FIDEURAM
INTESA SANPAOLO PRIVATE BANKING

Interim Report at 31 March 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.

Offering financial advice on all the client's entire assets with the aid of highly qualified professionals, with full transparency and rule compliance is the mission of Fideuram – Intesa Sanpaolo **Private Banking**.

Interim Report at 31 March 2018

Introduction

The Consolidated Interim Report of the Fideuram - Intesa Sanpaolo Private Banking Group at 31 March 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 IFRS9 and IFRS15 have been applied for the first time in 2018. These standards have also introduced substantial changes in bank financial statements. In particular, IFRS9 - Financial Instruments replaced IAS39 effective 1 January 2018 for the classification, measurement and impairment of financial instruments and hedging transactions. This 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 IFRS9, the Group exercised the option granted by IFRS9 itself, 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 5th 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. Therefore, this Report includes a reconciliation statement showing the reclassifications and adjustments made to guarantee restatement of the figures at 1 January 2018 in accordance with the requirements of IFRS9.

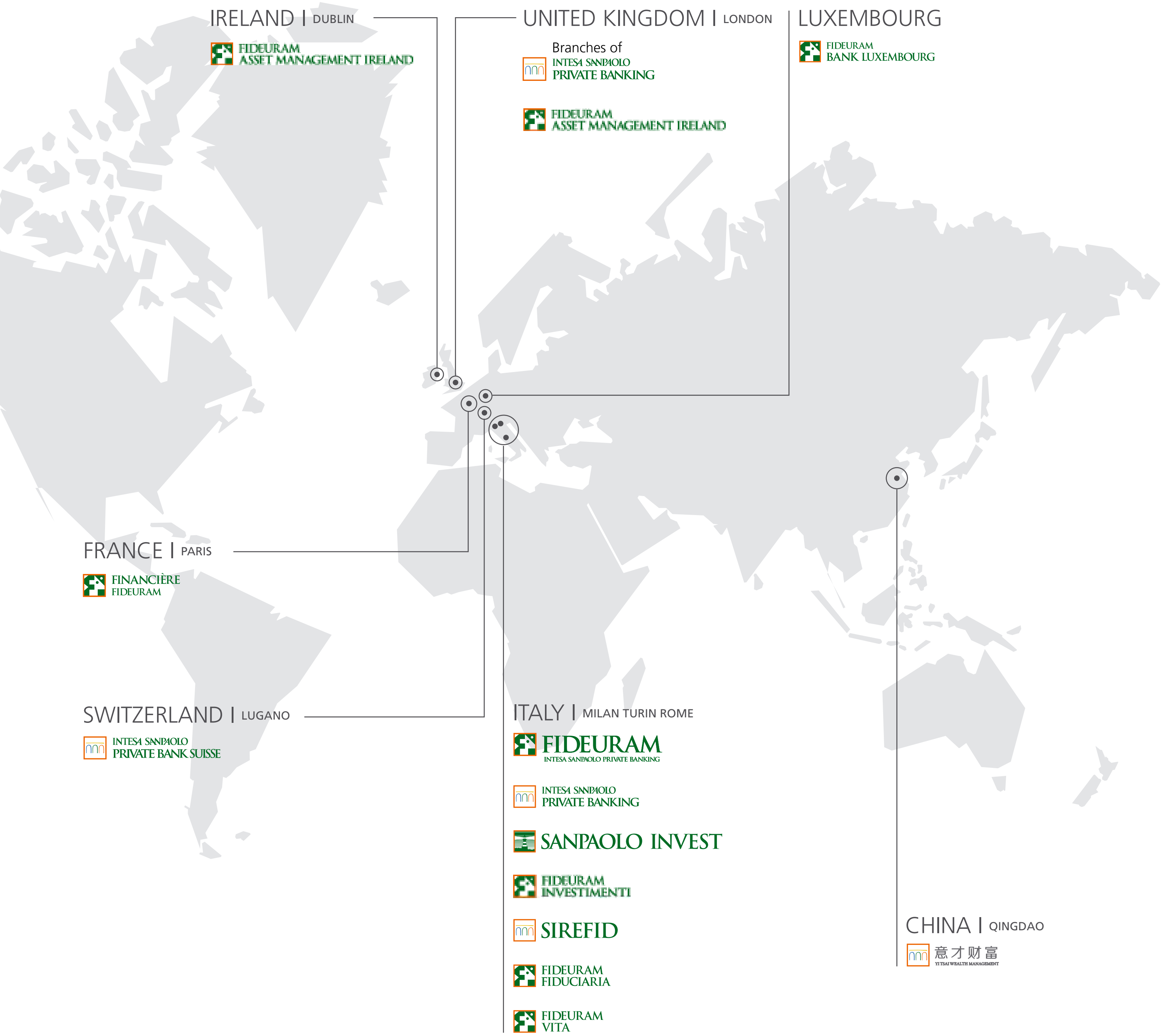
The Consolidated Interim Report comprises the balance sheet, income statement, statement of comprehensive income and statement of changes in equity, accompanied by explanatory notes on the Group's performance. The report uses the euro as its presentation currency, and all the figures herein are stated in millions of euro unless specified otherwise.

The income statement for the first quarter of 2018 is compared with the income statement for the corresponding period of 2017, while the balance sheet at 31 March 2018 is compared with the balance sheet at 31 December 2017. The comparative data, both for the balance sheet and the income statement, are represented by the net amounts that were previously defined by applying the requirements of IAS39, restated as necessary within the new templates provided for by the Bank of Italy.

The balance sheet and income statement at 31 March 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. In regard to the reclassified balance sheet template, the comparative data at 1 January 2018 have been calculated by applying the new IFRS9 to the net amounts of the consolidated balance sheet at 31 December 2017, when IAS39 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 IFRS9 are shown in the section on accounting policies.

Contents

Group structure



Company Officers
at 20 April 2018

Shareholders' Meeting

Board of Directors

Chairman
PAOLO MARIA VITTORIO GRANDI

Acting Deputy Chairman
GIANGIACOMO DOMENICO

LUIGI NARDOZZI TONIELLI

Managing Director
PAOLO MOLESINI

Director
ELENA DAVID

CLAUDIA DE BENEDETTI

DANIELE PIETRO GIUDICI

MARCO LAMANDINI

PIERO LUONGO

ELIANO OMAR LODESANI

GIUSEPPE RUSSO

Secretary to the Board of Directors
FILIPPO MAMMOLA

Board of Statutory Auditors

Chairman
GIULIO STEFANO LUBATTI

Statutory Auditors
MARCO ANTONIO MODESTO DELL'ACQUA

LORENZO GINISIO

Acting Auditors
ALESSANDRO COTTO

FRANCESCA MONTI

General Management

General Manager
PAOLO MOLESINI

Joint General Managers
ANDREA CHIOATTO
(Operational and Financial Governance)

FABIO CUBELLI
(Business Coordination)

Manager responsible for the preparation of the company accounts
PAOLO BACCIGA

Indipendent Auditors
KPMG S.p.A.

Key drivers

Key indicators of the business model

OPERATING RESULTS

Personal Financial Advisers No. 6,017

Customers

Fideuram No. 554,101

Intesa Sanpaolo Private Banking 36,886 No. of households

Intesa Sanpaolo Private Bank (Suisse) No. 406

Sanpaolo Invest No. 148,512

Sirefid 2,047 No. of mandates

Total Net Inflows

€2.5 bn

of which *Net Inflows* into Managed Assets

€1.6 bn

Client Assets

€213.8 bn

of which *Managed Assets*

€150.5 bn

of which *Advanced Advisory Service*

€38.6 bn

Average Length of Customer Relationship

Fideuram Network and Sanpaolo Invest Network
13 years

Intesa Sanpaolo Private Banking Network
11 years

FINANCIAL RESULTS

Net Recurring Fees
€402m
+7%

Cost / Income Ratio
28%
(28% in the first three months of 2017)

Consolidated Net Profit
€239m
+7%

Return On Equity
38%
(44% in the first three months of 2017)

Highlights

	31.3.2018	31.3.2017	% CHANGE
CUSTOMER FINANCIAL ASSETS			
Net inflows into managed assets (€m)	1,612	3,385	-52
Total net inflows (€m)	2,467	2,332	6
Client Assets (€m)	213,828	202,851	5
OPERATING STRUCTURE			
Personal Financial Advisers (No.)	6,017	5,878	
Staff (No.)	3,213	3,039	
- women (No.)	1,428	1,347	
- outside Italy (No.)	202	163	
Personal Financial Advisers' Offices (No.)	324	322	
Bank Branches (No.)	226	228	
CONSOLIDATED FINANCIAL RESULTS			
Consolidated net profit (€m)	239	223	7
Group shareholders' equity (€m)	3,053	2,086	46
Basic consolidated net earnings per share (€)	0.160	0.149	7
Consolidated pay-out ratio (%)	90.39	90.87	
Fideuram pay-out ratio (%)	99.96	99.75	
Total assets (€m)	39,562	35,645	11
Wealth created (€m)	708	656	8
Economic value distributed (€m)	693	621	12
PROFITABILITY INDICATORS			
Return on Equity (%)	38	44	
Return on Assets (%)	2	3	
Cost / Income ratio (%)	28	28	
Payroll costs /Operating income before net impairment (%)	17	16	
Annualised net profit / Average client assets (%)	0.4	0.4	
Economic Value Added (€m)	214	202	

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

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 funds), accident 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.

Basic consolidated net earnings 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 a company's 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)

	31.3.2018	1.1.2018	CHANGE	
			AMOUNT	%
ASSETS				
Financial assets measured at fair value through profit or loss	284	623	(339)	-54
Financial assets measured at fair value through other comprehensive income	3,311	3,686	(375)	-10
Loans and advances to banks	23,417	22,507	910	4
Loans and advances to customers	10,916	10,263	653	6
Hedging derivatives	2	5	(3)	-60
Equity investments	151	148	3	2
Property and equipment and intangible assets	237	241	(4)	-2
Tax assets	155	174	(19)	-11
Other assets	1,089	1,123	(34)	-3
TOTAL ASSETS	**39,562**	**38,770**	**792**	**2**
LIABILITIES				
Due to banks	2,564	2,641	(77)	-3
Due to customers	31,399	30,581	818	3
Financial liabilities held for trading	16	193	(177)	-92
Hedging derivatives	791	833	(42)	-5
Tax liabilities	112	95	17	18
Other liabilities	1,160	1,150	10	1
Provisions for risks and charges	467	461	6	1
Share capital and reserves	2,814	1,945	869	45
Net profit	239	871	(632)	-73
TOTAL LIABILITIES	**39,562**	**38,770**	**792**	**2**

Consolidated income statement

(Reclassified - €m)

	Q1 2018	Q1 2017	CHANGE	
			AMOUNT	%
Net interest income	37	40	(3)	-8
Net profit (loss) on financial assets and liabilities	19	10	9	90
Net fee and commission income	432	409	23	6
TOTAL NET INTEREST AND TRADING INCOME	**488**	**459**	**29**	**6**
Net impairment for credit risk	(1)	-	(1)	n.s.
OPERATING INCOME	**487**	**459**	**28**	**6**
Personnel expenses	(81)	(74)	(7)	9
Other administrative expenses	(53)	(50)	(3)	6
Depreciation and amortisation	(2)	(4)	2	-50
OPERATING EXPENSES	**(136)**	**(128)**	**(8)**	**6**
Net provisions for risks and charges	(5)	(7)	2	-29
Profit (loss) on equity investments	3	3	-	-
Other income (expense)	-	(1)	1	-100
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**349**	**326**	**23**	**7**
Income taxes for the period on continuing operations	(103)	(93)	(10)	11
Expenses regarding the banking system (net of tax)	(3)	(4)	1	-25
Non-recurring income (expenses) (net of tax)	(4)	(6)	2	-33
NET PROFIT	**239**	**223**	**16**	**7**

n.s.: not significant

Quarterly consolidated balance sheets

(Reclassified - €m)

	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	284	623	255	272	219
Financial assets measured at fair value through other comprehensive income	3,311	3,686	4,647	4,288	4,230
Loans and advances to banks	23,417	22,507	21,227	20,985	20,764
Loans and advances to customers	10,916	10,263	9,357	9,160	8,893
Hedging derivatives	2	5	3	6	4
Equity investments	151	148	146	144	141
Property and equipment and intangible assets	237	241	204	215	217
Tax assets	155	174	180	177	185
Other assets	1,089	1,123	985	1,009	992
TOTAL ASSETS	**39,562**	**38,770**	**37,004**	**36,256**	**35,645**

	31.3.2018	1.1.2018	30.9.2017	30.6.2017	31.3.2017
LIABILITIES					
Due to banks	2,564	2,641	2,670	2,737	2,929
Due to customers	31,399	30,581	29,167	28,395	27,979
Financial liabilities held for trading	16	193	42	81	17
Hedging derivatives	791	833	989	979	1,035
Tax liabilities	112	95	114	75	79
Other liabilities	1,160	1,150	1,011	1,216	1,057
Provisions for risks and charges	467	461	457	445	463
Share capital and reserves	2,814	1,945	1,892	1,885	1,863
Net profit	239	871	662	443	223
TOTAL LIABILITIES	**39,562**	**38,770**	**37,004**	**36,256**	**35,645**

Quarterly consolidated income statements

(Reclassified - €m)

	2018	2017			
	Q1	Q4	Q3	Q2	Q1
Net interest income	37	38	39	42	40
Net profit (loss) on financial assets and liabilities	19	2	9	5	10
Net fee and commission income	432	436	423	418	409
TOTAL NET INTEREST AND TRADING INCOME	**488**	**476**	**471**	**465**	**459**
Net impairment for credit risk	(1)	3	(1)	-	-
OPERATING INCOME	**487**	**479**	**470**	**465**	**459**
Personnel expenses	(81)	(84)	(77)	(79)	(74)
Other administrative expenses	(53)	(57)	(55)	(58)	(50)
Depreciation and amortisation	(2)	(4)	(4)	(3)	(4)
OPERATING EXPENSES	**(136)**	**(145)**	**(136)**	**(140)**	**(128)**
Net provisions for risks and charges	(5)	(11)	(6)	(9)	(7)
Profit (loss) on equity investments	3	-	3	3	3
Other income (expense)	-	(1)	2	-	(1)
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**349**	**322**	**333**	**319**	**326**
Income taxes for the period on continuing operations	(103)	(103)	(99)	(94)	(93)
Expenses regarding the banking system (net of tax)	(3)	2	(15)	1	(4)
Non-recurring income (expenses) (net of tax)	(4)	(12)	-	(6)	(6)
NET PROFIT	**239**	**209**	**219**	**220**	**223**

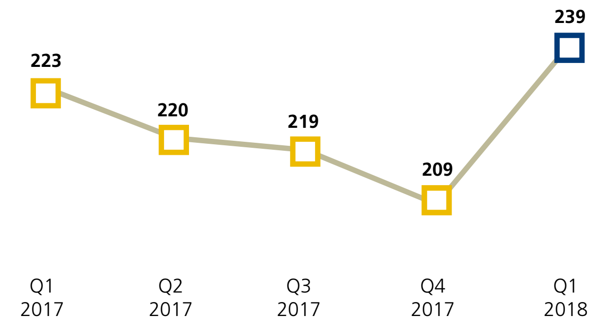
Overview of consolidated results

The Fideuram - Intesa Sanpaolo Private Banking Group ended the first quarter of 2018 with consolidated net profit of €239m, up €16m (+7%) on the first quarter of 2017.
The Wealth created by the Group's business totalled €708m at 31 March 2018, up €52m on the figure for the same period last year. The return on equity (R.O.E.) was 38%.

Analysis of the main income-statement items shows that profit before tax from continuing operations was up €23m on 2017 (+7%). This change was mainly attributable to operating income, which was up €28m from the first three months of last year, mainly due to net fee and commission income (+€23m, +6%). In contrast, operating expenses rose by €8m, while the provisions for risks and charges fell by €2m. The Group's cost/income ratio improved to 28%, holding steady from the first three months of last year.

Consolidated net profit

(€m)



At 31 March 2018, there were 6,017 Personal Financial Advisers, compared with 5,950 and 5,878 Personal Financial Advisers at 31 December 2017 and 31 March 2017, respectively. Client assets per Personal Financial Adviser were approximately €35.5m at 31 March 2018, down slightly from the end of 2017. Group staff totalled 3,213, up from 3,126 at 31 December 2017, mainly as a result of the growth of our distribution and sales networks. Bank branches totalled 226 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 approximately €214bn.
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 the high-end customer segment, creating value through 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 more than 6,000 highly-qualified professionals in three separate Networks (Fideuram, Sanpaolo Invest and Intesa Sanpaolo Private Banking) with their own brand identities, service models and customer profiles. They guarantee complete geographical coverage of the Italian market. 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.

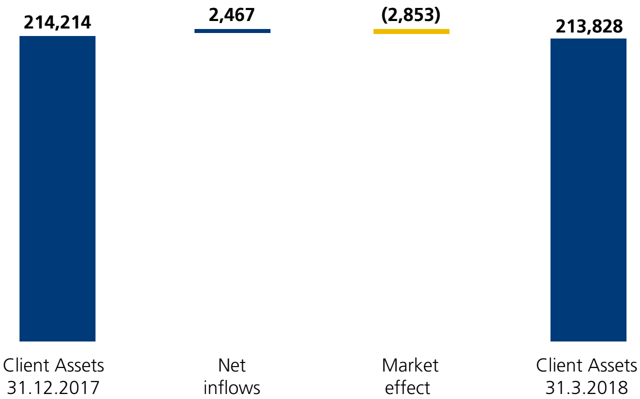
The investment solutions proposed by our Personal Financial Advisers are for the most part developed and managed within the Group through dedicated product companies. In addition, the Group's marketing agreements with leading international investment houses mean that we are also able to offer third-party 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 €213.8bn at 31 March 2018, down slightly (-€386m) on the figure at 31 December 2017. This performance is attributable entirely to the market effect, which had a €2.9bn negative impact on assets during the first three months of the year, although it was almost entirely offset by the excellent results achieved through net inflows (+€2.5bn).

Client Assets

(€m)



Analysis of the aggregated items shows that **managed assets** rose to €150.5bn (70% of total client assets), a decrease of €919m on the figure at 31 December 2017. The reduction mainly concerned the discretionary accounts (-€776m) and life insurance (-€344m). **Non-managed assets** totalled €63.3bn, up €533m from 31 December 2017.

Client Assets

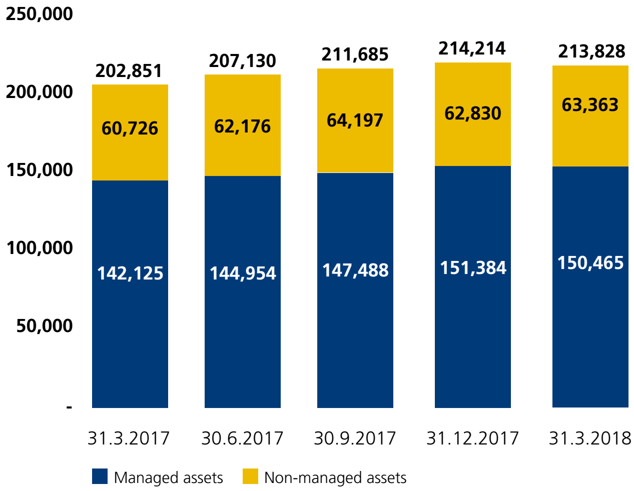
(€m)

	31.3.2018	31.12.2017	CHANGE	
			AMOUNT	%
Mutual funds	56,839	56,653	186	-
Discretionary accounts	42,717	43,493	(776)	-2
Life insurance	49,051	49,395	(344)	-1
including: Fideuram Vita / Intesa Sanpaolo Vita unit linked	*33,973*	*34,387*	*(414)*	*-1*
Pension funds	1,858	1,843	15	1
Total managed assets	**150,465**	**151,384**	**(919)**	**-1**
Total non-managed assets	**63,363**	**62,830**	**533**	**1**
including: Securities	*36,974*	*36,864*	*110*	*-*
Total Client Assets	**213,828**	**214,214**	**(386)**	**-**

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

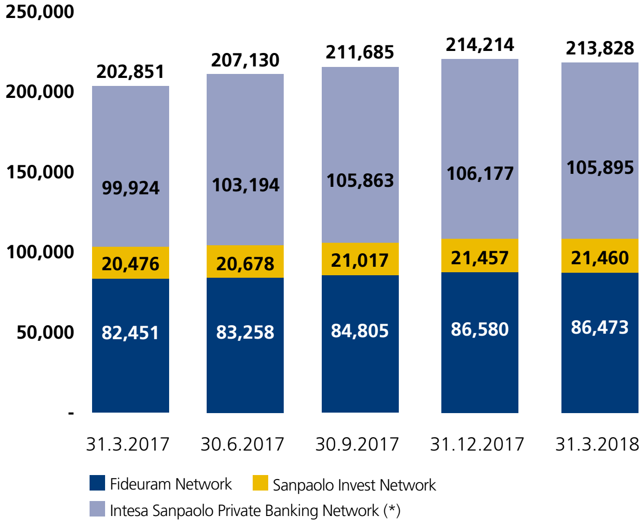
Client Assets - by type of inflows

(€m)



Client Assets - by Sales Network

(€m)



(*) The figures for the Intesa Sanpaolo Private Banking sales network include the client assets of Sirefid and Intesa Sanpaolo Private Bank (Suisse).

Inflows into managed and non-managed assets

The Group's distribution networks (Fideuram, Sanpaolo Invest and Intesa Sanpaolo Private Banking) brought in **net inflows** of €2.5bn in the first quarter of 2018, up €135m from the first quarter of 2017 (+6%). The analysis of aggregated figures shows that the inflows into managed and non-managed assets, totalling €1.6bn, fell (-€1.8bn) from the corresponding period of the previous year. This resulted from the Group financial advisers directing a portion of the new inflows from customers towards the bond and monetary market in response to cyclical market conditions. The non-managed assets component was a positive €855m, having grown (+€1.9bn) from the negative €1.1bn in inflows during the first quarter of the previous year.

Net inflows

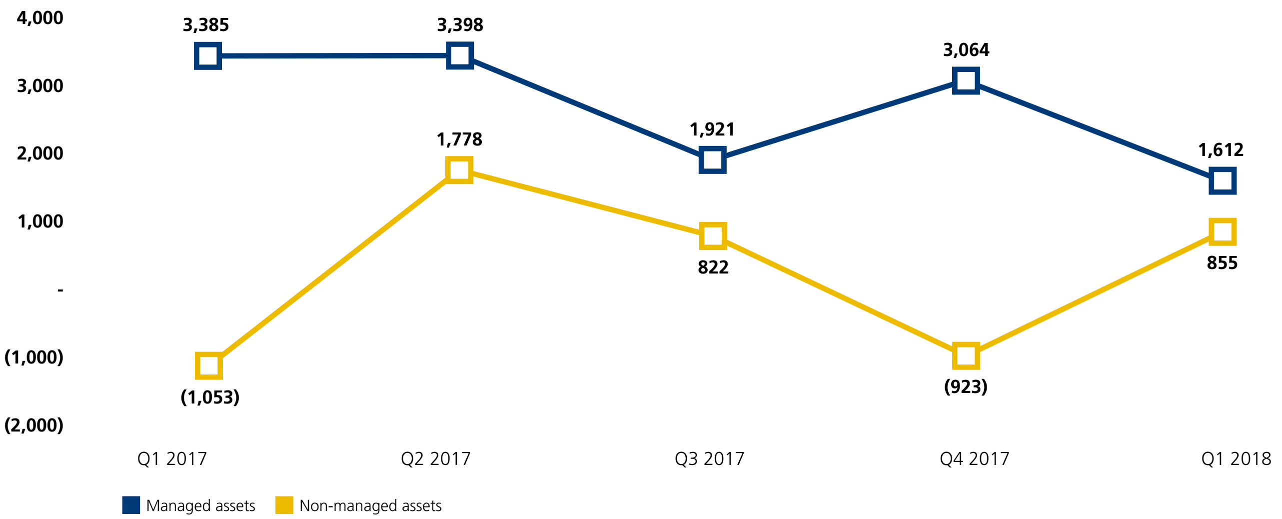
(€m)

	3 MONTHS 2018	3 MONTHS 2017	CHANGE	
			AMOUNT	%
Mutual funds	1,245	1,906	(661)	-35
Discretionary accounts	69	641	(572)	-89
Life insurance	267	817	(550)	-67
including: Fideuram Vita / Intesa SanpaoloVita unit linked	*272*	*784*	*(512)*	*-65*
Pension funds	31	21	10	48
Total managed assets	**1,612**	**3,385**	**(1,773)**	**-52**
Total non-managed assets	**855**	**(1,053)**	**1,908**	**n.s.**
including: Securities	*472*	*(873)*	*1,345*	*n.s.*
Total Net inflows	**2,467**	**2,332**	**135**	**6**

n.s.: not significant

Net inflows

(€m)



Customer segmentation

Client Assets at 31 March 2018

- Fideuram: €86,473m
- Sanpaolo Invest: €21,460m
- Intesa Sanpaolo Private Banking: €100,926m
- Sirefid:€3,675m (*)
- Intesa Sanpaolo Private Bank (Suisse): €1,294m

(*) Does not include the fiduciary mandates regarding Group Client Assets. Total client assets came to €7.4bn.

Customers at 31 March 2018

- Fideuram: no. 554,101
- Sanpaolo Invest: no. 148,512
- Intesa Sanpaolo Private Banking: no. 36,886 (**)
- Sirefid (fiduciary mandates): no. 2,047
- Intesa Sanpaolo Private Bank (Suisse): no. 406

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

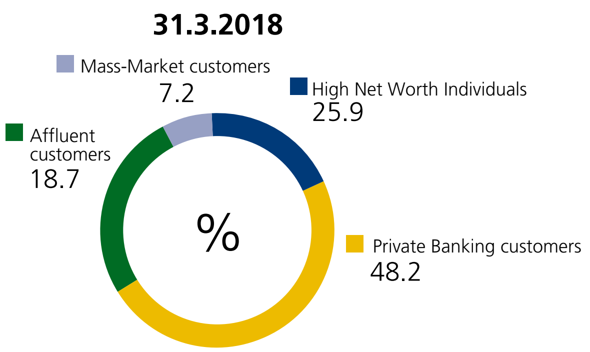
Analysis of the Group's customer base shows that it is concentrated in the Private Banking and High Net Worth Individual (HNWI) segment. This focus on high-end customers (over 74% of client assets come from Private Banking and HNWI customers) enables our Personal Financial Advisers to target a segment 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.

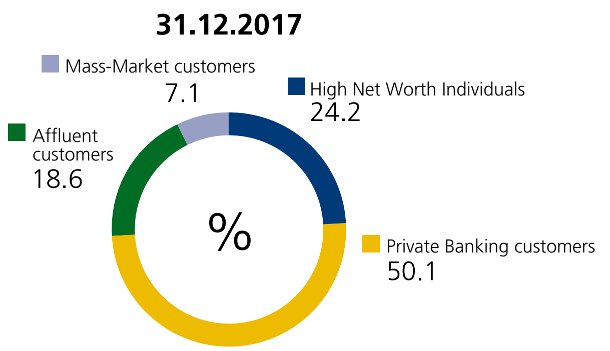
Client assets by type of customer (***)

(€m)

	31.3.2018	31.12.2017	CHANGE	
			AMOUNT	%
High Net Worth Individuals	55,322	51,864	3,458	7
Private Banking customers	103,088	107,389	(4,301)	-4
Affluent customers	40,000	39,827	173	-
Mass-Market customers	15,418	15,134	284	2
Total	**213,828**	**214,214**	**(386)**	**-**

Analysis of client assets by type of customer





(***) The Fideuram Group's customers are segmented as follows:

High Net Worth Individuals: 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.

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 226 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.
- VIEW (Value Investment Evolution Wealth) Advanced Advisory Service: an advisory service offered by Intesa Sanpaolo Private Banking that takes all of a customer's assets into consideration and supports the Bank's Personal Financial Advisers in their work of identifying each customer's specific requirements 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.
- 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.

Over 70,000 customers were subscribed to our Advanced Advisory Services at the end of March 2018, accounting for approximately €38.6bn in client assets.

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

Customers subscribed to Advanced Advisory Services

(number)

	31.3.2018	31.12.2017	CHANGE	
			AMOUNT	%
High Net Worth Individuals	841	682	159	23
Private Banking customers	18,008	18,344	(336)	-2
Affluent customers	34,334	34,746	(412)	-1
Mass-Market customers	17,449	17,044	405	2
Total	**70,632**	**70,816**	**(184)**	**-**

Advanced Advisory Service client assets

(€m)

	31.3.2018	31.12.2017	CHANGE	
			AMOUNT	%
High Net Worth Individuals	5,438	4,573	865	19
Private Banking customers	23,422	24,293	(871)	-4
Affluent customers	8,696	8,787	(91)	-1
Mass-Market customers	1,053	1,018	35	3
Total	**38,609**	**38,671**	**(62)**	**-**

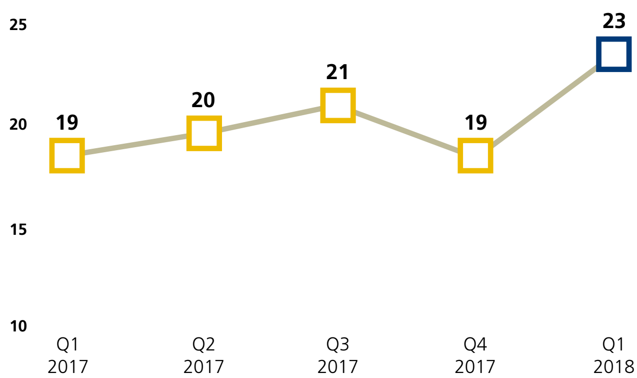
Advanced Advisory Service fee and commission income

(€m)

	3 MONTHS 2018	3 MONTHS 2017	CHANGE	
			AMOUNT	%
Fee and commission income	34	31	3	10
Fee and commission expense	(11)	(12)	1	-8
Net fee and commission income	**23**	**19**	**4**	**21**

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 three months of 2018 with consolidated net profit of €239m, up €16m (+7%) on the previous year.

Total net interest and trading income totalled €488m, up €29m (+6%) compared with the first quarter of 2017. This result is attributable to:

- growth in net fee and commission income (+€23m)
- decreased net interest income (-€3m)
- increased net profit on financial assets (+€9m).

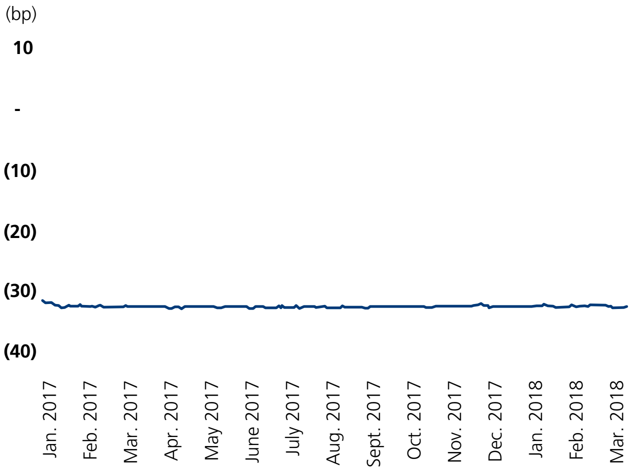
Net interest income

(€m)

	3 MONTHS 2018	3 MONTHS 2017	CHANGE	
			AMOUNT	%
Interest expense on due to customers	(8)	(7)	(1)	14
Interest expense on due to banks	(6)	(9)	3	-33
Interest income on debt securities	54	52	2	4
Interest income on loans	26	27	(1)	-4
Net interest on hedging derivatives	(23)	(23)	-	-
Other Interests, net	(6)	-	(6)	n.s.
Total	**37**	**40**	**(3)**	**-8**

n.s.: not significant

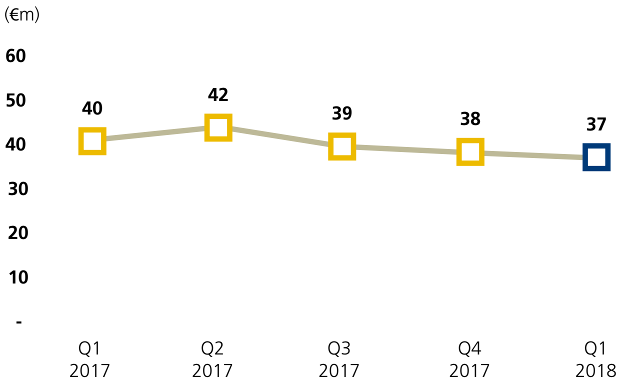
Euribor 3 months rate



Source: Bloomberg

Net interest income totalled €37m, down €3m (-8%) from the same period last year, due to interest rates remaining negative in the shortest term segment on the yield curve. This change, which mainly impacted loans, was partly offset by the increase in average volumes. Analysis of the quarterly data shows that net interest income was down in the second half of 2017, as a result of a decline in the profitability of short-term loans, again linked to negative interest rates, and the gradual maturing of loans that were more remunerative than new loans.

Quarterly net interest income



Net profit (loss) on financial assets and liabilities

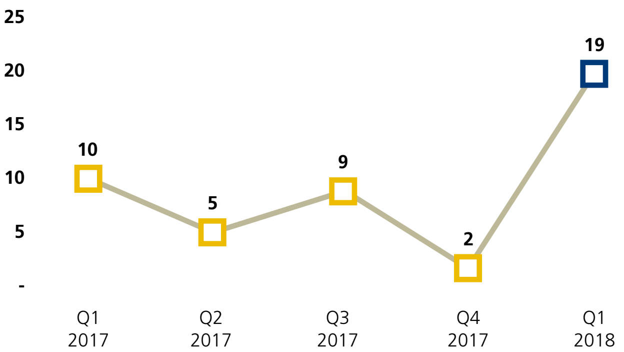
(€m)

	3 MONTHS 2018	3 MONTHS 2017	CHANGE	
			AMOUNT	%
Net profit (loss) on sale of loans and financial assets	19	5	14	n.s.
Net profit (loss) on trading activities	(1)	3	(4)	n.s.
Net profit (loss) on hedging derivatives	1	2	(1)	-50
Total	**19**	**10**	**9**	**90**

Net profit on financial assets and liabilities came to €19m, up sharply by €9m from the figure for the first three months of 2017 (+90%).
Analysis of the item shows that net profit on sale of loans and financial assets (€19m) increased €14m from the figure for the corresponding period last year due to increased sales of investment securities. The net loss on trading activities was €1m, €4m less than in the first quarter of 2017, mainly due to the early termination of several hedging derivatives linked to bonds sold during the quarter. Net profit on hedging derivatives (€1m), resulting from the ineffective hedging of interest-rate derivatives, decreased by €1m from the first quarter 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)

	3 MONTHS 2018	3 MONTHS 2017	CHANGE	
			AMOUNT	%
Fee and commission income	618	575	43	7
Fee and commission expense	(186)	(166)	(20)	12
Net fee and commission income	**432**	**409**	**23**	**6**

Net fee and commission income totalled €432m, an increase of €23m (+6%) compared with the first three months of 2017.

Net fee and commission income

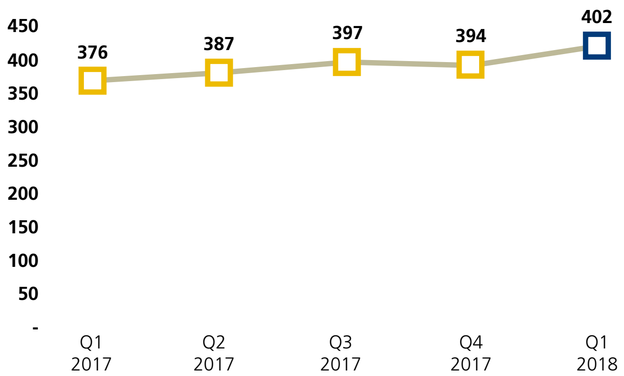
(€m)

	3 MONTHS 2018	3 MONTHS 2017	CHANGE	
			AMOUNT	%
Net recurring fees	402	376	26	7
Net front-end fees	51	47	4	9
Other commission expense: incentives and other	(21)	(14)	(7)	50
Total	**432**	**409**	**23**	**6**

Net recurring fees continue to stabilise Group earnings. These totalled €402m in the first quarter of 2018, up €26m from the same period of 2017 (+7%). This result is mainly attributable to the growth in average managed assets, which at 31 March 2018 totalled €151.4bn, up both from 31 March 2017 (€138.4bn) and from 31 December 2017 (€144.3bn). Analysis of the quarterly changes shows the growth trend tracked by recurring fees, which in the first quarter of 2018 remained at higher levels 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 €22m compared with €19m in the first quarter of 2017 (+16%).

Quarterly net recurring fees

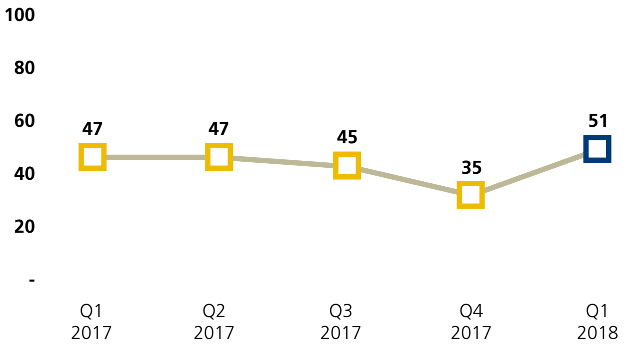
(€m)



Net front-end fees came to €51m, up €4m (+9%) from the figure for the first three months of last year, mainly as a result of mutual fund and bond sales. The Group's sales networks distributed a number of bond loans and certificates that brought in approximately €304m in gross inflows for the period, compared with about €21m in the first three months of 2017.

Quarterly net front-end fees

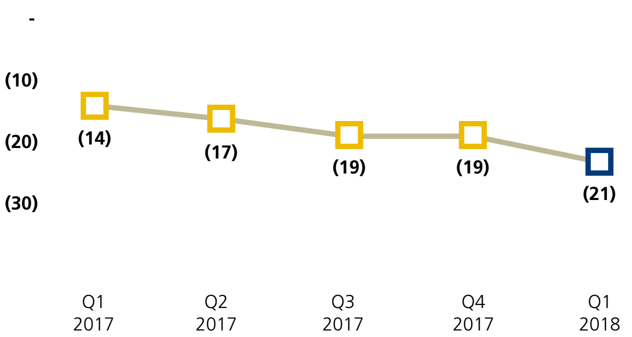
(€m)



Commission expense for incentives and others totalled €21m, up €7m from the same period of the previous year. That stemmed primarily from contingent assets on bonuses recognised in the first quarter of 2017.

Quarterly other commission expense

(€m)



Net impairment for credit risk showed a negative net amount of €1m, attributable to adjustments to financial assets measured at amortised cost, compared with a zero balance in the first quarter of 2017.

Operating expenses

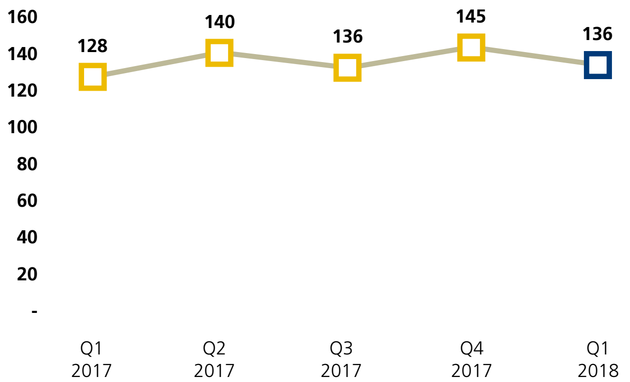
(€m)

	3 MONTHS 2018	3 MONTHS 2017	CHANGE	
			AMOUNT	%
Personnel expenses	81	74	7	9
Other administrative expenses	53	50	3	6
Depreciation and amortisation	2	4	(2)	-50
Total	**136**	**128**	**8**	**6**

Operating expenses totalled €136m, up €8m (+6%) from the figure for the same period last year.
Analysis of the item shows that personnel expenses, which totalled €81m, were up €7m on the first quarter of 2017. This result is attributable to the higher cost related to the increase in headcount (+174), mainly in the sales area, and the different impact of variable components of remuneration.
Other administrative expenses totalled €53m, up €3m from the figure for same period last year, principally as a result of higher information technology and third-party service costs.
Depreciation and amortisation fell by €2m from the first quarter of 2017. 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)

	3 MONTHS 2018	3 MONTHS 2017	CHANGE AMOUNT	CHANGE %
Personal Financial Advisers' termination indemnities and incentives	4	4	-	-
Litigation and complaints	-	3	(3)	-100
Network Loyalty Schemes	1	-	1	n.s.
Total	**5**	**7**	**(2)**	**-29**

Net provisions for risks and charges came to €5m, down €2m (-29%) from the figure for the first quarter of 2017. Detailed analysis shows that the provisions for contractual indemnities owed to the Personal Financial Advisers, totalling €4m, have held steady at the level of the net amount for the first quarter of last year. The provisions set aside to cover contingent liabilities from lawsuits, litigation, claims from receivers and customer complaints decreased by €3m with the settlement of several cases at costs lower than what had been estimated. The provisions for Financial Adviser Network loyalty schemes rose by €1m, mainly due to the excess use of provisions reported in the first quarter of 2017.

Profit on equity investments came to €3m, corresponding to the profit from the Group's 19.99% interest in Fideuram Vita S.p.A. and 25% interest in Qingdao Yicai Ltd, which was in line with the figure for the first three 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. In the first quarter of 2018, this item rose by €1m from the same period a year earlier, mainly for lower costs incurred on compensation paid to customers.

Income taxes, for which €103m was set aside in the period, were up €10m compared with the figure for the first quarter of last year as a result of increased profit before tax in the period. The tax rate was 30%, compared with 29% in the first quarter 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. These expenses totalled €3m in the first quarter of 2018 (-€1m compared with the first quarter of the previous year). They comprised the expenses set aside for the contribution to the Single Resolution Fund 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 €4m (compared with €6m in the first quarter of 2017), principally due to the expenses incurred to integrate Intesa Sanpaolo Private Banking, Intesa Sanpaolo Private Bank (Suisse) and Sirefid 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 31 March 2018

(€m)

	MANAGED FINANCIAL ASSETS	LIFE INSURANCE ASSETS	BANKING SERVICES	TOTAL FOR FIDEURAM GROUP
Net interest income	-	-	37	37
Net profit (loss) on financial assets and liabilities	-	-	19	19
Net fee and commission income	293	126	13	432
Total net interest and trading income	**293**	**126**	**69**	**488**
Operating expenses	(73)	(20)	(43)	(136)
Other	(3)	(2)	2	(3)
Profit before tax from continuing operations	**217**	**104**	**28**	**349**
Average Client Assets	**100,841**	**50,509**	**63,432**	**214,782**
Client Assets	**99,556**	**50,909**	**63,363**	**213,828**
Key indicators				
Cost / Income Ratio	25%	16%	60%	28%
Annualised profit before tax / Average Client Assets	0.9%	0.8%	0.2%	0.6%
Annualised net fee and commission income / Average Client Assets	1.2%	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 €99.5bn at 31 March 2018 (46% of total client assets), an increase of €93.5bn on 31 March 2017, mainly as a result of increased mutual funds (+€5.5bn) and, to a lesser extent, discretionary accounts (+€0.5bn). The inflows into managed and non-managed assets, totalling a positive €1.3bn, contracted by €1.2bn from the corresponding period of the previous year. This resulted from the Group financial advisers directing a portion of the new inflows from customers towards the bond and monetary market in response to cyclical market conditions. The segment's contribution to profit before tax totalled €217m, up €12m 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 1.2%, while the ratio of profit before tax to client assets was 0.9%.

Managed Financial Assets

(€m)

	3 MONTHS 2018	3 MONTHS 2017	% CHANGE
Net interest income	-	-	-
Net profit (loss) on financial assets and liabilities	-	-	-
Net fee and commission income	293	274	7
Total net interest and trading income	**293**	**274**	**7**
Operating expenses	(73)	(63)	16
Other	(3)	(6)	-50
Profit before tax from continuing operations	**217**	**205**	**6**
Average Client Assets	**100,841**	**91,131**	**11**
Client Assets	**99,556**	**93,542**	**6**
Key indicators			
Cost / Income Ratio	25%	23%	
Annualised profit before tax / Average Client Assets	0.9%	0.9%	
Annualised net fee and commission income / Average Client Assets	1.2%	1.2%	

LIFE INSURANCE ASSETS SEGMENT

This segment covers the Group's life insurance and pension fund business, which totalled €50.9bn at 31 March 2018 (24% of total client assets), up €2.3bn principally due to strong life insurance performance (+€2.1bn). Total net inflows in the segment were €0.3bn, down €0.5bn compared with the corresponding period in the previous financial year. The segment's contribution to profit before tax totalled €104m, up €2m on the first quarter of 2017 due to increased net fee and commission income. 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)

	3 MONTHS 2018	3 MONTHS 2017	% CHANGE
Net interest income	-	-	-
Net profit (loss) on financial assets and liabilities	-	-	-
Net fee and commission income	126	122	3
Total net interest and trading income	**126**	**122**	**3**
Operating expenses	(20)	(18)	11
Other	(2)	(2)	-
Profit before tax from continuing operations	**104**	**102**	**2**
Average Client Assets	**50,509**	**47,246**	**7**
Client Assets	**50,909**	**48,583**	**5**
Key indicators			
Cost / Income Ratio	16%	15%	
Annualised profit before tax / Average Client Assets	0.8%	0.9%	
Annualised net fee and commission income / Average Client Assets	1.0%	1.0%	

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 €63.4bn at 31 March 2018 (30% of total client assets), up €2.6bn compared with the figure at 31 March 2017. Total net inflows in the segment were positive at €0.9bn, up €1.9bn due to a major shift in asset allocation to bond and monetary market instruments. The contribution of this segment to profit before tax was €28m. The €9m increase in profit before tax compared with the corresponding period of the previous financial year was principally due to the gains on sale of loans and securities owned. The ratio of net fee and commission income to client assets was 0.1%, while the ratio of profit before tax to client assets was 0.2%.

Banking Services

(€m)

	3 MONTHS 2018	3 MONTHS 2017	% CHANGE
Net interest income	37	40	-8
Net profit (loss) on financial assets and liabilities	19	10	90
Net fee and commission income	13	13	-
Total net interest and trading income	**69**	**63**	**10**
Operating expenses	(43)	(47)	-9
Other	2	3	-33
Profit before tax from continuing operations	**28**	**19**	**47**
Average Client Assets	**63,432**	**60,951**	**4**
Client Assets	**63,363**	**60,726**	**4**
Key indicators			
Cost / Income Ratio	60%	71%	
Annualised profit before tax / Average Client Assets	0.2%	0.1%	
Annualised net fee and commission income / Average Client Assets	0.1%	0.1%	

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 three 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 €708m, up €52m on the total for the first three months of 2017.

This wealth was distributed to stakeholders as follows:

- Colleagues (employees and Personal Financial Advisers) received 34.7% of the Wealth created, amounting to a total of €246m. This included the remuneration paid to employees and the amounts set aside for and paid to the Personal Financial Adviser Networks.
- Our shareholder received 30.5% of the Wealth created, in the form of the proposed dividend payout totalling €216m.
- The government, public authorities, institutions and the community received €172m, principally in the form of direct and indirect taxes, equivalent to 24.3% of the Wealth created.
- Suppliers received 8.4% of the Wealth created, totalling €59m paid for goods and services.
- The remainder, €15m, 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.

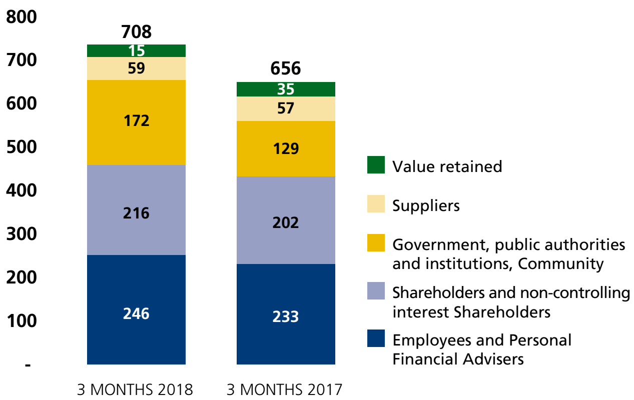
Economic value added

(€m)

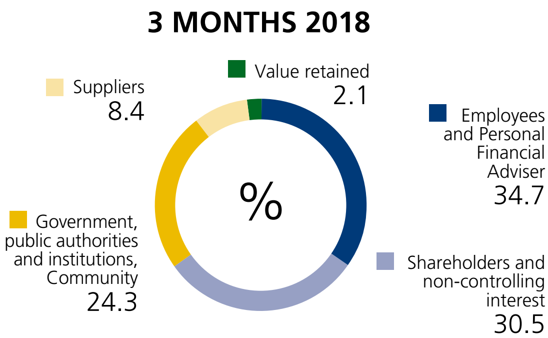
	3 MONTHS 2018	3 MONTHS 2017	CHANGE	
			AMOUNT	%
Wealth created	**708**	**656**	**52**	**8**
Value distributed	**(693)**	**(621)**	**(72)**	**12**
Employees and Personal Financial Advisers	(246)	(233)	(13)	6
Shareholders and non-controlling interest	(216)	(202)	(14)	7
Government, public authorities and institutions, Community	(172)	(129)	(43)	33
Suppliers	(59)	(57)	(2)	4
Value retained	**15**	**35**	**(20)**	**-57**

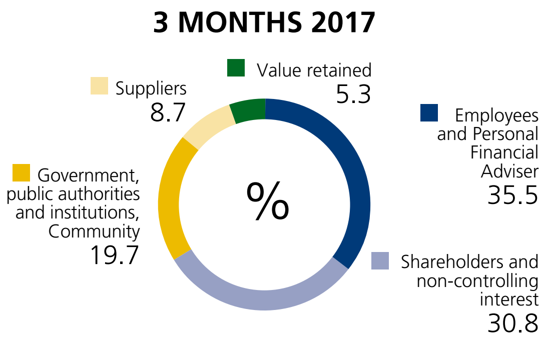
Wealth created

(€m)



Distribution of wealth created





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 IFRS9, 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.

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 €3.6bn, down €717m from 1 January 2018 (-17%).

Financial assets

(€m)

	31.3.2018	1.1.2018	CHANGE	
			AMOUNT	%
Financial assets measured at fair value through profit or loss	284	623	(339)	-54
Financial assets measured at fair value through other comprehensive income	3,311	3,686	(375)	-10
Hedging derivatives	2	5	(3)	-60
Total	**3,597**	**4,314**	**(717)**	**-17**

This performance is attributable both to the reduction in financial assets measured at fair value through profit or loss (-€339m) 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 €375m, mainly due to sales of bonds during the first quarter of 2018.

Financial liabilities

(€m)

	31.3.2018	1.1.2018	CHANGE	
			AMOUNT	%
Financial liabilities held for trading	16	193	(177)	-92
Hedging derivatives	791	833	(42)	-5
Total	**807**	**1,026**	**(219)**	**-21**

Financial liabilities, consisting of derivatives, totalled €807m. This item shows a reduction of €219m (-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)

	31.3.2018	1.1.2018	CHANGE	
			AMOUNT	%
Due from Central Banks	463	634	(171)	-27
Current account and demand deposits	2,618	4,177	(1,559)	-37
Term deposits	12,039	9,510	2,529	27
Other	127	125	2	2
Debt securities	8,170	8,061	109	1
Total	**23,417**	**22,507**	**910**	**4**

Due to banks totalled €23.4bn, up €910m (+4%) on the figure at the beginning of the year. This change is mainly due to the growth in investments in term deposits, partly offset by the reduction in current accounts. Current accounts included €1.6bn 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)

	31.3.2018	1.1.2018	CHANGE	
			AMOUNT	%
Current accounts and demand deposits	84	165	(81)	-49
Term deposits	156	154	2	1
Repurchase agreements	2,284	2,286	(2)	-
Other debts	40	36	4	11
Total	**2,564**	**2,641**	**(77)**	**-3**

Due to banks totalled €2.6bn, down slightly (-€77m) from the figure at the beginning of 2018. The Group continued to be a net lender on the interbank market, with net interbank deposits of €20.8bn (€23.4bn in deposits and €2.6bn in loans), €19.9bn of which (approximately 95% of the total) was held by companies in the Intesa Sanpaolo Group.

Loans and advances to customers

(€m)

	31.3.2018	1.1.2018	CHANGE	
			AMOUNT	%
Current accounts	5,665	5,671	(6)	-
Repurchase agreements	559	-	559	n.s.
Loans	705	658	47	7
Other	1,488	1,425	63	4
Debt securities	2,488	2,499	(11)	-
Impaired assets	11	10	1	10
Total	**10,916**	**10,263**	**653**	**6**

n.s.: not significant

Loans and advances to customers totalled €10.9bn and mainly comprised short-term loans (repayable within 12 months or revocable loans without a specified term) and unlisted debt securities. The increase of €653m from 1 January 2018 is attributable to the growth in repurchase agreements with institutional customers (+€559m), mortgages (+€47m) and other loans (+€63m). Net problem loans totalled €11m at 31 March 2018, up €1m (+10%) on the figure at 1 January 2018. In detail: doubtful loans totalled €1m, in line with 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)

	31.3.2018	1.1.2018	CHANGE	
			AMOUNT	%
Current accounts	28,344	27,831	513	2
Term deposits	2,354	2,625	(271)	-10
Repurchase agreements	634	6	628	n.s.
Other debts	67	119	(52)	-44
Total	**31,399**	**30,581**	**818**	**3**

Due to customers totalled €31.4bn, up €818m (+3%) since 1 January 2018. This performance is attributable to growth in customer current account deposits (+€513m) and repurchase agreements (+628m), partly offset by the reduction in term deposits (-€271m).

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 COMPRHENSIVE INCOME (*)	TOTAL
Belgium	-	15	15
Germany	-	10	10
Finland	-	35	35
France	-	81	81
Italy	2,212	478	2,690
United States	-	180	180
Total	**2,212**	**799**	**3,011**

(*) The Italian government bonds in FVOCI, which had a total face value of €240m, were covered by financial-guarantee contracts.

Property and equipment and intangible assets totalled €237m, including €140m in goodwill regarding Private Banking divisions acquired by the subsidiary Intesa Sanpaolo Private Banking between 2009 and 2013.

The **provisions for risks and charges** at 31 March 2018 were up €6m (+1%) from the figure at 1 January 2018, illustrated as follows:

Provisions for risks and charges

(€m)

	31.3.2018	1.1.2018	CHANGE	
			AMOUNT	%
Litigation, securities in default and complaints	98	99	(1)	-1
Personnel expenses	100	91	9	10
Personal Financial Advisers' termination indemnities	223	221	2	1
Network Loyalty Schemes	40	44	(4)	-9
Other	6	6	-	-
Total	**467**	**461**	**6**	**1**

The provisions for litigation, securities in default and complaints remained substantially stable from the beginning of the year (-€1m). The provisions for personnel costs rose by €9m, mainly due to the accruals for variable components of compensation. The provisions for the termination of Personal Financial Adviser agency agreements were up €2m due to accruals during the period. The provisions for Network loyalty schemes decreased by €4m, mainly to reduce the fair value of insurance policies made to cover the Personal Financial Advisers, which caused a net reversal of funds to the income statement.

Shareholders' equity

Including the profit for the period, the net equity of the Fideuram Group at 31 March 2018 was €3.1bn and includes €787.5m for the dividend that Fideuram will distribute to the parent company Intesa Sanpaolo from the profit for 2017.

Equity attributable to owners of the parent company

(€m)

Shareholders' equity at 31 December 2017	**2,778**
Effect of transition to IFRS9	38
Shareholders' equity at 1st January 2018	**2,816**
Change in financial assets through other comprehensive income	(15)
Other changes	13
Net profit	239
Shareholders' equity at 31 March 2018	**3,053**

The €38m change refers to the impact of first-time adoption of IFRS9, 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 €15m change in financial assets through comprehensive income is attributable to the reduction in the valuation reserves after sales on the market and changes in the fair value of the securities portfolio during the period. At 31 March 2018, the valuation reserve of financial assets measured at fair value through other comprehensive income totalled €22m.
The Group did not hold any treasury shares at 31 March 2018.

Fideuram S.p.A.'s own funds and main capital ratios at 31 March 2018 are shown below.

Fideuram S.p.A. Capital Ratios

(€m)

	31.3.2018	**31.12.2017**
CET1	1,026	998
Tier 1	1,026	998
Own funds	1,026	999
Total risk-weighted assets	7,160	7,065
CET1 Ratio	**14.3%**	**14.1%**
Tier 1 Ratio	**14.3%**	**14.1%**
Total Capital Ratio	**14.3%**	**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 31 March 2018, our Common Equity Tier 1 Ratio was estimated to be 16.8% (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 bank's 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 predominantly short-term interbank loans, principally to leading banks in the eurozone.

The Group's 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 Group's 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-per-

forming 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 (0.01% 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 a collective basis, adopting a historical/statistical approach to estimate the impairment losses that are deemed to have been incurred at the reference date without the amounts yet being known at the time of valuation.

Loans and advances to customers: credit quality

(€m)

	31.3.2018		1.1.2018		CHANGE
	NET EXPOSURE	%	NET EXPOSURE	%	NET EXPOSURE
Doubtful loans	1	-	1	-	-
Unlikely to pay	8	-	8	-	-
Past due or overdue loans	2	-	1	-	1
Non-performing assets	**11**	**-**	**10**	**-**	**1**
Performing loans	8,417	77	7,754	76	663
Debt instruments	2,488	23	2,499	24	(11)
Loans and advances to customers	**10,916**	**100**	**10,263**	**100**	**653**

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 investment portfolio totalled €14bn at 31 March 2018.

Banking book

(€m)

	31.3.2018	1.1.2018	CHANGE	
			AMOUNT	%
Financial assets measured at fair value through other comprehensive income	3,311	3,686	(375)	-10
Debt securities classified as loans and advances to banks	8,170	8,061	109	1
Debt securities classified as loans and advances to customers	2,488	2,499	(11)	-
Hedging derivatives	2	5	(3)	-60
Total	**13,971**	**14,251**	**(280)**	**-2**

At 31 March 2018, the Group portfolio was broken down as follows by product type and rating.

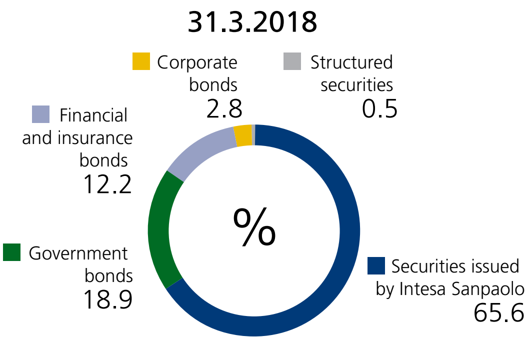
The market risk of this portfolio mainly regards the management of investments in securities. The Group's exposure to interest rate risk is, moreover, also influenced by other typical banking balance sheet items (customer deposits and loans). The financial risk of the banking book is measured using the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

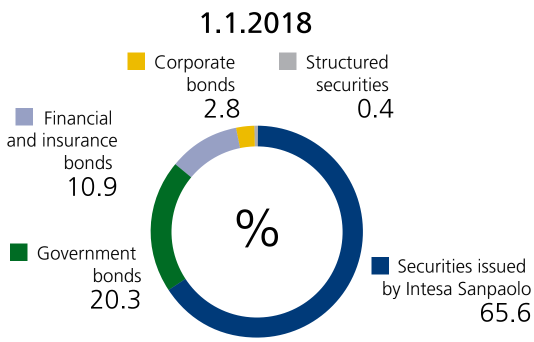
- the Value at Risk (VaR) only for the portfolio of securities measured at fair value through other comprehensive income;
- Sensitivity analysis for the entire banking book.

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).

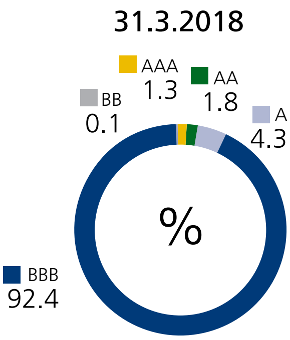
The VaR takes interest rates, credit spread and volatility into account. At the end of March 2018, the one-day spot VaR was €1.9m.
The Group uses derivatives (mainly interest rate swaps) to hedge interest rate risk following a strategy that involves buying swaps linked to the individual fixed-coupon 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.

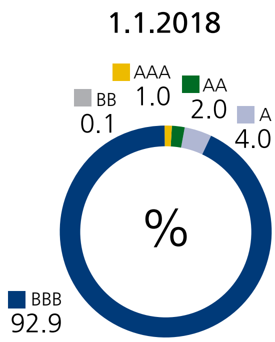
Analysis by product type





Analysis by rating





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 31 March 2018 was a negative -€24m. Likewise, even the interest margin sensitivity was negative -€87.5m 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.

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.

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 Group Audit Coordination and Operational Risk Committee is responsible, among other things, for periodically 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 Operational 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.

1. Except for Fideuram Fiduciaria, Sirefid, Financière Fideuram, Intesa Sanpaolo Private Bank (Suisse), and Fideuram Bank (Luxembourg).

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.
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.
Aggregate losses at the Division level in the first quarter of 2018 totalled €1.5m. The only significant event was the accrual of a €1.2m provision to cover a dispute with a customer for damage resulting from presumed violations of the law governing asset management reporting obligations.
No significant losses were reported during the first quarter in regard to the internal fraud Risk Class, which typically represents the most significant risk class for the Fideuram Group.

The 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 31 March 2018, these provisions totalled €98m. 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 31 March 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 31 March 2018 had changed as follows with respect to the situation described in the consolidated financial statements at 31 December 2017.

Tax disputes

The Lazio Regional Tax Police (Nucleo Regionale di Polizia Tributaria del Lazio) sent Fideuram a report concerning the 2003 and 2004 tax years, questioning the tax period adopted by the bank for the tax deduction of the Personal Financial Adviser Network Loyalty Schemes, together with a number of other lesser matters. Following this report, the bank was served a notice of assessment by the competent office of the Italian Revenue Agency regarding Corporate Income Tax (IRPEG) and Regional Business Tax (IRAP) for the year 2003, against which the bank promptly appealed. The Provincial and Regional Tax Commissions found against the bank, which then filed an appeal with the Court of Cassation. As a further consequence of the inspection by the Tax Police and regarding the same financial statement items as for 2003, the bank subsequently received notices of assessment regarding IRES corporate income tax and IRAP regional business tax for the 2004 tax year, against which the bank filed an appeal with the Tax Commission. The bank then reached a legal settlement regarding the main item while pursuing the dispute regarding a number of lesser items in the court of second instance, where the court found in favour of the bank, except for one small amount. The Revenue Agency subsequently filed an appeal with the Court of Cassation.

An additional consequence of said notice of assessment regarding the 2003 and 2004 tax years was that the bank was also served a notice of assessment for a smaller amount regarding VAT. The bank's appeal against this notice of assessment was granted by the Rome Provincial Tax Commission, but the ruling on the dispute was then overturned in the court of second instance. The dispute over this item is now also awaiting careful examination by the Court of Cassation. The provisions for risks and charges are more than sufficient to cover the items still to be settled.

In 2014, the Large Taxpayers Office of the Lazio Regional Office of the Italian Revenue Agency conducted a general inspection of Fideuram regarding IRES corporate income tax, IRAP regional business tax, VAT and withholding agent activities for the 2010 tax year. This inspection was subsequently partially extended to 2009. The inspection was completed with the notification of a report contesting the deductibility of certain items for the purposes of IRES corporate income tax and IRAP regional business tax, and alleging non-compliance with respect to withholding tax on interest earned on accounts outside Italy linked to mutual funds distributed by the bank, demanding the payment of taxes totalling €3.4m plus financial penalties and interest. In that year, the bank settled in compliance with the assessment regarding the deductibility of the various items from IRES and IRAP tax liability. In regard to the finding against the application of withholding tax on interest earned on accounts outside Italy, in January 2017 the Rome Provincial Tax Commission accepted the petition filed by the company against the notices of assessment and imposition of penalties notified by the aforementioned Italian Revenue Agency Office. The Italian Tax Authorities then filed an appeal against the decision.

During 2015, the Lazio Regional Office of the Italian Revenue Agency - Large Taxpayers Office - conducted an inspection of Fideuram regarding the 2011 tax year. The inspection was completed by a notice of assessment contesting the deductibility of certain minor items for the purposes of IRES corporate income tax and, as for 2009 and 2010, alleging non-compliance with respect to withholding tax on interest earned on accounts outside Italy linked to mutual funds distributed by the bank, for a total of €1.7m in taxes plus financial penalties and interest. In 2016, the bank was served the assessment reports regarding all the matters contested in the notice of assessment. The Bank accepted the assessments, paying what was claimed for IRES. An appeal was filed with the Rome Provincial Tax Court concerning the failure to withhold tax on mutual fund interest.

The Provincial Tax Court rejected the company's appeal on 19 March 2018. An appeal shall consequently be 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 the disputes that have arisen in the past two-year period.

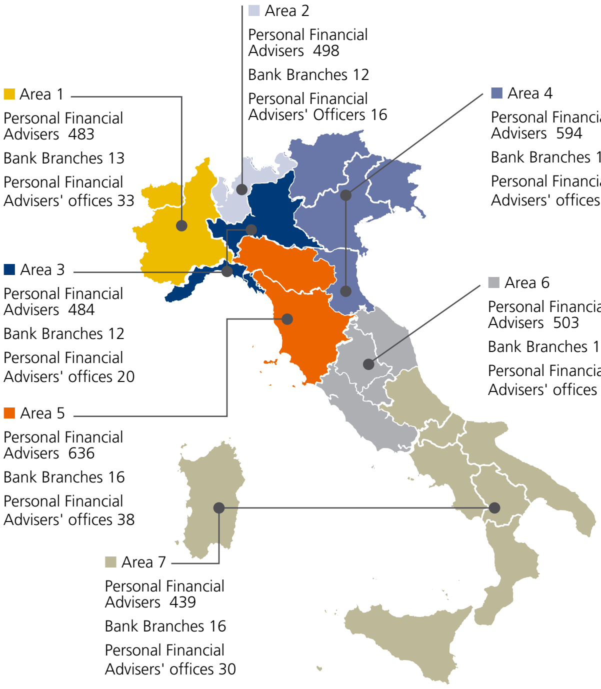
Human capital

SALES NETWORKS

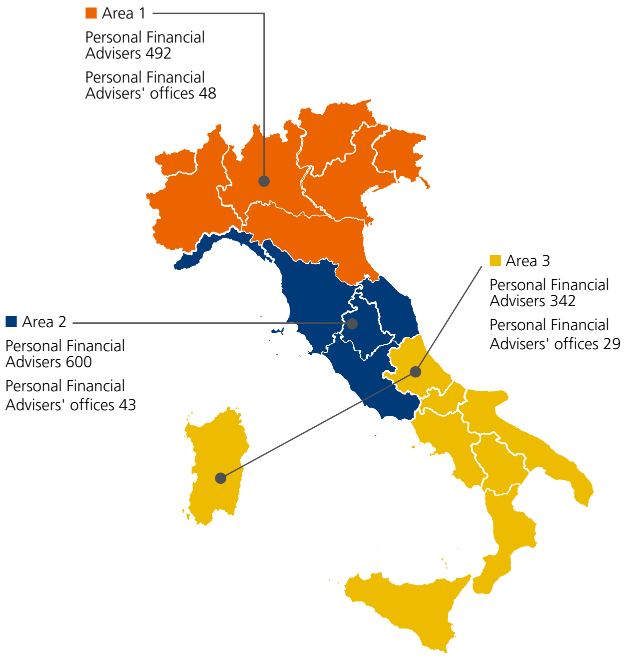
The Group's distribution networks (Fideuram, Sanpaolo Invest and Intesa Sanpaolo Private Banking Networks) totalled 6,017 Personal Financial Advisers at 31 March 2018 compared with 5,950 at 31 December 2017.

	BEGINNING OF PERIOD 1.1.2018	IN	OUT	NET	END OF PERIOD 31.3.2018
Fideuram Network	3,635	43	41	2	3,637
Sanpaolo Invest Network	1,428	18	12	6	1,434
Intesa Sanpaolo Private Banking Network	887	70	11	59	946
Total	**5,950**	**131**	**64**	**67**	**6,017**

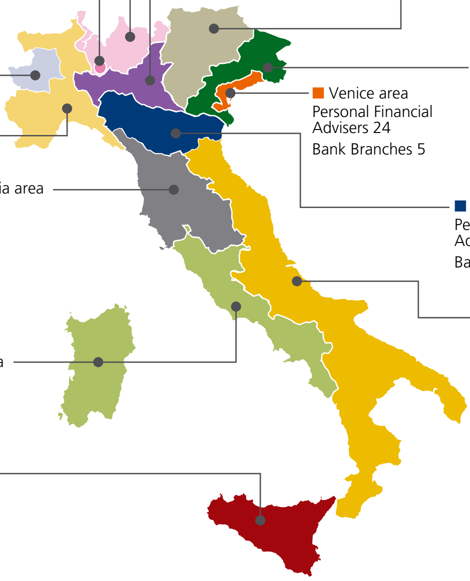
Fideuram Network: 7 areas



Sanpaolo Invest Network: 3 areas



Intesa Sanpaolo Private Banking Network: 13 Areas



The Fideuram and Sanpaolo Invest Networks' recruitment programmes brought in 61 new professionals in the first quarter of 2018, compared with 99 new Personal Financial Advisers recruited in the corresponding period of 2017, and 285 over the past 12 months, compared with 244 in the previous twelve-month period. 53 Personal Financial Advisers left the Group in the first quarter of the year, only 15% of whom, however, moved to competitor networks.

Fideuram Personal Financial Advisers

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
Q1					
1.1.2018 - 31.3.2018	3,635	43	41	2	3,637
1.1.2017 - 31.3.2017	3,571	66	56	10	3,581
Twelve-month period					
1.4.2017 - 31.3.2018	3,581	199	143	56	3,637
1.4.2016 - 31.3.2017	3,584	167	170	(3)	3,581

Sanpaolo Invest Personal Financial Advisers

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
Q1					
1.1.2018 - 31.3.2018	1,428	18	12	6	1,434
1.1.2017 - 31.3.2017	1,429	33	29	4	1,433
Twelve-month period					
1.4.2017 - 31.3.2018	1,433	86	85	1	1,434
1.4.2016 - 31.3.2017	1,447	77	91	(14)	1,433

The Intesa Sanpaolo Private Banking Network at period end comprised 893 Personal Financial Advisers employed as salaried employees registered in Italy's Unified Register of Financial Advisers (including 2 Personal Financial Advisers on the London market), 35 independent professionals on agency contracts and 18 Personal Financial Advisers at Intesa Sanpaolo Private Bank (Suisse).

Intesa Sanpaolo Private Banking Personal Financial Advisers

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
Q1					
1.1.2018 - 31.3.2018	887	70	11	59	946
1.1.2017 - 31.3.2017	848	21	5	16	864
Twelve-month period					
1.4.2017 - 31.3.2018	864	119	37	82	946
1.4.2016 - 31.3.2017	830	63	29	34	864

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 31 March 2018, 900 Personal Financial Advisers had joined together in teams, collectively managing a total of around €8.1bn in assets for over 73 thousand 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 3,213 at 31 March 2018, compared with 3,126 at the end of December 2017, an increase of 87 which was principally due to the growth of our distribution and sales networks.
Direct employees totalled 3,133.

Human Resources

(number)

	31.3.2018	31.12.2017	31.3.2017
Fideuram - Intesa Sanpaolo Private Banking	1,369	1,362	1,323
Intesa Sanpaolo Private Banking	1,417	1,363	1,333
Sanpaolo Invest SIM	48	49	49
Sirefid	59	60	62
Fideuram Fiduciaria	26	24	24
Intesa Sanpaolo Private Bank (Suisse)	55	33	26
Financière Fideuram	4	4	4
Asset Management	**235**	**231**	**218**
Fideuram Asset Management (Ireland)	67	66	59
Fideuram Bank (Luxembourg)	66	66	66
Fideuram Investimenti SGR	102	99	93
Total	**3,213**	**3,126**	**3,039**

Events after the reporting period and outlook

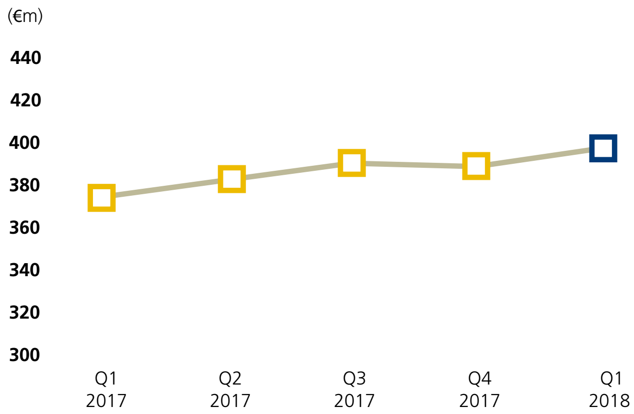
There were no significant events after the reporting period requiring any changes to be made to the consolidated financial statements at 31 March 2018.

Work continued on the pending merger (effective 1 January 2018 for tax and accounting purposes) of the two fiduciary companies in the Private Banking Division, with the merger by incorporation of Fideuram Fiduciaria S.p.A. in Sirefid S.p.A.. Its purpose is to create one of the largest Italian operators in the sector, capable of best satisfying the needs of top-end customers in the Private Banking Division. To this end, it will enhance the outstanding professional and organisational expertise of the two entities, reinforcing the sales units dedicated to the Group distribution Networks.

On 10 April 2018, Fideuram finalised the acquisition of 94.6% of the share capital of Morval Vonwiller Holding after the necessary authorisations were issued in March by the competent regulatory authorities (Bank of Italy, ECB and FINMA). 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, that group is active in private banking and wealth management, and will be used to expand the scope of Fideuram Group activities outside Italy.

Despite the year beginning with increased volatility in the financial markets, the Group achieved positive net inflows into managed assets. Managed assets, totalling €150.5bn at 31 March 2018, were far higher than the average figure for 2017, which came to €144.3bn, and are boosting recurring fee and commission income to levels higher than in 2017. The managed asset inflow development policies, cost controls, and constant focus on risk management will see the Group end the current year with net profit up on 2017.

Quarterly net recurring fees



The Board of Directors
Milan, 7 May 2018

Accounting policies

DECLARATION OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Consolidated Interim Report at 31 March 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.

BASIS OF PREPARATION

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:

- IFRS9 - Financial Instruments, issued by the IASB in July 2014 and endorsed by the European Commission with Commission Regulation (EU) No. 2067/2016, which replaced IAS39 for the classification, measurement and impairment of financial instruments;
- IFRS15 - Revenue from Contracts with Customers, endorsed by the European Commission with Regulation (EU) No. 1905/2016, which replaced IAS18 - Revenue, and IAS11 - Construction Contracts.

This Report describes the accounting policies of the Fideuram Group, limited to the changes implemented beginning 1 January 2018 to account for the application of IFRS9 and IFRS15. 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 application of IFRS9, the Group exercised the option granted in paragraph 7.2.15 of IFRS9 and in paragraphs E1 and E2 of IFRS1 - 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 IFRS9. That reconciliation statement highlights the reclassifications and adjustments made to guarantee that the figures are restated in accordance with the requirements of IFRS9.

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 quarter of 2018 is compared with the income statement for the corresponding period of 2017, while the balance sheet at 31 March 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 IAS39, restated as necessary within the new templates provided for by the Bank of Italy.
The balance sheet and income statement at 31 March 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. In regard to the reclassified balance sheet template, the comparative data at 1 January 2018 have been calculated by applying the new IFRS9 to the net amounts of the consolidated balance sheet at 31 December 2017, when IAS39 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 31 March 2018 are listed below.

Equity investments in wholly owned subsidiaries at 31.3.2018

NAME	REGISTERED OFFICE	OWNERSHIP %
Sanpaolo Invest SIM S.p.A.	Turin	100.000
Intesa Sanpaolo Private Banking S.p.A.	Milan	100.000
Fideuram Investimenti SGR S.p.A.	Milan	99.500
Sirefid S.p.A.	Milan	100.000
Fideuram Fiduciaria S.p.A.	Turin	100.000
Fideuram Asset Management (Ireland) dac	Dublin	100.000
Fideuram Bank (Luxembourg) S.A.	Luxembourg	100.000
Financière Fideuram S.A.	Paris	99.999
Intesa Sanpaolo Private Bank (Suisse) S.A.	Lugano	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 31 March 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.
The scope of consolidation of the Group was unchanged from 31 December 2017.

THE TRANSITION TO IFRS9

IFRS9: THE NEW INTERNATIONAL FINANCIAL REPORTING STANDARD ON FINANCIAL INSTRUMENTS

Regulatory provisions
On 1 January 2018, the new IFRS9, issued by the IASB in July 2014 and endorsed by the European Commission with Regulation (EU) 2067/2016, replaced IAS39, which governed the recognition and measurement of financial instruments until 31 December 2017.
IFRS9 is divided into three distinct areas for the classification and measurement of financial instruments, their impairment and hedge accounting.
In the first area, IFRS9 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 IFRS9, financial assets are classified in three categories instead of the four categories envisaged under IAS39, 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 IAS39 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.
IFRS9 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 IAS39 with an expected loss impairment model to obtain more timely recognition of credit losses in the income statement. IFRS9 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 IAS39 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 ensu-

re 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 & 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 IFRS9, as required by that standard. These reclassifications focused in particular on several debt securities measured at fair value through equity pursuant to IAS39 which, upon first-time adoption of IFRS9, 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 IFRS9 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 IFRS9. In these statements, the financial data at 31 December 2017, calculated in accordance with IAS39, have been moved to the new account items in accordance with the classification criteria introduced by IFRS9, but without application of the new measurement methods, and thus with the total assets and liabilities remaining equal.

Balance Sheet - Assets

(€m)

IFRS9 \ **IAS39**	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 IAS39 at 31 December 2017 for proper application of the new classification rules mandated by IFRS9 are illustrated as follows:

- reclassification of a portion of the available-for-sale debt securities pursuant to IAS39. 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;
- 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 IAS39 which, for a total of €259m, have been reallocated to financial assets measured at fair value through profit or loss;
- 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 IFRS9 (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)

IFRS9 \ IAS39	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**
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	**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 IFRS9. For the sake of completeness, we highlight only: the reclassification of €148m in derivatives to the trading portfolio, which had previously been classified as hedging instruments. Therefore, upon first-time adoption of IFRS9, 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 IFRS9 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 IAS39) which include the reclassifications made in accordance with the new classification rules of IFRS9 and the balance sheet at 1 January 2018 (IFRS9) are illustrated as follows. In these statements, the financial data at 31 December 2017 (calculated according to IAS39) have been modified to reflect the application of the new measurement and impairment rules to determine the initial net amounts that are IFRS9 compliant.

Balance Sheet

(€m)

ASSETS	31.12.2017	EFFECT OF TRANSITION TO IFRS9		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
80. 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 IFRS9	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 IAS39 and Shareholders' Equity under IFRS9

Following below is the statement of reconciliation between Consolidated Shareholders' Equity at 31 December 2017, as published in the Consolidated Financial Statements 2017 and the Consolidated Shareholders' Equity at 1 January 2018, after the transition to IFRS9.

(€m)

IMPACT ON CONSOLIDATED SHAREHOLDERS' EQUITY OF FIRST-TIME ADOPTION OF IFRS9 NET OF TAX EFFECT

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 IFRS9 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 €40m;
- confirmation upon first-time adoption of IFRS9 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 IAS39, 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 €22m.

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

MAIN FINANCIAL STATEMENT ITEMS

The main changes introduced by the application of the new financial reporting standard IFRS9 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 IFRS9 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 securities and equities. 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 are 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 IFRS9, 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 IFRS9. 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 IFRS9 to continue applying all the provisions of IAS39 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 IFRS9.

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 IFRS9.

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.

Consolidated financial statements

Consolidated balance sheet

(€m)

ASSETS	31.3.2018	31.12.2017
10. Cash and cash equivalents	77	78
20. Financial assets measured at fair value through profit or loss	284	302
a) financial assets held for trading	16	43
b) financial assets measured at fair value	-	259
c) financial assets mandatorily measured at fair value	268	-
30. Financial assets measured at fair value through other comprehensive income	3,311	4,596
40. Financial assets measured at amortised cost	34,333	32,155
a) loans and advances to banks	23,417	22,510
b) loans and advances to customers	10,916	9,645
50. Hedging derivatives	2	5
60. Adjustments to financial assets subject to macro-hedging (+/-)	-	-
70. Equity investments	151	148
80. Reinsurers' share of technical reserves	-	-
90. Property and equipment	52	53
100. Intangible assets	185	188
of which: goodwill	140	140
110. Tax assets	155	161
a) current	29	26
b) deferred	126	135
120. Non-current assets held for sale and discontinued operations	-	-
130. Other assets	1,012	1,045
TOTAL ASSETS	**39,562**	**38,731**

Chairman of the
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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	31.3.2018	31.12.2017
10. Financial liabilities measured at amortised cost	33,963	33,222
a) due to banks	2,564	2,641
b) due to customers	31,399	30,581
c) debt on issue	-	-
20. Financial liabilities held for trading	16	45
30. Financial liabilities measured at fair value	-	-
40. Hedging derivatives	791	981
50. Adjustments to financial liabilities subject to macro-hedging (+/-)	-	-
60. Tax liabilities	112	96
a) current	77	35
b) deferred	35	61
70. Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80. Other liabilities	1,108	1,097
90. Provision for employment termination indemnities	52	53
100. Provisions for risks and charges:	467	459
a) commitments and guarantees	3	-
b) pensions and other commitments	11	11
c) other provisions for risks and charges	453	448
110. Technical reserves	-	-
120. Valuation reserves	35	(69)
130. Redeemable shares	-	-
140. Equity instruments	-	-
150. Reserves	2,273	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 (+/-)	239	871
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**39,562**	**38,731**

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Consolidated income statement

(€m)

	Q1 2018	Q1 2017
10. Interest income and similar income	58	81
of which: interest income calculated with the effective interest method	*80*	
20. Interest expense and similar expense	(19)	(38)
30. Net interest income	**39**	**43**
40. Fee and commission income	618	575
50. Fee and commission expense	(187)	(170)
60. Net fee and commission income	**431**	**405**
70. Dividends and similar income	-	-
80. Net profit (loss) on trading activities	-	3
90. Net profit (loss) on hedging derivatives	(1)	2
100. Net profit (loss) on sale or repurchase of:	20	5
a) financial assets measured at amortised cost	8	-
b) financial assets measured at fair value through other comprehensive income	12	5
c) financial liabilities	-	-
110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	(5)	3
a) financial assets and liabilities measured at fair value	-	3
b) other financial assets mandatorily measured at fair value	(5)	-
120. Total net interest and trading income	**484**	**461**
130. Net impairment for credit risk related to:	(1)	-
a) financial assets measured at amortised cost	(1)	-
b) financial assets measured at fair value through other comprehensive income	-	-
140. Gains/losses on contractual changes without cancellation	-	-
150. Operating income	**483**	**461**
160. Net insurance premiums	-	-
170. Other income/expense from insurance activities	-	-
180. Operating income from financing and insurance activities	**483**	**461**
190. Administrative expenses:	(205)	(184)
a) personnel expenses	(84)	(79)
b) other administrative expenses	(121)	(105)
200. Net provisions for risks and charges	(1)	(9)
a) commitments and guarantees	-	-
b) other net provisions	(1)	(9)
210. Depreciation of property and equipment	(1)	(1)
220. Amortisation of intangible assets	(3)	(5)
230. Other income/expense	63	47
240. Operating expenses	**(147)**	**(152)**
250. Profit (loss) on equity investments	3	3
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	**339**	**312**
300. Income taxes for the period on continuing operations	(100)	(89)
310. Profit (loss) after tax from continuing operations	**239**	**223**
320. Profit (loss) after tax from discontinued operations	-	-
330. Net profit (loss) for the period	**239**	**223**
340. Net profit (loss) for the period attributable to non-controlling interests	-	-
350. Parent company interest in net profit (loss) for the period	**239**	**223**

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Consolidated statement of comprehensive income

(€m)

	Q1 2018	Q1 2017
10. Net profit (loss) for the period	**239**	**223**
Other comprehensive income after tax not transferred to the income statement	**1**	**-**
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	1	-
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	**(16)**	**(13)**
100. Hedging of net investments in foreign operations	-	-
110. Exchange rate differences	-	-
120. Cash flow hedges	(1)	-
130. Hedging instruments (undesignated elements)	-	-
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(15)	(11)
150. Non-current assets held for sale and discontinued operations	-	-
160. Valuation reserves related to investments carried at equity	-	(2)
170. Total other comprehensive income after tax	**(15)**	**(13)**
180. Total comprehensive income	**224**	**210**
190. Total comprehensive income attributable to non-controlling interests	-	-
200. Total comprehensive income attributable to parent company	224	210

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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 YEAR									SHAREHOLDERS' EQUITY AT 31.3.2018	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AT 31.3.2018	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 31.3.2018
							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 31.3.2018			
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**	**871**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,273**	**2,273**	**-**
a) from net income	1,396	(81)	1,315	871	-	13	-	-	-	-	-	-	-	-	2,199	2,199	-
b) other	74	-	74	-	-	-	-	-	-	-	-	-	-	-	74	74	-
Valuation reserves	**(69)**	**119**	**50**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15)**	**35**	**35**	**-**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) for the period	**871**	**-**	**871**	**(871)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**239**	**239**	**239**	**-**
Shareholders' equity	**2,778**	**38**	**2,816**	**-**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**224**	**3,053**	**3,053**	**-**
Equity attributable to owners of the parent company	**2,778**	**38**	**2,816**	**-**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**224**	**3,053**		
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

Statement of changes in consolidated equity

(€m)

	BALANCE AT 31.12.2016	CHANGE IN OPENING BALANCES	BALANCE AT 1.1.2017	ALLOCATION OF INCOME FOR THE PREVIOUS YEAR: RESERVES	ALLOCATION OF INCOME FOR THE PREVIOUS YEAR: DIVIDENDS AND OTHER	CHANGES IN THE YEAR: CHANGES IN RESERVES	TRANSACTIONS INVOLVING SHAREHOLDERS' EQUITY: 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 31.3.2017	SHAREHOLDERS' EQUITY AT 31.3.2017	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AT 31.12.2017	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 31.3.2017
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**	**-**	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,454**	**1,454**	**-**
a) from net income	1,299	-	1,299	72	-	9	-	-	-	-	-	-	-	-	-	1,380	1,380	-
b) other	74	-	74	-	-	-	-	-	-	-	-	-	-	-	-	74	74	-
Valuation reserves	**(84)**	**-**	**(84)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13)**	**(97)**	**(97)**	**-**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interim dividends	**(600)**	**-**	**(600)**	**-**	**600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) for the period	**786**	**-**	**786**	**(72)**	**(714)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**223**	**223**	**223**	**-**
Shareholders' equity	**1,981**	**-**	**1,981**	**-**	**(114)**	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**210**	**2,086**	**2,086**	**-**
Equity attributable to owners of the parent company	**1,981**	**-**	**1,981**	**-**	**(114)**	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**210**	**2,086**		
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		

Chairman of the
Board of Directors
Paolo Maria Vittorio Grandi

Managing Director
Paolo Molesini

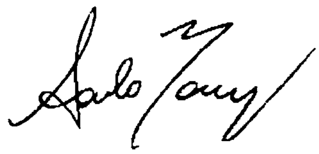
Manager responsible for the
preparation of the Company Accounts
Paolo Bacciga

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 31 March 2018 corresponds to the accounting documents, records and books.

Milan, 7 May 2018

Paolo Bacciga
Manager responsible for the preparation
of the Company Accounts



Schedules

Basis of preparation of the reclassified financial statements

The balance sheet and income statement at 31 March 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

Reconciliation of consolidated balance sheet and reclassified consolidated balance sheet

(€m)

RECLASSIFIED BALANCE SHEET ITEMS - ASSETS	CONSOLIDATED BALANCE SHEET ITEMS - ASSETS	31.3.2018	1.1.2018
Financial assets measured at fair value through profit or loss		284	623
	Item 20. Financial assets measured at fair value through profit or loss	*284*	*623*
Financial assets measured at fair value through other comprehensive income		3,311	3,686
	Item 30. Financial assets measured at fair value through other comprehensive income	*3,311*	*3,686*
Loans and advances to banks		23,417	22,507
	Item 40. a) Financial assets measured at amortised cost - due to banks	*23,417*	*22,507*
Loans and advances to customers		10,916	10,263
	Item 40. b) Financial assets measured at amortised cost - due to customers	*10,916*	*10,263*
Hedging derivatives		2	5
	Item 50. Hedging derivatives	*2*	*5*
Equity investments		151	148
	Item 70. Equity investments	*151*	*148*
Property and equipment and intangible assets		237	241
	Item 90. Property and equipment	*52*	*53*
	Item 100. Intangible assets	*185*	*188*
Tax assets		155	174
	Item 110. Tax assets	*155*	*174*
Other assets		1,089	1,123
	Item 10. Cash and cash equivalents	*77*	*78*
	Item 130. Other assets	*1,012*	*1,045*
Total assets	**Total assets**	**39,562**	**38,770**

RECLASSIFIED BALANCE SHEET ITEMS - LIABILITIES	CONSOLIDATED BALANCE SHEET ITEMS - LIABILITIES	31.3.2018	1.1.2018
Due to banks		2,564	2,641
	Item 10. a) Financial liabilities measured at amortised cost - advances to banks	*2,564*	*2,641*
Due to customers		31,399	30,581
	Item 10. b) Financial liabilities measured at amortised cost - advances to customers	*31,399*	*30,581*
Financial liabilities held for trading		16	193
	Item 20. Financial liabilities held for trading	*16*	*193*
Hedging derivatives		791	833
	Item 40. Hedging derivatives	*791*	*833*
Tax liabilities		112	95
	Item 60. Tax liabilities	*112*	*95*
Other liabilities		1,160	1,150
	Item 80. Other liabilities	*1,108*	*1,097*
	Item 90. Provision for employment termination indemnities	*52*	*53*
Provisions for risks and charges		467	461
	Item 100. Provisions for risks and charges	*467*	*461*
Share capital and reserves		2,814	1,945
	Items 120, 150, 160, 170 Equity attributable to owners of the parent company	*2,814*	*1,945*
Net Profit		239	871
	Item 200. Net profit (loss) for the period	*239*	*871*
Total liabilities	**Total liabilities and shareholders' equity**	**39,562**	**38,770**

Reconciliation of consolidated income statement and reclassified consolidated income statement

(€m)

RECLASSIFIED CONSOLIDATED INCOME STATEMENT ITEMS	CONSOLIDATED INCOME STATEMENT ITEMS	Q1 2018	Q1 2017
Net interest income		37	40
	Item 30. Net interest income	*39*	*44*
	- Item 60. (partial) Components of net fee and commission income related to net interest income	*(2)*	*(4)*
Net profit (loss) on financial assets and liabilities		19	10
	Item 80. Net profit (loss) on trading activities	*-*	*2*
	Item 90. Net profit (loss) on hedging derivatives	*(1)*	*2*
	Item 100. Profit (loss) on sale or repurchase	*20*	*5*
	Item 110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	*(5)*	*3*
	- Item 60. (partial) Component of the returns on insurance policies for the Networks	*1*	*-*
	- Item 200. (partial) Component of the returns on insurance policies for the Networks	*4*	*(2)*
Net fee and commission income		432	409
	Item 60. Net fee and commission income	*431*	*405*
	- Item 60. (partial) Components of net fee and commission income related to net interest income.	*2*	*4*
	- Item 60. (partial) Component of the returns on insurance policies for the Networks	*(1)*	*-*
Total net interest and trading income		**488**	**459**
Net impairment for credit risk		(1)	-
	Item 130. Net impairment for credit risk	*(1)*	*-*
Operating income		**487**	**459**
Personnel expenses		(81)	(74)
	Item 190. a) Personnel expenses	*(84)*	*(79)*
	- Item 190. a) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*3*	*5*
Other administrative expenses		(53)	(50)
	Item 190. b) Other administrative expenses	*(121)*	*(105)*
	- Item 230. (partial) Recovery of indirect taxes	*63*	*48*
	- Item 190. b) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*1*	*1*
	- Item 190. b) (partial) Costs related to banking system	*4*	*6*
Depreciation and amortisation		(2)	(4)
	Item 210. Depreciation of property and equipment	*(1)*	*(1)*
	Item 220. Amortisation of intangible assets	*(3)*	*(5)*
	- Item 220. (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*2*	*2*
Operating expenses		**(136)**	**(128)**
Net provisions for risks and charges		(5)	(7)
	Item 200. Net provisions for risks and charges	*(1)*	*(9)*
	- Item 200. (partial) Component of the returns on insurance policies for the Networks	*(4)*	*2*
Profit (loss) on equity investments		3	3
	Item 250. Profit (loss) on equity investments	*3*	*3*
Other income (expense)		-	(1)
	Item 230. Other income/expense	*63*	*47*
	- Item 230. (partial) Recovery of indirect taxes	*(63)*	*(48)*
Profit (loss) before tax from continuing operations		**349**	**326**
Income taxes for the period on continuing operations		(103)	(93)
	Item 300. Income taxes for the period on continuing operations	*(100)*	*(89)*
	- Item 300. (partial) Tax impact on costs related to integration of Intesa Sanpaolo Private Banking	*(2)*	*(2)*
	- Item 300. (partial) Tax impact on costs related to the banking system	*(1)*	*(2)*
Expenses regarding the banking system (net of tax)		(3)	(4)
	- Item 190. b) (partial) Costs related to banking system	*(4)*	*(6)*
	- Item 300. (partial) Tax impact on costs related to the banking system	*1*	*2*
Non-recurring income (expenses) (net of tax)		(4)	(6)
	- Item 190. a) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*(3)*	*(5)*
	- Item 190. b) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*(1)*	*(1)*
	- Item 220. (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*(2)*	*(2)*
	- Item 300. (partial) Tax impact on costs related to integration of Intesa Sanpaolo Private Banking	*2*	*2*
Net Profit	**Item 350. Parent company interest in net profit (loss) for the period**	**239**	**223**

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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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