDITY RISK

The Fideuram Group manages liquidity risk in accordance with Intesa Sanpaolo's Liquidity Risk Governance Guidelines, which ensure prompt implementation of national and supranational legal and regulatory changes. The cardinal principles of said regulatory changes have been to introduce prudential rules regarding both short-term liquidity risk management and long-term liquidity risk management (structural liquidity). The Group's solidity is based on balance sheet liabilities that are mainly centred on retail customer deposits. These are deposits that benefit from considerable stability over time, meaning that the Group does not need to depend on the interbank market and can thus avoid exposure to the risk of a liquidity crisis in that market.
In addition to the stability of customer deposits, where interest-bearing assets are concerned, the Group has an investment portfolio that is governed by stringent liquidity limits for securities (readily-negotiable and eligible for Central Bank refinancing) in accordance with the provisions of the Financial Portfolio Policy based on highly-prudential criteria suitable for ensuring high and stable liquidity. The introduction of said Policy also involved setting up an operational limit monitoring and reporting unit in line with the revised Group regulations. Liquidity risk exposure is monitored constantly to ensure that the operational limits and relevant regulations are respected. The methods adopted to measure the Group's exposure to liquidity risk follow the cardinal principles of the European Banking Authority (EBA) and the provisions of the Supervisory Regulations, and ensure that the assets and liabilities items are calculated in a wholly suitable manner for providing an appropriate representation of anticipated cash flows.

MARKET RISK

Fideuram complies with the instructions of Intesa Sanpaolo concerning the governance and supervision of market risk, regarding which its role extends to the entire Fideuram Group with centralisation and monitoring functions. This governance and control is based, among other things, on extending the policies adopted by the Board of Directors to the entire Group and on the functional coordination provided by the Group's related departments.

As a rule, the Risk Committee meets quarterly to analyse investment performance, proposing strategic guidelines to the Managing Director on the basis of the risk situation identified. The Managing Director reports quarterly to the Board of Directors on the investment choices made and on the performance of the Group's portfolios and risk management. The Chief Risk Officer continually monitors market risk exposure and compliance with the limits specified by the Financial Portfolio Policy, and periodically informs the Managing Director, Risk Committee and Finance and Treasury Manager regarding the levels of exposure to the different types of risk subject to operating limits. Similar information is presented to the Board of Directors on a quarterly basis.

The composition of the securities portfolio is governed by limits with respect to asset allocation, rating, currency area, geographical area, sector concentration and counterparty. Market risk limits are likewise specified.

The Financial Portfolio Policy splits investments in securities into a liquidity portfolio, an investment portfolio and a service portfolio.
The liquidity portfolio has a prudent minimum limit of assets deemed eligible by the Central Bank, with financial characteristics that limit their risk to ensure immediate liquidity.
The size of the Investment Portfolio depends on the structure of the Group's inflows, investments and shareholders' equity.
The service portfolio serves mainly for the investment of surplus liquidity realised through trading Intesa Sanpaolo Group issues on the primary and secondary market.

The trading book mainly serves Group retail customers. The trading book also includes a securities component resulting from secondary market transactions, certain Intesa Sanpaolo Group bond issues, and foreign exchange and exchange rate derivative transactions, which are likewise engaged in to meet the needs of the Group's customers and asset management companies.

The banking book comprises long-term investment securities and interest rate hedging derivatives. The banking book totalled €16.4bn at 30 September 2018.

Banking book

(€m)

	30.9.2018	1.1.2018	CHANGE	
			AMOUNT	%
Financial assets measured at fair value through other comprehensive income	3,151	3,786	(635)	-17
Debt securities classified as loans and advances to banks	10,785	8,061	2,724	34
Debt securities classified as loans and advances to customers	2,490	2,499	(9)	-
Hedging derivatives	2	5	(3)	-60
Total	**16,428**	**14,351**	**2,077**	**14**

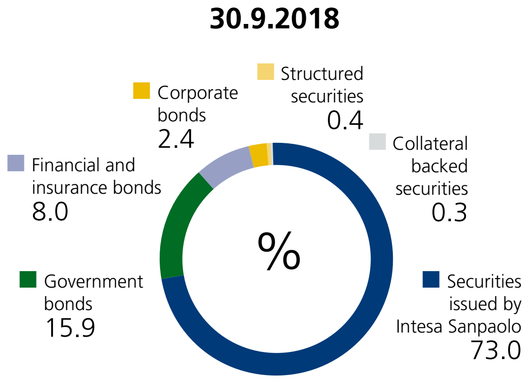
At 30 September 2018, the Group portfolio was broken down as follows by product type and rating.

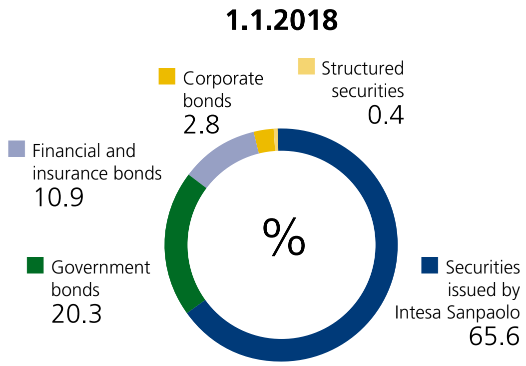
The market risk of this portfolio mainly regards the management of investments in securities. The Group's exposure to interest rate risk is, moreover, also influenced by other typical banking balance sheet items (customer deposits and loans). The financial risk of the banking book is measured using the following methods:

- the Value at Risk (VaR) only for the portfolio of securities measured at fair value through other comprehensive income.
- Sensitivity analysis for the entire banking book.

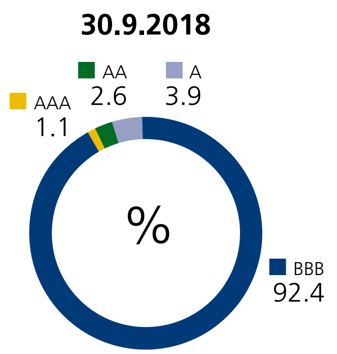
The Value at Risk is the maximum potential amount that the portfolio could lose over the next working day with a confidence interval of 99%, and is calculated using the same method adopted by Intesa Sanpaolo (volatility of the individual risk factors and the historical correlations observed between them).

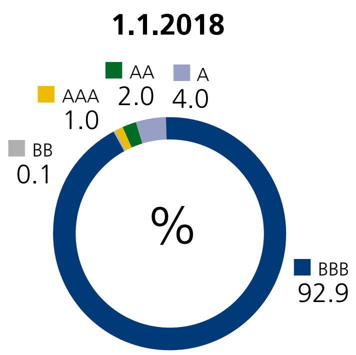
Analysis by product type





Analysis by rating





The VaR takes interest rates, credit spread and volatility into account. At the end of September 2018, the one-day spot VaR was €3m. The €3.4m reduction from June is connected with elimination of the negative scenario at the end of June from the basis for calculation. That negative scenario was characterised by the government and financial securities representing over 50% of the portfolio. The Group uses derivatives (mainly interest rate swaps) to hedge interest rate risk following a strategy that involves buying swaps linked to the individual fixed-coupon bonds in the portfolio. This strategy has made the Group's long-term securities holdings less sensitive to interest rate risk.
Where risk concentration is concerned, the securities holdings are highly diversified as a result of the stringent limits specified by the Financial Portfolio Policy, which limits the maximum exposure to any single corporate Group to 5% of the total holdings, with the sole exception of Intesa Sanpaolo.

The Fideuram Group's total exposure to interest rate risk is monitored using Asset Liability Management (ALM) techniques to determine the shift sensitivity of fair value and net interest income. The shift sensitivity, which measures the change in fair value of the banking book resulting from a 100bps upward parallel movement in the interest rate curve, is calculated taking into account the risk generated by customer demand deposits and other assets and liabilities of the banking book sensitive to shifts in the interest rate curve. For a parallel upward movement in the rate curve by 100bps, the sensitivity value of the fair value at 30 September 2018 was a negative -€24.3m. Likewise, even the interest margin sensitivity was negative -€96.9m in the event of a -50bps shock. Both of the risk indicators fall within the management limits assigned to the Group on the basis of internal policies.
The Fideuram Group has developed a pricing methodology for the measurement of financial instruments which rigorously implements the provisions of the IAS/IFRS.

This measurement is based on the concept of Fair Value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, the fair value measurement must incorporate a counterparty risk premium in the form of a Credit Value Adjustment (CVA) for assets and a Debit Value Adjustment (DVA) for liabilities.
The Group consistently calculates the fair value of financial instruments directly from their market value.
Wherever possible, the official prices on active markets are adopted as this market value, otherwise the value is obtained using pricing models based on the values of comparable securities and on market parameters.
In situations where the market is not operating normally, which is to say when there is an insufficient number of continuous transactions and the bid/ask spread and volatility are not sufficiently narrow, it is however necessary to abandon the principle of obtaining the fair value directly from market prices and to apply models that mostly use market parameters to calculate an appropriate fair value for the financial instruments.
The following are considered in assessing whether a market is operating normally:

- availability of price contributions;
- reliability of price contributions;
- size of the bid-ask spread.

In the absence of an active market, the fair value is determined using measurement techniques which ultimately aim to establish the price that the financial instrument would have had on the measurement date in an arm's-length exchange motivated by normal business considerations.

Assets and liabilities measured at fair value on a recurring basis: analysis by fair value level

(€m)

	30.9.2018			1.1.2018		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets measured at fair value through profit or loss	12	286	-	327	304	-
Financial assets measured at fair value through other comprehensive income	3,126	25	-	3,235	551	-
Hedging derivatives	-	2	-	-	5	-
Property and equipment	-	-	69	-	-	71
Total	**3,138**	**313**	**69**	**3,562**	**860**	**71**
Financial liabilities held for trading	-	30	-	-	196	-
Hedging derivatives	-	785	-	-	833	-
Total	**-**	**815**	**-**	**-**	**1,029**	**-**

These techniques include:

- reference to market values that can be indirectly linked to the financial instrument being valued and that can be obtained from products with similar risk characteristics (comparable approach);
- valuations performed using - even only partially - inputs that are not obtained from observable market parameters, using estimates and assumptions formulated by the valuer (mark-to-model).

Which of these methods is chosen is not arbitrary, since they have to be applied in hierarchical order and presented in the financial statements by level.
Absolute priority is given to the quoted active market prices of the assets and liabilities being measured (Level 1 - Effective market quotes) or of similar assets and liabilities (Level 2 - Comparable approach), and the lowest priority to unobservable inputs, which are accordingly more subjective (Level 3 - Mark-to-Model Approach).

The priority of market prices is put into practice through a process based on market-maker prices. The valuation price is calculated as the average of the prices available, selected using objectively-identified criteria. The number of contributions, the bid/ask spread and the reliability of the contributors are monitored regularly, enabling the Group to keep market prices as the appropriate prime parameter for the determination of fair value. The entire portfolio of securities measured at fair value through comprehensive income was valued at market bid prices (mark to market) to ensure the maximum transparency of the values in the financial statements. This ensures the overall holdings meet the ready liquidity criteria for items in the financial statements.

The portfolio of Level 2 financial assets mandatorily measured at fair value through profit or loss consisted of the insurance policies that the Group took out to insure the market yields of the Personal Financial Adviser Networks' Loyalty Schemes. The fair value of Class I policies is determined using a prospective actuarial method based on the principle of the initial equivalence of the average present values of the contractual commitments of the insurer and the average present values contracted by the policyholder/contracting party. The fair value of Class III policies is calculated as the value of the units at the reporting date plus any pure premiums not yet invested at the valuation date.
The derivatives in the banking book consisted principally of Interest Rate Swaps. As a rule, the Fideuram Group uses fair value hedge derivatives to reduce its exposure to adverse fair value movements due to interest rate risk. The Chief Risk Officer is responsible for assessing hedge effectiveness, carrying out prior assessments of the conditions that make hedge accounting applicable and formally documenting each hedging relationship. These assessments use prospective tests when the hedges are taken out, followed by retrospective tests at monthly intervals. An approach consistent with fair value measurement hierarchy Level 2 is used for the measurement of derivatives, based on commonly-accepted valuation processes and fed by market data providers.

Hedging derivatives taken out in ordinary investment activities – interest and exchange rate derivatives in particular – that are not traded on regulated markets but traded bilaterally with market counterparties are known as "over-the-counter" (OTC) instruments and valued using special pricing models.

A generic hedge (Macro Fair Value Hedge) of fixed rate loans was executed at the end of June 2018 with the purchase of an amortizing Interest Rate Swap with a 30-year maturity. The hedge is characterised by the missing identification of the individual underlying assets that are hedged. This choice, determined by the natural fractioning (both in terms of number and amount) of the mortgage exposures, entails periodic checks that the sensitivity and fair value of the hedging derivative are sufficient to cover the same measures calculated on the hedged assets. The size of the hedge, with a total notional of about €80 million, requires equal quarterly amortisation for both the pay fixed and receive floating legs, with the latter being indexed to the 3-month Euribor benchmark.
The hedge was fully effective and adequate both in terms of sensitivity and fair value during the first three months of valuation.

OPERATIONAL RISK

Operational risk is defined as the risk of loss arising from inadequate or ineffective internal processes, human resources or systems, or from external events. Operational risk includes legal risk and compliance risk, model risk, IT risk, and financial disclosure risk. Strategic risks and reputational risks are not included instead.

Intesa Sanpaolo has drawn up regulations and organisational processes for measuring, managing and monitoring operational risk. In response to operational risks, the Group calculates its capital requirement using the Advanced Measurement Approach (AMA) in combination with the standardised approach (TSA) and basic indicator approach (BIA) to meet its Supervisory requirements. The Advanced Measurement Approach is adopted by the main banks and entities in the Private Banking Division[1].

The Group assigns responsibility for operational risk management to its Board of Directors, which is charged with developing the Group's risk management policies, and to its Management Control Committee, which is charged with approving and monitoring the implementation of said policies, as well as with ensuring the smooth operation, efficiency and effectiveness of the operational risk management and control system. In addition, the tasks of the Group Internal Control Coordination and Operational Risk Committee include verifying the Group's overall operational risk profile, providing for any corrective actions, coordinating and monitoring the effectiveness of the principal mitigation activities undertaken and approving operational risk transfer strategies.

Intesa Sanpaolo has a centralised operational risk management unit in its Enterprise Risk Management Department. This unit is responsible for designing, implementing and supervising the methodological and organisational framework adopted, as well as for measuring risk profiles, verifying the effectiveness of risk mitigation measures and reporting to company senior management.

In compliance with current law, Fideuram Group entities are responsible for identifying, assessing, managing and mitigating risks. Each has clearly-identified internal units coordinated by Fideuram Operational Risk Management which are responsible for their Operational Risk Management processes (collection and structured recording of information on operational loss events, scenario analyses and the evaluation of risks associated with the Group's operating context).

Fideuram has developed a system of governance for the operational risk management process which assigns responsibility as follows:

- the Board of Directors is responsible for the development and strategic supervision of the risk management policies, and for ensuring the smooth operation, efficiency and effectiveness of the operational risk management and control system over time, while also deciding on matters regarding compliance with the criteria for determining the bank's capital requirement;
- the Audit Coordination Committee is responsible for monitoring the adequacy of the operational risk management and control system, and for ascertaining its compliance with the related regulatory requirements;
- the Managing Director is responsible for ensuring the suitability and effectiveness over time of the risk management and control systems, and the procedures used by the Group for determining the capital requirement;
- the Internal Audit Department is responsible for periodically auditing the operational risk management system, and for reporting on it to the Company Bodies;
- the Risk Committee is a consultative body that is responsible for analysing the reports on the operational risk profile and for proposing any actions required to prevent and mitigate operational risk;
- the Decentralised Operational Risk Management (ORM) Unit, which reports to the Chief Risk Officer, is responsible for organising and maintaining the set of activities provided for by the operational risk management system.

The Integrated Self-Diagnosis Process, which is performed annually, supports the following:

- estimation of the risk of exposure to contingent future losses following operational events (Scenario Analysis) and assessment of the monitoring level of elements characterising the operational context of the analysed Organisational Unit (Assessment of the Operational Context);
- the analysis of IT risk exposure;
- the creation of substantial synergies with the Group's specialist Human Resources and General Affairs units in charge of the development of operational processes and business continuity, with the Financial Management Governance Unit and with the Compliance and Internal Audit units that manage compliance with certain specific laws, regulations and related matters (Italian Legislative Decree 231/01 and Law 262/05) or carry out effectiveness tests on the controls on company processes.

The internal model for calculating capital absorption has been designed to combine all the main sources of information, whether quantitative (operational loss) or qualitative (Self-Diagnosis). The quantitative part is based on an analysis of the historical data regarding internal events (monitored by decentralised units, verified appropriately by the central unit and managed by a dedicated data processing system) and external events (monitored by the Operational Riskdata eXchange Association). The qualitative part (scenario analyses) is focused on the prospective valuation of the risk profile of each unit, and is based on the structured and organised collection of subjective estimates which are provided directly by Management with the aim of measuring the potential financial impact of particularly severe operational risk events. The capital at risk is therefore considered to be the minimum amount at Group level which would be required to meet the maximum potential loss that could be incurred. The capital at risk is estimated using a Loss Distribution Approach model (an actuarial statistical model for calculating the Value at Risk of operational losses), which is applied both to the quantitative data and to the results of the scenario analysis over a one-year time horizon, with a confidence interval of 99.9%. This method also involves applying a correction factor obtained from qualitative risk analyses of the operating context in order to take the effectiveness of the internal controls in the various different organisational units into account. Operational risk monitoring is carried out using an integrated reporting system that provides Management with information to support the management and/or mitigation of the risks assumed.

A structured training programme has been launched for staff actively involved in the operational risk governance process to provide continuous support for the process.

1. Except for Siref Fiduciaria, Financière Fideuram, Intesa Sanpaolo Private Bank (Suisse), Morval Vonwiller Group and Fideuram Bank (Luxembourg).

In addition, the Group follows a traditional policy for transferring operational risk (to cover offences such as employee misconduct, theft and damage, the transport of valuables, computer fraud, forgery, fire and earthquake damage and third-party liability), which contributes to mitigating its impact.

In order to achieve optimal use of the operational risk transfer instruments available and to leverage the financial benefits while complying with all the related regulatory requirements, the Intesa Sanpaolo Group has taken out an insurance policy known as an Operational Risk Insurance Programme which provides greater cover and significantly higher limits than traditional policies, transferring the risk of substantial operational losses to the insurance market. Our internal model's insurance mitigation component has been authorised by the Bank of Italy.
In addition, the Group has its own business continuity solutions that can be deployed to contain risks regarding its premises and infrastructures and the impact of events such as environmental disasters, international crises and social protests. The Fideuram Group has also taken out a traditional insurance policy to cover any cases of misconduct by the Personal Financial Advisers in the Group's Sales Networks.

The allocation of operating losses recognised during the period according to type of event (and whose amount exceeds the reporting limits set for the Group) shows that most of them can be classified as "Internal Misconduct", mainly consisting of losses due to the misappropriation of customer assets by Personal Financial Advisers and to those due to claims and disputes with customers concerning the commercial relationship. A smaller portion is attributable to the costs generated by illegal use of payment cards, disputes over relationships with human resources, anomalies in computer flows and errors in the performance and management of processes.

Aggregate losses at the Division level in the period totalled €4.4m. In particular, the item "internal fraud" showed a loss of €1.4m. This item includes provisions made to cover fraudulent events discovered during the period and connected with nine Personal Financial Advisers totalling about €4.5m (of which €526 thousand already paid as compensation to customers), €897 thousand in payments for legal fees and compensation connected with pre-existing matters, new accruals for €649 thousand, partly offset by €4.6m in uses of provisions.

The Fideuram Group continued its work on improving the processes and controls in place to mitigate risk and contain loss, and participated fully in every initiative launched by Intesa Sanpaolo.

LEGAL AND TAX RISK

The Group is involved in civil and tax lawsuits as well as in criminal proceedings against third parties as part of its normal business operations.
The Group monitors pending cases constantly in consultation with external legal advisers, examining them in the light of the relevant contractual documents, the conduct concerned, internal investigations and any critical aspects highlighted by the aforesaid legal advisers during lawsuits. The Group has set aside provisions for legal disputes to cover, among other things, the liabilities that could, according to internal and external legal advice, be incurred as a result of pending legal and other disputes. At 30 September 2018, these provisions totalled €88m. The total provisions and the amount of the individual provisions set aside are calculated on the basis of external and internal legal advisers' estimations of the proceedings having negative outcomes. As a consequence of said process, certain pending proceedings in which the Group is involved and regarding which a negative outcome is considered either remote or not quantifiable are not included in the provisions for legal disputes. At 30 September 2018, the number and value of pending proceedings were not sufficient to have any potential significant impact on the business, assets or financial situation of the Group.
The situation regarding legal and tax risk at 30 September 2018 had changed as follows with respect to the situation described in the consolidated financial statements at 31 December 2017.

Tax disputes
After the general audit carried out in 2014 by the Large Taxpayers Office of the Lazio Regional Office of the Italian Revenue Agency, appeals filed by Fideuram against the claims made over the application of tax withholding on the interest generated by foreign accounts in 2009, 2010 and 2011 had alternating fortunes. At the hearing held in May 2018 on the tax years 2009 and 2010, the Regional Tax Court ultimately accepted the appeal lodged by the Tax Authorities. The company will consequently appeal that decision to the Court of Cassation. In regard to the 2011 tax year, the Provincial Tax Court rejected the company's appeal on 19 March 2018. An appeal against that decision is currently being filed with the Lazio Regional Tax Court.
Since these claims are groundless, no amount has been set aside in the provision for tax disputes regarding these claims.

In December 2016, the Large Taxpayers Office of the Lombardy Regional Office of the Italian Revenue Agency served Intesa Sanpaolo Private Banking with several notices of assessment, challenging the deductibility of the amortisation charge for goodwill resulting from the deeds of transfer of the business unit from IRES corporate income tax and IRAP regional business tax in the 2011 tax year. Subsequently, in August 2017, the Large Taxpayers Office of the Lombardy Regional Office of the Italian Revenue Agency served further notices of assessment on the same matter of IRES corporate income tax and IRAP regional business tax regarding 2012 as well.
The appeals filed by the company before the Provincial Tax Court were accepted. The Italian Revenue Agency filed an appeal before the Lombardy Regional Tax Court against that decision. In August 2018, the aforementioned administrative office served the company with additional notices assessing IRES corporate income tax, the regional surcharges for IRES corporate income tax and IRAP regional business tax for the 2013 tax year. These documents concern the same issue that was already being disputed for the years 2011 and 2012 The bank will file an appeal before the Provincial Tax Commission regarding this dispute as well. Since the tax office's claim is groundless, no amount has been set aside in the provision for tax disputes.

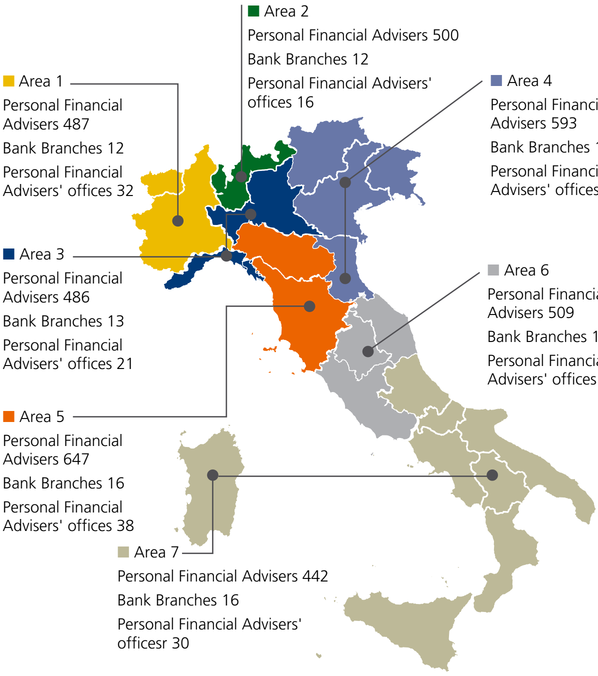
Human capital

SALES NETWORKS

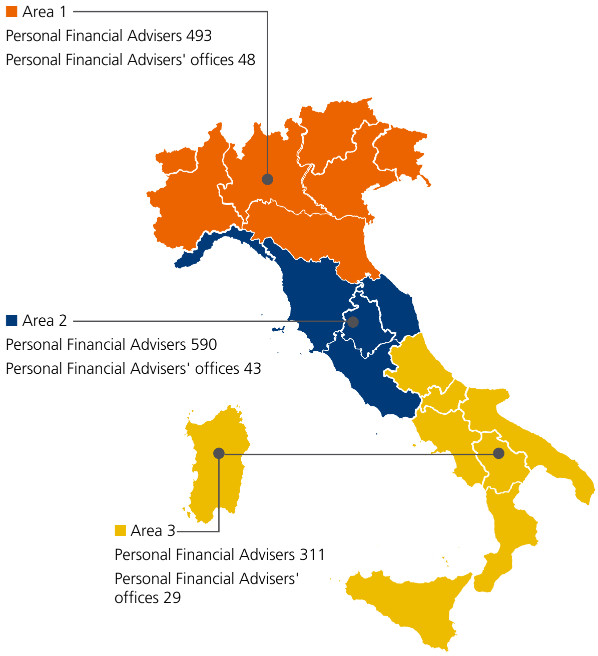
The Group's distribution networks (Fideuram, Sanpaolo Invest, Intesa Sanpaolo Private Banking and Foreign Networks) totalled 6,057 Personal Financial Advisers at 30 September 2018 compared with 5,990 at the beginning of 2018.

	BEGINNING OF PERIOD 1.1.2018 (*)	IN	OUT	NET	END OF PERIOD 30.9.2018
Fideuram Network	3,635	110	81	29	3,664
Sanpaolo Invest Network	1,428	42	76	(34)	1,394
Intesa Sanpaolo Private Banking Network	880	83	31	52	932
Foreign Network (**)	47	24	4	20	67
Total	**5,990**	**259**	**192**	**67**	**6,057**

Fideuram Network: 7 areas



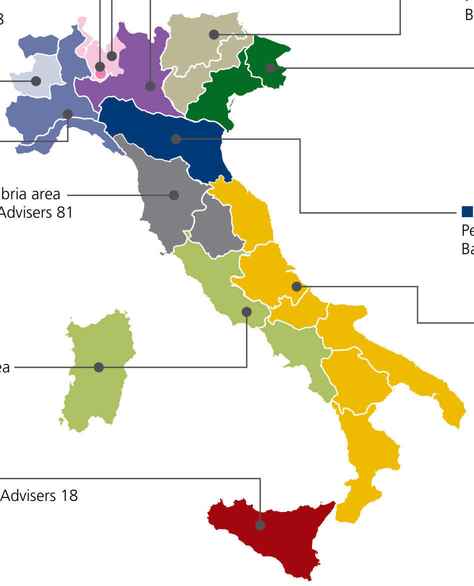
Sanpaolo Invest Network: 3 areas



(*) Restated taking the changes in the scope of consolidation into account so that straight comparisons can be made.

(**) The Foreign Network includes the financial advisers of the Morval Vonwiller Group, Intesa Sanpaolo Private Bank (Suisse), DJ Inversiones, and the London Branch of Intesa Sanpaolo Private Banking.

Intesa Sanpaolo Private Banking Network: 12 areas



The Fideuram and Sanpaolo Invest Networks' recruitment programmes brought in 152 new professionals in the first nine months of 2018 (compared with 221 new Personal Financial Advisers recruited in the corresponding period of 2017) and 254 over the past 12 months, compared with 280 new employees in the previous twelve-month period. 157 Personal Financial Advisers left the Group in the first nine months of the year, only 29% of whom, however, moved to competitor networks.

Fideuram Personal Financial Advisers

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
9 months					
1.1.2018 - 30.9.2018	3,635	110	81	29	3,664
1.1.2017 - 30.9.2017	3,571	152	117	35	3,606
Twelve-month period					
1.10.2017 - 30.9.2018	3,606	180	122	58	3,664
1.10.2016 - 30.9.2017	3,593	193	180	13	3,606

Sanpaolo Invest Personal Financial Advisers

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
9 months					
1.1.2018 - 30.9.2018	1,428	42	76	(34)	1,394
1.1.2017 - 30.9.2017	1,429	69	75	(6)	1,423
Twelve-month period					
1.10.2017 - 30.9.2018	1,423	74	103	(29)	1,394
1.10.2016 - 30.9.2017	1,439	87	103	(16)	1,423

Excluding the two personal financial advisers located in London, the Intesa Sanpaolo Private Banking Network currently numbers 892 Personal Financial Advisers who are salaried employees registered in Italy's Unified Register of Financial Advisers and 40 freelance professionals on agency contracts.

Intesa Sanpaolo Private Banking Personal Financial Advisers

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
9 months					
1.1.2018 - 30.9.2018	880	83	31	52	932
1.1.2017 - 30.9.2017	842	63	26	37	879
Twelve-month period					
1.10.2017 - 30.9.2018	879	89	36	53	932
1.10.2016 - 30.9.2017	846	70	37	33	879

The Foreign Network of the Group is composed of 67 Personal Financial Advisers, and includes 46 personal financial advisers at the Morval Vonwiller Group, 17 at Intesa Sanpaolo Private Bank (Suisse), two at DJ Inversiones, and two personal financial advisers at Intesa Sanpaolo Private Banking located in London.

The recruitment programmes were conducted with the greatest rigour and professionalism by the managements of the Group's Networks, and focused on finding Personal Financial Advisers of high standing in line with the role of market leader which has always distinguished the Fideuram Group. The training and work of these top professionals are guided by the principles of ethics and transparency which differentiate the Group and aim, among other things, to secure customer loyalty through the support of financial advisory services that are tailored to each customer's personal investment needs and risk profile.

Moreover, we continued to see steady growth in the Personal Financial Advisers who have joined our Team Fideuram project, conceived to promote collaboration between Personal Financial Advisers with a view to developing and providing enhanced support for their customers. At the end of September 2018, 1,008 Personal Financial Advisers had joined together in teams, collectively managing a total of around €9.3bn assets for over 81,000 customers.

EMPLOYEES

Total Group staff, including secondments to and from other companies in the Intesa Sanpaolo Group not included in the consolidation of the Fideuram Group and atypical staff, came to 3,351 at 30 September 2018, compared with 3,229 at 31 December 2017.
Direct employees totalled 3,274.

Human Resources

(number)

	30.9.2018	31.12.2017 (*)	30.9.2017 (*)
Fideuram - Intesa Sanpaolo Private Banking	1,365	1,362	1,335
Intesa Sanpaolo Private Banking	1,427	1,363	1,346
Sanpaolo Invest SIM	48	49	49
Siref Fiduciaria	83	84	85
Morval Vonwiller Group	114	103	105
Intesa Sanpaolo Private Bank (Suisse)	72	33	27
DJ Inversiones	5	-	-
Financière Fideuram	4	4	4
Asset Management	**233**	**231**	**226**
Fideuram Asset Management (Ireland)	63	66	63
Fideuram Bank (Luxembourg)	67	66	68
Fideuram Investimenti SGR	103	99	95
Total	**3,351**	**3,229**	**3,177**

(*) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made after acquisition in the second quarter of 2018 and the merger of Fideuram Fiduciaria with Siref Fiduciaria effective 1 January 2018.

Events after the reporting period and outlook

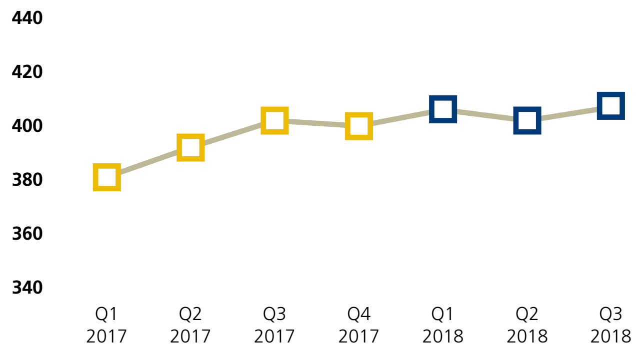
There were no significant events after the reporting period requiring any changes to be made to the consolidated financial statements at 30 September 2018.

The financial markets experienced extreme volatility during the first nine months of 2018, but managed assets, totalling €154bn at 30 September 2018, were far higher than the average figure for 2017, which came to €144.2bn, and are boosting recurring fee and commission income.

In the absence of other significant increases in the premiums paid for Italian debt risk and its consequent impact on financial markets, the current account deposit growth policies, cost control, and constant risk monitoring may allow our Group to end the current year with a result substantially on par with 2017.

Quarterly net recurring fees

(€m)



The Board of Directors
Milan, 5 November 2018

Accounting Policies

DECLARATION OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Consolidated Interim Report at 30 September 2018 has been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission.

ACCOUNTING POLICIES

The accounting standards adopted to prepare this Report and concerning the classification, recognition, measurement and derecognition of assets and liabilities, and the procedures used to measure revenue and costs, have changed substantially from those used to prepare the Consolidated Financial Statements 2017. These changes stem from the mandatory application of the following international financial reporting standards beginning 1 January 2018:

- IFRS 9 – Financial Instruments, issued by the IASB in July 2014 and endorsed by the European Commission with Commission Regulation (EU) No. 2067/2016, which replaced IAS 39 for the classification, measurement and impairment of financial instruments;
- IFRS 15 – Revenue from Contracts with Customers, endorsed by the European Commission with Regulation (EU) No. 1905/2016, which replaced IAS 18 – Revenue, and IAS 11 – Construction Contracts.

The accounting policies of the Fideuram Group are described as follows, limited to the changes implemented beginning 1 January 2018 to account for the application of IFRS 9 and IFRS 15. All the other accounting and financial reporting standards used to prepare this Report are the same as those used to prepare the financial statements at 31 December 2017, where they are described in greater detail.
As for the procedures to be used in presenting the effects of first-time adoption of IFRS 9, the Group exercised the option granted in paragraph 7.2.15 of IFRS 9 and in paragraphs E1 and E2 of IFRS 1 – First-Time Adoption of International Financial Reporting Standards. Notwithstanding the retroactive application of the new measurement and presentation rules imposed by the standard, IFRS 9 does not require restatement of the comparative financial statement figures on a like-for-like basis when the standard is applied for the first time. In accordance with the instructions published at the end of December 2017 with the issuance of the 5th update to Bank of Italy Circular 262/2005, "Il bilancio bancario: schemi e regole per la compilazione" ("Bank financial statements: templates and compilation rules"), the banks that use their exemption from having to recalculate the comparative figures will have to include a reconciliation statement with the first financial statements prepared in accordance with the new version of Circular 262. That reconciliation statement shall show the method used and reconcile the figures between the last approved financial statements and the first financial statements prepared in accordance with the new rules. In this part of the report, we have published a reconciliation statement in the section dedicated to transition to the new IFRS 9. That reconciliation statement highlights the reclassifications and adjustments made to guarantee that the figures are restated in accordance with the requirements of IFRS 9.

The Consolidated Interim Report comprises the balance sheet, income statement, statement of comprehensive income and statement of changes in equity, accompanied by explanatory notes on the Group's performance. The account statements are published in the format mandated in the 5th update to Bank of Italy Circular 262/2005, in force from 1 January 2018. The report uses the euro as its presentation currency, and all the figures herein are stated in millions of euro unless specified otherwise.
The income statement for the first nine months of 2018 is compared with the income statement for the corresponding period in 2017, while the balance sheet at 30 September 2018 is compared with the balance sheet at 31 December 2017. The comparative data are represented by the net amounts that were previously defined by applying the requirements of IAS 39, restated as necessary within the new templates provided for by the Bank of Italy.
The balance sheet and income statement at 30 September 2018 referred to in the explanatory notes are a reclassified condensed balance sheet and reclassified condensed income statement to facilitate comparison of the figures for different periods and to enable a clearer and more immediate understanding of the Group's financial position. These statements were prepared using appropriate groupings of the items in the official financial statements. Detailed information on the restatements and reclassifications is presented in specific reconciliation statements provided in the schedules accompanying these financial statements. In regard to the reclassified balance sheet template, the comparative data at 1 January 2018 have been calculated by applying the new IFRS 9 to the net amounts of the consolidated balance sheet at 31 December 2017, when IAS 39 was applied, so that the figures may be compared.
The Consolidated Interim Report is not subject to an audit by the Independent Auditors.

SCOPE AND METHODS OF CONSOLIDATION

The companies included in the line-by-line consolidation of Fideuram at 30 September 2018 are listed below.

Equity investments at 30.9.2018

NAME	REGISTERED OFFICE	ASSOCIATE COMPANY	% SHARE OF INTEREST
Sanpaolo Invest SIM S.p.A.	Turin	Fideuram	100.000%
Intesa Sanpaolo Private Banking S.p.A.	Milan	Fideuram	100.000%
Fideuram Investimenti SGR S.p.A.	Milan	Fideuram	99.500%
Siref Fiduciaria S.p.A.	Milan	Fideuram	100.000%
Fideuram Asset Management (Ireland) dac	Dublin	Fideuram	100.000%
Fideuram Bank (Luxembourg) S.A.	Luxembourg	Fideuram	100.000%
Financière Fideuram S.A.	Paris	Fideuram	99.999%
Intesa Sanpaolo Private Bank (Suisse) S.A.	Lugano	Fideuram	100.000%
DJ Inversiones S.A.	Buenos Aires	Intesa Sanpaolo Private Bank (Suisse)	95.000%
		Fideuram	5.000%
Morval Vonwiller Holding S.A.	Sarnen	Fideuram	94.578%
Banque Morval S.A.	Geneva	Morval Vonwiller Holding	100.000%
Morval SIM S.p.A.	Turin	Banque Morval	100.000%
Fiduciaria Generale e di Revisioni Contabili S.p.A.	Milan	Banque Morval	60.000%
		Fideuram	40.000%
Southern Group Ltd	George Town	Morval Vonwiller Holding	100.000%
Morval Vonwiller Advisors S.A.	Montevideo	Southern Group Limited	100.000%
Morval Vonwiller Assets Management Co. Ltd	Tortola	Morval Vonwiller Holding	100.000%
Morval Bank & Trust Cayman Ltd	George Town	Morval Vonwiller Assets Management	100.000%
Morval Gestion SAM	Monaco	Morval Vonwiller Holding	100.000%

The Consolidated Interim Report includes Fideuram and its direct and indirect subsidiaries and associates subject to significant influence. Fideuram Vita S.p.A., in which Fideuram holds a 19.99% equity interest, and Qingdao Yicai Wealth Management Ltd., in which Fideuram holds a 25% equity interest, are consolidated using the equity method. The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries for the reference date 30 September 2018, adjusted where necessary to bring them into line with the Group's accounting policies. The financial statement data of companies operating outside the European Monetary Union are translated to euro applying the period-end exchange rates to balance sheet items and the average exchange rates for the period to income statement items. Any exchange rate differences arising from translations at said exchange rates are recognised in the valuation reserve. Compared with the situation at 31 December 2017, the scope of consolidation of the Fideuram Group changed with the exclusion of Fideuram Fiduciaria after its merger with Siref Fiduciaria S.p.A., effective 1 January 2018. Moreover, the Morval Vonwiller Group and the Argentine firm DJ Inversiones S.A. were acquired. Both acquisitions were carried out as part of the foreign development project pursued by the Private Banking Division of Intesa Sanpaolo.

THE TRANSITION TO IFRS 9

IFRS 9: THE NEW INTERNATIONAL FINANCIAL REPORTING STANDARD ON FINANCIAL INSTRUMENTS

Regulatory provisions

On 1 January 2018, the new IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission with Regulation (EU) 2067/2016, replaced IAS 39, which governed the recognition and measurement of financial instruments until 31 December 2017.

IFRS 9 is divided into three distinct areas for the classification and measurement of financial instruments, their impairment and hedge accounting.

In the first area, IFRS 9 requires that the classification of financial assets be guided by the characteristics of the associated contractual cash flows and business model under which those assets are held. Under IFRS 9, financial assets are classified in three categories instead of the four categories envisaged under IAS 39, using the two aforementioned drivers. The three categories are: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss. Financial assets may be recognised in the first two categories and then measured at amortised cost or at fair value through other comprehensive income only if it has been proven that they originate cash flows represented exclusively by payments of principal and interest ("solely payment of principal and interest" – SPPI). Equities are always measured in the third category and are measured at fair value through profit or loss, unless they are not held for trading and the entity irrevocably elects at initial recognition to present value changes in another comprehensive income reserve that will never be transferred to profit or loss even if the financial instrument is sold (Financial assets measured at fair value through other comprehensive income without recycling).

No substantial changes from IAS 39 are introduced for the financial liabilities. The only new requirement regards the accounting treatment of own credit risk. The new standard requires fair value change due to own credit risk on financial liabilities measured at fair value through profit or loss to be presented in other comprehensive income, unless this treatment leads to or amplifies a measurement or recognition inconsistency in net profit, and for the remaining amount of the fair value change of the liabilities to be recognised in profit or loss.

IFRS 9 introduces new impairment model for instruments measured at amortised cost and at fair value through other comprehensive income (other than equity instruments), replacing the incurred loss model envisaged under IAS 39 with an expected loss impairment model to obtain more timely recognition of credit losses in the income statement. IFRS 9 requires entities to recognise expected credit losses in the 12 months (Stage 1) after initial recognition of a financial instrument. However, the time horizon for calculating expected loss becomes the entire residual life of the asset when there has been any significant deterioration in the credit quality of the financial instrument since initial recognition (Stage 2) or if the financial instrument is impaired (Stage 3).

In more detail, introduction of the new impairment rules entails:

- allocation of the performing financial assets in different credit risk stages (staging), to which correspond adjustments based on the expected losses over the next 12 months (stage 1), or lifetime, for the entire remaining duration of the instrument (stage 2), when the credit risk has increased significantly upon comparison between the Probabilities of Default at the initial recognition date and the reporting date;
- the allocation of non-performing financial assets in stage 3, always with adjustments based on expected lifetime losses;
- inclusion of forward looking information in the calculation of expected credit losses (ECL), with that prospective information being tied, inter alia, to the evolution in the macroeconomic scenario.

Lastly, the new hedge accounting model allows an entity to reflect risk management activities in the financial statements, as well as strengthening the quality of risk management reporting by the entity that prepares the financial statements. The Group elected to opt out of this requirement in accordance with Intesa Sanpaolo guidelines and to keep the current IAS 39 rules.

Implementation by Fideuram

In order to assess the impact that the adoption of IFRS 9 has had on the organisation and its financial reporting, Fideuram is taking part in an Intesa Sanpaolo Group project to ensure consistent implementation of the new financial reporting standard from 1 January 2018. After having obtained an in-depth understanding of the areas the standard will affect and to identify its quantitative and qualitative impacts, the application and organisational measures necessary for the effective organic adoption of the new financial reporting standard have been implemented.

The procedures for applying the Solely Payments of Principal and Interest (SPPI) test to contractual cash flows have been specified. Analyses have confirmed that the Group's entire portfolio of loans, receivables and bonds has passed the SPPI test.

The Fideuram Group has identified the following business models for the recognition and measurement of financial instruments:

1. Hold to Collect, covering financial instruments which are held stably in the portfolio and generate net interest income. These financial instruments are recognised as financial assets measured at amortised cost.
2. Hold to Collect and Sell, covering financial instruments held to generate net interest income and maximise portfolio returns through sales that take advantage of favourable market opportunities. These financial instruments are recognised as financial assets measured at fair value through other comprehensive income.
3. Other, mostly covering – for minimal and residual business – financial instruments purchased from private banking customers, measured at fair value through profit or loss.

In two cases beginning on 1 January 2018, several portfolio reclassifications were made to consider the underlying business models on the date of first-time adoption of IFRS 9, as required by that standard. These reclassifications focused in particular on several debt securities measured at fair value through equity pursuant to IAS 39 which, upon first-time adoption of IFRS 9, were included in the Hold to Collect business model (and thus measured at amortised cost) and in the Other business model (and thus measured at fair value through profit or loss).

Finally, the following activities have been completed regarding impairment:

- the procedures for tracking the credit quality of portfolios of financial assets measured at amortised cost and at fair value through other comprehensive income have been established.
- the parameters for determining a significant increase in credit risk in order to allocate performing loans correctly to Stage 1 or Stage 2 have been established.
- the models (which include forward-looking information) for staging and calculating one-year and lifetime expected credit loss have been finalised.

EFFECTS OF FIRST-TIME ADOPTION OF IFRS9

Reconciliation statements between the statement templates used in the consolidated financial statements 2017 and the IFRS 9 statement templates (introduced with the new version of Bank of Italy Circular 262) at 31 December 2017

Following below are the template for the balance sheet published in the consolidated financial statements 2017 and the new balance sheet template introduced by the new version of Bank of Italy Circular 262, which interposes implementation of the presentation criteria imposed by IFRS 9. In these statements, the financial data at 31 December 2017, calculated in accordance with IAS 39, have been moved to the new account items in accordance with the classification criteria introduced by IFRS 9, but without application of the new measurement methods, and thus with the total assets and liabilities remaining equal.

Balance Sheet – Assets

(€m)

IFRS 9 / IAS 39	10. CASH AND CASH EQUIVALENTS	20. FINANCIAL ASSETS HELD FOR TRADING	30. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	40. FINANCIAL ASSETS AVAILABLE FOR SALE	60. LOANS AND ADVANCES TO BANKS	70. LOANS AND ADVANCES TO CUSTOMERS	80. HEDGING DERIVATIVES	100. EQUITY INVESTMENTS	120. PROPERTY AND EQUIPMENT	130. INTANGIBLE ASSETS	140. TAX ASSETS	160. OTHER ASSETS	TOTAL ASSETS
10. Cash and cash equivalents	78												**78**
20. Financial assets measured at fair value through profit or loss		43	259	321									**623**
30. Financial assets measured at fair value through other comprehensive income				3,686									**3,686**
40. Financial assets measured at amortised cost				589	22,510	9,645							**32,744**
50. Hedging derivatives							5						**5**
70. Equity investments								148					**148**
90. Property and equipment									53				**53**
100. Intangible assets										188			**188**
110. Tax assets											161		**161**
130 Other assets												1,045	**1,045**
TOTAL ASSETS	**78**	**43**	**259**	**4,596**	**22,510**	**9,645**	**5**	**148**	**53**	**188**	**161**	**1,045**	**38,731**

The principal reclassifications of the net amounts on the consolidated balance sheet prepared in accordance with IAS 39 at 31 December 2017 for proper application of the new classification rules mandated by IFRS 9 are illustrated as follows:

- reclassification of a portion of the available-for-sale debt securities pursuant to IAS 39. Of these, €589m has been allocated to financial assets measured at amortised cost and €311m has been added to financial assets measured at fair value through profit or loss (FVTPL);
- reclassification of the financial instruments held to service the incentive schemes for the Personal Financial Advisers and risk takers of the Fideuram Group classified under financial assets measured at fair value pursuant to IAS 39 which, for a total of €259m, have been reallocated to financial assets measured at fair value through profit or loss (FVTPL);
- reclassification of the units of mutual funds classified as available-for-sale financial assets which, for a total of €10m, have been reclassified as financial assets measured at fair value through profit or loss.

In addition to the reclassifications due to the application of IFRS 9 (i.e. through the business model and SPPI Test), those resulting from introduction of the new official financial statement templates should also be indicated in consequence of the update to Bank of Italy Circular 262 of December 2017. Accordingly, we note:

- the previous items for loans and advances to customers, loans and advances to banks, and held-to-maturity investments have been moved to item 40. Financial assets measured at amortised cost;
- the items for financial assets held for trading and financial assets measured at fair value have been moved to item 20. Financial assets measured at fair value through profit or loss.

Balance Sheet - Liabilities

(€m)

IFRS 9 / IAS 39	10. DUE TO BANKS	20. DUE TO CUSTOMERS	40. FINANCIAL LIABILITIES HELD FOR TRADING	60. HEDGING DERIVATIVES	80. TAX LIABILITIES	100. OTHER LIABILITIES	110. PROVISION FOR EMPLOYMENT TERMINATION INDEMNITIES	120. PROVISIONS FOR RISKS AND CHARGES	140. VALUATION RESERVES	170. RESERVES	180. SHARE PREMIUM RESERVE	190. SHARE CAPITAL	220. NET PROFIT (LOSS) FOR THE YEAR	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY
10. Financial liabilities measured at amortised cost	2,641	30,581												**33,222**
20. Financial liabilities held for trading			45	148										**193**
40. Hedging derivatives				833										**833**
60. Tax liabilities					96									**96**
80. Other liabilities						1,097								**1,097**
90. Provision for employment termination indemnities							53							**53**
100. Provisions for risks and charges								459						**459**
120. Valuation reserves									(69)					**(69)**
150. Reserves										1,470				**1,470**
160. Share premium reserve											206			**206**
170. Share capital												300		**300**
200. Net profit (loss) for the year (+/-)													871	**871**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,641**	**30,581**	**45**	**981**	**96**	**1,097**	**53**	**459**	**(69)**	**1,470**	**206**	**300**	**871**	**38,731**

No significant reclassifications have been made for financial liabilities in consequence of the transition to IFRS 9. To be thorough, only the reclassification of €148m in derivatives to the trading portfolio is shown, which had previously been classified as hedging instruments. Therefore, upon first-time adoption of IFRS 9, the hedging relationships were interrupted because they were tied to financial instruments recognised as assets on the balance sheet which have now been moved to financial assets measured at fair value through profit or loss.

It is also necessary to mention the Liability items which have been reclassified under the new official templates introduced by Bank of Italy Circular 262. Accordingly, we note that the previous items for Due to banks, Due to customers, and Debt on issue have been moved to item 10. Financial liabilities measured at amortised cost.

Reconciliation between the balance sheet at 31 December 2017 (prepared according to the IFRS 9 classification rules) and the balance sheet at 1 January 2018 (prepared according to the IFRS measurement and impairment rules)

The statements for reconciliation of the balance sheet at 31 December 2017 (under IAS 39) which include the reclassifications made in accordance with the new classification rules of IFRS 9 and the balance sheet at 1 January 2018 (IFRS 9) are illustrated as follows. In these statements, the financial data at 31 December 2017 (calculated according to IAS 39) have been modified to reflect the application of the new measurement and impairment rules to determine the initial net amounts that are IFRS 9 compliant.

Balance Sheet

(€m)

ASSETS	31.12.2017	EFFECT OF TRANSITION TO IFRS 9		1.1.2018
		CLASSIFICATION AND MEASUREMENT	IMPAIRMENT	
10. Cash and cash equivalents	78			78
20. Financial assets measured at fair value through profit or loss	623			623
30. Financial assets measured at fair value through other comprehensive income	3,686			3,686
40. Financial assets measured at amortised cost	32,744	60	(34)	32,770
50. Hedging derivatives	5			5
70. Equity investments	148			148
90. Property and equipment	53			53
100. Intangible assets	188			188
110. Tax assets	161	13		174
130. Other assets	1,045			1,045
TOTAL ASSETS	**38,731**	**73**	**(34)**	**38,770**

LIABILITIES	31.12.2017	EFFECT OF TRANSITION TO IFRS 9	1.1.2018
10. Financial liabilities measured at amortised cost	33,222		33,222
20. Financial liabilities held for trading	193		193
40. Hedging derivatives	833		833
60. Tax liabilities	96	(1)	95
80. Other liabilities	1,097		1,097
90. Provision for employment termination indemnities	53		53
100. Provisions for risks and charges	459	2	461
120. Valuation reserves	(69)	119	50
150. Reserves	1,470	(81)	1,389
160. Share premium reserve	206		206
170. Share capital	300		300
200. Net profit (loss) for the year (+/-)	871		871
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**38,731**	**39**	**38,770**

Reconciliation between Shareholders' Equity under IAS 39 and Shareholders' Equity under IFRS 9
The summary statement of the impact on Consolidated Shareholders' Equity at 1 January 2018 after the transition to IFRS 9 is shown as follows.

Impact on consolidated Shareholders' Equity of first-time adoption of IFRS 9 net of tax effect

(€m)

Adjustment to carrying value of financial assets resulting from modification of business model	62
Impairment of financial instruments, guarantees issued and commitments to disburse funds	(24)
Total	**38**

Classification of the financial assets in the new categories mandated by IFRS 9 and the consequently different valuation metric generated a positive impact (net of the tax effect) of €62m on the Consolidated Shareholders' Equity of the Fideuram Group. In more detail, this effect is attributable to the following factors:

- the adjustment to the carrying amount of financial assets in consequence of the change in the business model generated a positive impact of €40 million;
- confirmation upon first-time adoption of IFRS 9 of the Hold to Collect business model caused derecognition from the accounts of the negative equity reserve for debt securities which, due to the amendment to IAS 39, had been reclassified in 2008-2009 from the available-for-sale portfolio to the loan portfolio. The reversal of that negative reserve, as a contra-entry for the carrying value of the securities, generated a positive impact of €22 million.

The application of new impairment rules (expected credit losses) to Financial assets measured at amortised cost, to guarantees, and to commitments to disburse funds generated a negative impact (net of the tax effect) of €24 million.

MAIN FINANCIAL STATEMENT ITEMS

The main changes introduced by the application of the new financial reporting standard IFRS 9 are described as follows, with specific indication of the new financial statement items. The reader is referred to the notes to the consolidated financial statements at 31 December 2017 for a description of the other financial statement items.

CLASSIFICATION CRITERIA FOR FINANCIAL ASSETS

The classification of financial assets in the three categories envisaged by IFRS 9 is based on two classification criteria, or drivers:

- the business model used for management of the financial instruments;
- the contractual characteristics of the cash flows of the financial assets.

The classification of the financial assets derives from the combined effect of the two drivers mentioned above as described below:

- Financial assets measured at amortised cost: assets that pass the test on contractual characteristics (SPPI test) and fall in the Hold to Collect (HTC) business model;
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and fall in the Hold to Collect and Sell (HTCS) business model;
- Financial assets measured at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model or the test of the contractual cash flow characteristics (SPPI test not passed).

SPPI test
For a financial asset to be classified as at amortised cost or at FVOCI – in addition to the analysis of the business model – the contractual terms of the asset must also provide, on specified dates, for cash flows consisting of solely payments of principal and interest (SPPI). This analysis must be carried out for loans and debt securities in particular.
The SPPI test must be carried out on every single financial instrument when it is recognised in the financial statements. After initial recognition and as long as it is carried on the balance sheet, the asset is no longer subject to new measurements for the purposes of the SPPI test.
If the test shows that the contractual cash flows are significantly different from the cash flows of a benchmark instrument, the contractual cash flows cannot be considered compliant with the definition of SPPI. The presence of contractual clauses that may change the frequency or amount of the contractual cash flows must also be considered to determine whether those cash flows meet the requirements to be considered as SPPIs (e.g. prepayment options, the possibility of deferring contractually agreed cash flows, embedded derivative instruments, subordinated instruments, etc.).

Business model
With regard to the business models, IFRS9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed:

- Hold to Collect (HTC): this is a business model whose objective is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated to it. The inclusion of the portfolio of financial assets in this business model does not necessarily result in the inability to sell the instruments, but the frequency, value and timing of sales in prior periods, the reasons for the sales, and the expectations about future sales, need to be considered;
- Hold to Collect and Sell (HTCS): this is a mixed business model whose objective is achieved by collecting the contractual cash flows of the financial assets in portfolio and also through the sale of the financial assets, which is an integral part of the strategy. Both activities (collection of contractual flows and sale) are indispensable for achieving the business model's objective. Accordingly, sales are more frequent and significant than for an HTC business model and are an integral part of the strategies pursued;

- Other/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that does not come under the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured based on fair value.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management with the appropriate involvement of the business structures. It is observed by considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of the financial assets, or from both.
The business model does not depend on management intentions regarding an individual financial instrument but refers to the ways in which groups of financial assets are managed to achieve a specific business objective.

In summary, the business model:

- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management with the participation of business units as appropriate;
- must be observable by considering the way the financial assets are managed.

For the Hold to Collect portfolios, the Group has set limits for frequent but not significant sales to be considered eligible (individually or in aggregate), or for infrequent sales even if their amount is significant, and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

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, this item includes:

- financial assets held for trading;
- financial assets mandatorily measured at fair value through profit or loss, 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 only require repayments of principal and payments of interest on the amount of principal to be repaid, or which are not held for the collection of contractual cash flows (Hold to Collect business model), or whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets (Hold to Collect and Sell business model);
- financial assets measured at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. In regard to this case, upon recognition an entity may irrevocably designate a financial asset as measured at fair value through profit or loss if, and only if, doing so eliminates or significantly eliminates inconsistent measurement.

Therefore, this item shows:

- the debt securities and loans that are included in an Other/Trading business model (and thus not associable with a Hold to Collect or Hold to Collect and Sell business model), or that do not pass the test on contractual characteristics (SPPI test);
- equity instruments which cannot be qualified as controlling or associated interests, and for which the option for measurement through other comprehensive income was not exercised upon initial recognition;
- units in mutual funds.

This item also consists of derivatives, recognised as financial assets held for trading, which are recognised as assets if their fair value is positive.
According to the general rules established by IFRS9 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.

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.
Upon initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.
After initial recognition, the financial assets measured at fair value through profit or loss are carried at fair value. The effects of application of this measurement method are recognised in profit or loss.
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

This category consists of the financial assets which meet both of the following conditions:

- the financial asset is held under a business model whose objective may be pursued both through the collection of contractually required cash flows and through sale (Hold to Collect and Sell business model);
- the contractual terms of the financial asset require cash flows at fixed dates represented solely by payments of principal and interest on the principal to be repaid.

This category also includes equity instruments that are not held for trading and for which at the time of initial recognition the option for designation at fair value through other comprehensive income has been exercised.

In particular, this item includes:

- the debt securities that fall under a Hold to Collect and Sell business model and which have passed the test on contractual characteristics (SPPI test);
- the equity interests that do not qualify as controlling, associated or joint control interests, which are not held for trading, and for which the option of designation at fair value through other comprehensive income has been exercised.

No reclassifications to other categories of financial assets are allowed, except when the entity modifies its own business model for the management of financial assets.
These financial assets are initially recognised at the settlement date for debt and equity securities. The assets are recognised at fair value upon initial recognition, inclusive of the transaction costs or income directly attributable to the instrument itself.
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 profit or loss 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 sale of all or part of the financial asset, the gain or loss accumulated in the valuation reserve is transferred entirely or partially to the income statement. The equity instruments which were classified in this category are measured at fair value, and the amounts recognised through equity must not be subsequently transferred to the income statement, not even upon disposal. Dividends are the only component that can be associated with the equity instruments in question and which is recognised in profit or loss.
The Financial assets measured at fair value through other comprehensive income are subject to testing of a significant increase in credit risk (impairment) under IFRS 9, with consequent recognition in profit or loss of an adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination 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 exposures 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.
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets.

FINANCIAL ASSETS MEASURED AT AMORTISED COST

This category includes the financial assets (in particular loans and debt securities) that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Hold to Collect business model);
- the contractual terms of the financial asset require cash flows at fixed dates represented solely by payments of principal and interest on the principal to be repaid.

In particular, this item includes:

- loans to banks in the different technical forms that meet the requirements set out in the paragraph above;
- loans to customers in the different technical forms that meet the requirements set out in the paragraph above;
- the debt securities that meet the requirements set out in the paragraph above.

This category also includes the operating receivables connected with the performance of financial activities and services.
No reclassifications to other categories of financial assets are allowed, except when the entity modifies its own business model for the management of financial assets.
Initial recognition of the financial asset occurs at settlement date for debt securities and at disbursement date for loans. The assets are recognised at fair value upon initial recognition, inclusive of the transaction costs or income directly attributable to the instrument itself.
In particular, for loans, the disbursement date is usually the same as the date of signing of the contract. Should this not be the case, a commitment to disburse funds is made along the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised on the basis of its fair value, which is equal to the amount disbursed plus the costs/income which can be directly linked with the individual loan.
After initial recognition, the financial assets examined here are measured at amortised cost using the effective interest rate method. This method is not used for assets measured at historic cost, whose short duration minimises the effect of discounting, for those without a definite maturity date and for revocable loans.
The accounting policies are strictly connected with inclusion of the instruments examined here in one of the three stages of credit risk envisaged in IFRS 9. The last of these (stage 3) covers non-performing financial assets and the remainder (stages 1 and 2) performing financial assets.
With regard to the accounting representation of the above measurement effects, the value adjustments for this type of asset are recognised in profit or loss:

- upon initial recognition, for an amount equal to the expected loss at 12 months;
- upon subsequent measurement of the asset, if the credit risk has not significantly increased from its initial recognition, according to the changes in the amount of the adjustments for expected losses over the following 12 months;
- upon subsequent measurement of the asset, if the credit risk has significantly increased from its initial recognition,

according to the recognition of adjustments for expected losses over the entire remaining contractually envisaged life of the asset;

- on subsequent measurement of the asset, where – after a significant increase in credit risk has occurred since initial recognition – the increase is no longer "significant", due to the alignment of the cumulative value adjustments to take account of the change from a lifetime expected credit loss to a 12-month expected credit loss for the instrument.

If the analysed financial assets are performing, they are assessed to determine the adjustments to be recognised in the financial statements for each individual loan (or "tranche" of securities), according to the risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified as non-performing, like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate. The amount of the loss to be recognised in the income statement shall be defined according to an analytical measurement process or determined according to uniform categories and then analytically attributed to each position. Non-performing assets include financial assets classified as doubtful, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and EU Supervisory Regulations.
The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for any impairment cease to apply as a result of events subsequent to the recognition of an impairment loss, the reversal of the impairment loss is recognised in profit or loss. The reversals may not exceed the amortised cost that the financial instrument would have had if it had not previously been written down. Recoveries on impairment with time value effects are recognised in net interest income. In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised. In general, changes to a financial asset lead to its being derecognised and the recognition of a new asset when those changes are substantial. The extent of the change has to be assessed by considering both qualitative and quantitative elements.

The analyses aimed at defining the substantial nature of contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiation for commercial reasons and concessions due to financial difficulties of the counterparty:
  - the former, aimed at "retaining" the customer, involve a borrower that is not in financial difficulty. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These operations involve a change in the original conditions of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the bank would incur a decrease in expected future revenues;
  - the latter, carried out for reasons of credit risk (forbearance measures), relate to the bank's attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the changes, are not normally substantially transferred and, consequently, the accounting representation that provides the most relevant information for the readers of the financial statements is "modification accounting" – which involves the recognition through profit or loss of the difference between the carrying value and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;
- the presence of specific objective elements ("triggers") that influence the characteristics and/or contractual flows of the financial instrument (e.g. the change of currency or change in the type of risk exposure) which are believed to involve derecognition in light of their significant impact on the original contractual flows.

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets.

HEDGING

The Group has exercised the option allowed upon the introduction of IFRS 9 to continue applying all the provisions of IAS 39 relating to hedge accounting (in the carved out version endorsed by the European Commission) for all types of hedges.

PROVISIONS FOR RISKS AND CHARGES TO COVER COMMITMENTS AND GUARANTEES

This sub-item of the provisions for risks and charges contains the provisions for credit risk recognised for loan commitments and guarantees given that come under the scope of the IFRS9 impairment rules. The same rules for allocation among the three stages and for calculation have been adopted for these cases to calculate the expected loss shown in reference to the financial assets measured at amortised cost or at fair value through comprehensive income. Moreover, the aggregate also contains the provisions for risks and charges accrued to cover other types of commitments and guarantees which, due to their peculiar characteristics, do not fall within the cited scope for application of impairment pursuant to IFRS 9.

IMPAIRMENT MEASUREMENTS

Impairment of financial assets

At every reporting date, the financial assets other than those measured at fair value through profit or loss are tested to determine whether there is evidence that might justify considering that the carrying value of those assets cannot be fully recovered. A similar analysis is also performed for the commitments to disburse funds and for the guarantees that fall within the scope of impairment under IFRS 9.

If such evidence exists ("evidence of impairment"), the financial assets in question shall be considered doubtful and placed in stage 3. Adjustments equal to the expected losses for their entire remaining lifetime have to be recognised for these exposures, which are represented by the financial assets classified – pursuant to the provisions of Bank of Italy Circular 262/2005 – in the categories of doubtful loan, unlikely to pay, and past due for more than ninety days categories.

For financial assets for which there is no evidence of impairment (performing financial instruments), on the other hand it is necessary to check whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:

- when those indicators exist, the financial asset is classified in stage 2. Measurement in that case, even in the absence of manifest impairment, requires the recognition of adjustments equal to the losses expected over the entire residual lifetime of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of "significantly increased" credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- when those indicators do not exist, the financial asset is classified in stage 1. In that case, even if there is no manifest impairment, the measurement must recognise the expected losses for the specific financial instrument over the following 12 months. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has "significantly increased" – the change in the forecast period for the calculation of the expected loss.

The following elements have to be considered for measurement of the financial assets and, in particular, identification of the "significant increase" in credit risk (a necessary and sufficient condition for classification of the measured stage 2 asset):

- the variation of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a relative basis, which constitutes the main driver;
- any presence of payments that are at least 30 days past due. In that case, the credit risk of the exposure is considered to be presumably and "significantly increased" and consequently the asset is moved to stage 2;
- any presence of forbearance measures that entail classifying the exposures among those whose credit risk has increased significantly since initial recognition.

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the requirements of IFRS9.

The following definitions apply to PD, LGD, and EAD:

- PD (Probability of Default): likelihood of being moved from the status of performing to that of non-performing loan over a one-year time horizon; in the models consistent with supervisory provisions, the PD factor is typically quantified through the rating;
- LGD (Loss Given Default): percentage of loss in the event of default. In the models that are consistent with supervisory regulations, it is quantified through the historic experience of recoveries discounted on the loans that have been reclassified as non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of exposure at the time of default.

TRANSFERS OF FINANCIAL ASSETS DISCLOSURES

Certain supplemental information has to be provided in the year of first-time adoption of the provisions governing the classification and measurement of financial assets pursuant to IFRS 9. Accordingly, it is noted that the Group, upon first-time adoption of the new accounting standard, has reclassified €589m in bonds from the available-for-sale bonds portfolio to the portfolio of financial assets measured at amortised cost. The table below shows the book value, fair value and effects on the Group's total comprehensive income of the reclassified bonds.

(€m)

TYPE OF FINANCIAL INSTRUMENT	SOURCE CATEGORY	DESTINATION CATEGORY	RECLASSIFICATION DATE	RESTATED BOOK VALUE AT 30.9.2018	FAIR VALUE AT 30.9.2018	GAINS/LOSSES WITHOUT TRANSFER IN SHAREHOLDERS' EQUITY (PRE-TAX)	INTEREST INCOME RECOGNISED IN THE PERIOD (PRE-TAX)
Debt securities	Financial assets available for sale	Financial assets measured at amortised cost	1.1.2018	611	543	(69)	10

Consolidated financial statements

Consolidated balance sheet

(€m)

ASSETS	**30.9.2018**	**31.12.2017**
10. Cash and cash equivalents	253	78
20. Financial assets measured at fair value through profit or loss	298	302
a) financial assets held for trading	31	43
b) financial assets measured at fair value	-	259
c) financial assets mandatorily measured at fair value	267	-
30. Financial assets measured at fair value through other comprehensive income	3,151	4,596
40. Financial assets measured at amortised cost	35,249	32,155
a) loans and advances to banks	23,753	22,510
b) loans and advances to customers	11,496	9,645
50. Hedging derivatives	2	5
60. Adjustments to financial assets subject to macro-hedging (+/-)	(1)	-
70. Equity investments	156	148
80. Reinsurers' share of technical reserves	-	-
90. Property and equipment	81	53
100. Intangible assets	213	188
of which: goodwill	167	140
110. Tax assets	160	161
a) current	38	26
b) deferred	122	135
120. Non-current assets held for sale and discontinued operations	-	-
130. Other assets	1,008	1,045
TOTAL ASSETS	**40,570**	**38,731**

Chairman of the Board of Directors
Paolo Maria Vittorio Grandi

Managing Director
Paolo Molesini

Manager responsible for the preparation of the Company Accounts
Paolo Bacciga

Consolidated balance sheet

(€m)

LIABILITIES AND SHAREHOLDERS' EQUITY	30.9.2018	31.12.2017
10. Financial liabilities measured at amortised cost	35,444	33,222
a) due to banks	2,469	2,641
b) due to customers	32,975	30,581
c) debt on issue	-	-
20. Financial liabilities held for trading	30	45
30. Financial liabilities measured at fair value	-	-
40. Hedging derivatives	785	981
50. Adjustments to financial liabilities subject to macro-hedging (+/-)	-	-
60. Tax liabilities	97	96
a) current	47	35
b) deferred	50	61
70. Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80. Other liabilities	1,064	1,097
90. Provision for employment termination indemnities	51	53
100. Provisions for risks and charges:	447	459
a) commitments and guarantees	2	-
b) pensions and other commitments	11	11
c) other provisions for risks and charges	434	448
110. Technical reserves	-	-
120. Valuation reserves	(4)	(69)
130. Redeemable shares	-	-
140. Equity instruments	-	-
150. Reserves	1,493	1,470
160. Share premium reserve	206	206
170. Share capital	300	300
180. Treasury shares (-)	-	-
190. Equity attributable to non-controlling interests (+/-)	-	-
200. Net profit (loss) for the period (+/-)	657	871
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**40,570**	**38,731**

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Consolidated income statement

(€m)

	9 MONTHS 2018	9 MONTHS 2017
10. Interest income and similar income	180	248
of which: interest income calculated with the effective interest method	*244*	*237*
20. Interest expense and similar expense	(62)	(117)
30. Net interest income	**118**	**131**
40. Fee and commission income	1,844	1,775
50. Fee and commission expense	(579)	(535)
60. Net fee and commission income	**1,265**	**1,240**
70. Dividends and similar income	-	-
80. Net profit (loss) on trading activities	6	7
90. Net profit (loss) on hedging derivatives	-	1
100. Net profit (loss) on sale or repurchase of:	23	15
a) financial assets measured at amortised cost	11	6
b) financial assets measured at fair value through other comprehensive income	12	9
c) financial liabilities	-	-
110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	-	4
a) financial assets and liabilities measured at fair value	-	4
b) other financial assets mandatorily measured at fair value	-	-
120. Total net interest and trading income	**1,412**	**1,398**
130. Net impairment for credit risk related to:	(2)	(6)
a) financial assets measured at amortised cost	(2)	(1)
b) financial assets measured at fair value through other comprehensive income	-	(5)
140. Gains/losses on contractual changes without cancellation	-	-
150. Operating income	**1,410**	**1,392**
160. Net insurance premiums	-	-
170. Other income/expense from insurance activities	-	-
180. Operating income from financing and insurance activities	**1,410**	**1,392**
190. Administrative expenses:	(632)	(590)
a) personnel expenses	(255)	(246)
b) other administrative expenses	(377)	(344)
200. Net provisions for risks and charges	(11)	(32)
a) commitments and guarantees	-	-
b) other net provisions	(11)	(32)
210. Depreciation of property and equipment	(3)	(2)
220. Amortisation of intangible assets	(11)	(16)
230. Other income/expense	178	165
240. Operating expenses	**(479)**	**(475)**
250. Profit (loss) on equity investments	6	9
260. Net fair value gains (losses) on property and equipment and intangible assets	-	-
270. Goodwill impairment	-	-
280. Gain (loss) on disposal of investments	-	8
290. Profit (loss) before tax from continuing operations	**937**	**934**
300. Income taxes for the period on continuing operations	(280)	(272)
310. Profit (loss) after tax from continuing operations	**657**	**662**
320. Profit (loss) after tax from discontinued operations	-	-
330. Net profit (loss) for the period	**657**	**662**
340. Net profit (loss) for the period attributable to non-controlling interests	-	-
350. Parent company interest in net profit (loss) for the period	**657**	**662**

Chairman of the Board of Directors
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Paolo Bacciga

Consolidated statement of comprehensive income

(€m)

	9 MONTHS 2018	9 MONTHS 2017
10. Net profit (loss) for the period	**657**	**662**
Other comprehensive income after tax not transferred to the income statement	**-**	**-**
20. Equity instruments measured at fair value through other comprehensive income	-	-
30. Financial liabilities measured at fair value through profit or loss (changes in own credit rating)	-	-
40. Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50. Property and equipment	-	-
60. Intangible assets	-	-
70. Defined-benefit plans	-	-
80. Non-current assets held for sale and discontinued operations	-	-
90. Valuation reserves related to investments carried at equity	-	-
Other comprehensive income after tax that may be transferred to the income statement	**(54)**	**14**
100. Hedging of net investments in foreign operations	-	-
110. Exchange rate differences	4	(2)
120. Cash flow hedges	3	(2)
130. Hedging instruments (undesignated elements)	-	-
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(56)	21
150. Non-current assets held for sale and discontinued operations	-	-
160. Valuation reserves related to investments carried at equity	(5)	(3)
170. Total other comprehensive income after tax	**(54)**	**14**
180. Total comprehensive income	**603**	**676**
190. Total comprehensive income attributable to non-controlling interests	-	-
200. Total comprehensive income attributable to parent company	603	676

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Statement of changes in consolidated equity

(€m)

	BALANCE AT 31.12.2017	CHANGE IN OPENING BALANCES	BALANCE AT 1.1.2018	ALLOCATION OF INCOME FOR THE PREVIOUS YEAR		CHANGES IN THE PERIOD									SHAREHOLDERS' EQUITY AT 30.9.2018	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AT 30.9.2018	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 30.9.2018
							TRANSACTIONS INVOLVING SHAREHOLDERS' EQUITY										
				RESERVES	DIVIDENDS AND OTHER	CHANGES IN RESERVES	ISSUE OF NEW SHARES	PURCHASE OF TREASURY SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES BASED ON TREASURY SHARES	STOCK OPTIONS	CHANGES IN EQUITY INVESTMENTS	TOTAL COMPREHENSIVE INCOME AT 30.9.2018			
Share capital:	**300**	**-**	**300**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**300**	**300**	**-**	
a) ordinary shares	300	-	300	-	-	-	-	-	-	-	-	-	-	300	300	-	
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Share premium reserve	**206**	**-**	**206**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**206**	**206**	**-**	
Reserves:	**1,470**	**(81)**	**1,389**	**83**	**-**	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,493**	**1,493**	**-**	
a) from net income	1,396	(81)	1,315	83	-	21	-	-	-	-	-	-	-	1,419	1,419	-	
b) other	74	-	74	-	-	-	-	-	-	-	-	-	-	74	74	-	
Valuation reserves	**(69)**	**119**	**50**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(54)**	**(4)**	**(4)**	**-**	
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Net profit (loss) for the period	**871**	**-**	**871**	**(83)**	**(788)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**657**	**657**	**657**	**-**	
Shareholders' equity	**2,778**	**38**	**2,816**	**-**	**(788)**	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**603**	**2,652**	**2,652**	**-**	
Equity attributable to owners of the parent company	**2,778**	**38**	**2,816**	**-**	**(788)**	**21**	**-**	**-**	**-**	**-**	**-**	**-**	**603**	**2,652**			
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**			

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Managing Director
Paolo Molesini

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Paolo Bacciga

Statement of changes in consolidated equity

(€m)

	BALANCE AT 31.12.2016	CHANGE TO OPENING BALANCE	BALANCE AT 1.1.2017	ALLOCATION OF INCOME FOR THE PREVIOUS YEAR		CHANGES IN THE PERIOD										SHAREHOLDERS' EQUITY AT 30.9.2017	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AT 30.9.2017	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 30.9.2017
							TRANSACTIONS INVOLVING SHAREHOLDERS' EQUITY											
				RESERVES	DIVIDENDS AND OTHER	CHANGES IN RESERVES	ISSUE OF NEW SHARES	PURCHASE OF TREASURY SHARES	INTERIM DIVIDENDS	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES BASED ON TREASURY SHARES	STOCK OPTIONS	CHANGES IN EQUITY INVESTMENTS	TOTAL COMPREHENSIVE INCOME AT 30.9.2017			
Share capital:	**300**	**-**	**300**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**300**	**300**	**-**
a) ordinary shares	300	-	300	-	-	-	-	-	-	-	-	-	-	-	-	300	300	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**206**	**-**	**206**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**206**	**206**	**-**
Reserves:	**1,373**	**-**	**1,373**	**72**	**-**	**11**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,456**	**1,456**	**-**
a) from net income	1,299	-	1,299	72	-	11	-	-	-	-	-	-	-	-	-	1,382	1,382	-
b) other	74	-	74	-	-	-	-	-	-	-	-	-	-	-	-	74	74	-
Valuation reserves	**(84)**	**-**	**(84)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14**	**(70)**	**(70)**	**-**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interim dividends	**(600)**	**-**	**(600)**	**-**	**600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) for the period	**786**	**-**	**786**	**(72)**	**(714)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**662**	**662**	**662**	**-**
Shareholders' equity	**1,981**	**-**	**1,981**	**-**	**(114)**	**11**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**676**	**2,554**	**2,554**	**-**
Equity attributable to owners of the parent company	**1,981**	**-**	**1,981**	**-**	**(114)**	**11**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**676**	**2,554**		
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		

Chairman of the Board of Directors
Paolo Maria Vittorio Grandi

Managing Director
Paolo Molesini

Manager responsible for the preparation of the Company Accounts
Paolo Bacciga

Certification by the Manager responsible for the preparation of the company accounts

The Manager responsible for the preparation of the company accounts, Paolo Bacciga, hereby certifies in accordance with article 154 bis, sub-paragraph 2, of the Italian Finance Consolidation Act that the accounting information contained in this Consolidated Interim Report at 30 September 2018 corresponds to the accounting documents, records and books.

Milan, 5 November 2018

Paolo Bacciga
Manager responsible for the preparation
of the Company Accounts

Schedules

Basis of preparation of the restated financial statements

The comparative analysis of the balance sheet and income statement data for the first nine months of 2018 compared with the corresponding figures for 2017 reflects:

- the impact of first-time adoption of IFRS 9 – Financial Instruments, which, beginning on 1 January 2018, replaced IAS 39 for the classification, measurement and impairment of financial instruments and hedging transactions. The introduction of IFRS 9 has caused the Bank of Italy fully to revise its templates, which have been published as new mandatory financial statements for banks in the 5th update to Bank of Italy Circular 262/2005;
- the acquisition by Fideuram on 10 April 2018 of 94.6% of the share capital of Morval Vonwiller Holding, a financial company that controls the Swiss group by the same name which operates in the private banking and wealth management sector.

So that comparisons may be made on a like-for-like basis and the effects from first-time adoption of IFRS 9 and acquisition of the Morval Group can be adequately represented, reconciliation statements of the official balance sheet and income statement and the corresponding restated balance sheet and restated income statement are provided as follows. They were prepared by making the adjustments to the historical data required to reflect retrospectively the changes which occurred in the first nine months of 2018, but without changing the operating profit and shareholders' equity stated in the official financial statements published in previous periods. The net effects of the adjustments have been stated under net profit attributable to non-controlling interests in the restated income statement and under equity attributable to non-controlling interests in the restated balance sheet. Specifically:

- the balance sheet at 31 December 2017 has been restated to include both the impact of first-time adoption of IFRS 9 and the contribution of the Morval Vonwiller Group for comparative purposes;
- the restated income statement was prepared to include the contribution of the Morval Vonwiller Group to the Group's results, both for the first three months of 2018 and for the first nine months of 2017.

Reconciliation statements of the official and restated financial statements

Reconciliation of published consolidated balance sheet at 31 December 2017 and restated consolidated balance sheet at 1 January 2018

(€m)

ASSETS	PUBLISHED BALANCE SHEET AT 31 DECEMBER 2017	EFFECT OF TRANSITION TO IFRS 9	CHANGE IN SCOPE OF CONSOLIDATION (*)	RESTATED BALANCE SHEET AT 1 JANUARY 2018
10. Cash and cash equivalents	78	-	94	172
20. Financial assets measured at fair value through profit or loss	302	321	8	631
a) financial assets held for trading	43	-	3	46
b) financial assets measured at fair value	259	-	-	-
c) financial assets mandatorily measured at fair value	-	580	5	585
30. Financial assets measured at fair value through other comprehensive income	4,596	(910)	100	3,786
40. Financial assets measured at amortised cost	32,155	615	185	32,955
a) loans and advances to banks	22,510	(3)	109	22,616
b) loans and advances to customers	9,645	618	76	10,339
50. Hedging derivatives	5	-	-	5
60. Adjustments to financial assets subject to macro-hedging (+/-)	-	-	-	-
70. Equity investments	148	-	-	148
80. Reinsurers' share of technical reserves	-	-	-	-
90. Property and equipment	53	-	29	82
100. Intangible assets	188	-	1	189
of which: goodwill	140	-	-	140
110. Tax assets	161	13	1	175
a) current	26	-	1	27
b) deferred	135	13	-	148
120. Non-current assets held for sale and discontinued operations	-	-	-	-
130. Other assets	1,045	-	13	1,058
TOTAL ASSETS	**38,731**	**39**	**431**	**39,201**

(*) Figures for contribution by the Morval Vonwiller Group in 2017.

(€m)

LIABILITIES AND SHAREHOLDERS' EQUITY	PUBLISHED BALANCE SHEET AT 31 DECEMBER 2017	EFFECT OF TRANSITION TO IFRS 9	CHANGE IN SCOPE OF CONSOLIDATION (*)	RESTATED BALANCE SHEET AT 1 JANUARY 2018
10. Financial liabilities measured at amortised cost	33,222	-	267	33,489
a) due to banks	2,641	-	3	2,644
b) due to customers	30,581	-	264	30,845
c) debt on issue	-	-	-	-
20. Financial liabilities held for trading	45	148	3	196
30. Financial liabilities measured at fair value	-	-	-	-
40. Hedging derivatives	981	(148)	-	833
50. Adjustments to financial liabilities subject to macro-hedging (+/-)	-	-	-	-
60. Tax liabilities	96	(1)	6	101
a) current	35	-	-	35
b) deferred	61	(1)	6	66
70. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
80. Other liabilities	1,097	-	4	1,101
90. Provision for employment termination indemnities	53	-	-	53
100. Provisions for risks and charges:	459	2	1	462
a) commitments and guarantees	-	2	-	2
b) pensions and other commitments	11	-	-	11
c) other provisions for risks and charges	448	-	1	449
110. Technical reserves	-	-	-	-
120. Valuation reserves	(69)	119	-	50
130. Redeemable shares	-	-	-	-
140. Equity instruments	-	-	-	-
150. Reserves	1,470	(81)	-	1,389
160. Share premium reserve	206	-	-	206
170. Share capital	300	-	-	300
180. Treasury shares (-)	-	-	-	-
190. Equity attributable to non-controlling interests (+/-)	-	-	150	150
200. Net profit (loss) for the period (+/-)	871	-	-	871
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**38,731**	**39**	**431**	**39,201**

(*) Figures for contribution by the Morval Vonwiller Group in 2017.

Reconciliation of published consolidated income statement at 30 September 2017 and restated consolidated income statement at 30 September 2017

(€m)

	9 MONTHS 2017 PUBLISHED	CHANGE IN SCOPE OF CONSOLIDATION (*)	9 MONTHS 2017 RESTATED
10. Interest income and similar income	248	2	250
of which: interest income calculated with the effective interest method	*237*	*2*	*239*
20. Interest expense and similar expense	(117)	(1)	(118)
30. Net interest income	**131**	**1**	**132**
40. Fee and commission income	1,775	20	1,795
50. Fee and commission expense	(535)	(3)	(538)
60. Net fee and commission income	**1,240**	**17**	**1,257**
70. Dividends and similar income	-	-	-
80. Net profit (loss) on trading activities	7	3	10
90. Net profit (loss) on hedging derivatives	1	-	1
100. Net profit (loss) on sale or repurchase of:	15	1	16
a) financial assets measured at amortised cost	6	-	6
b) financial assets measured at fair value through other comprehensive income	9	1	10
c) financial liabilities	-	-	-
110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	4	1	5
a) financial assets and liabilities measured at fair value	4	-	4
b) other financial assets mandatorily measured at fair value	-	1	1
120. Total net interest and trading income	**1,398**	**23**	**1,421**
130. Net impairment for credit risk related to:	(6)	-	(6)
a) financial assets measured at amortised cost	(1)	-	(1)
b) financial assets measured at fair value through other comprehensive income	(5)	-	(5)
140. Gains/losses on contractual changes without cancellation	-	-	-
150. Operating income	**1,392**	**23**	**1,415**
160. Net insurance premiums	-	-	-
170. Other income/expense from insurance activities	-	-	-
180. Operating income from financing and insurance activities	**1,392**	**23**	**1,415**
190. Administrative expenses:	(590)	(19)	(609)
a) personnel expenses	(246)	(13)	(259)
b) other administrative expenses	(344)	(6)	(350)
200. Net provisions for risks and charges	(32)	-	(32)
a) commitments and guarantees	-	-	-
b) other net provisions	(32)	-	(32)
210. Depreciation of property and equipment	(2)	-	(2)
220. Amortisation of intangible assets	(16)	-	(16)
230. Other income/expense	165	-	165
240. Operating expenses	**(475)**	**(19)**	**(494)**
250. Profit (loss) on equity investments	9	-	9
260. Net fair value gains (losses) on property and equipment and intangible assets	-	-	-
270. Goodwill impairment	-	-	-
280. Gain (loss) on disposal of investments	8	-	8
290. Profit (loss) before tax from continuing operations	**934**	**4**	**938**
300. Income taxes for the period on continuing operations	(272)	(1)	(273)
310. Profit (loss) after tax from continuing operations	**662**	**3**	**665**
320. Profit (loss) after tax from discontinued operations	-	-	-
330. Net profit (loss) for the period	**662**	**3**	**665**
340. Net profit (loss) for the period attributable to non-controlling interests	-	(3)	(3)
350. Parent company interest in net profit (loss) for the period	**662**	**-**	**662**

(*) Figures for contribution by the Morval Vonwiller Group in the first nine months of 2017.

Reconciliation of consolidated income statement at 30 September 2018 and restated consolidated income statement at 30 September 2018

(€m)

	9 MONTHS 2018 PUBLISHED	CHANGE IN SCOPE OF CONSOLIDATION (*)	9 MONTHS 2018 RESTATED
10. Interest income and similar income	180	-	180
of which: interest income calculated with the effective interest method	*244*	-	*244*
20. Interest expense and similar expense	(62)	-	(62)
30. Net interest income	**118**	**-**	**118**
40. Fee and commission income	1,844	6	1,850
50. Fee and commission expense	(579)	(1)	(580)
60. Net fee and commission income	**1,265**	**5**	**1,270**
70. Dividends and similar income	-	-	-
80. Net profit (loss) on trading activities	6	1	7
90. Net profit (loss) on hedging derivatives	-	-	-
100. Net profit (loss) on sale or repurchase of:	23	-	23
a) financial assets measured at amortised cost	11	-	11
b) financial assets measured at fair value through other comprehensive income	12	-	12
c) financial liabilities	-	-	-
110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	-	-	-
a) financial assets and liabilities measured at fair value	-	-	-
b) other financial assets mandatorily measured at fair value	-	-	-
120. Total net interest and trading income	**1,412**	**6**	**1,418**
130. Net impairment for credit risk related to:	(2)	-	(2)
a) financial assets measured at amortised cost	(2)	-	(2)
b) financial assets measured at fair value through other comprehensive income	-	-	-
140. Gains/losses on contractual changes without cancellation	-	-	-
150. Operating income	**1,410**	**6**	**1,416**
160. Net insurance premiums	-	-	-
170. Other income/expense from insurance activities	-	-	-
180. Operating income from financing and insurance activities	**1,410**	**6**	**1,416**
190. Administrative expenses:	(632)	(6)	(638)
a) personnel expenses	(255)	(4)	(259)
b) other administrative expenses	(377)	(2)	(379)
200. Net provisions for risks and charges	(11)	-	(11)
a) commitments and guarantees	-	-	-
b) other net provisions	(11)	-	(11)
210. Depreciation of property and equipment	(3)	-	(3)
220. Amortisation of intangible assets	(11)	-	(11)
230. Other income/expense	178	-	178
240. Operating expenses	**(479)**	**(6)**	**(485)**
250. Profit (loss) on equity investments	6	-	6
260. Net fair value gains (losses) on property and equipment and intangible assets	-	-	-
270. Goodwill impairment	-	-	-
280. Gain (loss) on disposal of investments	-	-	-
290. Profit (loss) before tax from continuing operations	**937**	**-**	**937**
300. Income taxes for the period on continuing operations	(280)	-	(280)
310. Profit (loss) after tax from continuing operations	**657**	**-**	**657**
320. Profit (loss) after tax from discontinued operations	-	-	-
330. Net profit (loss) for the period	**657**	**-**	**657**
340. Net profit (loss) for the period attributable to non-controlling interests	-	-	-
350. Parent company interest in net profit (loss) for the period	**657**	**-**	**657**

(*) Figures for contribution by the Morval Vonwiller Group in the first three months of 2018.

Basis of preparation of the reclassified financial statements

The balance sheet and income statement at 30 September 2018 are a reclassified balance sheet and reclassified income statement to facilitate comparison of the figures for different periods and to enable a clearer and more immediate understanding of the Group's financial position. These statements were prepared using appropriate groupings of the items in the official financial statements.

Moreover, the reclassified consolidated income statement has been changed as follows to provide a clearer presentation of the Group's operating performance:

- Net profit (loss) on financial assets, fee and commission income and expense, and the provisions have been stated net of the returns on the insurance policies taken out as part of the Personal Financial Adviser Networks' Loyalty Schemes, recognised in the official Bank of Italy schedule as net profit (loss) on assets mandatorily measured at fair value, which – in pertaining to the Personal Financial Advisers – have been recognised as commission expense and provisions.
- Net profit on financial assets and personnel expenses have been stated net of the change in fair value of the Intesa Sanpaolo shares purchased under the employee bonus schemes.
- Expenses for stamp duty on current and deposit accounts, which are recognised in the official Bank of Italy schedule under administrative expenses, have been stated net of income from amounts recovered.
- Fee and commission income has been stated net of the amount related to net interest income.
- Non-recurring income and expenses have been reclassified, net of tax effect, in a separate item designated "Non-recurring income (expenses) net of tax".
- The expenses incurred for maintaining the stability of the banking system (consisting of the contributions to the Deposit Guarantee Scheme and to the Single Resolution Fund, in addition to the expenses connected with the voluntary scheme set up by the Interbank Deposit Guarantee Fund) have been reclassified in a separate item, net of tax, designated "Expenses regarding the banking system (net of tax)".

Reconciliation statements of the restated and reclassified financial statements

Reconciliation of consolidated balance sheet and reclassified consolidated balance sheet

(€m)

RECLASSIFIED BALANCE SHEET ITEMS – ASSETS	**CONSOLIDATED BALANCE SHEET ITEMS – ASSETS**	**30.9.2018**	**1.1.2018**
Financial assets measured at fair value through profit or loss		298	631
	Item 20. Financial assets measured at fair value through profit or loss	*298*	*631*
Financial assets measured at fair value through other comprehensive income		3,151	3,786
	Item 30. Financial assets measured at fair value through other comprehensive income	*3,151*	*3,786*
Loans and advances to banks		23,753	22,616
	Item 40. a) Financial assets measured at amortised cost – advances to banks	*23,753*	*22,616*
Loans and advances to customers		11,496	10,339
	Item 40. b) Financial assets measured at amortised cost – advances to customers	*11,496*	*10,339*
Hedging derivatives		2	5
	Item 50. Hedging derivatives	*2*	*5*
Equity investments		156	148
	Item 70. Equity investments	*156*	*148*
Property and equipment and intangible assets		294	271
	Item 90. Property and equipment	*81*	*82*
	Item 100. Intangible assets	*213*	*189*
Tax assets		160	175
	Item 110. Tax assets	*160*	*175*
Other assets		1,260	1,230
	Item 10. Cash and cash equivalents	*253*	*172*
	Item 60. Adjustments to financial assets subject to macro-hedging (+/-)	*(1)*	*-*
	Item 130. Other assets	*1,008*	*1,058*
Total assets	**Total assets**	**40,570**	**39,201**

RECLASSIFIED BALANCE SHEET ITEMS – LIABILITIES	**CONSOLIDATED BALANCE SHEET ITEMS – LIABILITIES**	**30.9.2018**	**1.1.2018**
Due to banks		2,469	2,644
	Item 10. a) Financial liabilities measured at amortised cost – due to banks	*2,469*	*2,644*
Due to customers		32,975	30,845
	Item 10. b) Financial liabilities measured at amortised cost – due to customers	*32,975*	*30,845*
Financial liabilities held for trading		30	196
	Item 20. Financial liabilities held for trading	*30*	*196*
Hedging derivatives		785	833
	Item 40. Hedging derivatives	*785*	*833*
Tax liabilities		97	101
	Item 60. Tax liabilities	*97*	*101*
Other liabilities		1,115	1,154
	Item 80. Other liabilities	*1,064*	*1,101*
	Item 90. Provision for employment termination indemnities	*51*	*53*
Provisions for risks and charges		447	462
	Item 100. Provisions for risks and charges	*447*	*462*
Share capital and reserves		1,995	1,945
	Items 120, 150, 160, 170 Equity attributable to owners of the parent company	*1,995*	*1,945*
Equity attributable to non-controlling interests		-	150
	190. Equity attributable to non-controlling interests (+/-)	*-*	*150*
Net Profit		657	871
	Item 200. Net profit (loss) for the period	*657*	*871*
Total liabilities	**Total liabilities and shareholders' equity**	**40,570**	**39,201**

Reconciliation of restated consolidated income statement and reclassified consolidated income statement

(€m)

RECLASSIFIED CONSOLIDATED INCOME STATEMENT ITEMS	RESTATED CONSOLIDATED INCOME STATEMENT ITEMS	9 MONTHS 2018	9 MONTHS 2017
Net interest income		112	122
	Item 30. Net interest income	*118*	*132*
	- Item 60. (partial) Components of net fee and commission income related to net interest income	*(6)*	*(10)*
Net profit (loss) on financial assets and liabilities		31	29
	Item 80. Net profit (loss) on trading activities	*7*	*10*
	Item 90. Net profit (loss) on hedging derivatives	*-*	*1*
	Item 100. Profit (loss) on sale or repurchase	*23*	*16*
	Item 110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	*-*	*5*
	- Item 190. a) (partial) Return on Intesa Sanpaolo stock for remuneration and incentive plans	*1*	*(1)*
	- Item 200. (partial) Component of the returns on insurance policies for the Networks	*-*	*(2)*
Net fee and commission income		1,276	1,267
	Item 60. Net fee and commission income	*1,270*	*1,257*
	- Item 60. (partial) Components of net fee and commission income related to net interest income	*6*	*10*
Total net interest and trading income		**1,419**	**1,418**
Net impairment for credit risk		(2)	(1)
	Item 130. Net impairment for credit risk	*(2)*	*(6)*
	- Item 130. (partial) Costs related to banking system	*-*	*5*
Operating income		**1,417**	**1,417**
Personnel expenses		(253)	(243)
	Item 190. a) Personnel expenses	*(259)*	*(259)*
	- Item 190. a) (partial) Return on Intesa Sanpaolo stock for remuneration and incentive plans	*(1)*	*1*
	- Item 190. a) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*7*	*15*
Other administrative expenses		(172)	(169)
	Item 190. b) Other administrative expenses	*(379)*	*(350)*
	- Item 230. (partial) Recovery of indirect taxes	*179*	*164*
	- Item 190. b) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*9*	*3*
	Item 190. b) (partial) Costs related to integration of Swiss Hub	*1*	*-*
	- Item 190. b) (partial) Costs related to banking system	*18*	*14*
Depreciation and amortisation		(7)	(11)
	Item 210. Depreciation of property and equipment	*(3)*	*(2)*
	Item 220. Amortisation of intangible assets	*(11)*	*(16)*
	- Item 220. (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*7*	*7*
Operating expenses		**(432)**	**(423)**
Net provisions for risks and charges		(11)	(22)
	Item 200. Net provisions for risks and charges	*(11)*	*(32)*
	- Item 200. (partial) Component of the returns on insurance policies for the Networks	*-*	*2*
	- Item 220. (partial) Costs related to banking system	*-*	*8*
Profit (loss) on equity investments		6	9
	Item 250. Profit (loss) on equity investments	*6*	*9*
Other income (expense)		(1)	1
	Item 230. Other income/expense	*178*	*165*
	- Item 230. (partial) Recovery of indirect taxes	*(179)*	*(164)*
	Item 280. Gain (loss) on disposal of investments		*8*
	- Item 280. Gain (loss) on disposal of investments	*-*	*(8)*
Profit (loss) before tax from continuing operations		**979**	**982**
Income taxes for the period on continuing operations		(294)	(287)
	Item 300. Income taxes for the period on continuing operations	*(280)*	*(273)*
	- Item 280. (partial) Tax impact on gain (loss) on disposal of investments	*-*	*3*
	- Item 300. (partial) Tax impact on costs related to integration of Intesa Sanpaolo Private Banking	*(8)*	*(8)*
	- Item 300. (partial) Tax impact on costs related to the banking system	*(6)*	*(9)*
Expenses regarding the banking system (net of tax)		(12)	(18)
	- Item 130. b) (partial) Costs related to banking system	*-*	*(5)*
	- Item 190. b) (partial) Costs related to banking system	*(18)*	*(14)*
	- Item 200. (partial) Costs related to banking system	*-*	*(8)*
	- Item 300. (partial) Tax impact on costs related to the banking system	*6*	*9*
Non-recurring income (expenses) (net of tax)		(16)	(12)
	- Item 190. a) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*(7)*	*(15)*
	- Item 190. b) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*(9)*	*(3)*
	- Item 190. b) (partial) Costs related to integration of Swiss Hub	*(1)*	*-*
	- Item 220. (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*(7)*	*(7)*
	- Item 280. Gain (loss) on disposal of investments	*-*	*8*
	- Item 300. (partial) Tax impact on costs related to integration of Intesa Sanpaolo Private Banking	*8*	*8*
	- Item 300. (partial) Tax impact on gain (loss) on disposal of investments	*-*	*(3)*
Net profit (loss) for the period attributable to non-controlling interests		-	(3)
	Item 340. Net profit (loss) for the period attributable to non-controlling interests	*-*	*(3)*
Net Profit	**Item 350. Parent company interest in net profit (loss) for the period**	**657**	**662**

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

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

Set in an architectural context of great value, **Gallerie d’Italia - Piazza Scala in Milan** displays a selection of two hundred nineteenth-century works of the Lombard school of painting, along with a collection representative of twentieth-century Italian art. **Gallerie d’Italia - Palazzo Leoni Montanari in Vicenza** holds the most important western collection of Russian icons, examples of eighteenth-century Veneto art, and a collection of Attic and Magna Graecia pottery.

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

Cover photo:

CARLO BRANCACCIO (Naples 1861–1920)
Napoli, Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression c. 1888-1889
oil on canvas, 40 x 80 cm
Intesa Sanpaolo Collection
Gallerie d’Italia - Palazzo Zevallos Stigliano, Naples

Napoli, *Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression* by Carlo Brancaccio depicts an outdoor daily-life scene with a lively narrative style. The artist is particularly renowned for his radiant depictions of the most famous streets and sites in Naples, as well as for his seascapes and landscapes.

This picture is part of the permanent collection on display at Gallerie d’Italia - Palazzo Zevallos Stigliano, Intesa Sanpaolo’s museum venue in Via Toledo, Naples. This collection of nineteenth-century paintings offers a remarkable overview of landscape painting, a genre that experienced an incredible season in Naples, on a par with the most advanced figurations developed in the rest of Europe.

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