FIDEURAM
INTESA SANPAOLO PRIVATE BANKING

Half-Year Report at 30 June 2018

Bank of INTESA SANPAOLO

Mission

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

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

Half-Year Report
at 30 June 2018

Introduction

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

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

As for the procedures to be used in presenting the effects of first-time adoption of the new financial reporting standard, the Group exercised the option granted by IFRS 9 according to which, notwithstanding the retroactive application of the new measurement and presentation rules imposed by the standard, restatement of the comparative financial statement figures on a like-for-like basis when the standard is applied for the first time is not required. In accordance with the instructions published by the Bank of Italy at the end of December 2017 with the issuance of the 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. In this Report, we have published a reconciliation statement in the section dedicated to transition to the new IFRS 9. That reconciliation statement highlights the reclassifications and adjustments made to guarantee that the figures at 1 January 2018 are restated in accordance with the requirements of IFRS 9.

Moreover, the financial data and transaction data include the effects of two company transactions executed as part of the Fideuram - Intesa Sanpaolo Private Banking development project inside and outside Italy. The Group company transactions completed in the first half of 2018 were as follows:

- the combination on 30 June 2018 (effective 1 January 2018 for tax and accounting purposes) of the two fiduciary companies controlled by Fideuram, with the merger of Fideuram Fiduciaria S.p.A. with Sirefid S.p.A., which was subsequently renamed Siref Fiduciaria S.p.A.. This transaction, constituting a business combination of companies under common control, had no effect on the consolidated half-year financial statements;
- the acquisition by Fideuram on 10 April 2018 of 94.6% of the share capital of Morval Vonwiller Holding, a financial company that controls the Swiss group by the same name which operates in the private banking and wealth management sector.

In regard to this last transaction, Fideuram acquired the shares of Morval Vonwiller Holding at a total price of CHF186.3m. On 10 April 2018, it paid an initial price of CHF176.1m (equal to €156.2m, inclusive of the cash flow hedge effect) and committed itself to pay the balance of CHF10.2m as a contractual price adjustment to reflect the net value of the assets at the acquisition date. Therefore, the income, expenses, assets and liabilities of the Morval Vonwiller Group are included for the first time in this Consolidated Half-Year Report. Consolidated financial statements at 31 March 2018 were prepared in accordance with IFRS for the first-time consolidation of the Morval Vonwiller Group to determine the provisional value of goodwill (€28m) in anticipation of allocating the purchase price at the end of the year in accordance with IFRS 3 - Business Combinations.

The Consolidated Half-Year Report comprises the compulsory consolidated statements provided for by IAS 1 (namely a

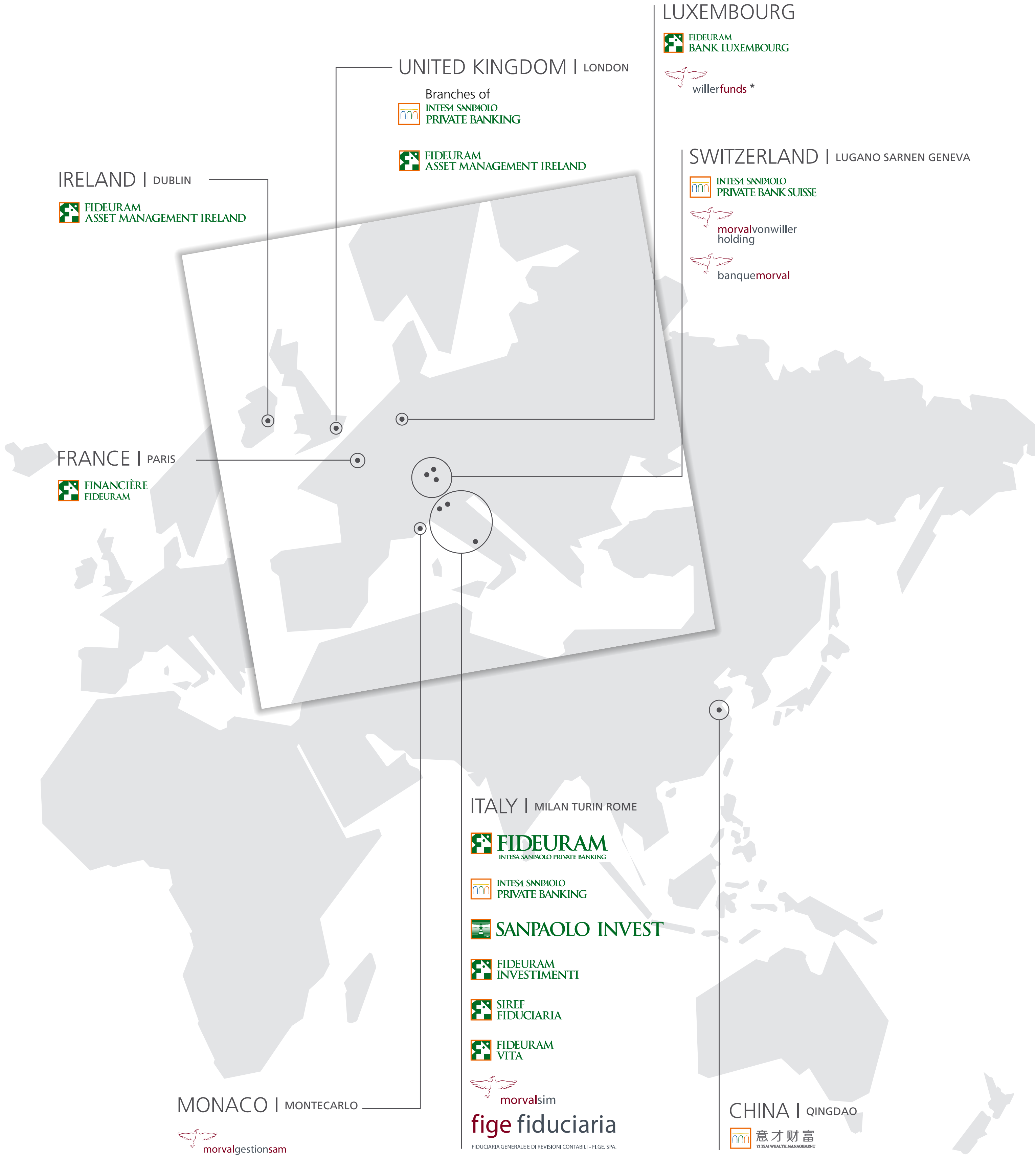
balance sheet, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows), accompanied by explanatory notes on the Group's performance, as indicated by IAS 34 - Interim Financial Reporting.
The balance sheet and income statement at 30 June 2018 referred to in the explanatory notes are a reclassified condensed balance sheet and reclassified condensed income statement to facilitate comparison of the figures for different periods and to enable a clearer and more immediate understanding of the Group's financial position. These statements were prepared using appropriate groupings of the items in the official financial statements. Detailed information on the restatements and reclassifications is presented in specific reconciliation statements provided in the schedules accompanying this Report.

An analysis comparing the financial and transaction data for the first half of 2018 with the corresponding data for 2017 would be heavily skewed by the impact of acquisition of the Morval Group. The transaction and financial data presented in the reclassified balance sheet and reclassified income statement have been restated in the notes to the financial statements where necessary to reflect the effects of the changes in the scope of consolidation appropriately so that straight comparisons can be made. These restated statements were prepared making the adjustments to the historical data required to reflect retrospectively the changes in the scope of consolidation that occurred in 2018, as if the company transactions concerned had become effective as of 1 January 2017, without however changing the operating profit and shareholders' equity stated in the official financial statements published in previous periods. The net effects of the adjustments have been stated under net profit attributable to non-controlling interests in the restated income statement and under equity attributable to non-controlling interests in the restated balance sheet.
In regard to the reclassified balance sheet template, the comparative data at 1 January 2018 have been calculated by applying the new IFRS 9 to the net amounts of the consolidated balance sheet at 31 December 2017, when IAS 39 was applied, so that the figures may be compared. The analytical details of the reclassifications and adjustments made to recalculate the net amounts on the balance sheet at 31 December 2017 in accordance with the requirements of IFRS 9 are shown in the section on accounting policies.

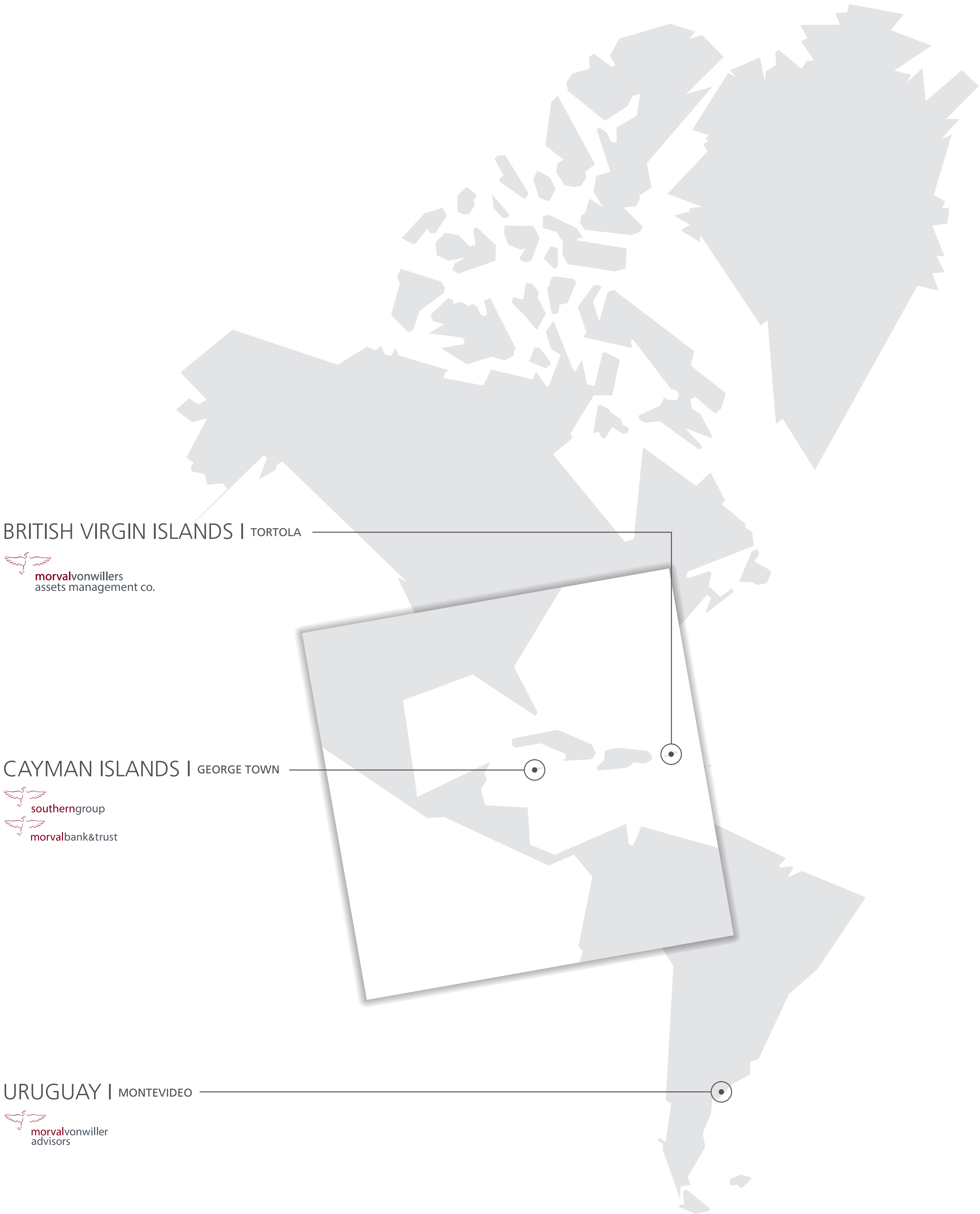
Contents

Group structure

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



* In liquidation


BRITISH VIRGIN ISLANDS I TORTOLA
morvalvonwillers
assets management co.
CAYMAN ISLANDS I GEORGE TOWN
southerngroup
morvalbank&trust
URUGUAY I MONTEVIDEO
morvalvonwiller
advisors

Fideuram - Intesa Sanpaolo Private Banking S.p.A.

ASSET MANAGEMENT

- Fideuram Investimenti SGR S.p.A. — 99.50%
- Fideuram Asset Management (Ireland) dac — 100.00%
- Fideuram Bank (Luxembourg) S.A. — 100.00%
- Fideuram Vita S.p.A. — 19.99%
- *Fideuram Asset Management (Ireland) - London Branch*

PRIVATE BANKING

- Intesa Sanpaolo Private Banking S.p.A. — 100.00%
- Sanpaolo Invest SIM S.p.A. — 100.00%
- Intesa Sanpaolo Private Bank (Suisse) S.A. — 100.00%
- Qingdao Yicai Wealth Management Co. Ltd — 25.00%
- Morval Vonwiller Group — 94.58%
- *Intesa Sanpaolo Private Banking - London Branch*

FIDUCIARY AND TREASURY SERVICES

- Siref Fiduciaria S.p.A. — 100.00%
- Financière Fideuram S.A. — 99.99%

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

Company Officers

Shareholders' Meeting

Board of Directors

Board of Statutory Auditors

General Management

General Manager
PAOLO MOLESINI

Joint General Managers
ANDREA CHIOATTO
(Operational and Financial Governance)

FABIO CUBELLI
(Business Coordination)

Chairman
PAOLO MARIA VITTORIO GRANDI

Acting Deputy Chairman
GIANGIACOMO DOMENICO LUIGI NARDOZZI TONIELLI

Managing Director
PAOLO MOLESINI

Directors
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

Chairman
GIULIO STEFANO LUBATTI

Statutory Auditors
MARCO ANTONIO MODESTO DELL'ACQUA
LORENZO GINISIO

Acting Auditors
ALESSANDRO COTTO
FRANCESCA MONTI

Manager responsible for the preparation of the company accounts
PAOLO BACCIGA

Indipendent Auditors
KPMG S.p.A.

Key drivers

Key drivers of the business model

OPERATING RESULTS

Personal Financial Advisers No. 6,050

Customers

Fideuram No. 558,178

Intesa Sanpaolo Private Banking 37,330 No. of households

Intesa Sanpaolo Private Bank (Suisse) No. 492

Sanpaolo Invest No. 149,764

Morval Vonwiller Group No. 1,176

Siref Fiduciaria 1,964 No. of mandates

Total Net Inflows

€5.5 bn

of which *Net Inflows into Managed Assets*

€2.9 bn

Client Assets

€217.9 bn

of which *Managed Assets*

€152.9 bn

of which *Advanced Advisory Service*

€38.9 bn

Fideuram Network and Sanpaolo Invest Network
13 years

Average Length of Customer Relationship

Intesa Sanpaolo Private Banking Network
11 years

FINANCIAL RESULTS (*)

Net Recurring Fees
€810m
+5%

Cost / Income Ratio
29%
(30% in 1st Half 2017)

Consolidated Net Profit
€454m
+2%

R.O.E.
34%
(41% in 1st Half 2017)

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

Highlights

	30.6.2018	30.6.2017 (*)	% CHANGE
CUSTOMER FINANCIAL ASSETS			
Net inflows into managed assets (€m)	2,941	6,746	-56
Total net inflows (€m)	5,477	7,500	-27
Client Assets (€m)	217,859	216,550	1
OPERATING STRUCTURE			
Personal Financial Advisers (No.)	6,050	5,961	
Staff (No.)	3,341	3,161	
- women (No.)	1,476	1,390	
- outside Italy (No.)	320	273	
Personal Financial Advisers' Offices (No.)	324	321	
Bank Branches (No.)	228	231	
CONSOLIDATED FINANCIAL RESULTS			
Consolidated net profit (€m)	454	443	2
Group shareholders' equity (€m)	2,448	2,328	5
Basic consolidated net earnings per share (€)	0.303	0.295	3
Consolidated pay-out ratio (%)	90.39	90.87	
Fideuram pay-out ratio (%)	99.96	99.75	
Total assets (€m)	40,654	37,439	9
Wealth created (€m)	1,401	1,345	4
Economic value distributed (€m)	1,334	1,275	5
PROFITABILITY INDICATORS			
Return on Equity (%)	34	41	
Return on Assets (%)	2	2	
Cost / Income ratio (%)	29	30	
Payroll costs / Operating income before net impairment (%)	17	17	
Annualised net profit / Average client assets (%)	0.4	0.4	
Economic Value Added (€m)	404	402	

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

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

Glossary

Net inflows: Total subscriptions minus disinvestments.

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

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

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

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

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

Wealth created and distributed: The increase in value generated by the production and distribution of financial services using Fideuram'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.

Managed assets overview

Assets (€bn)	**2017 (*)**	**2016**	**2015**	**2014**	**2013**
Household financial assets in Italy (HFA)	**4,407**	**4,235**	**4,182**	**4,076**	**3,987**
Consolidated managed assets (MA)	1,507	1,400	1,335	1,257	1,086
- Mutual funds	328	301	286	251	206
- Discretionary accounts	858	801	801	737	639
- Life insurance technical reserves	684	633	581	529	514
- Pension funds	105	94	94	84	75
- Adjustments	(468)	(429)	(427)	(344)	(348)
MA as % of HFA	**34%**	**33%**	**32%**	**31%**	**27%**

Flows (€bn)	**2017 (*)**	**2016**	**2015**	**2014**	**2013**
Household financial assets in Italy (HFA)	**42**	**37**	**5**	**33**	**20**
Consolidated managed assets (MA)	49	50	98	111	(34)
- Mutual funds	25	12	32	40	(30)
- Discretionary accounts	(1)	18	42	25	(16)
- Life insurance technical reserves	51	53	51	15	46
- Pension funds	4	4	4	5	5
- Adjustments	(30)	(37)	(31)	26	(39)
MA as % of HFA	**117%**	**135%**	**n.s.**	**n.s.**	**n.s.**

(*) The figures of 2017 are estimated.

n.s.: not significant

Source: Bank of Italy

Interim directors' report

Reclassified Financial Statements

Consolidated balance sheet

(Reclassified - €m)

	30.6.2018	1.1.2018 (*)	CHANGE AMOUNT	CHANGE %
ASSETS				
Financial assets measured at fair value through profit or loss	280	631	(351)	-56
Financial assets measured at fair value through other comprehensive income	3,013	3,786	(773)	-20
Loans and advances to banks	24,185	22,616	1,569	7
Loans and advances to customers	11,382	10,339	1,043	10
Hedging derivatives	1	5	(4)	-80
Equity investments	148	148	-	-
Property and equipment and intangible assets	295	271	24	9
Tax assets	158	175	(17)	-10
Other assets	1,192	1,230	(38)	-3
TOTAL ASSETS	**40,654**	**39,201**	**1,453**	**4**
LIABILITIES				
Due to banks	2,464	2,644	(180)	-7
Due to customers	33,175	30,845	2,330	8
Financial liabilities held for trading	32	196	(164)	-84
Hedging derivatives	815	833	(18)	-2
Tax liabilities	61	101	(40)	-40
Other liabilities	1,214	1,154	60	5
Provisions for risks and charges	445	462	(17)	-4
Share capital and reserves	1,994	1,945	49	3
Equity attributable to non-controlling interests	-	150	(150)	-100
Net Profit	454	871	(417)	-48
TOTAL LIABILITIES	**40,654**	**39,201**	**1,453**	**4**

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

Consolidated income statement

(Reclassified - €m)

	1ST HALF 2018	1ST HALF 2017 (*)	CHANGE	
			AMOUNT	%
Net interest income	74	83	(9)	-11
Net profit (loss) on financial assets and liabilities	25	18	7	39
Net fee and commission income	860	839	21	3
TOTAL NET INTEREST AND TRADING INCOME	**959**	**940**	**19**	**2**
Net impairment for credit risk	(1)	-	(1)	n.s.
OPERATING INCOME	**958**	**940**	**18**	**2**
Personnel expenses	(167)	(162)	(5)	3
Other administrative expenses	(110)	(112)	2	-2
Depreciation and amortisation	(5)	(7)	2	-29
OPERATING EXPENSES	**(282)**	**(281)**	**(1)**	**-**
Net provisions for risks and charges	(12)	(15)	3	-20
Profit (loss) on equity investments	4	6	(2)	-33
Other income (expense)	(1)	(1)	-	-
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**667**	**649**	**18**	**3**
Income taxes for the period on continuing operations	(198)	(189)	(9)	5
Expenses regarding the banking system (net of tax)	(6)	(3)	(3)	100
Non-recurring income (expenses) (net of tax)	(9)	(11)	2	-18
Net profit (loss) attributable to non-controlling interests	-	(3)	3	-100
NET PROFIT	**454**	**443**	**11**	**2**

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

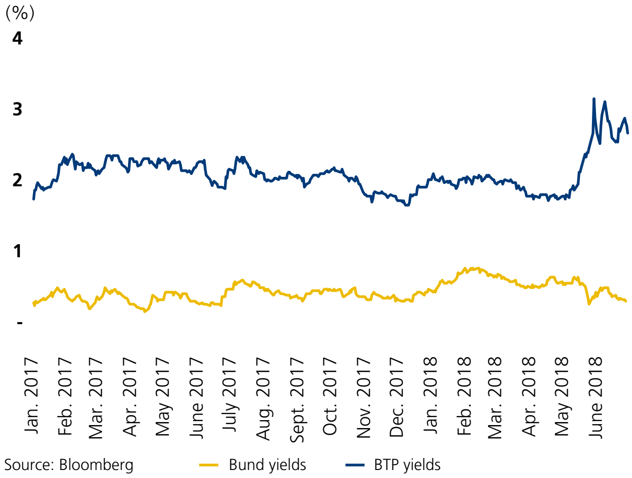
n.s.: not significant

The economic scenario

The first half of 2018 was marked by less ebullient global growth than in the second half of 2017, when surprising increases occurred with significant cyclical synchronisation among the different areas of the global economy.
Actual growth rates somewhat disappointed expectations in the eurozone and Japan during the opening months of the year, while growth accelerated in the United States after a somewhat sluggish first quarter. Signs of a slowdown in economic activity appeared in China during the second quarter. The changes in inflation, especially core inflation, confirmed the different cyclical situation between the United States and the other areas. In May, the core inflation rate in the United States reached 2% for the first time since April 2012, while the dynamic of core prices in the eurozone and Japan remained far from central bank objectives. The significant increase in oil prices also provoked the total inflation rate to rise both in the United States and in the eurozone.
In this context, characterised by a relative divergence in economic performance between the United States and the other leading economies, it was unsurprising that the Federal Reserve Bank regularly continued with the process of gradually raising interest rates, with two more increases of 25 basis points during the first six months of the year and confirmation of a more aggressive attitude than market expectations. On the other hand, the European Central Bank stuck to a highly cautious line. It announced at its June meeting that the quantitative easing programme would be completed at the end of the year. However, this decision was mitigated by its commitment to keep rates unchanged for over a year. In contrast, the Bank of Japan did not even initiate the process of ending its ultra-expansionary monetary policies. Signs of softening monetary policy came in at the end of the first half even from China.

In the political sphere, the newest and most influential element on the markets was the protectionist turn taken by the Trump Administration. No trade policy measures had been taken in 2017 in fulfilment of the Trump election campaign promises, but there was a veritable crescendo in tensions from the beginning of 2018, affecting all of the principal trading partners of the United States. In March, the Trump Administration, which had already imposed tariffs on solar panels and washing machines, decided to impose tariffs also on steel and aluminium imports, citing national security justifications. These tariffs were immediately applied on China and Japan and, beginning in June, also on the European Union, Canada and Mexico. The Administration then focused its attention on China in particular, with the imposition of additional tariffs of 25% on 34 billion of goods imported from China beginning 6 July, in response to the unfair trade practices of that Asian nation. Both the European Union and China reacted to the tariffs with reprisals and the risk that tensions would lead to a genuine trade war worsened significantly. Even the renewal of the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico which had seemed close in mid-May, was missed, provoking yet another round stiffening in each nation's positions. Political risk also boldly returned to centre stage in eurozone affairs at the end of May, in consequence of the rather chaotic events surrounding the formation of the government coalition between the Lega and Movimento 5 Stelle parties in Italy, seriously impacting the valuation of Italian assets.

10-year Bund and BTP yields



Source: Bloomberg

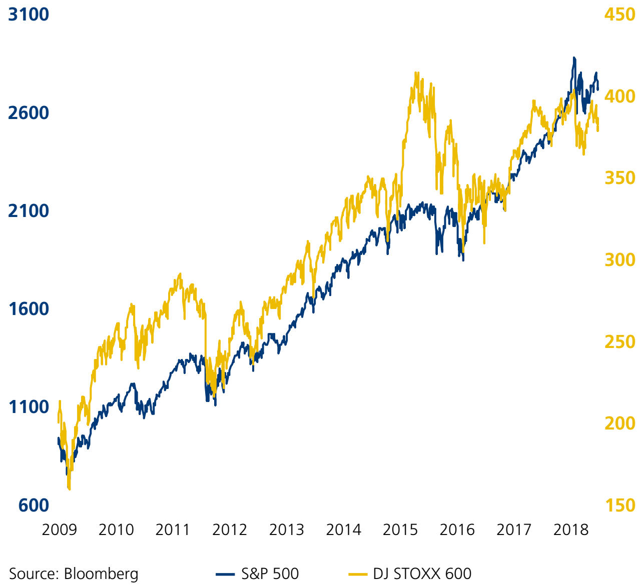
GDP growth in the **United States** slowed down significantly in the first quarter of the year from the second half of 2017. This was mainly due to the temporary levelling off in consumer spending. However, GDP resumed growing rapidly in the second quarter, driven both by the recovery in consumer spending and the contribution made by foreign trade. More in general, growth was supported by the positive impact of the tax reform approved at the end of 2017 and the additionally generous package of public spending approved by Congress at the beginning of the year. Employment continued to grow at high rates, and the unemployment rate fell to 3.8% in May. However, wage growth returned to a relatively moderate rate after accelerating strongly at the beginning of the year. Inflation resumed climbing after having surprised observers by tracking a markedly downward trend in 2017. Core inflation, which is measured by the consumer spending deflator, rose to 2% in May (in line with the target set by the Federal Reserve Bank) for the first time since April 2012. The situation defined by sustained growth, robust labour market conditions and rising inflation was reflected in the process of continued normalisation of monetary policy, with the Federal Reserve Bank raising interest rates by 25 basis points at its March and June meetings. It consequently assumed a more aggressive attitude, with the total number of rate hikes expected in 2018 rising from three to four.

During the first few months of the year, business confidence in the **eurozone** suffered a serious correction from the historically very high levels reached between the end of last year and January 2018. It continued deteriorating until April, and it was only in June that staged its first convincing recovery. In fact, business confidence was shaken by the uncertainty generated by the protectionist shift taken by the Trump Administration in the United States. That development was especially negative for an area open to international trade like the eurozone. Even GDP growth slowed down in the first half of the year, from an average quarterly growth rate of 3% prevailing in 2017 to 1.5%, due to the slowdown in exports and investment. In contrast, consumer spending (and consumer confidence) remained solid, due to the strength of the labour market and continued growth in the number of working people. Wages returned to growth rates that were more consistent with the inflation target set by the European Central Bank. After having been lower than forecast during the first few months of the year, the aggregate inflation rate recovered in the second quarter, rising in June to 2% (from 1.3% in January), being buoyed mainly by rising energy and food product prices, while core inflation remained substantially stable at around 1% throughout the first half. The European Central Bank consequently preferred to maintain a prudent approach in exiting its ultra-expansionary monetary policies. It was only at its meeting at the end of June that it announced the end of the quantitative easing programme, scheduled for the end of the year. However, at the same time, due to the uncertainties still weighing on the growth scenario, it was also announced that rates will not be raised before the end of summer 2019.

Economic growth stabilised in **Asia**, with moderate inflationary pressures. Economic growth in China at the beginning of the year positively beat expectations, but signs of a slowdown came from infrastructure investment trends due to the imposition of restrictive lending policies. To compensate for those policies and the fears of a trade war with the United States, Chinese monetary authorities decided to cut its mandatory reserve coefficient twice from the beginning of the year. Moreover, after trade tensions, the yuan rapidly depreciated against the dollar in the second half of June. In Japan, GDP growth slowed down temporarily but the indications given by leading macroeconomic data are encouraging overall. Although some signs of a slowdown in wage growth have been received, inflation remains low. The Bank of Japan first abandoned its deadline for achieving the 2% target and then revised downwards its own inflation trend guidance.

After an extremely strong start to the new year, equity markets suffered both from negative macroeconomic conditions and from deterioration in the political scenario. The American stock market ended the first half of the year with modest growth (+1.7%), but stock indices in Europe, Japan and Emerging Markets all closed down (by -2.4% for the DJ-STOXX 600 index, -4.8% for the Topix, and -7.7% for the MSCI EM dollar index, respectively). The Italian stock market, which performed brilliantly at the beginning of the year, subsequently suffered from domestic political events, with the FTSE-MIB index closing down by 1%. Yields on the bond market generally rose at the beginning of the year and continued growing in the United States until mid-May (when the yield on the 10-year treasury note reached 3.1%), when it then tracked a moderately downward trend over the following weeks. In the eurozone, yields on the German 10-year Bund reached 0.75% in February before commencing a decline to finish at around 0.30% (below its level at the end of 2017). The spread between the 10-year BTP (Buoni Poliennali del Tesoro – Italian treasury notes) and 10-year Bund, which had tracked a downward trend until the middle of April in spite of the unexpected result of national elections in Italy at the beginning of March, then rose sharply at the end of May due to the impact of political turbulence surrounding the formation of a new government headed by Giuseppe Conte. It ended the first half at around 240 basis points, far higher than the levels posted at the end of 2017 (around 160 basis points).

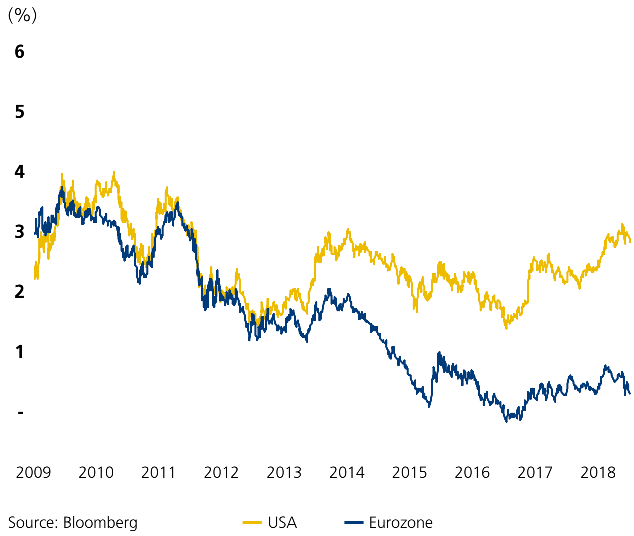
Stock market performance



Source: Bloomberg

Bond market performance

(10-year government bond yields)



Source: Bloomberg

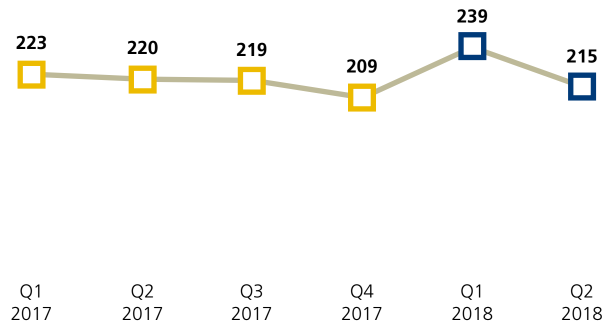
Overview of consolidated results

The Fideuram - Intesa Sanpaolo Private Banking Group ended the first six months of 2018 with **consolidated net profit** of **€454m**, up €11m from the first half of 2017 (+2%). This result reflects the contribution made by the Morval Vonwiller Group beginning from its date of acquisition (-€1.6m in the second quarter 2018).
The Wealth created by the Group's business totalled €1.4bn at 30 June 2018, up €56m on the same period last year. The return on equity (R.O.E.) was 34%.

Analysis of the main income-statement items shows that profit before tax from continuing operations was up €18m on the first half of 2017 (+3%). This change was mainly attributable to operating income, which was up €18m from the first six months of last year, mainly due to net fee and commission income (+€21m, +3%). Moving in opposite directions, operating expenses rose by €1m and profit on equity investments fell by €2 million, while the provisions for risks and charges fell by €3m. The Group's cost/income ratio improved to 29% compared with 30% in the first six months of last year.

Consolidated net profit

(€m)



There were a total of 6,050 Personal Financial Advisers at 30 June 2018, including the sales network of the Morval Vonwiller Group acquired in the second quarter of 2018 (40 professionals). Client assets per Personal Financial Adviser were approximately €36m at 30 June 2018, in line with the total at the end of 2017. Group staff totalled 3,341, up from 3,229 at 31 December 2017, mainly as a result of the growth of our distribution and sales networks. Bank branches totalled 228 and Personal Financial Advisers' offices totalled 324.

Business model

Fideuram - Intesa Sanpaolo Private Banking is the number one Private Bank in Italy and among the largest in Europe with client assets totalling about €218bn.
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.

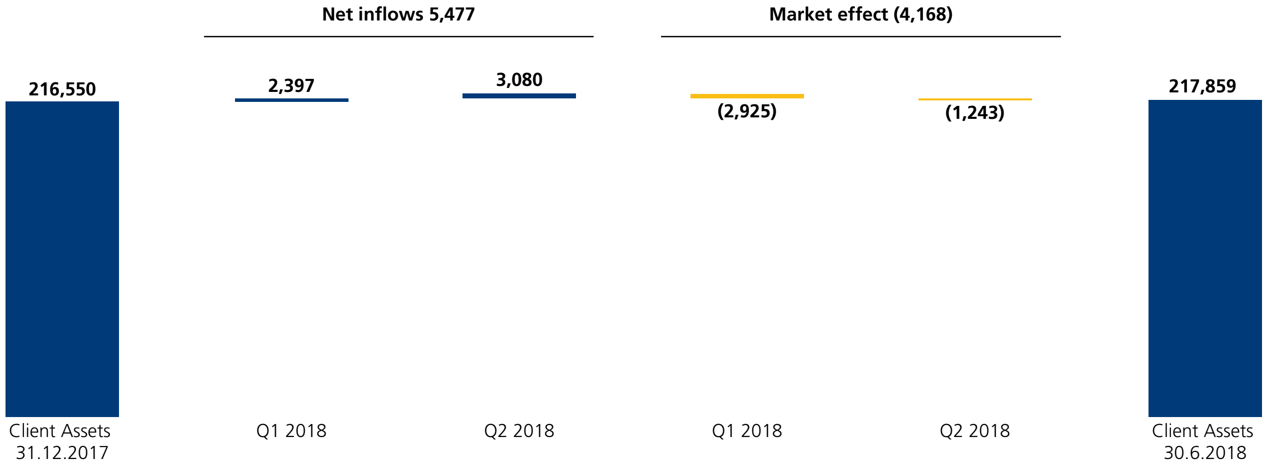
The Group's positioning is principally focused on the Private Banking and High Net Worth Individual customer segments. Our products and services are provided through over 6,000 highly-qualified professionals in four separate Networks (Fideuram, Sanpaolo Invest, Intesa Sanpaolo Private Banking, and the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

Client financial assets

Client Assets totalled **€217.9bn** at 30 June 2018, up (€1.3bn) on the figure at 31 December 2017. This performance can be traced to the excellent results achieved with net inflows (€5.5bn), more than offsetting the market effect, which reduced assets by €4.2bn in the first six months of the year.

Client Assets (*)

(€m)



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

Analysis of the aggregated items shows that **managed assets** were **€152.9bn** (70% of total client assets), substantially in line with the figure at 31 December 2017. The contraction in discretionary accounts (-€1.2bn) and life insurance (-€69m) was fully offset by the increase in mutual funds (+€1.2bn) and pension funds (+€84m). **Non-managed assets** totalled **€64.9bn**, up €1.3bn from 31 December 2017.

Client Assets

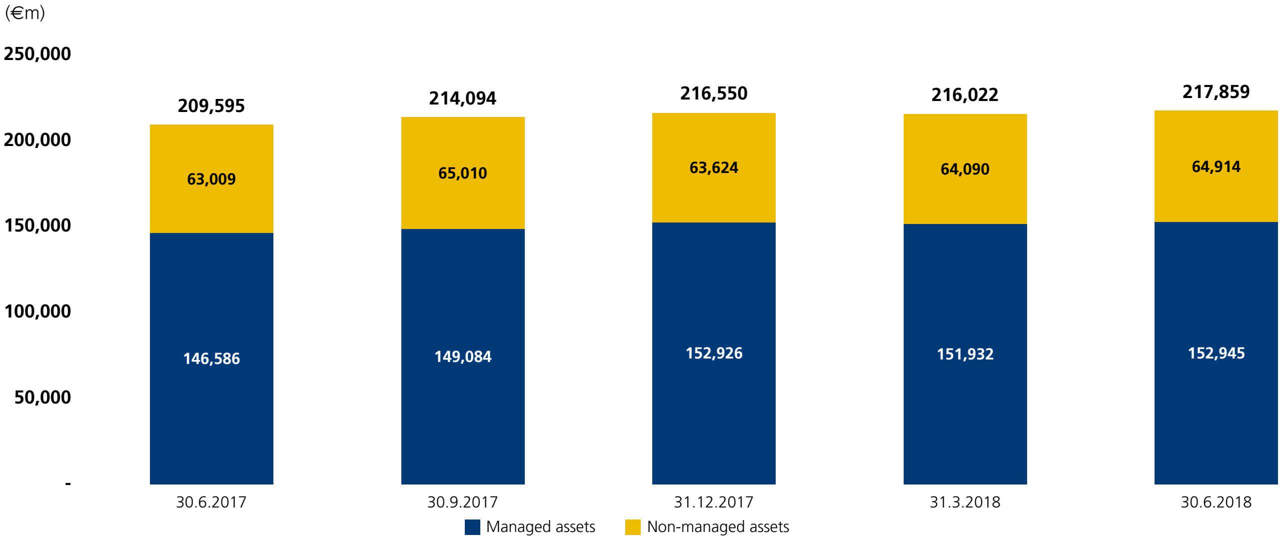
(€m)

	30.6.2018	**31.12.2017 (*)**	**CHANGE**	
			AMOUNT	**%**
Mutual funds	58,126	56,950	1,176	2
Discretionary accounts	43,566	44,738	(1,172)	-3
Life insurance	49,326	49,395	(69)	-
including: Fideuram Vita / Intesa Sanpaolo Vita unit linked	*34,268*	*34,387*	*(119)*	-
Pension funds	1,927	1,843	84	5
Total managed assets	**152,945**	**152,926**	**19**	**-**
Total non-managed assets	**64,914**	**63,624**	**1,290**	**2**
including: Securities	*37,343*	*37,658*	*(315)*	*-1*
Total Client Assets	**217,859**	**216,550**	**1,309**	**1**

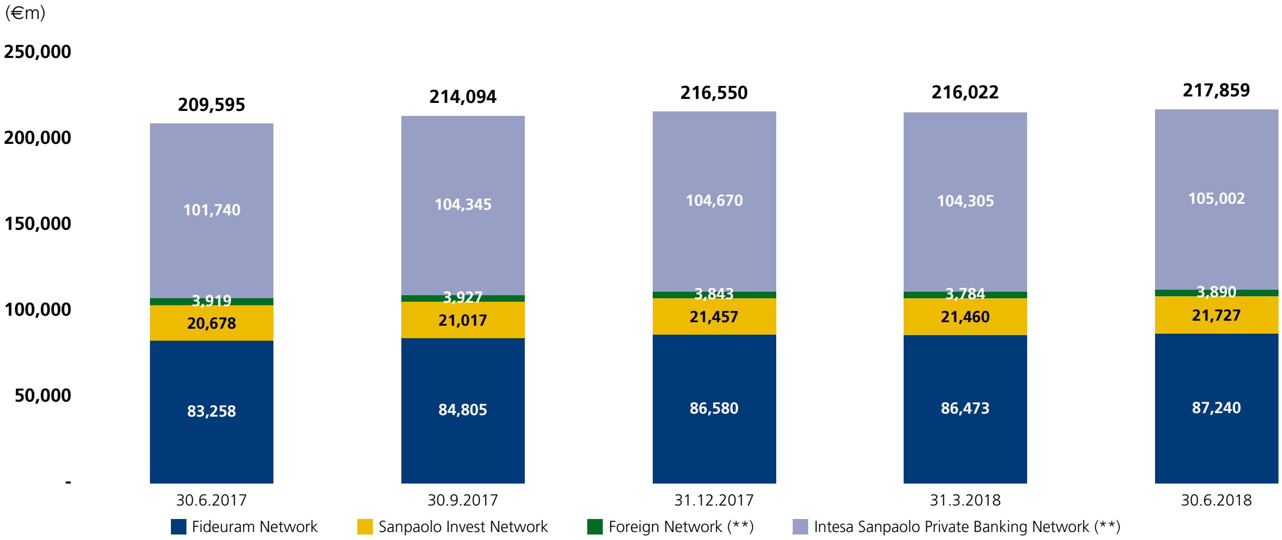
(*) Restated where necessary to reflect the contribution made by the Morval Vonwiller Group so that straight comparisons can be made.

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

Client Assets - by inflow (*)



Client Assets - by sales network (*)



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

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

Inflows into managed and non-managed assets

The Group's distribution networks brought in **€5.5bn net inflows** in the first six months of 2018, down €2bn (-27%) on the total for the first half of 2017. The analysis of aggregated figures shows that the inflows into managed assets, totalling €2.9bn, fell (-€3.8bn) from the corresponding period of the previous year. This resulted mainly 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 €2.5bn, having grown (+€1.8bn) from the first half of the previous year.

Net inflows (*)

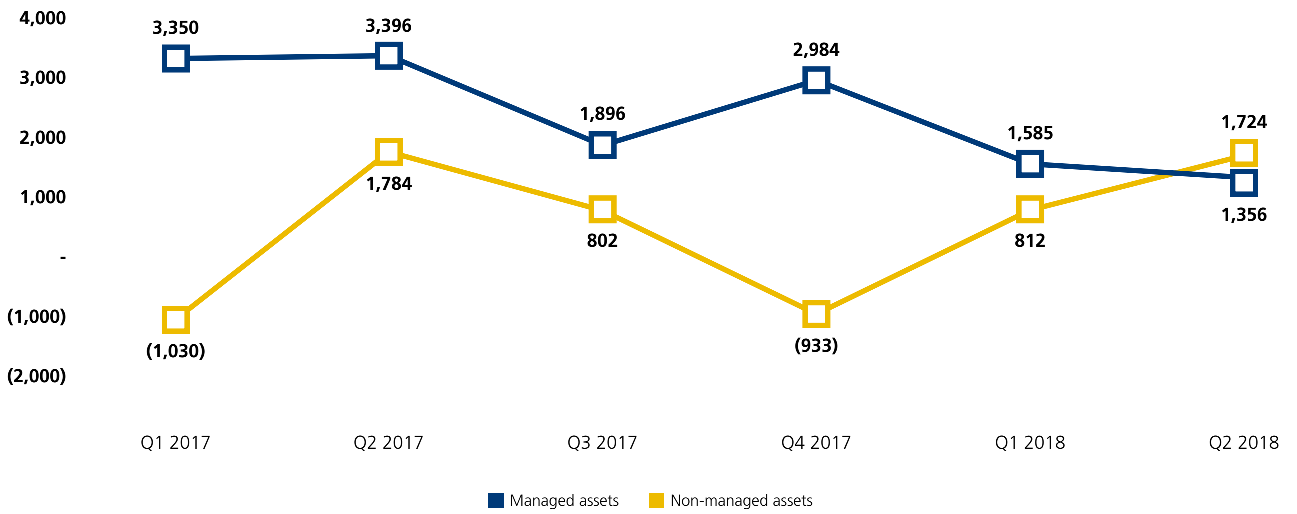
(€m)

	1ST HALF 2018	1ST HALF 2017	CHANGE	
			AMOUNT	%
Mutual funds	2,235	4,215	(1,980)	-47
Discretionary accounts	(221)	790	(1,011)	-128
Life insurance	864	1,688	(824)	-49
including: Fideuram Vita / Intesa Sanpaolo Vita unit linked	*931*	*1,774*	*(843)*	*-48*
Pension funds	63	53	10	19
Total managed assets	**2,941**	**6,746**	**(3,805)**	**-56**
Total non-managed assets	**2,536**	**754**	**1,782**	**n.s.**
including: Securities	*1,062*	*211*	*851*	*n.s.*
Total Net inflows	**5,477**	**7,500**	**(2,023)**	**-27**

n.s.: not significant

Net inflows (*)

(€m)



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

Customer segmentation

CLIENT ASSETS at 30 June 2018

- Fideuram: €87,240m
- Sanpaolo Invest: €21,727m
- Intesa Sanpaolo Private Banking: €101,964m
- Siref Fiduciaria: €3,338m (*)
- Intesa Sanpaolo Private Bank (Suisse): €1,375m
- Morval Vonwiller Group: €2,215m

(*) Does not include the fiduciary mandates regarding Group Client Assets. Total client assets came to €7.3bn.

CUSTOMERS at 30 June 2018

- Fideuram: No. 558,178
- Sanpaolo Invest: No. 149,764
- Intesa Sanpaolo Private Banking: No. 37,330 (**)
- Siref Fiduciaria: No. 1,964 mandates
- Intesa Sanpaolo Private Bank (Suisse): No. 492
- Morval Vonwiller Group: No. 1,176

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

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

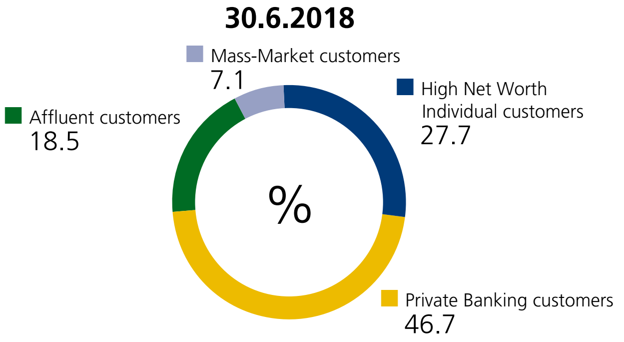
The table and graphs below analyse client assets by type of customer.

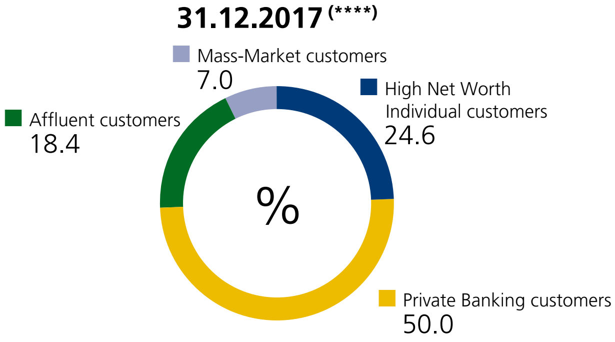
Client assets by type of customer (***)

(€m)

	30.6.2018	31.12.2017 (****)	CHANGE	
			AMOUNT	%
High Net Worth Individual customers	60,258	53,333	6,925	13
Private Banking customers	101,658	108,183	(6,525)	-6
Affluent customers	40,366	39,873	493	1
Mass-Market customers	15,577	15,161	416	3
Total	**217,859**	**216,550**	**1,309**	**1**

Percentage analysis of client assets by type of customer





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

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

Advanced Advisory Services

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

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

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

- SEI Advanced Advisory Service: this service identifies the customer's individual requirements classified by area of need, analyses their overall position and risk/return profile, and identifies appropriate investment strategies and solutions for each individual area of need, monitoring them over time.
- 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 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 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 June 2018, accounting for approximately €38.9bn in client assets.

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

Customers subscribed to Advanced Advisory Services

(number)

	30.6.2018	31.12.2017	CHANGE AMOUNT	%
High Net Worth Individual customers	909	682	227	33
Private Banking customers	18,080	18,344	(264)	-1
Affluent customers	33,766	34,746	(980)	-3
Mass-Market customers	17,360	17,044	316	2
Total	**70,115**	**70,816**	**(701)**	**-1**

Advanced Advisory Service client assets

(€m)

	30.6.2018	31.12.2017	CHANGE AMOUNT	%
High Net Worth Individual customers	6,073	4,573	1,500	33
Private Banking customers	23,192	24,293	(1,101)	-5
Affluent customers	8,556	8,787	(231)	-3
Mass-Market customers	1,045	1,018	27	3
Total	**38,866**	**38,671**	**195**	**1**

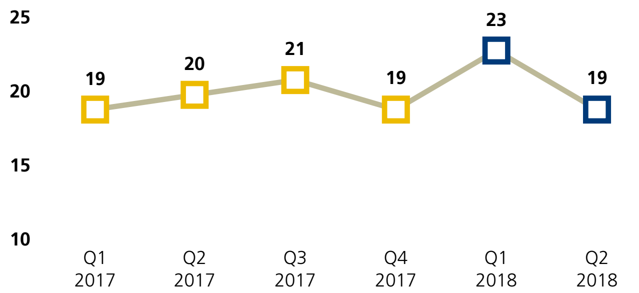
Advanced Advisory Service fee and commission income

(€m)

	1ST HALF 2018	1ST HALF 2017	CHANGE AMOUNT	%
Fee and commission income	66	63	3	5
Fee and commission expense	(24)	(24)	-	-
Net fee and commission income	**42**	**39**	**3**	**8**

Quarterly net fee and commission income from Advanced Advisory Services

(€m)



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 six 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 €1.4bn (up €56m on the total for the first six months of 2017).

This wealth was distributed to stakeholders as follows:

- Colleagues (employees and Personal Financial Advisers) received 36.3% of the Wealth created, amounting to a total of €509m. This included the remuneration paid to employees and the amounts set aside for and paid to the Personal Financial Adviser Networks.
- Our shareholder received 29.3% of the Wealth created, in the form of the proposed dividend pay-out totalling €410m.
- The government, public authorities, institutions and the community received €294m, principally in the form of direct and indirect taxes, equivalent to 21% of the Wealth created.
- Suppliers received 8.6% of the Wealth created, amounting to €121m paid for goods and services.
- The remainder, €67m, 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.

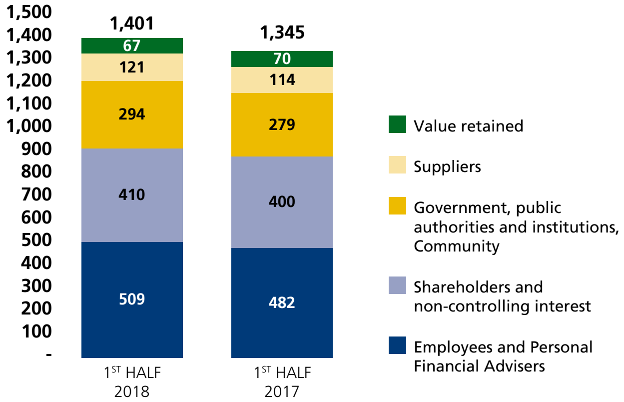
Economic value added

(€m)

	1ST HALF 2018	1ST HALF 2017	CHANGE AMOUNT	CHANGE %
Wealth created	**1,401**	**1,345**	**56**	**4**
Value distributed	**(1,334)**	**(1,275)**	**(59)**	**5**
Employees and Personal Financial Advisers	(509)	(482)	(27)	6
Shareholders and non-controlling interest	(410)	(400)	(10)	3
Government, public authorities and institutions, Community	(294)	(279)	(15)	5
Suppliers	(121)	(114)	(7)	6
Value retained	**67**	**70**	**(3)**	**-4**

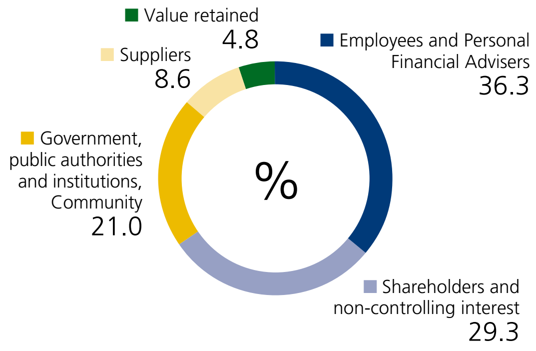
Wealth created

(€m)

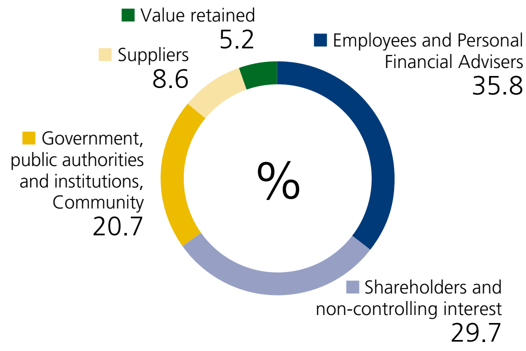


Distribution of wealth created

1ST HALF 2018



1ST HALF 2017



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.

The following analyses outline the products and services offered, together with the initiatives and research and development carried out in the year, while also presenting the Group's financial results, transaction data and key profitability indicators by Business Segment. These Segments are analysed using data that show their contribution to Group income after consolidation adjustments.

Business segmentation at 30 June 2018

(€m)

	MANAGED FINANCIAL ASSETS	LIFE INSURANCE ASSETS	BANKING SERVICES	TOTAL FOR FIDEURAM GROUP
Net interest income	-	-	74	74
Net profit (loss) on financial assets and liabilities	-	-	25	25
Net fee and commission income	585	248	27	860
Total net interest and trading income	**585**	**248**	**126**	**959**
Operating expenses	(150)	(37)	(95)	(282)
Other	(9)	(4)	3	(10)
Profit before tax from continuing operations	**426**	**207**	**34**	**667**
Average Client Assets	**102,323**	**50,812**	**64,413**	**217,548**
Client Assets	**101,692**	**51,253**	**64,914**	**217,859**
Key indicators				
Cost / Income Ratio	26%	15%	73%	29%
Annualised profit before tax / Average Client Assets	0.8%	0.8%	0.1%	0.6%
Annualised net fee and commission income / Average Client Assets	1.1%	1.0%	0.1%	0.8%

MANAGED FINANCIAL ASSETS SEGMENT

The Managed Financial Assets Segment covers the Group's discretionary account and mutual fund business, which totalled €101.7bn at 30 June 2018 (46% of total client assets), an increase on 30 June 2017 (€97.3bn) largely as a result of an increase in discretionary accounts (+€4.8bn). The inflows into managed and non-managed assets, totalling a positive €2bn, contracted by €3bn 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 €426m, up €13m on the previous financial year, principally due to the increase in net fee and commission income, which was only partly offset by the rise in operating costs. The ratio of net fee and commission income to client assets was 1.1%, while the ratio of profit before tax to client assets was 0.8%.

Managed financial assets

(€m)

	1ST HALF 2018	1ST HALF 2017 (*)	% CHANGE
Net interest income	-	-	-
Net profit (loss) on financial assets and liabilities	-	-	-
Net fee and commission income	585	562	4
Total net interest and trading income	**585**	**562**	**4**
Operating expenses	(150)	(139)	8
Other	(9)	(10)	-10
Profit before tax from continuing operations	**426**	**413**	**3**
Average Client Assets	**102,323**	**94,755**	**8**
Client Assets	**101,692**	**97,266**	**5**
Key indicators			
Cost / Income Ratio	26%	25%	
Annualised profit before tax / Average Client Assets	0.8%	0.9%	
Annualised net fee and commission income / Average Client Assets	1.1%	1.2%	

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

Aiming to provide its clients with constantly up-to-date investment opportunities in response to their evolving needs and the market context, Fideuram carried out numerous product development and revision activities in the first half of 2018, which affected the various areas of managed assets. These measures were developed consistently with the Fideuram business model, which has always been centred on the provision of advisory support using a guided open-architecture model.

The offering of **Fideuram funds**, and especially the Luxembourg multi-sector fund Fonditalia (FOI), has been expanded with five new products, some with open-ended investment and others with an investment window, and flexible, multi-asset and equity strategies. The first three solutions have been developed in partnership with independent managers who are highly specialised in the underlying strategies. In particular, FOI Opportunities Diversified Income fund was launched. It offers a long-only flexible bond solution with an unconstrained approach, and has been outsourced to TwentyFour Asset Management, Vontobel Group company. The second fund, FOI Eurizon Collection 2023, outsourced to Eurizon Capital, is a multi-asset investment window fund that combines established strategies developed by Eurizon in both the equity and bond segments for a five-year investment period. Finally, the FOI Income Mix fund has been developed in outsourcing to Invesco. This is a flexible management solution with a balanced portfolio that aims to offer investors long-term growth through the selection of equities and bonds that can generate a steady income flow. Further expanding its product line, Fideuram Asset Management (Ireland) has added two new specialised equity funds, FOI Millennials Equity and FOI Africa & Middle East Equity. The first fund is a global equity fund, which invests in the companies that are best positioned to benefit from the changes being made by millennials in society. In this context, it is characterised by its focus on sustainable investment issues, a theme which is especially relevant for the millennial generation. The FOI Africa & Middle East Equity fund is an equity product specialised by geographic area. It invests mainly in the economies of emerging countries in Africa and the Middle East, areas which generate great expectations for future growth.

During the first half of 2018, Fideuram Multibrand (the line of funds offered by independent asset managers) was expanded with a selection of strategies proposed by three new partners. The first one to be introduced was Nordea Asset Management, an asset management company belonging to the Nordea Group, the largest financial institution in Scandinavia. Two American firms were added in the second quarter: Muzinich & Co., an asset management company specialised in corporate debt founded in 1988, and Capital Group which, founded in Los Angeles in 1931, is now one of the biggest asset management companies in the world. Maintenance work also continued to develop the product line, both through the addition of new mutual fund investments which are already sold and through the addition of new classes for the distribution of earnings and/or with hedging for the exchange rate risk of investment funds that are already being sold.

The offering of funds and SICAVs distributed by Intesa Sanpaolo Private Banking was expanded during the first half of 2018 with the launch of new funds.

Eurizon Capital SGR launched two Italian flexible investment window funds with an investment time horizon of five years:

- Eurizon Top Star Aprile 2023, with a diversified investment strategy across multiple asset classes to adapt to evolution in the market context, with an equity component (between 40% and 80% of the portfolio) managed with a contrarian approach and a bond component (between 20% and 60% of the portfolio) managed flexibly and with diversification across all segments of the bond market (including structured credit).
- Eurizon Opportunity Select Luglio 2023, characterised by an innovative Core-Satellite approach. The Core component (60%) is structurally invested through the best flexible strategies of Eurizon (30% flexible equity strategy, 30% flexible

bond strategy). The Satellite component (40%) is developed by using hedging and extra-return strategies to improve the risk/return profile of the portfolio.

The range of Luxembourg funds offered by Eurizon Capital SA has been expanded with new bond, flexible and equity investment solutions, including:

- Eurizon Fund Securitized Bond Fund, which specialises in structured European credit with the aim of realising an absolute return with a short-medium term horizon, and which investments mainly in high-quality, mostly floating-rate securitisations, thereby significantly mitigating both credit risk and duration risk.
- Eurizon Fund Bond Aggregate RMB, a new opportunity to invest in Renminbi denominated bonds. The management team selects the government and corporate securities by privileging those issues which offer a good level of liquidity and an interesting risk/return profile.
- Eurizon Fund Equity China A, which invests in the Chinese equity market in local currency, through the presence in Hong Kong of a management team highly specialised in the Chinese market that invests in A-Shares.
- Eurizon Fund Absolute Green Bonds, an investment opportunity where the manager selects the bonds, mainly investment grade, by using the criteria defined by GBP (Green Bonds Principles) to support the growth of investments having green environmental themes.

The offering of the range managed by Fideuram Asset Management (Ireland) has also been expanded with new window investment solutions dedicated to Intesa Sanpaolo Private Banking, with their management being outsourced to leading international investment firms, through the new Luxembourg SICAV Ailis:

- Ailis M&G Collection is the first Ailis investment window fund, whose management is outsourced to the Multi Asset team of M&G Investments. Their management is characterised by a selection of M&G funds that flexibly invest across multiple equity classes and are characterised by their consolidated track record. The fund objective is to generate positive aggregate returns through a combination of income and capital growth, over a five-year investment horizon, exploiting active management of the underlying funds.
- The objective of Ailis Invesco Income, whose management is outsourced to Invesco, is to exploit the potential of bonds and equities throughout the world with interesting valuations, coupon flow and dividend growth, aiming at growing the value of its portfolio over a five-year investment horizon. The highly diversified portfolio of this fund invests primarily in high-return global debt securities and may be invested up to 40% in highly capitalised global equities.
- Ailis Man Multi Asset, whose management is outsourced to MAN AHL, a manager having a quantitative and systematic approach, represents the new generation of multi-asset investment and combines a dynamic exposure to different asset classes with the use of systematic quantitative strategies. Its objective is to generate positive returns and preserve its invested capital over the five-year time horizon through dynamic exposure to different asset classes with stable volatility, independently of market conditions. The use of advanced risk management techniques aims to boost overall performance and reduce correlation, while limiting risks during the most difficult market phases.

In regard to **individual discretionary accounts**, a series of actions were taken during the first half of the year to simplify and rationalise the product structure, to provide more complete service to the different client segments and develop the offering of Private Banking solutions.

These measures involved:

- reducing the thresholds for access to the product, satellite products and the families of core line investments, and to streamline the product line, through the discontinuation of certain product lines in view of simplifying the range of products offered, while maintaining adequate coverage of the various risk-return profiles;
- rounding out the benchmark affluent offering of products with the introduction of the Active Beta 100 equity line;
- development of the offering of products dedicated to Private Banking clients, with substitution in the catalogue of the Ego VaR lines with four new Ego lines differentiated by investment objectives, including a line focused on investment in sustainable and responsible funds (Ego Preserve, Ego Moderate, Ego Dynamic, Ego Sustainable).

The new Fogli Fideuram service merits attention. This is an innovative solution created by Fideuram Investimenti. Fogli Fideuram allows customers to construct their own market investment strategy through the free composition of over 40 product lines in funds, ETF and securities (the "Fogli") which may be grouped into four families: Fogli Classe, Fogli Consiglio, Fogli Tema and Fogli Stile. The investment contract access threshold is €15 thousand, offering clients an alternative to à la carte investment solutions, with a wide choice of opportunities developed with the contribution of Fideuram Investimenti in their creation, selection, diversification and monitoring and greater operational and tax efficiency.
As part of the individual discretionary accounts offered by Intesa Sanpaolo Private Banking and Eurizon Capital SGR, ordinary maintenance and evolutionary adjustments to existing products continued during the first six months of the year.

LIFE INSURANCE ASSETS SEGMENT

This segment covers the Group's life insurance and pension fund business, which totalled €51.3bn at 30 June 2018 (24% of total client assets), up €1.9bn principally due to strong life insurance performance (+€1.7bn). Total net inflows in the segment were €0.9bn, down €0.8bn compared with the corresponding period in the previous financial year. The contribution to gross profit was €207m, down €1m from the first half of 2017. The ratio of net fee and commission income to client assets was 1%, while the ratio of profit before tax to client assets was 0.8%.

Life insurance assets

(€m)

	1ST HALF 2018	1ST HALF 2017 (*)	% CHANGE
Net interest income	-	-	-
Net profit (loss) on financial assets and liabilities	-	-	-
Net fee and commission income	248	248	-
Total net interest and trading income	**248**	**248**	**-**
Operating expenses	(37)	(35)	6
Other	(4)	(5)	-20
Profit before tax from continuing operations	**207**	**208**	**-**
Average Client Assets	**50,812**	**47,935**	**6**
Client Assets	**51,253**	**49,320**	**4**
Key indicators			
Cost / Income Ratio	15%	14%	
Annualised profit before tax / Average Client Assets	0.8%	0.9%	
Annualised net fee and commission income / Average Client Assets	1.0%	1.0%	

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

We continued to develop our **insurance products**, focussing on enhancing our existing product range. In particular, investment opportunities have been expanded with the introduction of new funds for the multi-manager policies of the Fideuram Vita Insieme family and the multi-class policy. Moreover, the offering of the Fideuram Vita Sintonia multi-class policy has been enriched with the introduction of new additional services and functions, including decumulation. Moreover, the structure of subscription fees of the Fideuram Vita Sintonia multi-class policy and of the Unit Linked policies of the Fideuram Vita Insieme family has been simplified. Then, the Fideuram Vita Garanzia e Valore 2 product has been opened up for investment. This is a Class I single-premium whole-of-life policy with a capital guarantee for settlement events (surrender, claim or conversion into an annuity) and associated with the segregated management of the FV VIVADUE Fund.
At Intesa Sanpaolo Private Banking, the actions taken affecting the insurance business were designed to launch new products to satisfy the growing demand for diversification of investments and asset protection. During the first half, the "Programma Dedicato" ("dedicated programme") started to be offered. This is a Class I single-premium whole-of-life policy issued by Intesa Sanpaolo Vita and dedicated to the customers from Banca Popolare di Vicenza and Veneto Banca who were transferred to the Intesa Sanpaolo Group and holders of a current account at an ISP Group bank at 1 December 2017. The product offers an insurance solution that allows the customer to invest the capital to be distributed to designated beneficiaries upon decease of the customer (Policyholder/Insured) or the capital to be paid out upon surrender of the policy. The return on the product is linked to the results of the segregated management of the FV VIVADUE Fund.

In regard to the products already being offered to customers, actions were taken to expand the range of mutual funds which may be chosen in the policy for the following products:
- Synthesis of Intesa Sanpaolo Vita;
- Synthesis HNWI of Intesa Sanpaolo Vita;
- FV Private Mix of Fideuram Vita S.p.A..

Lastly, our Inter-Broker Agreement with First Advisory Broker was extended with the addition of a new insurance company to further increase the range of customised non-Italian insurance products offered, especially multi-class policies.

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 €64.9bn at 30 June 2018 (30% of total client assets), up €1.9bn compared with the figure at 30 June 2017. Total net inflows in the segment were positive at €2.5bn, up €1.8bn due to a major shift in asset allocation to bond and monetary market instruments. The contribution of this segment to profit before tax was €34m. The €6m increase in profit before tax compared with the corresponding period in the previous financial year was due to the reduction in operating costs. The ratio of net fee and commission income to client assets and of profit before tax to client assets was 0.1%.

Banking Services

(€m)

	1ST HALF 2018	1ST HALF 2017 (*)	% CHANGE
Net interest income	74	83	-11
Net profit (loss) on financial assets and liabilities	25	18	39
Net fee and commission income	27	29	-7
Total net interest and trading income	**126**	**130**	**-3**
Operating expenses	(95)	(107)	-11
Other	3	5	-40
Profit before tax from continuing operations	**34**	**28**	**21**
Average Client Assets	**64,413**	**61,820**	**4**
Client Assets	**64,914**	**63,009**	**3**
Key indicators			
Cost / Income Ratio	73%	79%	
Annualised profit before tax / Average Client Assets	0.1%	0.1%	
Annualised net fee and commission income / Average Client Assets	0.1%	0.1%	

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

Our development of the Group's **non-managed asset products and banking services** continued, advancing the initiatives to extend our banking facilities and the acquisition of new customers undertaken over the past few years.
In regard to our banking products, we continued to pursue the strategy first implemented a few years ago, to extend our banking facilities and acquire new customers through campaigns offering our Fideuram Plus current accounts, repurchase agreements and lending activities.
The European Payment Services Directive PSD2 came into force on 13 January 2018. This is a legislative initiative undertaken by the European Union, which is continuing to make changes first introduced by PSD1 and SEPA (Single Euro Payments Area) for payment services, with significant implications for banks as providers of payment services. Payment systems have been gradually modified since this legislative and regulatory change, to harmonise them with the evolution under way in the Single Euro Payments Area. As part of this process and to improve security measures for its customers who make online purchases, Intesa Sanpaolo Private Banking has introduced an innovation affecting credit cards (Carta Mastercard Platinum, Carta Visa Oro), prepaid cards (Carta Flash Nominativa, Carta Flash Visa Paywave) and XME Card (formerly NextCard). This change consists in the use of Secure Code for online payments on websites certified as secured (MasterCard Secure Code and Verified by Visa). This Secure Code corresponds to the code generated by the O-key device assigned to the customer upon signing the agreement for services obtained via internet, mobile phone and telephone. BancoCard Plus debit cards also started to be offered beginning 21 May 2018. These debit cards are enabled for contactless use, which allows the card holder to execute payment transactions simply by placing the card close to enabled POS machines, as required by the PagoBANCOMAT® system. The new card incorporates the functions of the Intesa Sanpaolo Private Banking debit card which it has replaced (withdrawals, payments and deposits inside and outside Italy on the BANCOMAT®, PagoBANCOMAT®, FastPay, Moneta, Cirrus and Maestro systems), with higher user limits and a reduction in the validity of the card from 10 years to 5 years. Also in regard to plastic money, the new process for requesting American Express cards (Platinum and Centurion) was implemented during the first half of the year to round out the range of cards offered. These cards will have to be requested from bank branches through the web portal, in lieu of the previous paper application process, with consequent simplification of branch operations and faster delivery of the card to customers.

In regard to investments in securities, Fideuram participated in private placements offered to professional investors, such as SPAXS, a new SPAC (special-purpose acquisition company) with the objective of creating a leader on the market for financial services provided to Mid-Corporate customers and the acquisition and management of NPL Corporate (non-performing corporate loans), and NB Aurora, the first permanent capital vehicle listed in Italy ("Mercato MIV" – "Mercato degli Investment Vehicles", or Investment Vehicles Market), with the aim of investing in outstanding, unlisted Italian SMEs (small-to-medium enterprises). Fideuram, acting on its own account and also on behalf of Sanpaolo Invest, also participated in the placement of BTP Italian government bonds launched by the Ministry of the Economy and Finance, both through its traditional channel and directly through Fideuram Online. Fideuram handled the placement of ten Banca IMI Certificates for Intesa Sanpaolo Private Banking during the first half of 2018. Five of those Certificates were structured on request by the individual clients.

Operations outside Italy

During the first half of 2018, **Fideuram Asset Management (Ireland) DAC** continued to act as manager of the Fideuram Group's collective investment products (Luxembourg, Irish and Italian collective investment undertakings) and of the products developed by the Group's insurance companies (Italian pension fund and Irish unit-linked policies). Client assets in the Luxembourg and Irish products offered by Fideuram Asset Management (Ireland) totalled €41.5bn at 30 June 2018, down €0.4bn from the figure at 31 December 2017 (€41.9bn).

Fideuram Bank (Luxembourg) S.A. plays a key role in the Group's operating structure as the Depository Bank and Administrative Agent (calculation of Net Asset Value and keeping of subscriber register) of our Luxembourg funds. The bank operates through a select yet extensive network of worldwide correspondent banks, while also acting as Securities Lending Agent for the portfolio of funds. It also plays a significant role in providing treasury and liquidity risk management services for the Group's Luxembourg funds. Lastly, the Bank also provides technological and organisational support in the form of IT and administrative services for a number of Group's affiliated companies in other countries.

Intesa Sanpaolo Private Bank (Suisse) S.A. is a Swiss bank specialising in investment services for private individuals. Its head office is in Lugano and its Client Assets totalled CHF1.6bn at 30 June 2018. In recent years it has focused on the growth of managed assets, which account for about 50% of client assets.

Part of the Group's treasury and finance activities are performed in France. These activities are conducted by subsidiary **Financière Fideuram S.A.**, which had securities holdings of approximately €2.3bn at 30 June 2018 (€2.5bn at year-end 2017).

The acquisition of a 94.6% equity stake in **Morval Vonwiller Holding S.A.** was completed on 10 April 2018. This financing company controls the Swiss Group by the same name. This transaction is part of the foreign development project of the Private Banking Division outlined in the Business Plan 2018-2021. That plan identifies the acquisition of the Morval Vonwiller Group as strategic. Based in Switzerland but with an international reach, the group is active in private banking and wealth management, and will be used to expand the scope of Fideuram Group activities outside Italy. With the acquisition of the Swiss Group, Fideuram not only assures complete geographic coverage of the Italian market but has also undertaken an expansion of its sales networks on international markets.
The client assets of the Morval Vonwiller Group amounted to CHF2.6bn at 30 June 2018, down from CHF2.7bn at the end of 2017. As for its financial results, net fee and commission income amounted to CHF11.6m at 30 June 2018, down from CHF12.6m at 30 June 2017. This stemmed mainly from the reduction in stock exchange fees (-CHF0.6m). Compared to the previous period, foreign exchange gains also fell, and income fell due to the simplification of investment securities. Administrative expenses remain under constant control and amounted to CHF12.8m. The increase by about 4.5% from the corresponding period of the previous year was mainly due to the realisation of about CHF1m in integration costs related both to employees and for legal and specialised advisor expenses. After depreciation and amortisation, the provisions recognised in the amount of CHF0.6m to settle a potential lawsuit, and pay income tax for the period, the first half of 2018 ended with a CHF1.9m loss, as compared with a profit of CHF2.7m in the first half of 2017.

Qingdao Yicai Wealth Management ("Italian Talent") is a wealth management company headquartered in China which distributes financial products to high-profile customers. The company is wholly-owned by Intesa Sanpaolo Group entities (25% Fideuram, 20% Eurizon Capital and 55% Intesa Sanpaolo) and was established to tap into the opportunities of the wealth management market in China, a country with high economic growth, a flourishing financial services market and sustained growth in the High Net Worth Individual segment that is expected to continue in the future.

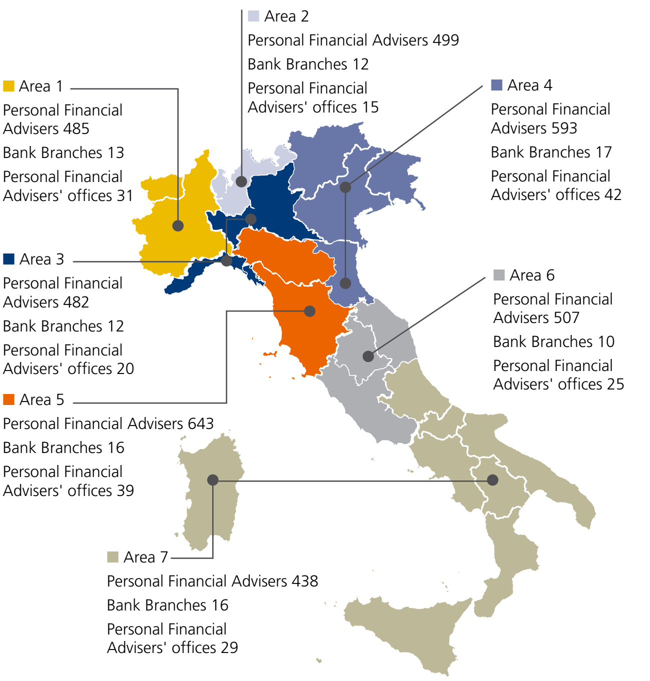
Human capital

SALES NETWORKS

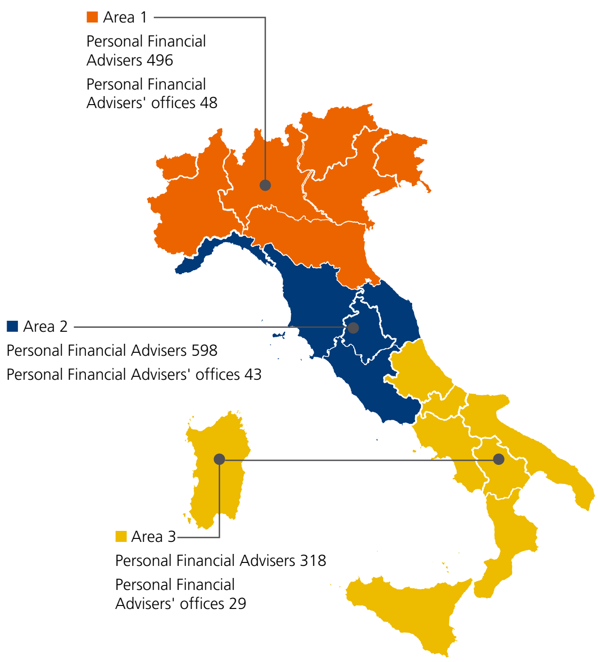
The Group's distribution networks (Fideuram, Sanpaolo Invest, Intesa Sanpaolo Private Banking and Foreign Networks) totalled 6,050 Personal Financial Advisers at 30 June 2018 compared with 5,990 at the beginning of 2018.

	BEGINNING OF PERIOD 1.1.2018 (*)	IN	OUT	NET	END OF PERIOD 30.6.2018
Fideuram Network	3,635	72	60	12	3,647
Sanpaolo Invest Network	1,428	30	46	(16)	1,412
Intesa Sanpaolo Private Banking Network	880	73	23	50	930
Foreign Network (**)	47	15	1	14	61
Total	**5,990**	**190**	**130**	**60**	**6,050**

Fideuram Network: 7 areas



Sanpaolo Invest Network: 3 areas



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

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

Intesa Sanpaolo Private Banking Network: 13 Areas

The Fideuram and Sanpaolo Invest Networks' recruitment programmes brought in 102 new professionals in the first half of 2018 (compared with 180 new Personal Financial Advisers recruited in the corresponding period of 2017) and 245 over the past 12 months, compared with 279 in the previous twelve-month period. 106 Personal Financial Advisers left the Group in the first half of the year, only 30% of whom, however, moved to competitor networks.

Fideuram
Personal Financial Advisers

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
1st Half					
1.1.2018 - 30.6.2018	3,635	72	60	12	3,647
1.1.2017 - 30.6.2017	3,571	126	87	39	3,610
Twelve-month period					
1.7.2017 - 30.6.2018	3,610	168	131	37	3,647
1.7.2016 - 30.6.2017	3,592	197	179	18	3,610

Sanpaolo Invest
Personal Financial Advisers

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
1st Half					
1.1.2018 - 30.6.2018	1,428	30	46	(16)	1,412
1.1.2017 - 30.6.2017	1,429	54	51	3	1,432
Twelve-month period					
1.7.2017 - 30.6.2018	1,432	77	97	(20)	1,412
1.7.2016 - 30.6.2017	1,450	82	100	(18)	1,432

Excluding the two financial advisers located in London, the Intesa Sanpaolo Private Banking Network currently numbers 892 Personal Financial Advisers who are salaried employees registered in Italy's Unified Register of Financial Advisers and 38 freelance professionals on agency contracts.

Intesa Sanpaolo Private Banking Financial Advisers

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
1st Half					
1.1.2018 - 30.6.2018	880	73	23	50	930
1.1.2017 - 30.6.2017	842	46	15	31	873
Twelve-month period					
1.7.2017 - 30.6.2018	873	96	39	57	930
1.7.2016 - 30.6.2017	844	62	33	29	873

The Foreign Network of the Group is composed of 61 Personal Financial Advisers, and includes 40 financial advisers at the Morval Vonwiller Group, 19 at Intesa Sanpaolo Private Bank (Suisse) and two financial advisers at Intesa Sanpaolo Private Banking located in London.

The recruitment programmes were conducted with the greatest rigour and professionalism by the managements of the Group's Networks, and focused on finding Personal Financial Advisers of high standing in line with the role of market leader which has always distinguished the Fideuram Group. The training and work of these top professionals are guided by the principles of ethics and transparency which differentiate the Group and aim, among other things, to secure customer loyalty through the support of financial advisory services that are tailored to each customer's personal investment needs and risk profile.
Moreover, we continued to see steady growth in the Personal Financial Advisers who have joined our Team Fideuram project, conceived to promote collaboration between Personal Financial Advisers with a view to developing and providing enhanced support for their customers. At 30 June 2018, 961 Personal Financial Advisers had joined together in teams, collectively managing a total of around €9bn in assets for over 81 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 3,341 at 30 June 2018, compared with 3,229 at 31 December 2017.
Direct employees totalled 3,267.

Human Resources

(number)

	30.6.2018	31.12.2017 (*)	30.6.2017 (*)
Fideuram - Intesa Sanpaolo Private Banking	1,372	1,362	1,321
Intesa Sanpaolo Private Banking	1,423	1,363	1,344
Sanpaolo Invest SIM	48	49	50
Siref Fiduciaria	84	84	87
Morval Vonwiller Group	104	103	106
Intesa Sanpaolo Private Bank (Suisse)	70	33	27
Financière Fideuram	4	4	4
Asset Management	**236**	**231**	**222**
Fideuram Asset Management (Ireland)	66	66	60
Fideuram Bank (Luxembourg)	66	66	66
Fideuram Investimenti SGR	104	99	96
Total	**3,341**	**3,229**	**3,161**

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

Condensed half-year consolidated financial statements

Notes

Analysis of the income statement

The Fideuram - Intesa Sanpaolo Private Banking Group ended the first six months of 2018 with consolidated net profit of €454m, up €11m (+2%) on the previous year.

Consolidated income statement

(Reclassified - €m)

	1ST HALF 2018	1ST HALF 2017 (*)	CHANGE	
			AMOUNT	%
Net interest income	74	83	(9)	-11
Net profit (loss) on financial assets and liabilities	25	18	7	39
Net fee and commission income	860	839	21	3
TOTAL NET INTEREST AND TRADING INCOME	**959**	**940**	**19**	**2**
Net impairment for credit risk	(1)	-	(1)	n.s.
OPERATING INCOME	**958**	**940**	**18**	**2**
Personnel expenses	(167)	(162)	(5)	3
Other administrative expenses	(110)	(112)	2	-2
Depreciation and amortisation	(5)	(7)	2	-29
OPERATING EXPENSES	**(282)**	**(281)**	**(1)**	**-**
Net provisions for risks and charges	(12)	(15)	3	-20
Profit (loss) on equity investments	4	6	(2)	-33
Other income (expense)	(1)	(1)	-	-
PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**667**	**649**	**18**	**3**
Income taxes for the period on continuing operations	(198)	(189)	(9)	5
Expenses regarding the banking system (net of tax)	(6)	(3)	(3)	100
Non-recurring income (expenses) (net of tax)	(9)	(11)	2	-18
Net profit (loss) attributable to non-controlling interests	-	(3)	3	-100
NET PROFIT	**454**	**443**	**11**	**2**

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

n.s.: not significant

Quarterly consolidated income statements

(Reclassified - €m)

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

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

Total net interest and trading income totalled €959m, up €19m (+2%) compared with the first six months of 2017. This result is attributable to:

- growth in net fee and commission income (+€21m);
- decreased net interest income (-€9m);
- increased net profit on financial assets (+€7m).

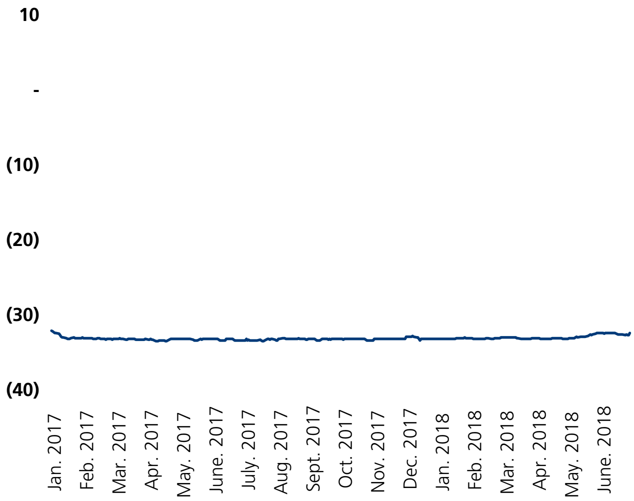
Net interest income

(€m)

	1ST HALF 2018	1ST HALF 2017	CHANGE AMOUNT	CHANGE %
Interest expense on due to customers	(16)	(16)	-	-
Interest expense on due to banks	(13)	(15)	2	-13
Interest income on debt securities	108	106	2	2
Interest income on loans	53	54	(1)	-2
Net interest on hedging derivatives	(46)	(46)	-	-
Other net interest income	(12)	-	(12)	n.s.
Total	**74**	**83**	**(9)**	**-11**

3-month Euribor rate

(bps)

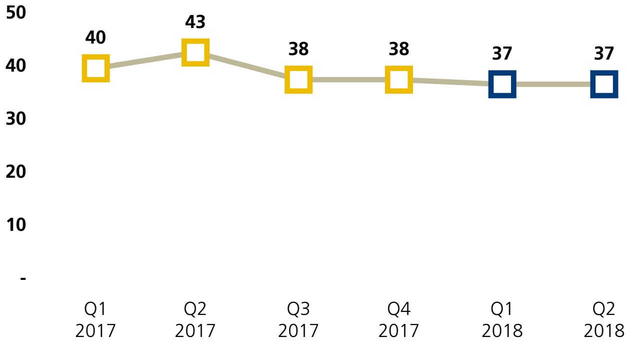


Source: Bloomberg

Net interest income totalled €74m, down €9m (-11%) from the same period last year, due to interest rates remaining negative in the shortest term segment on the yield curve. This change was partly offset by the growth in average interest-bearing assets, which contributed to the stability of net interest income in the first half of 2018. Analysis of the quarterly data shows that net interest income was stable at €37m in the first two quarter of 2018, notwithstanding a decline in the profitability of short-term loans and the gradual maturing of loans that were more remunerative than new loans.

Quarterly net interest income

(€m)



Net profit (loss) on financial assets and liabilities

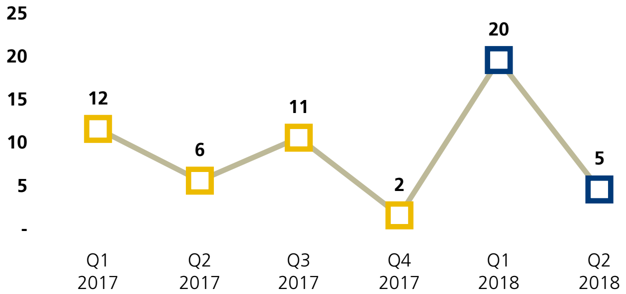
(€m)

	1ST HALF 2018	1ST HALF 2017	CHANGE	
			AMOUNT	%
Net profit (loss) on sale of loans and financial assets	21	10	11	110
Net profit (loss) on trading activities	4	7	(3)	-43
Net profit (loss) on hedging derivatives	-	1	(1)	-100
Total	**25**	**18**	**7**	**39**

Net profit on financial assets and liabilities came to €25m, up €7m from the figure for the first half of 2017 (+39%).
Analysis of the item shows that net profit on sale of loans and financial assets (€21m) increased €11m from the figure for the corresponding period last year due to increased sales of investment securities. The net profit on trading activities was €4m, €3m less than in the first half of 2017, mainly due to the early termination of several hedging derivatives linked to bonds sold during the first half. Net profit on hedging derivatives, resulting from the ineffective hedging of interest-rate derivatives, decreased by €1m from the first half 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)

	1ST HALF 2018	1ST HALF 2017	CHANGE	
			AMOUNT	%
Fee and commission income	1,242	1,184	58	5
Fee and commission expense	(382)	(345)	(37)	11
Net fee and commission income	**860**	**839**	**21**	**3**

Net fee and commission income totalled €860m, an increase of €21m (+3%) compared with the first six months of 2017.

Net recurring fees

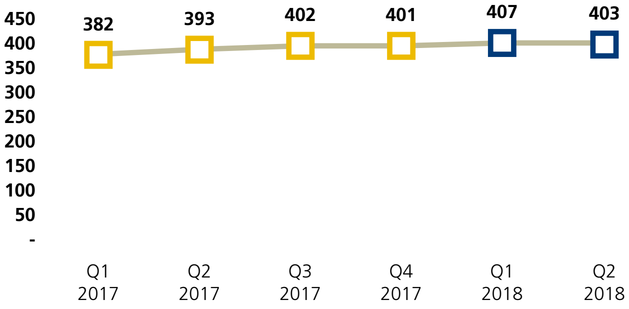
(€m)

	Q1	Q12	TOTAL
2018	407	403	810
2017	382	393	775
Change	**25**	**10**	**35**

Net recurring fees continue to stabilise Group earnings. These totalled €810m in the first half of 2018, up €35m from the same period of 2017 (+5%). This result is mainly attributable to the strong growth in average managed assets, which rose from €142.7bn at 30 June 2017 to about €153.1bn at 30 June 2018 (+7%). Analysis of the quarterly changes shows the growth trend tracked by recurring fees, which in the first two quarters 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 €42m compared with €39m in the first half of 2017 (+8%).

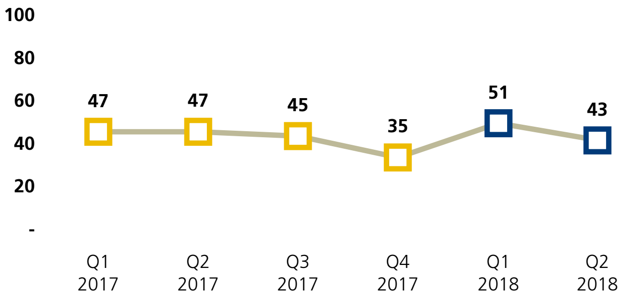
Quarterly net recurring fees

(€m)



Quarterly net front-end fees

(€m)



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

Net front-end fees

(€m)

	Q1	Q2	TOTAL
2018	51	43	94
2017	47	47	94
Change	**4**	**(4)**	**-**

Net front end fees, totalling €94m, were unchanged from the first six months of last year. The growth in front-end fee income on bonds and certificates was fully offset by the decrease in front-end fee income for managed asset product sales and brokerage fees. The Group's sales networks distributed a number of bond loans and certificates, in addition to Italian government bonds, that brought in approximately €621m gross inflows in the period compared with €89m in the first half of 2017.

Other commission expense: incentives and others

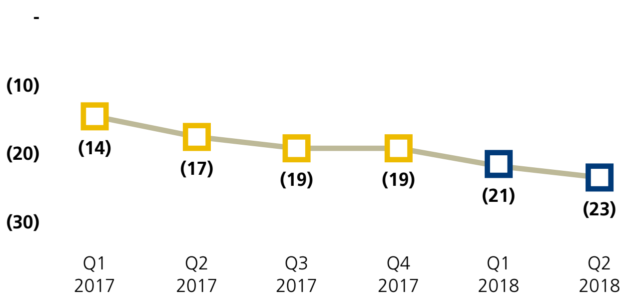
(€m)

	Q1	Q12	TOTAL
2018	(21)	(23)	(44)
2017	(14)	(17)	(31)
Change	**(7)**	**(6)**	**(13)**

Commission expense for incentives and others totalled €44m, up €13m from the same period of the previous year. That stemmed primarily from higher incentives accrued during the period and, to a lesser extent, from contingent assets on bonuses recognised in the first half of 2017.

Quarterly other commission expense

(€m)



Net impairment for credit risk showed a negative net amount of €1m, attributable mainly to adjustments to debt securities, compared with a zero balance in the first half of 2017.

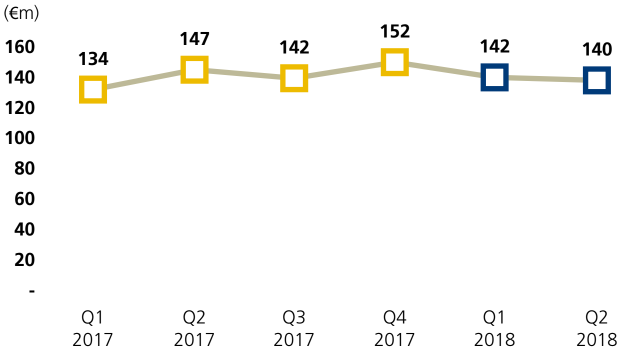
Operating expenses

(€m)

	1ST HALF 2018	1ST HALF 2017	CHANGE	
			AMOUNT	%
Personnel expenses	167	162	5	3
Other administrative expenses	110	112	(2)	-2
Depreciation and amortisation	5	7	(2)	-29
Total	**282**	**281**	**1**	**-**

Operating expenses totalled €282m, substantially the same as the net amount for the same period last year (up €1m). Analysis of the item shows that personnel expenses, which totalled €167m, were up €5m compared with the figure for the first half of 2017, essentially as a result of the increase in headcount (180 new employees), mainly in the sales area. Other administrative expenses totalled €110m, were down €2m, principally as a result of the reduction in third-party service costs. Depreciation and amortisation fell by €2m. 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



Net provisions for risks and charges

(€m)

	1ST HALF 2018	1ST HALF 2017	CHANGE	
			AMOUNT	%
Personal Financial Advisers' termination indemnities and incentives	11	11	-	-
Litigation and complaints	-	3	(3)	-100
Network Loyalty Schemes	1	1	-	-
Total	**12**	**15**	**(3)**	**-20**

Net provisions for risks and charges came to €12m, down €3m (-20%) from the figure for the first half of 2017. Detailed analysis shows that the provisions for contractual indemnities owed to the Personal Financial Advisers, totalling €11 million, and for sales network loyalty schemes (€1m) have held steady at the level of the net amount for the first half of last year. The provisions set aside to cover contingent liabilities from lawsuits, litigation, claims from receivers and customer complaints decreased by €3m, mainly for the settlement of several cases at costs lower than what had been estimated.

Profit on equity investments came to €4m, corresponding to the profit from the Group's 19.99% interest in Fideuram Vita S.p.A. and 25% interest in Qingdao Yicai Ltd. It fell by €2m from the figure for the first six 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 half of 2018, this item had a net negative balance of €1m, about the same as in the first half of 2017.

Income taxes, for which €198m was set aside in the period, were up €9m compared with the figure for the first half 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 half 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 €6m in the first half of 2018, up €3 million from the first half of last 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 €9m (compared with €11m in the first half of 2017), principally due to the expenses incurred to integrate Intesa Sanpaolo Private Banking, Intesa Sanpaolo Private Bank (Suisse), Siref Fiduciaria and the Morval Vonwiller Group in the Fideuram Group.

Asset and liability management

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

Consolidated balance sheet

(Reclassified - €m)

	30.6.2018	1.1.2018 (*)	CHANGE	
			AMOUNT	%
ASSETS				
Financial assets measured at fair value through profit or loss	280	631	(351)	-56
Financial assets measured at fair value through other comprehensive income	3,013	3,786	(773)	-20
Loans and advances to banks	24,185	22,616	1,569	7
Loans and advances to customers	11,382	10,339	1,043	10
Hedging derivatives	1	5	(4)	-80
Equity investments	148	148	-	-
Property and equipment and intangible assets	295	271	24	9
Tax assets	158	175	(17)	-10
Other assets	1,192	1,230	(38)	-3
TOTAL ASSETS	**40,654**	**39,201**	**1,453**	**4**
LIABILITIES				
Due to banks	2,464	2,644	(180)	-7
Due to customers	33,175	30,845	2,330	8
Financial liabilities held for trading	32	196	(164)	-84
Hedging derivatives	815	833	(18)	-2
Tax liabilities	61	101	(40)	-40
Other liabilities	1,214	1,154	60	5
Provisions for risks and charges	445	462	(17)	-4
Share capital and reserves	1,994	1,945	49	3
Equity attributable to non-controlling interests	-	150	(150)	-100
Net Profit	454	871	(417)	-48
TOTAL LIABILITIES	**40,654**	**39,201**	**1,453**	**4**

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

Quarterly consolidated balance sheets

(Reclassified - €m)

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

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

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 €3.3bn, down €1.1bn from 1 January 2018 (-26%).

Financial assets

(€m)

	30.6.2018	1.1.2018	CHANGE	
			AMOUNT	%
Financial assets measured at fair value through profit or loss	280	631	(351)	-56
Financial assets measured at fair value through other comprehensive income	3,013	3,786	(773)	-20
Hedging derivatives	1	5	(4)	-80
Total	**3,294**	**4.422**	**(1,128)**	**-26**

This performance is attributable both to the reduction in financial assets measured at fair value through profit or loss (-€351m) 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 €773m, mainly due to sales of bonds during the first half of 2018.

Financial liabilities

(€m)

	30.6.2018	1.1.2018	CHANGE	
			AMOUNT	%
Financial liabilities held for trading	32	196	(164)	-84
Hedging derivatives	815	833	(18)	-2
Total	**847**	**1,029**	**(182)**	**-18**

Financial liabilities, consisting of derivatives, totalled €847m. This item shows a reduction of €182m (-18%) from 1 January 2018, largely attributable to the early termination of several interest rate risk hedging derivatives consequent to the previously mentioned sale of bonds which were no longer in line with Group business models.

Loans and advances to banks

(€m)

	30.6.2018	1.1.2018	CHANGE	
			AMOUNT	%
Due from Central Banks	473	636	(163)	-26
Current account	6,545	4,247	2,298	54
Term deposits	6,221	9,547	(3,326)	-35
Other	134	125	9	7
Debt securities	10,812	8,061	2,751	34
Total	**24,185**	**22,616**	**1,569**	**7**

Loans and advances to banks totalled €24.2bn, up €1.6bn (+7%) on the figure at the beginning of the year. This change is mainly due to the growth in current account overdrafts and investments in debt securities, partly offset by the reduction in term deposits. Current accounts included €1.4bn in cash linked to securities lending, secured entirely by cash collateral recognised in the financial statements under Loans and advances to banks and Due to banks (Loans and advances to Intesa Sanpaolo and Due to Banca IMI).

Due to banks

(€m)

	30.6.2018	1.1.2018	CHANGE	
			AMOUNT	%
Current accounts	160	168	(8)	-5
Term deposits	154	154	-	-
Repurchase agreements	2,014	2,286	(272)	-12
Other debts	136	36	100	n.s.
Total	**2,464**	**2,644**	**(180)**	**-7**

n.s.: not significant

Due to banks totalled €2.5bn, down €180m compared to the beginning of 2018, mainly due to decreased inflows from repurchase agreements. The Group continued to be a net lender on the interbank market, with net interbank deposits of €21.7bn (€24.2bn in deposits and €2.5bn in loans), €20.8bn of which (approximately 96% of the total) was held by companies in the Intesa Sanpaolo Group.

Loans and advances to customers

(€m)

	30.6.2018	1.1.2018	CHANGE	
			AMOUNT	%
Current accounts	5,886	5,709	177	3
Repurchase agreements	638	-	638	n.s.
Loans	755	658	97	15
Other	1,578	1,463	115	8
Debt securities	2,513	2,499	14	1
Impaired assets	12	10	2	20
Total	**11,382**	**10,339**	**1,043**	**10**

Loans and advances to customers totalled €11.4bn and mainly comprised short-term loans (repayable within 12 months or revocable loans without a specified term) and unlisted debt securities. The increase of €1bn from 1 January 2018 is attributable to the growth in repurchase agreements with institutional customers (+€638m), current accounts (+€177m) and other loans (+€115m). Net problem loans totalled €12m at 30 June 2018, up €2m (+20%) 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 €3m, up €2m from 1 January 2018.

Due to customers

(€m)

	30.6.2018	1.1.2018	CHANGE	
			AMOUNT	%
Current accounts	30,706	28,095	2,611	9
Term deposits	2,146	2,625	(479)	-18
Repurchase agreements	231	6	225	n.s.
Other debts	92	119	(27)	-23
Total	**33,175**	**30,845**	**2,330**	**8**

Due to customers totalled €33.2bn, up €2.3bn (+8%) since 1 January 2018. This performance is attributable to growth in customer current account deposits (+€2.6m) and repurchase agreements (+€225m), partly offset by the reduction in term deposits (-€479m).

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

(€m)

	LOANS	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (*)	TOTAL
Germany	-	29	29
Finland	-	37	37
France	-	91	91
Italy	2,234	411	2,645
United States	-	226	226
Spain	-	2	2
Austria	-	1	1
China	-	5	5
Holland	-	10	10
Switzerland	-	3	3
Total	**2,234**	**815**	**3,049**

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

Fair value of financial assets and liabilities measured at cost

(€m)

	30.6.2018		1.1.2018	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Loans and advances to banks	24,185	24,166	22,616	22,924
Loans and advances to customers	11,382	10,996	10,339	10,123
Total	**35,567**	**35,162**	**32,955**	**33,047**
Due to banks	2,464	2,464	2,644	2,644
Due to customers	33,175	33,175	30,845	30,845
Total	**35,639**	**35,639**	**33,489**	**33,489**

Property and equipment and intangible assets totalled €295m, including €168m in goodwill, of which €140m attributable to the Private Banking divisions acquired by the subsidiary Intesa Sanpaolo Private Banking between 2009 and 2013 and €28m attributable to acquisition of the Morval Vonwiller Group in the second quarter of 2018. This last value has been provisionally recognised as goodwill before allocating the purchase price pursuant to IFRS 3 (Business Combinations) by the end of the year.

The **provisions for risks and charges** at 30 June 2018 were down €17m (-4%) from the figure at 1 January 2018, illustrated as follows:

Provisions for risks and charges

(€m)

	30.6.2018	1.1.2018	CHANGE	
			AMOUNT	%
Litigation, securities in default and complaints	95	100	(5)	-5
Personnel costs	74	91	(17)	-19
Personal Financial Advisers' termination indemnities	229	221	8	4
Network Loyalty Schemes	41	44	(3)	-7
Other	6	6	-	-
Total	**445**	**462**	**(17)**	**-4**

The provision for litigation, securities in default and complaints was down €5m from the figure at the beginning of the year as a result of utilisation during the first half of the year. The provisions for personnel costs fell by €17m, mainly due to the accruals for variable components of compensation. The provisions for the termination of Personal Financial Adviser agency agreements were up €8m, mainly due to accruals during the period. The provisions for Network loyalty schemes decreased by €3m, 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

Group shareholders' equity including net profit for the period totalled €2.5bn at 30 June 2018, having changed as follows:

Equity attributable to owners of the parent company

(€m)

Shareholders' equity at 31 December 2017	**2,778**
Effect of transition to IFRS 9	38
Shareholders' equity at 1st January 2018	**2,816**
Dividend distribution	(788)
Change in valuation reserve for financial assets measured at fair value through other comprehensive income	(53)
Other changes	19
Net profit	454
Shareholders' equity at 30 June 2018	**2,448**

The €38m change refers to the impact of first-time adoption of IFRS 9, which introduced new rules for the classification, measurement and impairment of financial assets beginning 1 January 2018. For analytical information on the effects of the transition to the new financial reporting standard used by the Fideuram Group, the reader is referred to the dedicated section in the part concerning accounting policies.
The €53m decrease largely refers to the reduction in the valuation reserves for financial assets through comprehensive income after sales on the market and changes in the fair value of the securities portfolio during the period. At 30 June 2018, the valuation reserve of financial assets measured at fair value through other comprehensive income totalled a negative €14m.
The Group did not hold any treasury shares at 30 June 2018.

Fideuram S.p.A.'s own funds and main capital ratios at 30 June 2018 are shown below.

Fideuram S.p.A. Capital Ratios

(€m)

	30.6.2018	**31.12.2017**
CET1	1,002	998
Tier 1	1,002	998
Own funds	1,002	999
Total risk-weighted assets	7,142	7,065
CET1 Ratio	**14.0%**	**14.1%**
Tier 1 Ratio	**14.0%**	**14.1%**
Total Capital Ratio	**14.0%**	**14.1%**

As a member of the Intesa Sanpaolo Banking Group, Fideuram is subject to the laws and regulations regarding capital requirements on the basis of its separate accounts, but is not required to present this information on a consolidated basis. Committed to providing comprehensive information, the Group voluntarily estimates its consolidated capital requirements, taking its membership of the Intesa Sanpaolo Banking Group into account. At 30 June 2018, our Common Equity Tier 1 Ratio was estimated to be 16.2% (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-performing assets, and specify the different types of problem loans, their management and the company bodies empowered to authorise the transfer of positions between different classes of loans.
Doubtful loans, net of adjustments, accounted for a very small percentage of total loans (0.01% 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 the basis of an expected loss impairment model to obtain more timely recognition of credit losses in the income statement. IFRS 9 requires entities to recognise expected credit losses in the 12 months (Stage 1) after initial recognition of a financial instrument, resulting from the product of PD, EAD and LGD, as defined in the section on accounting policies. However, the time horizon for calculating expected loss becomes the entire residual life of the asset when there has been any significant deterioration in the credit quality of the financial instrument since initial recognition (Stage 2) or if the financial instrument is impaired (Stage 3).

Loans and advances to customers: credit quality

(€m)

	30.6.2018		1.1.2018		CHANGE
	NET EXPOSURE	%	NET EXPOSURE	%	NET EXPOSURE
Doubtful loans	1	-	1	-	-
Unlikely to pay	8	-	8	-	-
Past due or overdue loans	3	-	1	-	2
Non-performing assets	**12**	**-**	**10**	**-**	**2**
Performing loans	8,857	78	7,830	76	1,027
Debt instruments	2,513	22	2,499	24	14
Loans and advances to customers	**11,382**	**100**	**10,339**	**100**	**1,043**

LIQUIDITY RISK

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

MARKET RISK

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

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

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

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

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

The banking book comprises long-term investment securities and interest rate hedging derivatives. The banking book totalled €16.3bn at 30 June 2018.

Banking book

(€m)

	30.6.2018	1.1.2018	CHANGE	
			AMOUNT	%
Financial assets measured at fair value through other comprehensive income	3,013	3,786	(773)	-20
Debt securities classified as loans and advances to banks	10,812	8,061	2,751	34
Debt securities classified as loans and advances to customers	2,513	2,499	14	1
Hedging derivatives	1	5	(4)	-80
Total	**16,339**	**14,351**	**1,988**	**14**

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

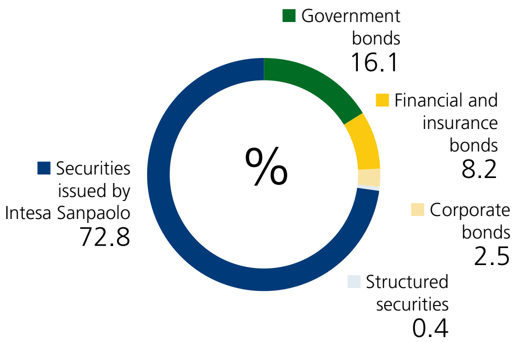
The market risk of this portfolio mainly regards the management of investments in securities. The Group's exposure to interest rate risk is, moreover, also influenced by other typical banking balance sheet items (customer deposits and loans). The financial risk of the banking book is measured using the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

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

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

Analysis by product type

30.6.2018



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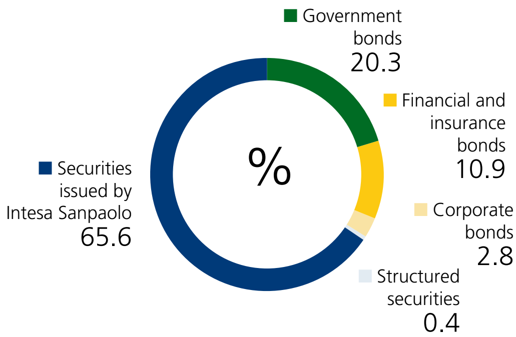
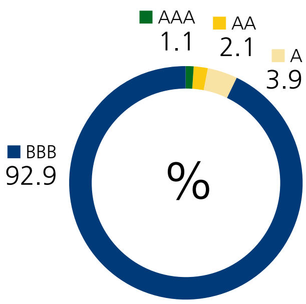


Analysis by rating

30.6.2018



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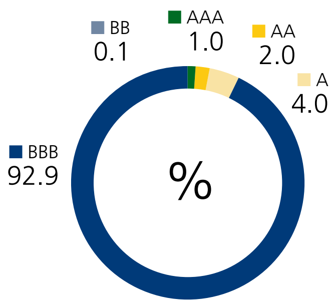


The VaR takes interest rates, credit spread and volatility into account. At the end of June 2018, the one-day spot VaR was €6.4m. The increase in value recognised at the end of June depended on the tensions recorded on the Italian market for government and financial securities, which represent over 50% of the total portfolio.
The Group uses derivatives (mainly interest rate swaps) to hedge interest rate risk following a strategy that involves buying swaps linked to the individual fixed-coupon bonds in the portfolio. This strategy has made the Group's long-term securities holdings less sensitive to interest rate risk.
Where risk concentration is concerned, the securities holdings are highly diversified as a result of the stringent limits specified by the Financial Portfolio Policy, which limits the maximum exposure to any single corporate Group to 5% of the total holdings, with the sole exception of Intesa Sanpaolo.

The Fideuram Group's total exposure to interest rate risk is monitored using Asset Liability Management (ALM) techniques to determine the shift sensitivity of fair value and net interest income.
The shift sensitivity, which measures the change in fair value of the banking book resulting from a 100bps upward parallel movement in the interest rate curve, is calculated taking into account the risk generated by customer demand deposits and other assets and liabilities of the banking book sensitive to shifts in the interest rate curve. For a parallel upward movement in the rate curve by 100bps, the sensitivity value of the fair value at 30 June 2018 was a negative -€19.5m. Likewise, even the interest margin sensitivity was negative -€92.4m 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).

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

(€m)

	30.6.2018			1.1.2018		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets measured at fair value through profit or loss	11	269	-	327	304	-
Financial assets measured at fair value through other comprehensive income	2,988	25	-	3,235	551	-
Hedging derivatives	-	1	-	-	5	-
Property and equipment	-	-	70	-	-	71
Total	**2,999**	**295**	**70**	**3,562**	**860**	**71**
Financial liabilities held for trading	-	32	-	-	196	-
Hedging derivatives	-	815	-	-	833	-
Total	**-**	**847**	**-**	**-**	**1,029**	**-**

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

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

and control system, and for ascertaining its compliance with the related regulatory requirements;

- the Managing Director is responsible for ensuring the suitability and effectiveness over time of the risk management and control systems, and the procedures used by the Group for determining the capital requirement;
- the Internal Audit Department is responsible for periodically auditing the operational risk management system, and for reporting on it to the Company Bodies;
- the Risk Committee is a consultative body that is responsible for analysing the reports on the operational risk profile and for proposing any actions required to prevent and mitigate operational risk;
- the Decentralised Operational Risk Management (ORM) Unit, which reports to the Chief Risk Officer, is responsible for organising and maintaining the set of activities provided for by the operational risk management system.

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

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

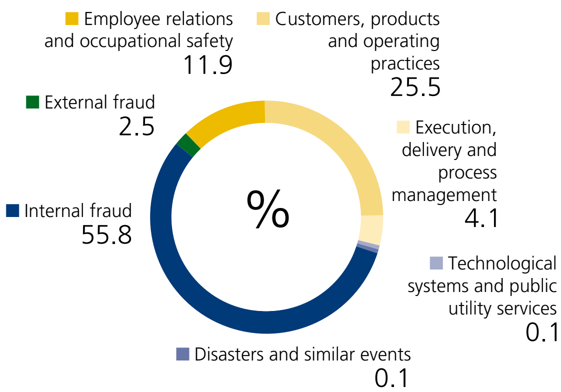
The internal model for calculating capital absorption has been designed to combine all the main sources of information, whether quantitative (operational loss) or qualitative (Self-Diagnosis). The quantitative part is based on an analysis of the historical data regarding internal events (monitored by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

A structured training programme has been launched for staff actively involved in the operational risk governance process to provide continuous support for the process.
In addition, the Group follows a traditional policy for transferring operational risk (to cover offences such as employee misconduct, theft and damage, the transport of valuables, computer fraud, forgery, fire and earthquake damage and third-party liability), which contributes to mitigating its impact.

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

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

Operating losses by risk classes



Aggregate losses at the Division level in the first half of 2018 totalled €5.2m. In particular, the item "internal misconduct" caused losses amounting to €2.9m, of which about €2.1m for provisions made to cover fraud exposed in the first half and involving four Personal Financial Advisers, and €587 thousand in compensation for customers. Moreover, new provisions of €357 thousand were accrued and provisions of €122 thousand were released on existing positions.

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

LEGAL AND TAX RISK

The Group is involved in civil and tax lawsuits as well as in criminal proceedings against third parties as part of its normal business operations.
The Group monitors pending cases constantly in consultation with external legal advisers, examining them in the light of the relevant contractual documents, the conduct concerned, internal investigations and any critical aspects highlighted by the aforesaid legal advisers during lawsuits. The Group has set aside provisions for legal disputes to cover, among other things, the liabilities that could, according to internal and external legal advice, be incurred as a result of pending legal and other disputes.
At 30 June 2018, these provisions totalled €95m. The total provisions and the amount of the individual provisions set aside are calculated on the basis of external and internal legal advisers' estimations of the proceedings having negative outcomes. As a consequence of said process, certain pending proceedings in which the Group is involved and regarding which a negative outcome is considered either remote or not quantifiable are not included in the provisions for legal disputes. At 30 June 2018, the number and value of pending proceedings were not sufficient to have any potential significant impact on the business, assets or financial situation of the Group.
The situation regarding legal and tax risk at 30 June 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 Court. 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 Court, 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 Court accepted the appeal filed by the company against the notices of assessment and imposition of penalties notified by the aforementioned Italian Revenue Agency Office. At the hearing held in May 2018, the Regional Tax Court subsequently accepted the appeal lodged by the Italian Tax Authorities. The company will consequently appeal that decision to the Court of Cassation.
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.

On 11 October 2017, the Rome Tax Police Squad of the Guardia di Finanza served a notice of assessment on direct taxes at the end of an audit with inspection of company premises for the 2012 tax year. Aside from another finding for a trivial amount, the claim concerned the deductibility of a cost incurred for business advice, due to failure to meet the standard for tax materiality. On 19 December 2017 the process of settlement in compliance with the assessment was completed with the Lazio Regional Office of the Italian Revenue Agency – Large Taxpayers Office to settle the entire claim.
The site inspection with an audit by the aforementioned Tax Police Squad has continued during 2018 in reference to the direct taxes owed for the years 2013-2014-2015-2016.

In 2012, the Lombardy Regional Office of the Italian Revenue Agency - Large Taxpayers Office - notified Intesa Sanpaolo Private Banking of a notice of assessment setting out its findings regarding the years 2009 to 2011. It subsequently withdrew the assessments for the 2009 and 2010 tax years.
In December 2016, the Lombardy Regional Office of the Italian Revenue Agency - Large Taxpayers Office - issued notices of assessment regarding IRES corporate income tax and IRAP regional business tax in relation to the dispute regarding the 2011 tax year. The notices dispute the deductibility of the amortisation of the goodwill arising from the transfer of the company division, demanding taxes totalling €3.8m plus penalties and interest.
The appeal filed by the company before the Provincial Tax Court was accepted in December 2017. The Italian Revenue Agency filed an appeal before the Lombardy Regional Tax Court against that decision.
In August 2017, the Large Taxpayers Office of the Lombardy Regional Office of the Italian Revenue Agency served further notices of assessment on the same matter of IRES corporate income tax and IRAP regional business tax regarding 2012 as well, and for substantially the same amounts as those claimed previously. Here again, the appeal lodged by the company with the Provincial Tax Court was accepted.
Since the tax office's claim is groundless, no amount has been set aside in the provision for tax disputes.

Transactions with related parties

Fideuram - Intesa Sanpaolo Private Banking S.p.A. is wholly owned and controlled directly by Intesa Sanpaolo S.p.A..

In accordance with the law and the internal procedures issued by Intesa Sanpaolo and by Fideuram, all transactions with related parties between 1 January and 30 June 2018 were conducted under arms-length conditions as for unrelated parties of corresponding nature and risk, or - in the absence of any reference - under mutually-beneficial conditions, verified taking all the related circumstances, the distinctive characteristics of the transaction and Group interests into account. The bank did not in any case engage in any atypical or unusual transactions and/or transactions under non-standard financial and contractual conditions for the types of related parties concerned.

The Fideuram Board of Directors meeting of 7 May 2018 approved the renewal of the service agreement in place with Intesa Sanpaolo Group Services S.C.p.A., as amended to take the revision of the services offered to Fideuram for 2018 into account. Said Board of Directors meeting was also informed of the renewal of the service agreement with Intesa Sanpaolo S.p.A., which was likewise amended in anticipation of new direction, supervision and support services. The existing service agreements between Intesa Sanpaolo Group Services S.C.p.A. and Intesa Sanpaolo and the Italian subsidiaries of Fideuram (Sanpaolo Invest, Siref Fiduciaria, Intesa Sanpaolo Private Banking and Fideuram Investimenti) were also renewed. The new service agreements, signed between late May and early June, will incur a total cost of approximately €65m for the Fideuram - Intesa Sanpaolo Private Banking S.p.A. Group in 2018.

As part of the broader project for international development of the Group, the Fideuram Board of Directors meeting held on 24 April 2018 approved the share capital increase of the subsidiary Intesa Sanpaolo Private Bank (Suisse) S.A. for CHF25m. The transaction was completed on 14 June 2018 and at that date the amount subscribed by the Bank amounted to about €21.5 million.

Analogously, with a decision taken on 13 June 2018, Fideuram authorised the subscription of a share capital increase for the company Qingdao Yicai Wealth Management Co. Ltd. totalling RMB225m (about €30m), of which RMB56.25 million (about €7.5m) to be subscribed by Fideuram, as shareholder holding a 25% stake in the share capital. At 30 June 2018, the Chinese investee had not yet completed its share capital increase.

The merger of Fideuram Fiduciaria S.p.A. with Sirefid S.p.A. was completed effective 30 June 2018. On that date, Sirefid S.p.A. changed its name to Siref Fiduciaria S.p.A..

All Fideuram's other relations with its own subsidiaries and with other Intesa Sanpaolo Group companies may be considered to form part of the Bank's ordinary operations. Fideuram uses the brokerage services of Banca IMI for buying and selling securities. These transactions are conducted under arm's-length conditions.

All amounts receivable and payable and all income and expenses at 30 June 2018 regarding companies in the Intesa Sanpaolo Group are summarised below:

Assets 30.6.2018

(€m)

	TRANSACTIONS WITH INTESA SANPAOLO GROUP	
	AMOUNT	%
Debt and equity securities	11,521	69
Loans and advances to banks	12,323	92
Loans and advances to customers	197	2
Financial derivatives	4	10
Other	23	2

Liabilities 30.6.2018

(€m)

	TRANSACTIONS WITH INTESA SANPAOLO GROUP	
	AMOUNT	%
Due to banks	2,039	83
Due to customers	367	1
Financial derivatives	470	56
Other	208	18
Guarantees and commitments	364	9

Income statement 1st Half 2018

(€m)

	TRANSACTIONS WITH INTESA SANPAOLO GROUP	
	AMOUNT	%
Interest income	45	38
Interest expense	(19)	46
Fee and commission income	372	30
Fee and commission expense	(11)	3
Operating income on financial activities	(2)	7
Administrative expenses	(42)	10

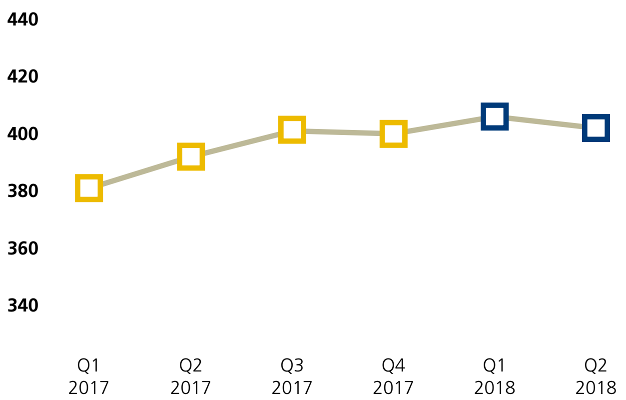
Events after the reporting period and outlook

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

The financial markets experienced extreme volatility during the first part of 2018, but managed assets, totalling €152.9bn at 30 June 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 could, in the absence of any major second-half corrections in the markets, enable our Group to end the current year with growth in net profit compared with 2017.

Quarterly net recurring tees

(€m)



The Board of Directors
Milan, 30 July 2018

Consolidated financial statements

Consolidated balance sheet

(€m)

ASSETS	30.6.2018	31.12.2017
10. Cash and cash equivalents	210	78
20. Financial assets measured at fair value through profit or loss	280	302
a) financial assets held for trading	36	43
b) financial assets measured at fair value	-	259
c) financial assets mandatorily measured at fair value	244	-
30. Financial assets measured at fair value through other comprehensive income	3,013	4,596
40. Financial assets measured at amortised cost	35,567	32,155
a) loans and advances to banks	24,185	22,510
b) loans and advances to customers	11,382	9,645
50. Hedging derivatives	1	5
60. Adjustments to financial assets subject to macro-hedging (+/-)	-	-
70. Equity investments	148	148
80. Reinsurers' share of technical reserves	-	-
90. Property and equipment	81	53
100. Intangible assets	214	188
of which: goodwill	168	140
110. Tax assets	158	161
a) current	36	26
b) deferred	122	135
120. Non-current assets held for sale and discontinued operations	-	-
130. Other assets	982	1,045
TOTAL ASSETS	**40,654**	**38,731**

Chairman of the Board of Directors
Paolo Maria Vittorio Grandi

Managing Director
Paolo Molesini

Manager responsible for the preparation of the company accounts
Paolo Bacciga

Consolidated balance sheet

(€m)

LIABILITIES AND SHAREHOLDERS' EQUITY	30.6.2018	31.12.2017
10. Financial liabilities measured at amortised cost	35,639	33,222
a) due to banks	2,464	2,641
b) due to customers	33,175	30,581
c) debt on issue	-	-
20. Financial liabilities held for trading	32	45
30. Financial liabilities measured at fair value	-	-
40. Hedging derivatives	815	981
50. Adjustments to financial liabilities subject to macro-hedging (+/-)	-	-
60. Tax liabilities	61	96
a) current	17	35
b) deferred	44	61
70. Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80. Other liabilities	1,162	1,097
90. Provision for employment termination indemnities	52	53
100. Provisions for risks and charges:	445	459
a) commitments and guarantees	2	-
b) pensions and other commitments	12	11
c) other provisions for risks and charges	431	448
110. Technical reserves	-	-
120. Valuation reserves	(3)	(69)
130. Redeemable shares	-	-
140. Equity instruments	-	-
150. Reserves	1,491	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 (+/-)	454	871
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**40,654**	**38,731**

Chairman of the Board of Directors
Paolo Maria Vittorio Grandi

Managing Director
Paolo Molesini

Manager responsible for the preparation of the company accounts
Paolo Bacciga

Consolidated income statement

(€m)

		1ST HALF 2018	1ST HALF 2017
10.	Interest income and similar income	119	165
	of which: interest income calculated with the effective interest method	*161*	*159*
20.	Interest expense and similar expense	(41)	(76)
30.	**Net interest income**	**78**	**89**
40.	Fee and commission income	1,235	1,170
50.	Fee and commission expense	(384)	(351)
60.	**Net fee and commission income**	**851**	**819**
70.	Dividends and similar income	-	-
80.	Net profit (loss) on trading activities	3	5
90.	Net profit (loss) on hedging derivatives	-	1
100.	Net profit (loss) on sale or repurchase of:	21	9
	a) financial assets measured at amortised cost	8	-
	b) financial assets measured at fair value through other comprehensive income	13	9
	c) financial liabilities	-	-
110.	Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	(2)	2
	a) financial assets and liabilities measured at fair value	-	-
	b) other financial assets mandatorily measured at fair value	(2)	2
120.	**Total net interest and trading income**	**951**	**925**
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**	**950**	**925**
160.	Net insurance premiums	-	-
170.	Other income/expense from insurance activities	-	-
180.	**Operating income from financing and insurance activities**	**950**	**925**
190.	Administrative expenses:	(410)	(393)
	a) personnel expenses	(168)	(164)
	b) other administrative expenses	(242)	(229)
200.	Net provisions for risks and charges	(11)	(17)
	a) commitments and guarantees	-	-
	b) other net provisions	(11)	(17)
210.	Depreciation of property and equipment	(2)	(1)
220.	Amortisation of intangible assets	(7)	(10)
230.	Other income/expense	120	114
240.	**Operating expenses**	**(310)**	**(307)**
250.	Profit (loss) on equity investments	4	6
260.	Net fair value gains (losses) on property and equipment and intangible assets	-	-
270.	Goodwill impairment	-	-
280.	Gain (loss) on disposal of investments	-	-
290.	**Profit (loss) before tax from continuing operations**	**644**	**624**
300.	Income taxes for the period on continuing operations	(190)	(181)
310.	**Profit (loss) after tax from continuing operations**	**454**	**443**
320.	Profit (loss) after tax from discontinued operations	-	-
330.	**Net profit (loss) for the period**	**454**	**443**
340.	Net profit (loss) for the period attributable to non-controlling interests	-	-
350.	**Parent company interest in net profit (loss) for the period**	**454**	**443**

Chairman of the Board of Directors
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Managing Director
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Manager responsible for the preparation of the company accounts
Paolo Bacciga

Consolidated statement of comprehensive income

(€m)

	1ST HALF 2018	1ST HALF 2017
10. Net profit (loss) for the period	**454**	**443**
Other comprehensive income after tax not transferred to the income statement	**(1)**	**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)	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	**(52)**	**7**
100. Hedging of net investments in foreign operations	-	-
110. Exchange rate differences	-	(1)
120. Cash flow hedges	4	-
130. Hedging instruments (undesignated elements)	-	-
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(52)	11
150. Non-current assets held for sale and discontinued operations	-	-
160. Valuation reserves related to investments carried at equity	(4)	(3)
170. Total other comprehensive income after tax	**(53)**	**8**
180. Total comprehensive income	**401**	**451**
190. Total comprehensive income attributable to non-controlling interests	-	-
200. Total comprehensive income attributable to parent company	401	451

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Statement of changes in consolidated equity

(€m)

				ALLOCATION OF INCOME FOR THE PREVIOUS YEAR		CHANGES IN THE PERIOD											
							TRANSACTIONS INVOLVING SHAREHOLDERS' EQUITY										
	BALANCE AT 31.12.2017	CHANGE IN OPENING BALANCES	BALANCE AT 1.1.2018	RESERVES	DIVIDENDS AND OTHER	CHANGES IN RESERVES	ISSUE OF NEW SHARES	PURCHASE OF TREASURY SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES BASED ON TREASURY SHARES	STOCK OPTIONS	CHANGES IN EQUITY INVESTMENTS	TOTAL COMPREHENSIVE INCOME AT 30.6.2018	SHAREHOLDERS' EQUITY AT 30.6.2018	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AT 30.6.2018	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 30.6.2018
Share capital:	**300**	**-**	**300**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**300**	**300**	**-**
a) ordinary shares	300	-	300	-	-	-	-	-	-	-	-	-	-	-	300	300	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**206**	**-**	**206**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**206**	**206**	**-**
Reserves:	**1,470**	**(81)**	**1,389**	**83**	**-**	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,491**	**1,491**	**-**
a) from net income	1,396	(81)	1,315	83	-	19	-	-	-	-	-	-	-	-	1,417	1,417	-
b) other	74	-	74	-	-	-	-	-	-	-	-	-	-	-	74	74	-
Valuation reserves	**(69)**	**119**	**50**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(53)**	**(3)**	**(3)**	**-**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) for the period	**871**	**-**	**871**	**(83)**	**(788)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**454**	**454**	**454**	**-**
Shareholders' equity	**2,778**	**38**	**2,816**	**-**	**(788)**	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**401**	**2,448**	**2,448**	**-**
Equity attributable to owners of the parent company	**2,778**	**38**	**2,816**	**-**	**(788)**	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**401**	**2,448**		
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		

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Statement of changes in consolidated equity

(€m)

				ALLOCATION OF INCOME FOR THE PREVIOUS YEAR		CHANGES IN THE PERIOD												
							TRANSACTIONS INVOLVING SHAREHOLDERS' EQUITY											
	BALANCE AT 31.12.2016	CHANGE TO OPENING BALANCE	BALANCE AT 1.1.2017	RESERVES	DIVIDENDS AND OTHER	CHANGES IN RESERVES	ISSUE OF NEW SHARES	PURCHASE OF TREASURY SHARES	INTERIM DIVIDENDS	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES BASED ON TREASURY SHARES	STOCK OPTIONS	CHANGES IN EQUITY INVESTMENTS	TOTAL COMPREHENSIVE INCOME AT 30.6.2017	SHAREHOLDERS' EQUITY AT 30.6.2017	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AT 30.6.2017	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 30.6.2017
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**	**-**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,455**	**1,455**	**-**
a) from net income	1,299	-	1,299	72	-	10	-	-	-	-	-	-	-	-	-	1,381	1,381	-
b) other	74	-	74	-	-	-	-	-	-	-	-	-	-	-	-	74	74	-
Valuation reserves	**(84)**	**-**	**(84)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**(76)**	**(76)**	**-**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interim dividends	**(600)**	**-**	**(600)**	**-**	**600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) for the period	**786**	**-**	**786**	**(72)**	**(714)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**443**	**443**	**443**	**-**
Shareholders' equity	**1,981**	**-**	**1,981**	**-**	**(114)**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**451**	**2,328**	**2,328**	**-**
Equity attributable to owners of the parent company	**1,981**	**-**	**1,981**	**-**	**(114)**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**451**	**2,328**		
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		

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Statement of consolidated cash flows

(Indirect method)

(€m)

	1ST HALF 2018	1ST HALF 2017
A. OPERATING ACTIVITIES		
1. Operations	**601**	**642**
- Profit (loss) for the period (+/-)	454	443
- net profit (loss) on financial assets held for trading and on other assets/liabilities measured at fair value through profit or loss (-/+)	(4)	(5)
- net profit (loss) on hedging activities (-/+)	-	(1)
- net impairment for credit risk (+/-)	1	-
- net depreciation and amortisation (+/-)	9	12
- net provisions for risks and charges and other expense/income (+/-)	11	17
- uncollected net insurance premiums (-)	-	-
- uncollected other insurance income/expense (-/+)	-	-
- unpaid taxes and tax credits (+/-)	190	181
- net impairment of discontinued operations net of tax effect (-/+)	-	-
- other adjustments (+/-)	(60)	(5)
2. Cash from/used in financing activities	**(1,763)**	**(1,529)**
- financial assets held for trading	7	(43)
- financial assets measured at fair value	-	9
- other assets mandatorily measured at fair value	333	-
- financial assets measured at amortised cost	(2,769)	(1,717)
- other assets	666	222
3. Cash from/used in financial liabilities	**2,114**	**1,003**
- financial liabilities measured at amortised cost.	2,418	906
- financial liabilities held for trading	(165)	61
- financial liabilities measured at fair value	-	-
- other liabilities	(139)	36
Net cash from/used in operating activities	**952**	**116**
B. INVESTING ACTIVITIES		
1. Cash from	**-**	**-**
- disposal of equity investments	-	-
- dividend income from equity investments	-	-
- sale of property and equipment	-	-
- sale of intangible assets	-	-
- sale of subsidiaries and company divisions	-	-
2. Cash used in	**(32)**	**(5)**
- acquisition of equity investments	-	-
- acquisition of property and equipment	(1)	-
- purchase of intangible assets	(4)	(5)
- acquisition of subsidiaries and company divisions	(27)	-
Net cash from/used in operating activities	**(32)**	**(5)**
C. FUNDING ACTIVITIES		
- issue/purchase of treasury shares	-	-
- issue/purchase of equity instruments	-	-
- distribution of dividends and other	(788)	(114)
- sale/purchase of control of others	-	-
Net cash from/used in funding activities	**(788)**	**(114)**
NET CASH GENERATED/USED IN THE PERIOD	**132**	**(3)**

Reconciliation

Cash and cash equivalents at the beginning of the period	78	71
Total net cash generated/used in the period	132	(3)
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the period	210	68

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The information required under paragraph 44B of IAS 7 is provided as follows to assess the changes in liabilities resulting from financing activities.

	1ST HALF 2018
A. OPERATING ACTIVITIES - 3. Cash from/used in financial liabilities	
a) Changes resulting from financing cash flows	2,119
b) Changes resulting from obtaining or losing control of subsidiaries or other companies	300
c) Changes in fair value	(170)
c) Other changes	(135)
Cash from/used in financial liabilities	**2,114**

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Basis of preparation

DECLARATION OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Condensed Half-Year Consolidated Financial Statements at 30 June 2018 were 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 Condensed Half-Year Consolidated Financial Statements were in particular prepared in accordance with IAS 34 on interim financial reporting.

BASIS OF PREPARATION

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

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

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

These Condensed Half-Year Consolidated Financial Statements comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Shareholders' Equity and Statement of Cash Flows, 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. These financial statements use the euro as their functional currency, and all the figures herein are stated in millions of euro unless specified otherwise.
In accordance with IAS 34, the income statement for the first half of 2018 has been compared with the income statement for the corresponding period in 2017, and the balance sheet at 30 June 2018 has been compared with the balance sheet at 31 December 2017. The comparative data are represented by the net amounts that were previously defined by applying the requirements of IAS 39, restated as necessary within the new templates provided for by the Bank of Italy.
The balance sheet and income statement at 30 June 2018 referred to in the explanatory notes are a reclassified condensed balance sheet and reclassified condensed income statement to facilitate comparison of the figures for different periods and to enable a clearer and more immediate understanding of the Group's financial position. These statements were prepared using appropriate groupings of the items in the official financial statements. Detailed information on the restatements and reclassifications is presented in specific reconciliation statements provided in the schedules accompanying these financial statements. In regard to the reclassified balance sheet template, the comparative data at 1 January 2018 have been calculated by applying the new IFRS 9 to the net amounts of the consolidated balance sheet at 31 December 2017, when IAS 39 was applied, so that the figures may be compared.
The Condensed Half-Year Consolidated Financial Statements have been reviewed by KPMG S.p.A..

SCOPE AND METHODS OF CONSOLIDATION

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

Equity investments at 30.6.2018

COMPANY NAME	REGISTERED OFFICE	TYPE OF OWNERSHIP (*)	OWNERSHIP		% VOTES (**)
			ASSOCIATE COMPANY	% SHARE	
Parent company					
Fideuram - Intesa Sanpaolo Private Banking S.p.A. Share capital: EUR 300,000,000 in shares without par value	Turin				
Line-by-line consolidation					
1. Sanpaolo Invest SIM S.p.A. Share capital: EUR 15,264,760 in shares of EUR 140 each	Turin	1	Fideuram	100.000%	
2. Intesa Sanpaolo Private Banking S.p.A. Share capital: EUR 105,497,424 in shares of EUR 4 each	Milan	1	Fideuram	100.000%	
3. Fideuram Investimenti SGR S.p.A. Share capital: EUR 25,850,000 in shares of EUR 517 each	Milan	1	Fideuram	99.500%	
4. Siref Fiduciaria S.p.A. Share capital: EUR 2,600,000 in shares of EUR 0.52 each	Milan	1	Fideuram	100.000%	
5. Fideuram Asset Management (Ireland) dac Share capital: EUR 1,000,000 in shares of EUR 1,000 each	Dublin	1	Fideuram	100.000%	
6. Fideuram Bank (Luxembourg) S.A. Share capital: EUR 40,000,000 in shares without par value	Luxembourg	1	Fideuram	100.000%	
7. Financière Fideuram S.A. Share capital: EUR 346,761,600 in shares of EUR 25 each	Paris	1	Fideuram	99.999%	
8. Intesa Sanpaolo Private Bank (Suisse) S.A. Share capital: CHF 45,000,000 in shares of CHF 500 each	Lugano	1	Fideuram	100.000%	
9. Morval Vonwiller Holding S.A. Share capital: CHF 1,375,000 in shares of CHF 10 each	Sarnen	1	Fideuram	94.578%	
10. Banque Morval S.A. Share capital: CHF 20,000,000 in shares of CHF 100 each	Geneva	1	Morval Vonwiller Holding	100.000%	
11. Morval SIM S.p.A. Share capital: EUR 2,768,000 in shares of EUR 0.52 each	Turin	1	Banque Morval	100.000%	
12. Fiduciaria Generale e di Revisioni Contabili S.p.A. Share capital: EUR 119,000 in shares of EUR 1 each	Milan	1	Banque Morval	60.000%	
13. Southern Group Ltd Share capital: USD 50,000 in shares of USD 1 each	George Town	1	Morval Vonwiller Holding	100.000%	
14. Morval Vonwiller Advisors S.A. Share capital: UYU 495,000 in shares of UYU 1 each	Montevideo	1	Southern Group	100.000%	
15. Morval Vonwiller Assets Management Co. Ltd Share capital: USD 2,400,000 in shares of USD 1 each	Tortola	1	Morval Vonwiller Holding	100.000%	
16. Willerfunds Management Company Ltd in liquidation Share capital: EUR 170,000 in shares of EUR 34 each	Luxembourg	1	Morval Vonwiller Assets Management	100.000%	
17. Morval Bank & Trust Cayman Ltd Share capital: USD 7,850,000 in shares of USD 1 each	George Town	1	Morval Vonwiller Assets Management	100.000%	
18. Morval Gestion SAM Share capital: EUR 500,000 in shares of EUR 100 each	Monaco	1	Morval Vonwiller Holding	100.000%	

LEGEND

(*) Type of relationship

1 = majority voting rights at general shareholders' meetings.

(**) Voting rights at general shareholders' meetings. Voting rights are only shown when they differ from % capital ownership.

The Condensed Half-Year Consolidated Financial Statements include Fideuram and its direct and indirect subsidiaries and associates subject to significant influence. Fideuram Vita S.p.A., in which Fideuram holds a 19.99% equity interest, and Qingdao Yicai Wealth Management Ltd., in which Fideuram holds a 25% equity interest, are consolidated using the equity method. The financial statements used to prepare the consolidated financial statements are those prepared by the subsidiaries for the reference date 30 June 2018, adjusted where necessary to bring them into line with the Group's accounting policies. The financial statement data of companies operating outside the European Monetary Union are translated to euro applying the period-end exchange rates to balance sheet items and the average exchange rates for the period to income statement items. Any exchange rate differences arising from translations at said exchange rates are recognised in the valuation reserve.
Compared with the situation at 31 December 2017, the consolidation of the Fideuram Group no longer includes Fideuram Fiduciaria, following its merger with Siref Fiduciaria S.p.A., effective from 1 January 2018, and the addition of the Morval Vonwiller Group after the acquisition completed in the second quarter of 2018, as part of the project for foreign development of the Intesa Sanpaolo Private Banking Division.

THE TRANSITION TO IFRS 9

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

Regulatory provisions
On 1 January 2018, the new IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission with Regulation (EU) 2067/2016, replaced IAS 39, which governed the recognition and measurement of financial instruments until 31 December 2017.
IFRS 9 is divided into three distinct areas for the classification and measurement of financial instruments, their impairment and hedge accounting.
In the first area, IFRS 9 requires that the classification of financial assets be guided by the characteristics of the associated contractual cash flows and business model under which those assets are held. Under IFRS 9, financial assets are classified in three categories instead of the four categories envisaged under IAS 39, using the two aforementioned drivers. The three categories are: financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss. Financial assets may be recognised in the first two categories and then measured at amortised cost or at fair value through other comprehensive income only if it has been proven that they originate cash flows represented exclusively by payments of principal and interest ("solely payment of principal and interest" – SPPI). Equities are always measured in the third category and are measured at fair value through profit or loss, unless they are not held for trading and the entity irrevocably elects at initial recognition to present value changes in another comprehensive income reserve that will never be transferred to profit or loss even if the financial instrument is sold (Financial assets measured at fair value through other comprehensive income without recycling).
No substantial changes from IAS 39 are introduced for the financial liabilities. The only new requirement regards the accounting treatment of own credit risk. The new standard requires fair value change due to own credit risk on financial liabilities measured at fair value to be presented in other comprehensive income, unless this treatment leads to or amplifies a measurement or recognition inconsistency in net profit, and for the remaining amount of the fair value change of the liabilities to be recognised in profit or loss.
IFRS 9 introduces new impairment model for instruments measured at amortised cost and at fair value through other comprehensive income (other than equity instruments), replacing the incurred loss model envisaged under IAS 39 with an expected loss impairment model to obtain more timely recognition of credit losses in the income statement. IFRS 9 requires entities to recognise expected credit losses in the 12 months (Stage 1) after initial recognition of a financial instrument. However, the time horizon for calculating expected loss becomes the entire residual life of the asset when there has been any significant deterioration in the credit quality of the financial instrument since initial recognition (Stage 2) or if the financial instrument is impaired (Stage 3).

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

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

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

Implementation by Fideuram
In order to assess the impact that the adoption of IFRS 9 has had on the organisation and its financial reporting, Fideuram is taking part in an Intesa Sanpaolo Group project to ensure consistent implementation of the new financial reporting standard from 1 January 2018. After having obtained an in-depth understanding of the areas the standard will affect and to identify its quantitative and qualitative impacts, the application and organisational measures necessary for the effective organic adoption of the new financial reporting standard have been implemented.
The procedures for applying the Solely Payments of Principal and Interest (SPPI) test to contractual cash flows have been specified. Analyses have confirmed that the Group's entire portfolio of loans, receivables and bonds has passed the SPPI test.

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

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

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

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

EFFECTS OF FIRST-TIME ADOPTION OF IFRS9

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

Balance Sheet - Assets

(€m)

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

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

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

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

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

Balance Sheet - Liabilities

(€m)

IAS 39 IFRS 9	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 IFRS 9. To be thorough, only the reclassification of €148m in derivatives to the trading portfolio is shown, which had previously been classified as hedging instruments. Therefore, upon first-time adoption of IFRS 9, the hedging relationships were interrupted because they were tied to financial instruments recognised as assets on the balance sheet which have now been moved to financial assets measured at fair value through profit or loss.

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

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

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

Balance Sheet

(€m)

ASSETS	31.12.2017	EFFECT OF TRANSITION TO IFRS 9 CLASSIFICATION AND MEASUREMENT	 IMPAIRMENT	1.1.2018
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
90. Intangible assets	188			188
100. Tax assets	161	13		174
120 Other assets	1,045			1,045
TOTAL ASSETS	**38,731**	**73**	**(34)**	**38,770**

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

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

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

(€m)

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

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

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

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

MAIN FINANCIAL STATEMENT ITEMS

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

CLASSIFICATION CRITERIA FOR FINANCIAL ASSETS

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

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

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

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

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

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

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

financial assets whose management and performance are measured based on fair value.

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

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

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

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

Therefore, this item shows:

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

This item also consists of derivatives, recognised as financial assets held for trading, which are recognised as assets if their fair value is positive.
According to the general rules established by IFRS9 on the reclassification of financial assets (except for equity instruments, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for those financial assets.

Initial recognition of financial assets occurs at settlement date for debt securities and equity instruments, at disbursement date for loans and at trade date for derivative contracts.
Upon initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or revenues directly attributable to the instrument.
After initial recognition, the financial assets measured at fair value through profit or loss are carried at fair value. The effects of application of this measurement method are recognised in profit or loss.
Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets.

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

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

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

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

In particular, this item includes:

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

No reclassifications to other categories of financial assets are allowed, except when the entity modifies its own business model for the management of financial assets.

These financial assets are initially recognised at the settlement date for debt 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 IFRS 9, with consequent recognition in profit or loss of an adjustment to cover the expected losses. More specifically, for instruments classified as stage 1 (i.e., financial assets at origination and instruments for which there has not been a significant increase in credit risk since the initial recognition date), a 12-month expected loss is recognised on the initial recognition date and at each subsequent reporting date. For instruments classified as stage 2 (performing exposures for which there has been a significant increase in credit risk since the initial recognition date) and as stage 3 (credit-impaired exposures), a lifetime expected loss for the financial instrument is recognised. Equity instruments are not subject to the impairment process.

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

FINANCIAL ASSETS MEASURED AT AMORTISED COST

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

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

In particular, this item includes:

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

This category also includes the operating receivables connected with the performance of financial activities and services.

No reclassifications to other categories of financial assets are allowed, except when the entity modifies its own business model for the management of financial assets.

Initial recognition of the financial asset occurs at settlement date for debt securities and at disbursement date for loans. The assets are recognised at fair value upon initial recognition, inclusive of the transaction costs or income directly attributable to the instrument itself.

In particular, for loans, the disbursement date is usually the same as the date of signing of the contract. Should this not be the case, a commitment to disburse funds is made along the subscription of the contract, which will cease to exist upon disbursement of the loan. The loan is recognised on the basis of its fair value, which is equal to the amount disbursed plus the costs/income which can be directly linked with the individual loan.

After initial recognition, the financial assets examined here are measured at amortised cost using the effective interest rate method. This method is not used for assets measured at historic cost, whose short duration minimises the effect of discounting, for those without a definite maturity date and for revocable loans.

The accounting policies are strictly connected with inclusion of the instruments examined here in one of the three stages of credit risk envisaged in IFRS 9. The last of these (stage 3) covers non-performing financial assets and the remainder (stages 1 and 2) performing financial assets.

With regard to the accounting representation of the above measurement effects, the value adjustments for this type of asset are recognised in profit or loss:

- upon initial recognition, for an amount equal to the expected loss at 12 months;
- upon subsequent measurement of the asset, if the credit risk has not significantly increased from its initial recognition, according to the changes in the amount of the adjustments for expected losses over the following 12 months;
- upon subsequent measurement of the asset, if the credit risk has significantly increased from its initial recognition, according to the recognition of adjustments for expected losses over the entire remaining contractually envisaged life of the asset;
- on subsequent measurement of the asset, where – after a significant increase in credit risk has occurred since initial recognition – the increase is no longer "significant" due to the alignment of the cumulative value adjustments to take account of the change from a lifetime expected credit loss to a 12-month expected credit loss for the instrument.

If the analysed financial assets are performing, they are assessed to determine the adjustments to be recognised in the financial statements for each individual loan (or "tranche" of securities), according to the risk parameters represented by Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD). If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified

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

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

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

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

HEDGING

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

PROVISIONS FOR RISKS AND CHARGES TO COVER COMMITMENTS AND GUARANTEES

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

IMPAIRMENT MEASUREMENTS

Impairment of financial assets

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

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

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

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

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

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

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

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

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

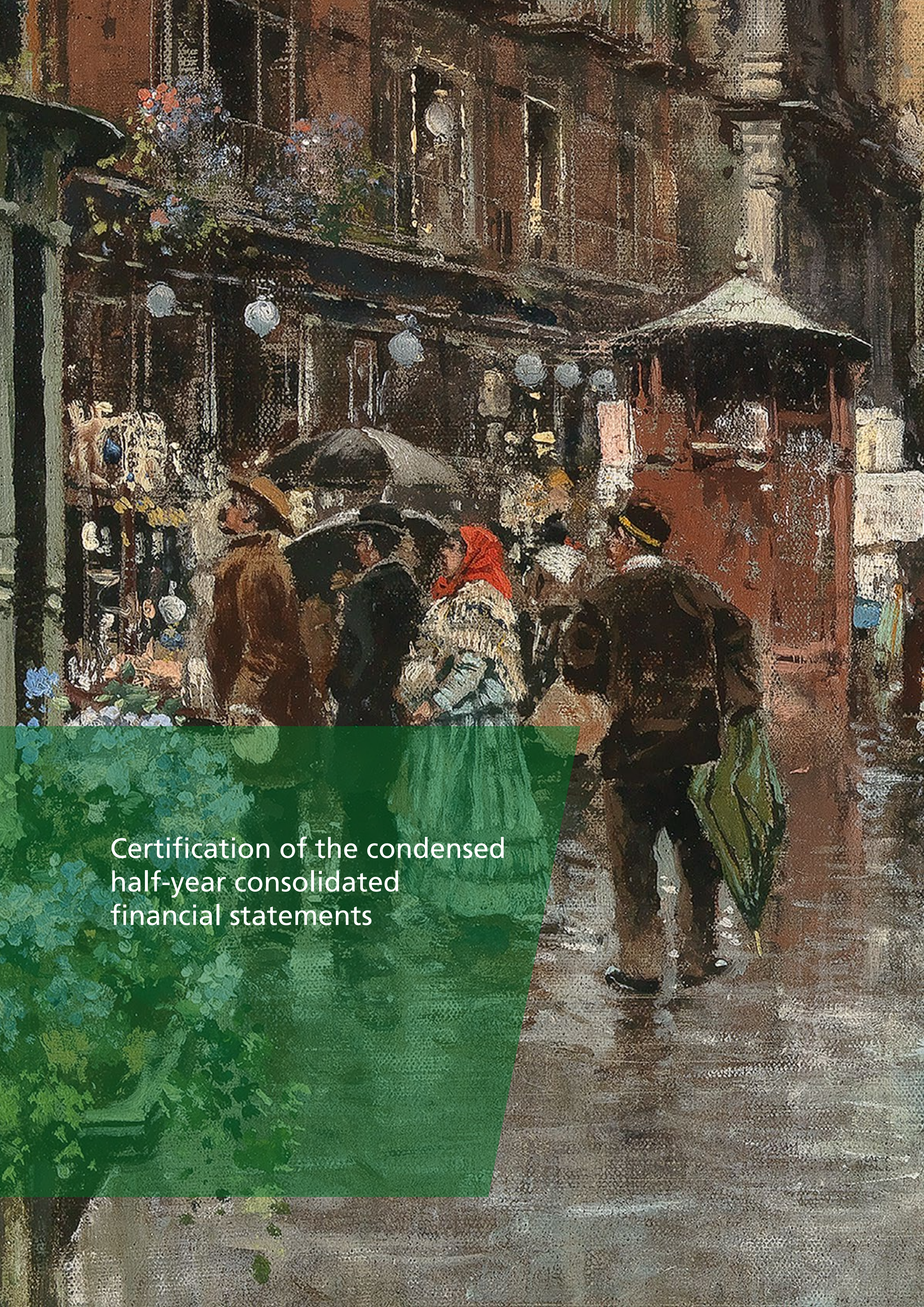
TRANSFERS OF FINANCIAL ASSETS DISCLOSURES

Certain supplemental information has to be provided in the year of first-time adoption of the provisions governing the classification and measurement of financial assets pursuant to IFRS 9. Accordingly, it is noted that the Group, upon first-time adoption of the new accounting standard, has reclassified €590m in bonds from the available-for-sale bonds portfolio to the portfolio of financial assets measured at amortised cost.

The table below shows the book value, fair value and effects on the Group's total comprehensive income of the reclassified bonds.

(€m)

TYPE OF FINANCIAL INSTRUMENT	SOURCE CATEGORY	DESTINATION CATEGORY	RECLASSIFICATION DATE	RESTATED BOOK VALUE AT 30.06.2018	FAIR VALUE AT 30.6.2018	GAINS/LOSSES WITHOUT TRANSFER IN SHAREHOLDERS' EQUITY (PRE-TAX)	INTEREST INCOME RECOGNISED IN THE PERIOD (PRE-TAX)
Debt securities	Financial assets available for sale	Financial assets measured at amortised cost	1.1.2018	621	556	(65)	11



Certification of the condensed half-year consolidated financial statements

Certification of the condensed half-year consolidated financial statements

1. The undersigned Paolo Molesini, as Managing Director and General Manager, and Paolo Bacciga, as Manager responsible for the preparation of the company accounts, of Fideuram - Intesa Sanpaolo Private Banking S.p.A., hereby certify, also taking account of the provisions of Article 154 bis, sub-paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998, that the consolidated financial statements are:
   - suitable for the characteristics of the Group, and
   - that the Group has fully applied the administrative and accounting procedures for preparing the condensed half-year consolidated financial statements during the first half of 2018.

2. The evaluation of the suitability and effective application of the administrative and accounting procedures for preparing the condensed half-year consolidated financial statements at 30 June 2018 was carried out using methodologies developed by Intesa Sanpaolo in line with the COSO framework and, for the IT part, COBIT, which are generally internationally accepted as reference frameworks for the internal audit system[1].

3. In addition, the undersigned also certify as follows:
   3.1 The condensed half-year consolidated financial statements at 30 June 2018:
      - have been prepared in accordance with the applicable international financial reporting standards recognised in the European Union pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
      - correspond to the accounting books and records,
      - give a true and fair view of the financial position and results of the group of companies included in the scope of consolidation.

   3.2 The interim directors' report contains a reliable analysis of the references to the important events that occurred in the first half of the financial year and their impact on the condensed half-year consolidated financial statements, together with a description of the principal risks and uncertainties for the remaining half of the financial year, as well as a reliable analysis of the information on significant transactions with related parties.

30 July 2018

Paolo Molesini
Managing Director and
General Manager

Paolo Bacciga
Manager responsible for the preparation
of the company accounts

1. The COSO Framework was developed by the Committee of Sponsoring Organizations of the Treadway Commission, a US body dedicated to improving the quality of company information by providing guidance on ethical standards and an effective system of corporate governance and organisation. The COBIT Framework - Control Objectives for IT and related technology - is a set of guidance materials developed by the IT Governance Institute, a US body that aims to develop and improve corporate standards in the IT sector.

Independent auditors' report

KPMG S.p.A.
Revisione e organizzazione contabile
Via Ettore Petrolini, 2
00197 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

Report on review of condensed interim consolidated financial statements

To the shareholder of
Fideuram – Intesa Sanpaolo Private Banking S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the Fideuram – Intesa Sanpaolo Private Banking Group, comprising the consolidated balance sheet, the consolidated income statement and the statements of consolidated comprehensive income, changes in equity and cash flows and notes thereto, as at and for the six months ended 30 June 2018. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Fideuram – Intesa Sanpaolo Private Banking Group as at and for the six months ended 30 June 2018 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Rome, 2 August 2018

KPMG S.p.A.

(signed on the original)

Giuseppe Scimone
Director of Audit

Schedules

Basis of preparation of the restated financial statements

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

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

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

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

Reconciliation statements of the official and restated financial statements

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

(€m)

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

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

(€m)

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

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

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

(€m)

	1ST HALF 2017 PUBLISHED	CHANGE IN SCOPE OF CONSOLIDATION (*)	1ST HALF 2017 RESTATED
10. Interest income and similar income	165	1	166
of which: interest income calculated with the effective interest method	*159*	*1*	*160*
20. Interest expense and similar expense	(76)	-	(76)
30. Net interest income	**89**	**1**	**90**
40. Fee and commission income	1,170	14	1,184
50. Fee and commission expense	(351)	(2)	(353)
60. Net fee and commission income	**819**	**12**	**831**
70. Dividends and similar income	-	-	-
80. Net profit (loss) on trading activities	5	2	7
90. Net profit (loss) on hedging derivatives	1	-	1
100. Net profit (loss) on sale or repurchase of:	9	1	10
a) financial assets measured at amortised cost	-	-	-
b) financial assets measured at fair value through other comprehensive income	9	1	10
c) financial liabilities	-	-	-
110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	2	-	2
a) financial assets and liabilities measured at fair value	-	-	-
b) other financial assets mandatorily measured at fair value	2	-	2
120. Total net interest and trading income	**925**	**16**	**941**
130. Net impairment for credit risk related to:	-	-	-
a) financial assets measured at amortised cost	-	-	-
b) financial assets measured at fair value through other comprehensive income	-	-	-
140. Gains/losses on contractual changes without cancellation	-	-	-
150. Operating income	**925**	**16**	**941**
160. Net insurance premiums	-	-	-
170. Other income/expense from insurance activities	-	-	-
180. Operating income from financing and insurance activities	**925**	**16**	**941**
190. Administrative expenses:	(393)	(13)	(406)
a) personnel expenses	(164)	(9)	(173)
b) other administrative expenses	(229)	(4)	(233)
200. Net provisions for risks and charges	(17)	1	(16)
a) commitments and guarantees	-	-	-
b) other net provisions	(17)	1	(16)
210. Depreciation of property and equipment	(1)	-	(1)
220. Amortisation of intangible assets	(10)	-	(10)
230. Other income/expense	114	-	114
240. Operating expenses	**(307)**	**(12)**	**(319)**
250. Profit (loss) on equity investments	6	-	6
260. Net fair value gains (losses) on property and equipment and intangible assets	-	-	-
270. Goodwill impairment	-	-	-
280. Gain (loss) on disposal of investments	-	-	-
290. Profit (loss) before tax from continuing operations	**624**	**4**	**628**
300. Income taxes for the period on continuing operations	(181)	(1)	(182)
310. Profit (loss) after tax from continuing operations	**443**	**3**	**446**
320. Profit (loss) after tax from discontinued operations	-	-	-
330. Net profit (loss) for the period	**443**	**3**	**446**
340. Net profit (loss) for the period attributable to non-controlling interests	-	(3)	(3)
350. Parent company interest in net profit (loss) for the period	**443**	**-**	**443**

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

Reconciliation of published consolidated income statement at 30 June 2018 and restated consolidated income statement at 30 June 2018

(€m)

	1ST HALF 2018 PUBLISHED	CHANGE IN SCOPE OF CONSOLIDATION (*)	1ST HALF 2018 RESTATED
10. Interest income and similar income	119	-	119
of which: interest income calculated with the effective interest method	*161*	-	*161*
20. Interest expense and similar expense	(41)	-	(41)
30. Net interest income	**78**	**-**	**78**
40. Fee and commission income	1,235	6	1,241
50. Fee and commission expense	(384)	(1)	(385)
60. Net fee and commission income	**851**	**5**	**856**
70. Dividends and similar income	-	-	-
80. Net profit (loss) on trading activities	3	1	4
90. Net profit (loss) on hedging derivatives	-	-	-
100. Net profit (loss) on sale or repurchase of:	21	-	21
a) financial assets measured at amortised cost	8	-	8
b) financial assets measured at fair value through other comprehensive income	13	-	13
c) financial liabilities	-	-	-
110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	(2)	-	(2)
a) financial assets and liabilities measured at fair value	-	-	-
b) other financial assets mandatorily measured at fair value	(2)	-	(2)
120. Total net interest and trading income	**951**	**6**	**957**
130. Net impairment for credit risk related to:	(1)	-	(1)
a) financial assets measured at amortised cost	(1)	-	(1)
b) financial assets measured at fair value through other comprehensive income	-	-	-
140. Gains/losses on contractual changes without cancellation	-	-	-
150. Operating income	**950**	**6**	**956**
160. Net insurance premiums	-	-	-
170. Other income/expense from insurance activities	-	-	-
180. Operating income from financing and insurance activities	**950**	**6**	**956**
190. Administrative expenses:	(410)	(6)	(416)
a) personnel expenses	(168)	(4)	(172)
b) other administrative expenses	(242)	(2)	(244)
200. Net provisions for risks and charges	(11)	-	(11)
a) commitments and guarantees	-	-	-
b) other net provisions	(11)	-	(11)
210. Depreciation of property and equipment	(2)	-	(2)
220. Amortisation of intangible assets	(7)	-	(7)
230. Other income/expense	120	-	120
240. Operating expenses	**(310)**	**(6)**	**(316)**
250. Profit (loss) on equity investments	4	-	4
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	**644**	**-**	**644**
300. Income taxes for the period on continuing operations	(190)	-	(190)
310. Profit (loss) after tax from continuing operations	**454**	**-**	**454**
320. Profit (loss) after tax from discontinued operations	-	-	-
330. Net profit (loss) for the period	**454**	**-**	**454**
340. Net profit (loss) for the period attributable to non-controlling interests	-	-	-
350. Parent company interest in net profit (loss) for the period	**454**	**-**	**454**

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

Basis of preparation of the reclassified financial statements

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

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

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

Reconciliation statements of the restated and reclassified financial statements

Reconciliation of consolidated balance sheet and reclassified consolidated balance sheet

(€m)

RECLASSIFIED BALANCE SHEET ITEMS - ASSETS	CONSOLIDATED BALANCE SHEET ITEMS - ASSETS	30.6.2018	1.1.2018
Financial assets measured at fair value through profit or loss		280	631
	Item 20. Financial assets measured at fair value through profit or loss	*280*	*631*
Financial assets measured at fair value through other comprehensive income		3,013	3,786
	Item 30. Financial assets measured at fair value through other comprehensive income	*3,013*	*3,786*
Loans and advances to banks		24,185	22,616
	Item 40. a) Financial assets measured at amortised cost - loans and advances to banks	*24,185*	*22,616*
Loans and advances to customers		11,382	10,339
	Item 40. b) Financial assets measured at amortised cost - loans and advances to customers	*11,382*	*10,339*
Hedging derivatives		1	5
	Item 50. Hedging derivatives	*1*	*5*
Equity investments		148	148
	Item 70. Equity investments	*148*	*148*
Property and equipment and intangible assets		295	271
	Item 90. Property and equipment	*81*	*82*
	Item 100. Intangible assets	*214*	*189*
Tax assets		158	175
	Item 110. Tax assets	*158*	*175*
Other assets		1,192	1,230
	Item 10. Cash and cash equivalents	*210*	*172*
	Item 130. Other assets	*982*	*1,058*
Total assets	**Total assets**	**40,654**	**39,201**

RECLASSIFIED BALANCE SHEET ITEMS - LIABILITIES	CONSOLIDATED BALANCE SHEET ITEMS - LIABILITIES	30.6.2018	1.1.2018
Due to banks		2,464	2,644
	Item 10. a) Financial liabilities measured at amortised cost – due to banks	*2,464*	*2,644*
Due to customers		33,175	30,845
	Item 10. b) Financial liabilities measured at amortised cost – due to customers	*33,175*	*30,845*
Financial liabilities held for trading		32	196
	Item 20. Financial liabilities held for trading	*32*	*196*
Hedging derivatives		815	833
	Item 40. Hedging derivatives	*815*	*833*
Tax liabilities		61	101
	Item 60. Tax liabilities	*61*	*101*
Other liabilities		1,214	1,154
	Item 80. Other liabilities	*1,162*	*1,101*
	Item 90. Provision for employment termination indemnities	*52*	*53*
Provisions for risks and charges		445	462
	Item 100. Provisions for risks and charges	*445*	*462*
Share capital and reserves		1,994	1,945
	Items 120, 150, 160, 170 Equity attributable to owners of the parent company	*1,994*	*1,945*
Equity attributable to non-controlling interests		-	150
	190. Equity attributable to non-controlling interests (+/-)	*-*	*150*
Net profit		454	871
	Item 200. Net profit (loss) for the period	*454*	*871*
Total liabilities	**Total liabilities and shareholders' equity**	**40,654**	**39,201**

Reconciliation of consolidated income statement and reclassified consolidated income statement

(€m)

RECLASSIFIED CONSOLIDATED INCOME STATEMENT ITEMS	CONSOLIDATED INCOME STATEMENT ITEMS	1ST HALF 2018	1ST HALF 2017
Net interest income		74	83
	Item 30. Net interest income	*78*	*90*
	- Item 60. (partial) Components of net fee and commission income related to net interest income.	*(4)*	*(7)*
Net profit (loss) on financial assets and liabilities		25	18
	Item 80. Net profit (loss) on trading activities	*4*	*7*
	Item 90. Net profit (loss) on hedging derivatives	*-*	*1*
	Item 100. Profit (loss) on sale or repurchase of	*21*	*10*
	Item 110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	*(2)*	*2*
	- Item 190. a) (partial) Return on Intesa Sanpaolo stock for remuneration and incentive plans	*-*	*(1)*
	- Item 200. (partial) Component of the returns on insurance policies for the Networks	*2*	*(1)*
Net fee and commission income		860	839
	Item 60. Net fee and commission income	*856*	*832*
	- Item 60. (partial) Components of net fee and commission income related to net interest income	*4*	*7*
Total net interest and trading income		**959**	**940**
Net impairment for credit risk		(1)	-
	Item 130. Net impairment for credit risk	*(1)*	*-*
Operating income		**958**	**940**
Personnel expenses		(167)	(162)
	Item 190. a) Personnel expenses	*(172)*	*(173)*
	- Item 190. a) (partial) Return on Intesa Sanpaolo stock for remuneration and incentive plans	*-*	*1*
	- Item 190. a) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*5*	*10*
Other administrative expenses		*(110)*	*(112)*
	Item 190. b) Other administrative expenses	*(244)*	*(233)*
	- Item 230. (partial) Recovery of indirect taxes	*121*	*115*
	- Item 190. b) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*4*	*2*
	- Item 190. b) (partial) Costs related to banking system	*9*	*4*
Depreciation and amortisation		(5)	(7)
	Item 210. Depreciation of property and equipment	*(2)*	*(1)*
	Item 220. Amortisation of intangible assets	*(7)*	*(11)*
	- Item 220. (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*4*	*5*
Operating expenses		**(282)**	**(281)**
Net provisions for risks and charges		(12)	(15)
	Item 200. Net provisions for risks and charges	*(10)*	*(16)*
	- Item 200. (partial) Component of the returns on insurance policies for the Networks	*(2)*	*1*
Profit (loss) on equity investments		4	6
	Item 250. Profit (loss) on equity investments	*4*	*6*
Other income (expense)		(1)	(1)
	Item 230. Other income/expense	*120*	*114*
	- Item 230. (partial) Recovery of indirect taxes	*(121)*	*(115)*
Profit (loss) before tax from continuing operations		**667**	**649**
Income taxes for the period on continuing operations		(198)	(189)
	Item 300. Income taxes for the period on continuing operations	*(191)*	*(182)*
	- Item 300. (partial) Tax impact on costs related to integration of Intesa Sanpaolo Private Banking	*(4)*	*(6)*
	- Item 300. (partial) Tax impact on costs related to the banking system	*(3)*	*(1)*
Expenses regarding the banking system (net of tax)		(6)	(3)
	- Item 190. b) (partial) Costs related to banking system	*(9)*	*(4)*
	- Item 300. (partial) Tax impact on costs related to the banking system	*3*	*1*
Non-recurring income (expenses) (net of tax)		(9)	(11)
	- Item 190. a) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*(5)*	*(10)*
	- Item 190. b) (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*(4)*	*(2)*
	- Item 220. (partial) Costs related to integration of Intesa Sanpaolo Private Banking	*(4)*	*(5)*
	- Item 300. (partial) Tax impact on costs related to integration of Intesa Sanpaolo Private Banking	*4*	*6*
Net profit (loss) for the period attributable to non-controlling interests		-	(3)
	Item 340. Net profit (loss) for the period attributable to non-controlling interests	*-*	*(3)*
Net profit	**Item 350. Parent company interest in net profit (loss) for the period**	**454**	**443**

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(at 30 June 2018)

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Contacts
Websites: www.fideuram.it; www.intesasanpaoloprivatebanking.it
Fideuram Customer Freephone number: 800.546.961
Fideuram online Customer Freephone number: 800.099.300
Email: DAB-BilancioconsolidatoBF@fideuram.it

Graphic Design and Development:

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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.

FIDEURAM
INTESA SANPAOLO PRIVATE BANKING

Turin - Registered Office
Piazza San Carlo, 156 - 10121 Turin
Tel. 011 5773511 - Fax 011 548194

Milan - Permanent Secondary Office
Corso di Porta Romana, 16 - 20122 Milan
Tel. 02 85181 - Fax 02 85185235

www.fideuram.it