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

Interim financial report at 30 June 2018 of the Intesa Sanpaolo Vita Insurance Group

covering the subsidiaries only

Insurance parent
INTESA SANPAOLO VITA S.p.A.
Registered office: Corso Inghilterra 3 – 10138 Turin
Administrative offices: Viale Stelvio 55/57 – 20159 Milan
Turin company registration no. 02505650370 – Fully paid-up share capital €320,422,508.00
Included in the register of insurance and reinsurance companies as no. 1.00066
Parent of the Intesa Sanpaolo Vita Insurance Group, included in the register of insurance groups as no. 28
Managed and coordinated by Intesa Sanpaolo S.p.A.

Contents

Directors' report

Company bodies

Board of directors

Chairman	Luigi Maranzana
Deputy chairman	Elio Fontana
Managing director	Nicola Maria Fioravanti
Directors	Giuseppe Attanà
	Paolo Baessato
	Anna Maria Fellegara
	Andrea Panozzo
	Eugenio Rossetti
	Anna Torriero

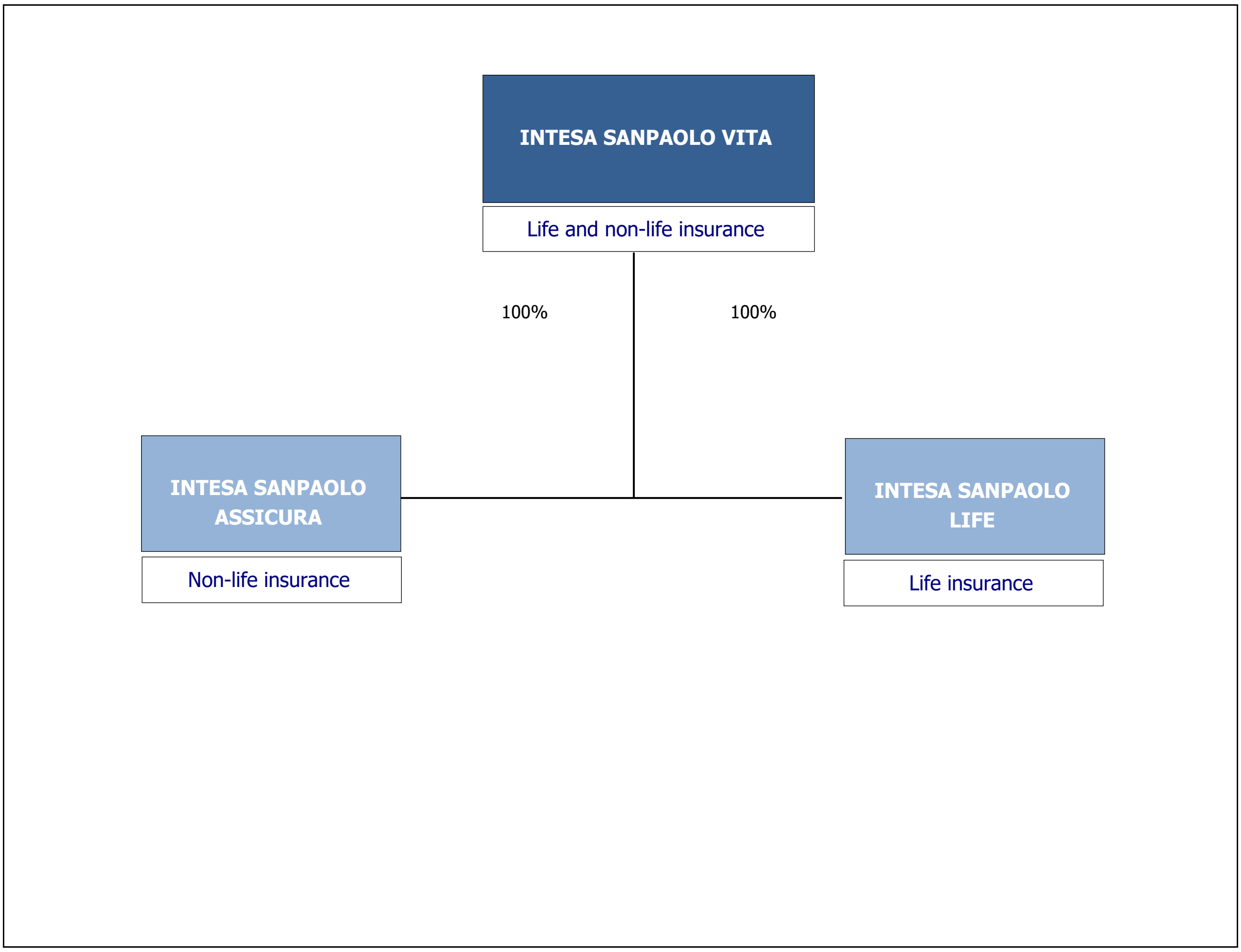
Board of statutory auditors

Chairman	Massimo Broccio
Standing statutory auditors	Paolo Mazzi Riccardo Ranalli
Alternate statutory auditors	Eugenio Mario Braja Patrizia Marchetti

Independent auditors

KPMG S.p.A.

Group structure



Key consolidated figures

(millions €)

Operational figures	30.06.2018	30.06.2017	Change	%
Gross collection	8,590.1	8,973.4	-383.4	-4.3%
- of which Traditional products	*2,699.4*	*2,528.2*	*171.2*	*6.8%*
- of which Unit Linked products	*5,603.1*	*6,184.9*	*-581.8*	*-9.4%*
- of which Pension products	*287.6*	*260.3*	*27.3*	*10.5%*
Premiums of Non-life business	248.3	233.2	15.1	6.5%
Life new business	8,515.0	8,894.8	-379.7	-4.3%
Claims paid	-6,691.7	-5,975.7	716.0	12.0%
Net inflow	1,898.4	2,997.7	-1,099.3	-36.7%
Balance sheet figures	**30.06.2018**	**31.12.2017**		
Investments	123,977.1	124,333.0	-355.9	-0.3%
Insurance provisions	73,426.9	76,452.9	-3,026.0	-4.0%
- Life insurance contracts	7,943.4	7,740.8	202.6	2.6%
- Life financial contracts with DPF	62,313.8	63,600.5	-1,286.7	-2.0%
- Shadow accounting provision	2,434.9	4,433.2	-1,998.3	-45.1%
- Non-life insurance policies	734.8	678.4	56.3	8.3%
Financial liabilities	48,308.7	45,790.5	2,518.2	5.5%
- Unit-linked financial policies	45,912.1	43,442.1	2,470.1	5.7%
- Index-linked financial policies	0.8	0.8	0.0	-2.1%
- Subordinated liabilities	1,968.6	1,926.6	42.0	2.2%
- Other liabilities	427.2	421.0	6.2	1.4%
Shareholders' equity	4,881.4	4,818.2	63.2	1.3%
Income Statement	**30.06.2018**	**30.06.2017**		
Net earned premiums	3,145.9	2,932.4	213.5	7.3%
Net insurance benefits and claims	-3,443.5	-3,287.5	156.0	4.7%
Net fee and commission income	123.4	95.8	27.7	28.9%
Net income from financial instruments and investments	1,068.0	1,202.0	-134.0	-11.1%
Commissions and other acquisition costs	156.9	150.6	6.2	4.1%
Profit before taxes	506.9	474.3	32.6	6.9%
Net income	379.2	345.4	33.8	9.8%
Ratios	**30.06.2018**	**30.06.2017**		
Expense ratio	31.0%	31.9%	-0.9%	-2.8%
Loss ratio	26.6%	28.9%	-2.3%	-8.0%
Gross collection/insurance provisions and financial liabilities	7.1%	7.7%	-0.6%	-8.4%
Combined ratio	57.6%	60.7%	-3.1%	-5.1%
Net fees and commissions/financial liabilities (Index & Unit Linked)	0.3%	0.2%	0.0%	21.9%

Reclassified interim consolidated financial statements

Reclassified statement of financial position and income statement

(millions €)

	30.06.2018	31.12.2017	Change	
ASSETS				
Intangible assets	**643.2**	**639.9**	**3.2**	**0.5%**
Tangible assets	**1.4**	**1.6**	**-0.2**	**-10.7%**
Amount ceded to reinsurers from insurance provisions	**16.4**	**15.8**	**0.6**	**4.1%**
Investments	**123,977.1**	**124,333.0**	**-355.9**	**-0.3%**
- Lands and buildings (investment properties)	-	-	-	n.a.
- Investments in subsidiaries, associates and joint ventures	2.2	2.3	-0.1	-6.1%
- Held-to-maturity investments	-	-	-	n.a.
- Loans and receivables	19.2	19.3	-0.2	-0.9%
- Available-for-sale financial assets	72,715.3	75,456.3	-2,741.0	-3.6%
- Financial assets at fair value through profit or loss	51,240.6	48,855.1	2,385.4	4.9%
Receivables	**270.9**	**365.6**	**-94.7**	**-25.9%**
Other assets	**2,833.9**	**2,745.0**	**88.9**	**3.2%**
Cash and cash equivalents	**619.6**	**768.1**	**-148.5**	**-19.3%**
Total assets	**128,362.6**	**128,869.1**	**-506.5**	**-0.4%**
LIABILITIES				
Shareholders' equity	**4,881.4**	**4,818.2**	**63.2**	**1.3%**
- attributable to the Group	4,881.4	4,818.2	63.2	1.3%
- attributable to minority interests	-	-	-	n.a.
Other provisions	**13.6**	**13.0**	**0.6**	**4.5%**
Insurance provisions	**73,426.9**	**76,452.9**	**-3,026.0**	**-4.0%**
- Life insurance products	7,943.4	7,740.7	202.6	2.6%
- Life financial products with DPF	62,313.8	63,600.5	-1,286.7	-2.0%
- Shadow accounting provision	2,434.9	4,433.2	-1,998.3	-45.1%
- Non-life insurance policies	734.8	678.4	56.3	8.3%
Financial liabilities	**48,308.7**	**45,790.5**	**2,518.2**	**5.5%**
- Index-linked financial policies	0.8	0.8	-0.0	-2.1%
- Unit-linked financial policies	45,912.1	43,442.1	2,470.1	5.7%
- Products with specific assets	-	-	-	n.a.
- Subordinated liabilities	1,968.6	1,926.6	42.0	2.2%
- Other liabilities	427.2	421.0	6.2	1.5%
Payables	**779.7**	**743.3**	**36.4**	**4.9%**
Other liabilities	**952.4**	**1,051.2**	**-98.9**	**-9.4%**
Total liabilities	**128,362.6**	**128,869.1**	**-506.5**	**-0.4%**

(millions €)

	30.06.2018	30.06.2017	Change	
Net earned premiums	**3,145.9**	**2,932.4**	**213.5**	**7.3%**
- Life business	2,951.1	2,757.6	193.6	7.0%
- Non-life business	194.8	174.9	19.9	11.4%
Net insurance benefits and claims	**-3,443.5**	**-3,287.5**	**-156.0**	**4.7%**
Net fee and commission income	**123.4**	**95.8**	**27.6**	**28.9%**
Net income from financial instruments and investments	**1,068.0**	**1,202.0**	**-134.0**	**-11.1%**
- Net income from financial instruments at fair value through profit or loss	-64.3	41.5	-105.8	-254.9%
- Other income	1,132.3	1,160.5	-28.2	-2.4%
Acquisition and administration costs	**-221.5**	**-217.3**	**-4.2**	**1.9%**
- Commissions and other acquisition costs	-156.9	-150.6	-6.2	4.1%
- Other costs	-64.6	-66.7	2.1	-3.1%
Other revenues and expenses	**-165.4**	**-251.1**	**85.8**	**-34.1%**
Profit before taxes for the period	**506.9**	**474.3**	**32.6**	**6.9%**
- Income taxes	-127.7	-128.9	1.2	-0.9%
Consolidated profit after taxes	**379.2**	**345.4**	**33.8**	**9.8%**
Loss from discontinued operations	**-**	**-**	**-**	**n.a.**
Consolidate profit	**379.2**	**345.4**	**33.8**	**9.8%**
- attributable to the Group	379.2	345.4	33.8	9.8%

Statement of comprehensive income

	30.06.2018	30.06.2017
		(thousands €)
CONSOLIDATED NET PROFIT (LOSS) FOR THE PERIOD	**379,196**	**345,436**
Other items of income after taxes without reclassification to profit or loss	**-2,559**	**73**
Share of other comprehensive income of associates	-	-
Reserve for revaluation model on intangible assets	-	-
Reserve for revaluation model on tangible assets	-	-
Results of discount operations	-	-
Acturial gains or losses arising from defined benefits plan	46	-
Other items	-2,605	73
Other items of income after taxes with reclassification to profit or loss	**-312,787**	**-87,354**
Foreign currency translation differences	-	-
Reserve for unrealized gains and losses on available for sale financial assets	-312,820	-87,712
Net unrealized gains and losses on cash flows hedging derivatives	-	358
Net unrealized gains and losses on hedge of a net investment in foreign operations	-	-
Share of other comprehensive income of associates	-	-
Results of discount operations	-	-
Other items	34	-
Other comprehensive income	**-315,345**	**-87,281**
Total comprehensive income	**63,851**	**258,155**
Of which attributable to the group	**63,851**	**258,155**
Of which from minority interest	**-**	**-**

Statement of changes in equity

(thousands €)

		Amount as of 31.12.2016	Change in Closing Balances	Allocation	Reclassification adjustents to income statement	Transfers	Change in Profit sharing	Amount as of 30.06.2017
Shareholders' equity attributable to the Group	Share capital	320,423	-	-		-		320,423
	Other equity instruments	-	-	-		-		-
	Capital Reserves	1,328,097	-	-		-		1,328,097
	Revenue reserves and other reserves	1,798,568	-	639,165		-	-	2,437,733
	(Own shares)	-	-	-		-		-
	Result for the period	638,710	-	-293,274		-		345,436
	Other comprehensive income	479,614	-	431	-18,109	-69,603	-	392,333
	Total attributable to the Group	**4,565,412**	**-**	**346,322**	**-18,109**	**-69,603**	**-**	**4,824,022**
Shareholders' equity attributable to minority interests	Shareholder capital and reserves	-	-	-		-	-	-
	Result for the period	-	-	-		-		-
	Other comprehensive income	-	-	-	-	-	-	-
	Total attributable to minority interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,565,412**	**-**	**346,322**	**-18,109**	**-69,603**	**-**	**4,824,022**

(thousands €)

		Amount as of 31.12.2017	Change in Closing Balances	Allocation	Reclassification adjustents to income statement	Transfers	Change in Profit sharing	Amount as of 30.06.2018
Shareholders' equity attributable to the Group	Share capital	320,423	-	-		-		320,423
	Other equity instruments	-	-	-		-		-
	Capital Reserves	1,328,097	-	-		-		1,328,097
	Revenue reserves and other reserves	2,182,342	-	586,218		220	-	2,768,780
	(Own shares)	-	-	-		-		-
	Result for the period	587,119	-	-207,923		-		379,196
	Other comprehensive income	400,214	-	-14,682	-19,488	-281,175	-	84,869
	Total attributable to the Group	**4,818,195**	**-**	**363,613**	**-19,488**	**-280,955**	**-**	**4,881,365**
Shareholders' equity attributable to minority interests	Shareholder capital and reserves	-	-	-		-	-	-
	Result for the period	-	-	-		-		-
	Other comprehensive income	-	-	-	-	-	-	-
	Total attributable to minority interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,818,195**	**-**	**363,613**	**-19,488**	**-280,955**	**-**	**4,881,365**

Statement of cash flows (indirect method)

		(thousands €)
	30.06.2018	30.06.2017
PROFIT (LOSS) BEFORE TAXES FOR THE PERIOD	**506,889**	**474,312**
Change in non-cash items	**-2,897,110**	**-1,595,708**
Change in non-life provision from unearned premium	48,426	54,662
Change in non-life provision for outstanding claims and other insurance provisions	6,915	2,279
Change in mathematical provisions and other life insurance provisions	-3,394,768	-2,190,931
Change in deferred acquisition costs	-	-
Change in provisions	592	-1,183
Non-cash income and expenses from financial instruments, investment property and equity investments	502,088	545,644
Other expenses	-60,363	-6,179
Change in receivables and payables generated by operating activities	**611**	**-557.865**
Change in receivables and payables on direct insurance and reinsurance operations	-2,904	14,806
Change in other receivables and payables	3,515	-572.671
Income taxes paid	**-127,693**	**-128,876**
Net cash generated/absorbed by cash items related to investment and financing activity	**-361,524**	**-527.680**
Financial liabilities related to investment contracts	2,518,201	4.736.204
Payables to banks and customers	-	-
Loans and receivable from banks and customers	-	-
Other financial instruments at fair value through profit and loss	-2,879,725	-5.263.884
CASH FLOW FROM OPERATING ACTIVITY	**-2,878,827**	**-2.335.817**
Net cash generated/absorbed by lands and buildings (investment property)	-	-
Net cash generated/absorbed by equity investments in subsidiaries, associates and joint ventures	141	-
Net cash generated/absorbed by loans and receivable	167	1.354
Net cash generated/absorbed by held to maturity investments	-	-
Net cash generated/absorbed by available for sale financial assets	2,733,195	1,443,154
Net cash generated/absorbed by tangible and intangible assets	-	-
Other cash generated/absorbed by investment activity	-	-
CASH FLOW FROM INVESTING ACTIVITY	**2,733,503**	**1.444.508**
Net cash generated/absorbed by Group's share capital and equity instruments	-3,206	886
Net cash generated/absorbed by own shares	-	-
Dividends payment	-	-
Net cash generated/absorbed by minority interests' share capital and reserves	-	-
Net cash generated/absorbed by subordinated liabilities and participative financial instruments	-	-
Other cash generated/absorbed by other financial liabilities	-	-
CASH FLOW FROM FINANCING ACTIVITY	**-3,206**	**886**
Effect of foreign-exchange differences on cash and cash equivalents	**-**	**-**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	768,108	1,495,047
INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	**-148,530**	**-890.423**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	619,578	604.624

Reference context and group performance

THE ECONOMIC AND FINANCIAL CONTEXT

The macroeconomic scenario

The long period of global economic growth continued at a moderate pace in the first half of 2018. Economic indicators showed signs of a weakening, particularly in the first quarter, and growth in global trade flows also slowed significantly. Growing concerns have arisen due to the protectionist offensive by the United States. Safeguard duties have already been imposed on steel and aluminium imports, as well as a wider range of Chinese imports. In addition, the Trump administration is threatening to raise barriers against motor vehicle imports, as well as against an even wider range of goods purchased from China, and is also calling into question multilateral dispute settlement systems such as the WTO. The countries affected reacted with retaliatory measures, in an escalation that in the long term could accentuate the slowdown in global economic growth and put a brake on business investment. Negotiations on the UK's exit from the European Union did not record any decisive developments, which means the risk of a disorderly UK exit from 29 March 2019, with negative effects on trade in Europe, has not yet been averted.

For the time being, the US economy is experiencing robust growth. In the first quarter, GDP growth rose to 2.8% yoy and is expected to have surged again in the second quarter based on monthly indicator trends. Domestic demand is being driven by the short-term effects of the tax reform and continued favourable financial conditions. Unemployment fell to below 4%, but signs of wage pressure were still confined to the more highly qualified professions. Inflation returned to above 2%, but is still far from being a concern for the Federal Reserve. The central bank has continued to gradually increase official rates, raising twice its Fed funds target rate by a total of 50 basis points and continuing to reduce the re-investment of maturities in its securities portfolio.

The slowdown in first quarter growth was quite sharp in the Eurozone, also affected by weather-related and calendar effects. The annual growth rate probably slowed in the second quarter (2.5% yoy in the first quarter) although economic forecasts continue to show growth above 2%. At this pace, positive labour market developments are continuing to reduce unemployment, which fell to 8.4% in May. Inflation rose to 2%, driven up by higher energy prices, without which, however, it remained limited to 1.4%. In June, the European Central Bank announced its intention to end its asset purchase programme (APP) at the end of December, after a reduction in the fourth quarter to €15 billion per month. The ECB also indicated that it expects official rates to remain unchanged through the summer 2019. For the time being, short-term interest rates are still negative. The 10-year Bund yield peaked at 0.76% in February, when the market was already expecting official interest rate rises in spring 2019. Subsequently, medium- and long-term market rates fell back to their December 2017 lows.

The trend in German interest rates also reflects the significant financial tensions that characterised Italian debt in the two-month period of May-June, coinciding with the negotiations for the formation of the new government. In May, spreads with German debt rose sharply on all maturities, peaking at 290 basis points for the 10-year maturity period. On 29 May, in conjunction with month-end auctions characterised by low demand, short-term spreads were even higher than long-term spreads, which is typical in exceptional periods of financial stress. Financial tensions reflected investor concerns about the new government's willingness to keep public debt on a downward path. The Minister of the Economy and Finance's reassurances that debt reduction was still a priority subsequently brought risk premiums down from the highs reached, but levels remain well above the January-April average and are consistent with a risk of a downgrade in the country's credit rating.

Italy's real economy continued to grow, but the GDP increase slowed to 1.4% yoy in the first quarter. In early 2018, industrial production contracted, with business confidence indicators having fallen from their peak in this cycle and international trade having suffered a sharp slowdown. Also in Italy, these dynamics may be partly distorted by temporary factors. Economic surveys forecast the further slowdown that occurred in the second quarter. Industrial production, which grew by 2.1% yoy in May, also contributed little to GDP growth in the second quarter. The current pace of economic growth has been sufficient to ensure a further fall in the unemployment rate, to 10.7% in May. There was a rise in inflation in the first half, particularly for high-frequency goods and energy, but the year-on-year change in the consumer price index was still small (1.4% in June).

On the foreign exchange markets, the euro initially strengthened against the dollar, reaching highs of 1.2508 in February and then fell back to levels even lower than those at the beginning of the year, between 1.15 and 1.18. From March to April, the euro also temporarily strengthened against the Swiss franc, reaching almost 1.20. It then returned to its level at the beginning of the year, closing the first half at 1.156.

The financial markets in the first half of 2018

In the international equity markets, the first half of 2018 saw a progressive increase in volatility, in a situation of greater investor aversion to risk, and with performances of the indices either unchanged or negative as a whole compared to the beginning of the year, with a few exceptions.

The factors driving the stock market in the first half included the resilience of the growth in the advanced economies, although numerous indicators in the Eurozone showed that the economic growth may have already gone past its peak. In addition, the recent seasons of company results in the Eurozone (4Q17 and 1Q18) provided positive signals to investors, with several results above expectations and the frequent confirmation or improvement of guidance for the current year.

Exchange rates and commodity prices, particularly for energy, had a negative impact. The intensification of tensions in international trade between the United States and China, and the consequent imposition of duties, also put a brake on economic growth, which is likely to continue in the second half of the year. Political tensions resulting from the formation of the new government in Italy further accentuated volatility in the last few weeks of the semester, triggering a correction in share prices, which was more marked in the financial sector.

The Euro Stoxx index closed the half year down by 2.2%, the performance of the CAC 40 remained substantially flat (+0.2%) at the end of the period, while the performance of the Dax 30 was below the main Eurozone benchmarks (-4.7%), in line with the IBEX 35, which fell by 4.2%. Outside the Eurozone, the Swiss SMI market index went sharply down (-8.2%), while the United Kingdom's FTSE 100 index decreased slightly at the end of the half year (-0.7%).

In the US equity market, the S&P 500 index posted an increase of +1.7%, while the Nasdaq Composite technology stocks index performed even better at +8.8%. The main equity markets in Asia went negative: the Nikkei 225 index closed the half year at -2.0%, while the Chinese benchmark index SSE A-Share fell even further (-13.9%).

The Italian stock market recorded a slightly negative performance at the end of the period, but with high volatility during the half year, particularly in the banking sector (which represents 24% of the FTSE MIB index). During the period, there were positive signs regarding the trend of company profits for 2018, offset by growing uncertainty following the general elections held in March.

The FTSE MIB index ended the first half of 2018 down slightly (-1.0%), after recording a peak of +12.3% on 7 May, and the FTSE Italia All Share index showed a similar result (-1.5%). After underperforming in the first months of the year, mid-cap stocks closed the gap with the main index: the FTSE Italia STAR ended the period up slightly (+0.5%).

European corporate markets ended the first half of 2018 negatively, with risk premiums (measured as asset swap spreads) widening sharply compared to the end of 2017, and investment grade (IG) securities performing worse than riskier (HY) ones. Expectations of future moves by the European Central Bank, with the anticipated start of the normalisation phase of its monetary policy, continued to be among the main drivers of the markets, in addition to new risk factors linked to the evolution of the political situation in Italy and of US trade policies.

After a positive beginning of the year and in line with 2017, from February the markets showed a progressive widening of spreads, which continued until the end of the period, with high volatility and sporadic short periods of renewed purchases by traders, which however did not change the underlying negative trend.

In terms of performance, the spread on IG securities has broadened by around 70% since the start of 2018, also due to their greater sensitivity to risk-free interest rates, while HY securities closed the first six months with a widening of around 40%. The very small spreads recorded at the beginning of the year contributed to sharpen the negative performance. At sector level, financial securities showed greater weakness than industrial ones, probably due to a closer link between banks and country risk, especially in Italy, as well as the lack of technical support provided by the ECB's Corporate Sector Purchase Programme (CSPP). In this regard, according to ECB data, on 29 June the corporate bonds held by the central bank amounted to approximately

€162 billion.

As regards the primary market, there were less issues in the first six months of 2018 than in the same period of the previous year. The performance in the semester was characterised by high volumes at the beginning of the year, with issuers willing to anticipate probable moves by the ECB, while the increase in volatility and rates in the final months of the period turned into a more wait-and-see approach by companies, with the postponement of some issues also already having been announced.

The emerging economies and financial markets

In the first quarter of 2018, the emerging economies continued on a path of strong growth on average. GDP increase, for a sample covering 75% of emerging countries, was 4.6% on an annual basis compared to 3.9% in the first quarter of 2017 and 4.3% in the previous quarter. Growth was driven by the significant acceleration in the commodity exporting countries, particularly in the oil exporting countries of the CIS, MENA and Sub-Saharan Africa areas (with Russia, Saudi Arabia and Nigeria coming out of recession). The Asian economies in turn contributed to the global economic growth, keeping their pace in line with 2017 (close to 7%), while Latin America showed some signs of relative weakness, partly due to uncertainties over the economic policy pursued in some major countries (Brazil, Mexico, Argentina and Venezuela).

In the countries where ISP subsidiaries are based, year-on-year GDP growth for the first quarter of 2018 slowed in several countries, compared to the particularly strong growth in the fourth quarter of 2017. The slowdown involved both the CEE countries (Slovenia went from 6% in the fourth quarter of 2017 to 4.6% in the first quarter of 2018 and the Czech Republic from 5.1% to 4.5%) and the SEE countries (Romania went from 6.7% to 4%, respectively, in the two quarters), which overall remained above the long-term average. In the SEE area, GDP growth accelerated in Serbia (from 2.4% to 4.6%), with a double-digit increase (over 20%) in the construction sector. In the CIS countries, the economy accelerated both in Russia (from 0.9% to 1.5%) and, in particular, in Ukraine (from 2.2% to 3.1%). Egypt's GDP continued to grow strongly (+5.4%).

In the emerging countries, inflationary pressures remained modest overall, but significantly higher in some countries. For the sample covering 75% of the emerging markets, the year-on-year inflation rate fell from 4% in December 2017 to 3.5% in May 2018, while it rose in Argentina to 26.4% in May and in Turkey to 15.4% in June. In the countries where ISP subsidiaries are based, inflation, while remaining within the target bands of the central banks, rose steadily in the CEE/SEE area, driven by energy prices, wage growth and strong domestic demand. In contrast, inflation fell again in Russia, to 2.4% in May, well below the central bank's target. Due to the weakening of forces linked to the past depreciation of the exchange rate, year-on-year inflation also slowed in Ukraine and Egypt, from 13.7% to 9.9% and from 21.4% to 14.4% between December 2017 and June 2018, respectively, although in Egypt there was an increase in June due to tariff increases and cuts in subsidies.

In the first half of 2018, some emerging country central banks raised their key interest rates. These measures were aimed at counteracting depreciation pressures on local currencies due to the strength of the dollar and/or inflationary pressures (as in Argentina and Turkey). Interest rates also rose in countries with a dollar-based exchange rate regime, such as the Gulf Cooperation Council (GCC) group, which followed the Fed's restrictive action, and some Asian countries (India, Indonesia, the Philippines and Malaysia), due to the increase in core inflation. China left interest rates unchanged, but reduced its minimum reserve requirement to support credit demand.

In the countries where ISP subsidiaries are based, monetary policy remained accommodative in all the CEE/SEE countries, except for the Czech Republic and Romania, where the rise in inflation had already prompted central banks to take restrictive action, with repeated increases in key interest rates from 0.05% last August to 1% in June, and from 1.75% in January to 2.50% in May, respectively. However, in the first half of 2018, interest rates were cut again by 25 basis points in Albania and 50 basis points in Serbia. Outside the CEE/SEE area, there was a reduction in key interest rates in Russia, where inflation fell below target, and in Egypt, as previous inflationary pressures gradually eased. On the other hand, concerns about the possible negative effects of the freezing of IMF support led the Ukrainian central bank to raise its key interest rate (now at 17%).

The MSCI Emerging Markets Index fell by 4% in the first half of 2018, with weaker performance than both the Euro Stoxx and the S&P USA Index. The downward pressure came mainly from some Asian markets

(Shanghai -13.9% and Jakarta -8.8%) and Latin America markets (Sao Paulo -4.8% and Buenos Aires -13.4%). The further rise in crude oil prices provided limited support to the oil markets (only Saudi Arabia’s index recorded a positive performance of +15.4%), while negative valuations prevailed due to the rise in dollar rates, continued geopolitical tensions and the worsening of the domestic financial situation.

With regard to the countries where ISP subsidiaries are based, in the CIS area the positive impact of the recovery in hydrocarbon prices was offset by concerns about relations with western countries, with the Moscow index remaining substantially stable and strong GDP growth driving the Kiev index (+6%). The Egyptian stock market also benefited from the GDP growth, gaining almost 9% in the first six months of 2018. However, declines prevailed in the CEE and SEE markets, with particularly sharp falls in Poland (-12.2%) and Hungary (-8.3%). On the contrary, the index rose by 10% in Slovenia.

On the foreign exchange markets, the US dollar appreciated by 5.3% against a basket of the main emerging currencies (OITP - Other Important Trading Partners Index). The strengthening of the US dollar reflects the negative effects of the rise in US dollar exchange rates with countries with large current account deficits to be financed (Argentina, Turkey and South Africa, among others), the aggressive policy pursued by the US administration on duties, and concerns about a populist shift in the management of economic policy by some new administrations (Brazil and Mexico).

In the countries where ISP subsidiaries are based, despite the further rise in oil prices, the Russian rouble depreciated by 5% against the dollar, impacted by new sanctions from Western countries, while the Ukrainian hryvnia appreciated (+6.2%), although the country did not obtain new instalments of the IMF loan. The high premium over dollar rates and the positive economic situation kept the EGP/USD exchange rate stable (at around 17.5). In Central and South-Eastern Europe, the performance of the currencies of the SEE countries against the US dollar substantially reflected the performance of the euro, which depreciated by almost 3% against the dollar, while the currencies of the CEE countries recorded large losses, which were particularly sharp for the Hungarian forint (-9.1%), the Polish zloty (-7.7%) and the Czech koruna (-4.8%), also as a result of depreciation against the euro.

In the first half of 2018, there was a general increase in the risk premium for investment in emerging markets. The EMBI+ average spread in emerging markets rose by 80 basis points to 408 at the end of June. With regard to the changes in the CDS spread, in the countries with ISP subsidiaries, these involved the CIS countries, particularly Ukraine (spread +70 basis points to 440 basis points), and Egypt (spread +50 basis points to 408 basis points). In the CEE/SEE countries, however, the spread narrowed in Serbia (-20 basis points) and Hungary (-10 basis points), whereas there were no significant changes in the other countries.

Outlook for 2018

The growth phase of the global economy is expected to extend to the rest of the year, encouraging the central banks to further reduce their monetary stimulus measures and pushing the rate curves to rise. On the US dollar curve, the movement will mainly affect short-term maturities, while in Europe medium- and long-term maturities may increase. Very short-term rates will remain unchanged and negative on the euro.

Some economic uncertainties, such as those related to the financial exuberance in China, in addition to the political uncertainties also related to the unpredictability of the Trump administration and its protectionist tendencies, are still present. Negotiations for the UK's exit from the European Union have entered a crucial phase and their failure could increase the volatility of the sterling, although it is in the interests of the parties to reach an agreement that avoids a disorderly exit.

In general, European economic growth seems set to slow down, but without any short-term recessionary risks. Uncertainty about Italian budgetary policies could fuel further turbulence in the financial markets, and in the domestic markets in particular. There may be a further significant widening of risk premiums on Italian debt if the fiscal package does not meet the condition of ensuring a decrease in the debt-to-GDP ratio. However, if the government does ensure a reduction in the debt-to-GDP ratio and continues the fiscal consolidation, risk premiums could start to fall again. In any event, the growth of the Italian economy has probably surpassed its peak and could slow down again in the coming quarters.

In 2018, GDP growth in the emerging economies is expected to continue at a strong pace, but differentiated by area. Compared to substantially unchanged growth in Asia, a significant acceleration is expected in the commodities exporting countries of MENA (Middle East and North Africa), of the CIS Group and of Sub-Saharan Africa, where the recovery in energy prices has not only reduced the need for fiscal consolidation policies, but has also made room for possible growth in some cases.

The domestic insurance market

The life market

Gross premiums of the domestic life market grew slightly in the first quarter of the year (+0.6% on the corresponding period of 2017) to €30.9 billion, driven by the rise in class I and V policy sales, which more than offset the downturn in class III premiums collected.

The financial strain of the early months of 2018 adversely affected unit-linked product premiums, which did not repeat the results achieved in the recent past. Down 1.7% on the corresponding period of 2017, class III product premiums amounted to €11.9 billion. Conversely, class I and V products earned premiums up 1.5% compared to the first quarter of 2017 at €18.4 billion, equal to 60% of the total premiums collected on the domestic market.

Multi-class products collected premiums of €8 billion in the first three months of the year, up 13.7% on the corresponding period of 2017. They were invested in segregated funds (53%) and unit-linked products (47%). As a percentage of the total life market, these premiums accounted for 26.0% at 31 March 2018.

During the first quarter of the year, the individual savings plans collected premiums of €762 million. The most popular product is the unit-linked policy (roughly 84% of the individual savings plan premiums), with the multi-class products making up the rest.

The trend seen in 2017 for the sales networks reversed with sales made by bank and post office branches and agents and brokers showing growth of 4.8% and 4.7%, respectively, while financial advisors saw a drop of 21.4% in their business. The latter mainly promote class III products and have been adversely affected by the unstable financial markets. Bank and post office branches, with a market share of 67.5% and premiums collected of €20.9 billion, held on to their significant positioning as distributors of life insurance products. Finally, agents and brokers collected premiums of €6.1 billion from a market share of 19.9%.

Insurance companies focused on promoting products with satisfactory returns and especially protection. An Italian market favourite is the term life insurance policy, both as a stand-alone product and as a complementary guarantee.

The supplementary pension plan market

The ongoing positive growth in the number of policy holders and assets invested in supplementary pension plans continued in the first quarter of 2018. The open pension plans, individual pension plans and the negotiated pension plans all contributed to this trend. Thanks to the mandatory membership introduced by employment contracts of some sectors, the negotiated pension plans saw a large increase in the number of their policy holders, although it continues to be insignificant compared to the market potential.

Rationalisation of the product range has continued. Some negotiated pension plans have joined forces recently as they were unable to achieve the minimum size requirements. The open and individual pension plans both reduced the number of products on offer due to corporate reorganisations of the groups they belong to or restructuring of the product portfolios.

The non-life market

The Italian non-life market's premiums grew in the first quarter of 2018 to €9.1 billion compared to the corresponding period of the previous year. This is the fourth positive result after five years of continued contraction and was assisted by the slight increase in the motor insurance segment's business and the additional upturn in that of the non-motor insurance segment.

Specifically, the motor insurance segment recorded premiums of roughly €4.2 billion, up 1.1% on the corresponding period of the previous year. The non-mandatory covers confirmed the increase in motor property damage premiums, which were up 6.8%, thanks to the rise in sales of new vehicles. On the other hand, the motor third party liability insurance premiums decreased by 0.2%. However, despite the continued decreasing trend, there are initial signs of an improvement as the results are substantially the same as the previous year.

Market operators recorded total non-motor insurance segment premiums of about €4.8 billion in the first quarter of 2018, up 2.1% on the same period of 2017.

The non-motor insurance segment premiums' positive performance was assisted by the upturn in the general economy and product innovation.

All the main business segments made a positive contribution again, especially the health insurance class (+3.2%), the other damage to goods class (+2.9%), support and assistance (+6.0%), legal protection (+7.7%) and credit insurance (+13.9%). Premiums of the bond insurance, fire and accident classes all decreased (-5.3%, -1.8%, -1.1%, respectively).

The competitive arena shows a concentration of the top five insurance groups, whose share contracted slightly to just under 60%. Alongside the prolonged drop in premiums collected by the large groups, the other market operators performed well in terms of volumes (up a very positive 5%).

Notwithstanding a slight decrease compared to the first quarter of 2017, the agency and broker network remains the main distribution channel of the non-life insurance sector, with a market share of 84.3%. This channel mostly sells MTPL, general third-party liability and other damage to goods policies. With a share of 6.5%, the bank branches continued their growth, mostly in the sale of credit and pecuniary losses insurance policies. They collected premiums of €592 million in the first quarter of the year, up 3.5% on the corresponding period of 2017. Direct sales accounted for an overall 8.9% at the end of the quarter.

The main trends seen in the non-life insurance sector include the spread of modular insurance products designed to combine a number of covers and insurance services in one product. Another emerging product is instant insurance based on short-term micro insurance policies to be activated when needed. Finally, the sector has seen new products which are increasingly integrated with smart devices that contribute high value added services for customers.

Action plans and business development

The Intesa Sanpaolo Vita Insurance Group confirmed its leadership position in the **bancassurance** and **pension** segments during the period, thanks partly to continuation of its strategies rolled out with the set-up of the insurance division.

This division focuses on customer relations, promoting product innovation and the launch of cutting edge products. It acts as the insurance specialist for the Intesa Sanpaolo Group.

Accordingly, the Intesa Sanpaolo Vita Insurance Group continued to implement strategies to rebalance premiums collected for class I and III policies by suspending pure class I product premiums and focusing on sales of multi-class products through retail channels (via the Banca dei Territori division) and private banking channels (via the Private Banking-Fideuram division, set up in previous years). During the six months, the group sold traditional pure class I products to customers of the former Veneto banks for €343,338 thousand.

The parent, Intesa Sanpaolo Vita, actively participated in the development of the following activities:

- proactive involvement in the ultimate parent's integrated multi-channel project to provide its customers with a multi-channel experience and interface with the various channels offered by the parent and its ultimate parent in an integrated manner, through optimisation and simplification of the processes' operating efficiency;
- roll-out of the design process to prepare the key information documents (KID) for packaged retail investment and insurance products (PRIIPS) to ensure transparency with customers and compliance with the Insurance Distribution Directive (IDD) about insurance distribution and to ensure customers have the same protection level regardless of what channel they choose to purchase an insurance product as well as the activities to enable off-premises sales of policies by the distribution network branches;
- build up the pension business with products that meet all customer pension requirements.

With respect to the **non-life business**, the parent focused on the activities to ensure achievement of the Intesa Sanpaolo Group's objective for Intesa Sanpaolo Assicura as per its business plan: to become the Italian leader of the non-motor retail insurance market. During the six months, various projects were rolled out to this end. The training courses for specialists assisting the sales network were completed and a communication campaign on protection was launched on various channels as part of the distribution strategy. Product strategy activities were commenced, such as the launch of the new XME protection modular product. Finally, the internal strengthening and efficiency of after-sales and claims management procedures were continued.

The insurance group's governance approach hinges on its adequate capitalisation, in line with the ruling regulatory requirements. Specifically, the group complied with all new requirements of the Solvency II Directive in the first half of 2018 and Intesa Sanpaolo Vita, as the insurance group's parent, published the Solvency and Financial Condition Report (SFCR) of the Intesa Sanpaolo Vita Insurance Group, availing of the option provided by article 216-novies.2 of the Italian Private Insurance Code and article 36 of IVASS, the supervisory authority, regulation no. 33/2016.

The group also concentrates on cost management to ensure continuity and cost synergies.

Performance

Overall performance

The profit for the period came to €379.2 million, up on the €345.4 million for the corresponding period of 2017.

The group recognised a satisfactory operating result, characterised by:

- a €213.5 million increase in net premiums (+7%, €3,145.9 million compared to €2,932.4 million for the corresponding period of 2017), mostly due to the growth in sales of multi-class insurance products;

- higher net commission income of €123.4 million (up €27.6 million or 29%) compared to €95.8 million for the corresponding period of 2017, due to the increase of €119.3 billion in assets under management (€117.3 billion for the first half of 2017);

- a decrease in net gains from financial instruments to €1,068 million for the period from €1,202 million for the corresponding period of the previous year, due to the turbulent markets;

- substantially stable operating costs at €221.5 million against €217.3 million for the first half of 2017;

- net other costs of €-165.4 million compared to €-251.1 million as a result of smaller unrealised exchange losses.

Comprehensive income decreased to €63.9 million from €258.2 million for the first half of 2017. This is principally the effect of the larger decrease in the fair value reserve (under other comprehensive income) of €312.8 million (€87.7 million at 30 June 2017).

Risk management

An internal control system is of strategic importance to the Intesa Sanpaolo Vita Group as it is a fundamental part of the entire governance system, which allows the group to manage its activities in line with its strategies and policies in a prudent and effective manner.

The risk management system is an important informational tool for the company bodies, keeping them fully up-to-date, ensuring the efficient monitoring of risks and their interaction, providing guidance about strategies and policies and how to adapt its organisation consistently. It is also important to ensure compliance with general and sector regulations, especially those issued by the supervisory authority and to encourage the adoption of a valid control culture.

The risk management system was again reinforced during the period to comply with EU and national regulations issued as part of the preparatory phase before enactment of the Solvency II Directive. Specifically, the group strengthened the procedures and models used to assess its risk profile, the related monitoring processes and its governance documents. This project not only involved the group's internal processes but also included fostering a greater risk management culture, involving the entire organisation in developing and introducing methods to identify, measure, communicate and manage risks.

The Intesa Sanpaolo Vita Group implemented an internal control system based on the following pillars:

- the internal control environment, based on senior management's awareness of the importance of properly identifying the key tools making up the control system, i.e.:
    - formalisation of roles, tasks and responsibilities (delegated powers, internal codes and procedures, circulation of organisational charts, segregation of duties, with the subsequent segregation of the processes sensitive to the various business risks);
    - internal communication system (necessary information and production times needed to generate flows and reports, timely reporting to management, awareness and receptiveness of the operating personnel);

- the risk management process, that is, the ongoing process to identify and analyse those internal and external factors that may jeopardise the attainment of company objectives, in order to manage them (risk identification, measurement and monitoring);

- the adequacy of the methods used to design, structure and effectively perform controls at the various organisational levels (line/operational, hierarchical, risk management and internal audit), essential to allow senior management to check that their instructions are being followed correctly;

- the IT system, whose objective is to ensure the integrity and completeness of the data and information used to manage and monitor the company's processes and operations;

- monitoring activities carried out by the relevant persons (line managers, risk management officers, actuaries, internal auditors, senior management, board of statutory auditors, independent auditors, pension fund managers (open pension funds and individual pension plans) and, for Intesa Sanpaolo Life, the committees responsible for audit and risk, investments and accounting and reporting to ensure continuous supervision of the internal controls and to identify and implement any improvements necessary to resolve critical issues identified, ensuring the maintenance, updating and improvement of the system.

As part of the larger Intesa Sanpaolo Group, the insurance group complies with its regulations to ensure the consistent and prompt management of business risks in line with the relevant national legislation. It monitors risk management results on an ongoing basis as well as developments in internal controls to protect the interests of policyholders and the integrity of group assets.

The parent's governance system is described in the corporate governance documents, presented to and approved by the board of directors. In addition to its by-laws, the more significant documents are:

- directives on internal controls and the annual internal controls report;
- the risk management regulation;
- the proxies and powers system (approved in advance by the parent and subsequently by the boards of directors of the group companies, as well as by the supervisory board set up in compliance with Legislative decree no. 231, the audit committee and the local regulator). This system regulates the management independence vested in the various company bodies to allow them to carry out their duties, in accordance with the organisational principles governing delegation and supervision.

The organisational structure is defined in such a manner as to guarantee the segregation of duties and responsibilities between operational functions and control units, as well as the independence of the latter from the former.

In order to strengthen the supervision of company operations, the insurance group companies have set up special committees to analyse performance, investment management, commercial management, risk management and anti-money laundering issues across the various departments.

Internal controls are structured according to the guidelines set out below:

- segregation of duties and responsibilities: duties and responsibilities are clearly divided among company bodies in order to avoid gaps or overlapping powers that may impinge upon the company's proper functioning;
- formalisation: the actions of the boards of directors and delegated parties must always be documented to allow the checking of management activities and decisions taken;
- independence of controls: the necessary independence of the control structures from the operational units must be assured.

The ultimate parent's risk management and control system, also adopted by the insurance group, involves the company bodies and the operational and supervisory units in the comprehensive management of the parent and the group, whilst respecting the different roles and levels of responsibility, which are intended to guarantee the adequacy of the system as a whole at all times.

The internal controls are commensurate with the group's size and operational characteristics and the nature and intensity of risks, as is the risk management system, which is commensurate with the size, nature and complexity of the activities carried out, in order to identify, assess and monitor the most significant risks, being those whose consequences may undermine the solvency of the parent and the group or represent a serious obstacle to the fulfilment of their objectives.

Senior management is also vested with the task of propagating a "control culture", which ensures that staff at all levels are aware of their own roles, including in relation to control activities, and fosters the involvement of all company units in the pursuit of the group's objectives.

The risk management strategy

The Intesa Sanpaolo Vita Group is committed to developing an effective risk management unit given its contribution to the balanced performance of the insurance group's activities. To assist this objective:

- clear risk governance and management principles have been defined;
- risk governance and management tools have been introduced;
- a risk governance and management culture has been promoted at all levels of the insurance group.

The parent has ultimate responsibility for the definition of risk management and internal control strategies and guidelines, also in its capacity as the parent of the insurance group, and to ensure their adequacy and solidity over time with regard to their completeness, functionality and effectiveness, in line with the size and operational characteristics of the companies and the insurance group, as well as the nature and intensity of the parent's and group's risks. The subsidiaries are also vested with similar prerogatives within the context of the objectives allocated to them.

Specifically, the administrative bodies of the group companies are responsible for:

- setting objectives at regular intervals, in line with the capital adequacy level and the guidelines of the Intesa Sanpaolo Group as implemented by Intesa Sanpaolo Vita and its subsidiaries;
- approving risk management policies and strategies and risk tolerance levels for the parent and subsidiaries;
- regularly examining the results achieved, including those relating to stress testing activities, as well as the underlying risk profiles of the parent and the subsidiaries, as communicated by senior management and the independent risk control unit (risk management);
- acquiring information concerning the most significant critical issues in the area of risk management and internal controls of Intesa Sanpaolo Vita and its subsidiaries as identified by the various bodies responsible for their monitoring and control;
- the prompt assessment of the aforementioned critical issues and the implementation of the necessary corrective measures.

The internal controls consist of three lines of defence:

- line controls (first level);
- risk monitoring (second level);
- internal audit (third level).

The Risk Management Unit contributes to the second line of defence by reconciling the prerogatives of independence from line controls with close cooperation with the line controls that are responsible for the assigned activities. This Unit ensures that the group's market, technical and operational risks are identified, assessed and monitored with a view to maintaining those risks within a limit that is consistent with the group's assets, taking account of risk assumption, assessment and management policies as defined by the administrative body. It also prepares suitable reports and provides timely and systematic information to senior management and the board of directors.

Principal results of the risk management strategy

The strategic priority attributed to the gradual reduction of risks and their ongoing monitoring and management has achieved important results:

- the commercial offer was revised as part of the product definition process to reduce the guaranteed minimums, promoting mixed solutions including class I and class III products and developing capital protection products. These products optimise the capital profile under Solvency II and have led to improved performances over time for policyholders compared to the old generation products;

- as part of the management of interest rate risk, the duration mismatch was decreased by both aligning the investment maturities with the profiles of the liabilities and by using bond forwards, also to reduce the reinvestment risk;

- as part of the management of credit risk, a policy was introduced involving diversification and reduction of issuer exposures which, with the exception of the Italian, Spanish and ultimate parent bonds, never have an overall exposure above 1%;

- total exposure has been contained as part of management of equity risk;

- as part of the management of surrender risk, in addition to closely monitoring the trends and net cash flows for each asset under management, adequate liquidity was maintained to cover unforeseeable outcomes without necessarily having to make unplanned divestments;

- in order to mitigate liquidity risk, efforts continued to focus the investment portfolio on actively traded and liquidable instruments by divesting positions comprised of structured instruments or that were not associated with sufficiently liquid trading markets;

- the careful selection of new investments, especially as regards the alternative investments portfolio;

- as part of the management of derivatives, in keeping with the policy of focusing investments on liquid instruments that are priceable and have measurable risks, the parent operated as a matter of preference on explicit derivatives, adequately linked to primary financial instruments, with the goal of mitigating interest rate risks (IRSs, futures and forwards), currency risks (DCSs and forwards), equities risks (options) and credit spread risks (CDSs);

- as part of the management of operational risks, the business and control processes were strengthened.

These results can clearly be seen in the stress tests and economic capital measurements made by the parent, all within an operating context that saw the group achieve higher profitability levels than the previous year.

The principal new products

During the six months, the group introduced new life insurance products for retail customers with the "Progetto Dedicato" product and for the private banking customers with the "Programma Dedicato".

It also took steps to comply with European legislative requirements:

- IDD (*Insurance Distribution Directive*): the product monitoring rules for product oversight and governance were defined and applied to new life insurance products. The group plans to introduce a monitoring tool during the second half of the year;
- KID for PRIPS: preparation of a standard document (KID) to ensure product transparency and comparability;
- GDPR: review of the organisational model and introduction of the data protection officer position, modification of the processing register and the related updating procedure, speeding up the concerned party's rights management process, introduction of specific management procedures for personal data protection starting with the creation of new processing methods with all the assessments of risks and the effect on privacy for the concerned party and data protection;
- AML: the group decided to purchase a new application for compliance with AML and CTF legislation. The new tool, which will be gradually introduced by the other life insurance companies of the insurance division, will allow the group to:
    - strengthen its AML controls;
    - resolve certain limitations in the current IT tools (e.g., integration with the procedures of the placement banks, automated management of workflows);
    - ensure compliance with the new national legislation (Legislative decree no. 90/2017) which transposed the Fourth EU Directive into Italian law.

With respect to the legislative aspects and development of the internal controls, the group constantly updates its internal regulations to comply with the requirements of the supervisory authorities, changes in business and management, support and control procedures. As the parent of the insurance group, Intesa Sanpaolo Vita complies with the governance regulations designed for the other group companies. It also continued to make its IT systems more efficient and to upgrade them, which will eventually lead to a more evolved system infrastructure.

Since the start of the year, Intesa Sanpaolo Assicura has modified the prices of the Tutela Famiglia and Malattie Gravi products (in February) to offer a discount to Intesa Group employees.

During the second quarter of 2018, the group rolled out "Promozione Salute Primavera", which gave a 20% discount on the first year's policy of the main healthcare insurance products (accidents, surgical procedures, prevention and health and serious illness). This campaign allowed the banks to double their sales compared to before its roll-out. The same result was achieved with the "aCasaConMe" promotion, which offered a 15% discount on the first year's premium in the period from the end of May to the end of June.

A new product, XME Protezione, was central to the Intesa Group's focus on its "Protection" project, designed to increase the non-life lines of business products sold to bank customers.

In mid March, the group launched a pilot scheme for a new modular product, which will allow the insurer to organise protection that can be tailored to cover more than one person and more than one residence with a single policy.

The product will offer customers up to 16 guarantees to cover potential risks to their homes, families and health.

XME Protezione was designed as a “lifecycle” product, so that the insurer can adapt the contract to the customer’s requirements as they arise, such as, for example, to include new forms or new “objects” to be insured, or an increase or decrease in the protection level.

This product’s roll-out commenced in June to make it steadily available to the entire network by the end of July.

The “Tutela” project not only includes XME Protezione but has also seen the hiring of 220 “specialist tutela”, who are highly trained professionals ready to provide prompt assistance to the managers of the Banca dei Territori branches. These specialists have received intensive training which they will pass on to the bank’s entire distribution structure by year end.

With respect to the credit protection insurance products, ProteggiMutuo has been tweaked to boost its sales on a dematerialised basis. Along with other products of the same line (namely, ProteggiPrestito, BusinessSempre, Business5 and ProteggiConMe), it is compliant with the new requirements of the IVASS letter of 2018.

Motor insurance products have undergone modification to comply with legislative requirements (development of the single risk code for the dynamic risk certification). Two value added services were developed for the Viaggia Con Me product sold by the Intesa Sanpaolo sales network:

- introduction of a discount during the licence plate entering process (carried out by the network branches) for the automated generation of motor vehicle third party liability offers depending on the score obtained using the banking and insurance networks’ data;
- setting of a pricing competitiveness indicator by the ultimate parent obtained by comparing Intesa Sanpaolo Assicura’s premiums to those of a market benchmark.

Performance

During the period, the group reported gross premiums of €8,838 million for both the life (€8,590.1 million) and the non-life (€248.3 million) businesses compared to €9,206.5 million for the corresponding period of 2017, and, in relation to the former, both products classified as insurance products and policies with a more financial content.

Gross life premiums amounted to €8,590.1 million, down 4.3% on the first half of 2017 (€8,973.4 million).

Traditional product premiums increased (7.9%) but this was offset by the decrease in class III product premiums (9.2%) and especially those of class VI for pension products (-4.9%).

(millions €)

	30.06.2018	30.06.2017	Change	
Collection of contracts classified as insurance and investment with DPF:	**2,951.6**	**2,758.2**	**193.4**	**7.0%**
- Traditional (Class I)	2,726.4	2,527.8	198.7	7.9%
- Capitalisation (Class V)	0.6	0.5	0.1	24.0%
- Unit-linked (Class III)	8.2	2.3	6.0	263.9%
- Pension funds and Fip (Class VI)	216.4	227.6	-11.2	-4.9%
Collection of contracts classified as investment without DPF:	**5,638.5**	**6,215.2**	**-576.8**	**-9.3%**
- Unit-linked (Class III)	5,638.5	6,215.4	-576.8	-9.3%
Total life business	**8,590.1**	**8,973.4**	**-383.3**	**-4.3%**

New life business, including income from financial products without discretionary participation features (DPF), came to €8,515.0 million compared to €8,894.8 million for the first half of 2017.

The distribution structure

The parent, Intesa Sanpaolo Vita, uses the banking network of Intesa Sanpaolo Group to distribute its insurance savings and investment products as well as its CPI and pension products.

Moreover, in May 2018, the parent entered into a new agreement with a non-group broker, Cassa di Risparmio di Fermo, for the promotion of a new multi-class product designed for the retail and personal banking customers as part of its services for insurance brokerage and the sale of individual pension plans.

It also has sales agreements with non-group brokers, mainly for post-sales services and, marginally, for the distribution of pension products.

Intesa Sanpaolo Assicura's main distribution channel is Intesa Sanpaolo Group's sales network for its home and family, motor, health, lifestyle, cards, financing and business (CPI) products.

The subsidiary also avails of the financial advisors network of Fideuram - Intesa Sanpaolo Private Banking Group to distribute the Salute Fideuram product on an exclusive basis. Finally, it has management only agreements with non-group banks.

Reinsurance policy

During the period and in order to contain exposure on specific portfolios, Intesa Sanpaolo Vita agreed proportionate reinsurance treaties on both a proportionate basis and an excess of loss basis for whole/term life insurance products with complementary covers for pension products. It also agreed an excess of loss treaty for catastrophic risks relating to the retained portion of all portfolios.

Other run-off treaties continue to apply, both on a proportionate and an excess of loss basis for life insurance policies and certain accident covers of non-life businesses (temporary and permanent disability).

It was not deemed necessary to agree additional reinsurance contracts, as is the case when the existing reinsurance treaties cannot be used, during the period.

All its treaties are signed with leading operators and comply with ISVAP (the Italian Insurance Regulator) Circular no. 574/D. The reinsurer with the lowest rating is in line with the Master Resolution, which provides for a minimum rating of A (Standard & Poor’s) for long tail business.

Intesa Sanpaolo Assicura’s portfolio is protected by non-proportional excess of loss treaties in order to contain excessive and catastrophic exposure. Retention has been reduced through proportional cover solely for specific guarantees and products, mainly assistance guarantees and legal protection.

The main products reinsured with excess of loss treaties refer to the MTPL and motor vehicle property damage classes (ViaggiaConMe), fire, other damage to goods and GTHL (aCasaConMe), illness/accident products (health) and CPI.

Non-life premiums reinsured by Intesa Sanpaolo Assicura during the period amounted to €5,069 thousand, compared to €3,613 thousand for the corresponding period of 2017, equal to roughly 2.0% of gross premiums (1.6% in the corresponding period of 2017). The subsidiary recognised revenue of €586 thousand for the period, including €90 thousand for proportional treaties and €496 thousand for excess of loss treaties.

It was not deemed necessary to agree additional reinsurance contracts, as is the case when the existing reinsurance treaties cannot be used, during the period.

All its treaties are signed with leading operators and comply with ISVAP Circular no. 574/2005. The reinsurer with the lowest rating is in line with the Master Resolution, which provides for a minimum rating of A (Standard & Poor’s) for long tail business.

The group did not deem it necessary to agree new treaties during the period. All its treaties are signed with leading specialised operators.

While continuing to assess the opportunities offered by the market, the group does not engage in inwards reinsurance.

Research and development

The group incurred R&D costs during the period for new insurance products.

IT systems

2018 will see the conclusion of the project rolled out in 2016, when the parent defined its 2016-2018 three-year road map to transform its IT systems.

This road map, which was reviewed and amended each year, has allowed the group to:

- launch the multi-channel service for Intesa Sanpaolo customers;
- implement the policy dematerialisation process;
- include a non-group bank network in its network of sales agents;
- enhance the group's information assets;
- make its portfolio processes more efficient;
- release a new IT system architecture;
- speed up products' time to market;
- increase quality controls;
- align systems with new legislative requirements;
- increase IT security levels.

During the period, the parent updated its road map to best exploit the capacity and potential of its IT systems and create strategic value and a competitive edge.

Specifically, it rolled out new projects for its digital evolution and common projects for the entire insurance division. This will allow it to keep up-to-date with new technological models and facilitate a platform-centric business model.

Concurrently with Intesa Sanpaolo, the group carried out the procedures to implement the new EU Privacy Regulation (GDPR).

As is its regular practice, development staff were allocated equally to the different projects to meet growth, variability and quality requirements and those of the group's operations and control units.

The projects are provided for in the systems plan and are classified in line with previous plans, increased by the projects for digital evolution and the enhancement of the group's information assets. The development areas are as follows:

- **Commercial** - meet the needs of customers and the distribution networks, and enable new service models in line with the ultimate parent's projects;
- **Legislative/regulatory** - fine-tune new capital and risk measurement tools, and implement and complete processes and tools to assist legislative compliance;
- **Process efficiency and completion** - reduce operational risks, increase process efficiency and service levels;
- **Technological** - design an application infrastructure to support the other areas, reduce IT risks, contain development costs for project management and software maintenance;
- **Digital** - introduce a new dimension to embrace new technologies and internal and external customers' new contact and service requirements;
- **Information assets management and quality** - develop a central internal data centralised management system subject to quality checks that provides combined information to the insurance division users or makes information available to be used individually.

The main activities for the commercial areas and products related to:

- commencement of sales of the new product for the Carifermo network;
- release of the new Programma Dedicato and Projetto Dedicato products for the private banking and

retail customers of the former Veneto banks, respectively;
- start-up of the development of the project to prepare the KID for PRIIPS at division level;
- the Minotauro project for the off-premises sale of policies by branches;
- start-up of development of the IDD project to monitor target markets.

During the period, Intesa Sanpaolo Assicura's information systems confirmed their role as one of the key drivers of change, merging new technologies and business development. Its activities were in line with the new business plan objectives which include a large increase in premiums and volumes by 2021.

The parent, in turn, rolled out important digital innovative projects like its multi-channel project in 2017 while it focused on launching the new product XMeProtezione during the first six months of 2018.

It commenced projects to ensure technological scalability and completion of internal processes and tools. The objectives for the development areas are as follows:

- **Commercial**: meet the needs of customers and the distribution networks, and enable new service models in line with the ultimate parent's projects;
- **Legislative/regulatory:** implement and complete processes and tools to assist legislative compliance;
- **Process efficiency and completion**: reduce operating risk levels, improve service levels and process efficiency;
- **Technological**: reduce information risks and development costs for project management, update application infrastructure and continue to integrate business processes.

The main releases for the commercial area's projects related to:
- the *XMeProtezione* product;
- the discounts campaign for the accident, health and home products;
- utilisation of customers' "Variabili Bancarie" for the Viaggia Con Me product to offer them customised discounts;
- the Top Positioning project for the Viaggia Con Me product to allow managers to offer the best prices on the market;
- the Coassicurazione Sinistri project (Europ Assistance/AON);
- special rates for group employees.

The main releases for the legislative and regulatory area's projects related to:
- implementation of the DDI option for motor products;
- implementation of the GDPR;
- compliance with IVASS regulation no. 2743 (follow-up procedures with branches for missing documents);
- policy holder/beneficiary link (for CPI products);
- anti-fraud forms as per IVASS regulation no. 44;
- ATR dynamic.

The main releases for the process efficiency and completion projects related to:
- monitoring outsourcers;
- improving the efficiency of Intesa Sanpaolo Assicura's portfolio and accounting system;
- broker network management;
- streamlining of emails from/to customer operations;
- development of a dashboard to monitor the sales network for the life and non-life products;
- review of receipting for the non-life lines of business.

With respect to the development of technological activities, the following were strengthened:

- monitoring tools;
- application controls.

Staff

At 30 June 2018, the parent and subsidiaries had 630 employees, 29 more than at 31 December 2017 (601). The group has 119 resources seconded from other companies of the Intesa Sanpaolo Group and has seconded 64 employees to other companies of the Intesa Sanpaolo Group.

	Intesa Sanpaolo Vita	Intesa Sanpaolo Life	Intesa Sanpaolo Assicura	Total
Employees	383	70	119	572
- Managers	11	2	5	18
- Officers	187	12	44	243
- Employees	185	56	70	311
Staff seconded from other companies of Intesa Sanpaolo Group	81	5	33	119
Staff seconded to other companies of Intesa Sanpaolo Group	42	-	22	64
Total	**422**	**75**	**130**	**627**
Other contractual forms	3	-	-	3
General Total	**425**	**75**	**130**	**630**

The group continued to select personnel with specialist skills from both inside and outside the Intesa Sanpaolo Group during the period.

The conditions for activation of the reward system were met again at both group and parent level in 2017 and the bonuses proposed by the remuneration committee and subsequently approved by the board of directors were paid to the employees of the “risk taker” category.

As per the specific provisions of the group’s remuneration policies, both the risk takers category and other employees received bonuses.

Principal regulatory developments in the period

Sector regulations

The supervisory authority published the following regulations in the first six months of 2018 that affect the group:

- **IVASS regulation no. 37 of 27 March 2018** "Regulation establishing criteria and methods for the mandatory motor vehicle third party liability discounts to be applied by insurance companies" was issued to implement article 132-ter.2/4 of the Italian Private Insurance Code (the "code"), introduced by article 1.6 of Law no. 124 of 4 August 2017, based on the "Annual market and competition law", which regulates large mandatory discounts for MTPL policies when certain conditions are met. The regulation is designed to achieve the primary legislation's objective which tends, for discounts as per paragraph a), to guarantee policyholders a discount on their premiums based on the reduction of the risk borne by the insurance company when one or more of the conditions set out in article 132-ter.1 are met, and, for discounts as per paragraph b), the steady elimination of differences in MTPL premiums applied in Italy with the same risk level to policyholders that meet the conditions as per article 132-ter.4 ("virtuous" policyholders resident in provinces with higher claims rates and a higher average premium).
- **ISVAP regulation no. 14/2008** was amended to cover mergers of segregated funds when they have an undistributed returns provision (article 34).
- **ISVAP regulation no. 22/2008** was amended to provide for the separate recognition of an undistributed returns provision as part of the mathematical provisions in financial statements. The instructions about the foreseeable returns were extended to contracts measured considering their return based on changes in the undistributed returns provision. Specific requirements were introduced for the actuarial unit, similar to those in place for the additional reserves.

Measures issued by IVASS included:

- **Measure no. 68 of 14 February 2018** "Measure for amendments to ISVAP regulations nos. 14/2008, 22/2008 and 38/2011 on segregated funds". New instructions for the calculation of the average rate of return on segregated funds have been introduced which:
    - allow insurance companies to use a method for new contracts to calculate the average rate of return that considers the allocation of realised net gains to a specific undistributed returns provision; this provision is a mathematical provision and is included in the calculation of the average rate of return over a maximum of eight years from the date on which the net gains are recognised. The new rules will also be introduced for segregated funds existing at the date of enactment of this measure. However, they will only apply to contracts agreed after the amendments to the segregated funds' regulations. Therefore, an individual segregated fund may have contracts to which two different methods are applied to calculate the average rate of return (depending on whether their contractual terms provide for or not the undistributed returns provision). If an segregated fund has "groups" of policyholders whose services are revalued using rates calculated with different rules (with and without the undistributed returns provision), the regulation establishes the methods to be used to calculate the realised net gains that can be recognised in this provision;
    - introduces an accounting departure to defer recognition of gains and losses on periodic trading (usually infra-annual) of certain types of derivatives. The net gains are recognised as an adjustment to the net financial income or expense of each observation period of the segregated fund until the transaction has been completed. The departure allows combining the use of derivatives for securities recognised as part of the segregated fund with the effects of the returns thereon as part of the same

business, tied to the length of time of the strategy applied rather than the derivative's maturity, when the derivative is part of a documented strategy approved by the board of directors.

- **Measure no. 71 of 16 April 2018** "Measures for the dynamic risk certification". This measure completes the wider-ranging process to dematerialise the risk certification commenced with IVASS regulation no. 9 of 19 May 2015. It is necessary to align the secondary legislation and the technical regulations for the risk certification database with the need to correctly assess policyholders' claims rates, including by considering claims paid outside the observation period as per article 1.j of IVASS regulation no. 9 of 19 May 2015, i.e., paid after the insurance policy had expired when the policyholder changed company upon its expiry (late claims). Thanks to the new IT process, insurance companies can update the risk positions of policyholders to include all claims, including those paid in part and those paid outside the observation period or after the policy's expiry and when the policyholder changes insurance company. It involves use of the unique risk identifier (which is a code matching the owner, or those parties authorised to use the vehicle as per article 6.1 of IVASS regulation no. 9 of 19 May 2015, to each vehicle owned or held under finance lease, usufruct or reserved domain name agreement).
- **Measure no. 72 of 16 April 2018** "Identification criteria and rules for the universal conversion of the third party liability motor insurance by merit class" was issued to implement article 3.3 of IVASS regulation no. 9 of 19 May 2015 on the risk certification database and risk status certification as per article 134 of Legislative decree no. 209 of 7 September 2005 (the Italian Private Insurance Code) on the dematerialisation of the risk certification.
- **Measure no. 74 of 8 May 2018** "Amendments to ISVAP regulation no. 7/2007 on IFRS financial statements following enactment of IFRS 9" presents the amendments necessary to comply with IFRS 9 (Financial instruments) which is now applicable and replaces IAS 39 (Financial instruments) starting from 1 January 2018. Due to the introduction of this new standard and the related amendments to other IFRS (including IFRS 7), the modifications set out below had to be made to ISVAP regulation no. 7/2007. This regulation was amended to ensure appropriate comparability of insurance companies' financial statements prepared under the IFRS. Companies with temporary exemption from application of IFRS 9 will continue to use the current templates and apply the provisions of IAS 39.

Finally, regulations under public consultation include:

- **Document no. 6 of 19 December 2017** which provides instructions for the current year and a regulation outline for subsequent years, establishing that the Solvency and Financial Condition Report (SFCR), required by the Solvency II framework, should be checked for compliance by the independent auditors.
- **Document no. 4 of 22 May 2018** which sets out the draft regulation implementing the instructions to comply with Legislative decree no. 231 of 21 November 2017 amended by Legislative decree no. 90 of 25 May 2017 implementing Directive (EU) 2015/849 on organisation, procedures, internal controls and customer due diligences into Italian law. It reflects the joint guidance of the European supervisory authorities on the customer simplified and enhanced due diligence measures and the factors to be considered when assessing money laundering and terrorist financing risks in connection with continuous relationships and infrequent transactions;
- **Document no. 5 of 8 June 2018** – Draft IVASS regulation on insurance and reinsurance distribution;
- **Document no. 6 of 8 June 2018** – Draft IVASS regulation on communications, advertising and development of insurance products;
- **Document no. 7 of 8 June 2018** – Draft IVASS regulation on the imposing of administrative sanctions.

The insurance group companies provided IVASS with the necessary information in due time and revised their internal regulations to comply with the new implemented requirements. They also commenced the actions necessary to introduce the additional obligations to send data/make changes to internal processes that will become effective in the second half of 2018.

Premiums and net payments relating to insurance contracts

Premiums recognised in the period for the life and non-life businesses, including reinsurance, amounted to €3,151.9 million, up 7.3% on the corresponding period of the previous year. This increase mainly referred to the life business and principally to premiums for financial products with DPF.

(millions €)

	30.06.2018				30.06.2017			
	First year	Subsequent years	Single premiums	Total	First year	Subsequent years	Single premiums	Total
Insurance products without DPF	1.7	10.1	398.0	**409.8**	1.1	10.8	390.2	**402.1**
Insurance products with DPF	-	13.6	6.6	**20.2**	-	16.0	6.9	**22.9**
Financial products with DPF	4.0	46.4	2,471.1	**2,521.6**	11.5	45.0	2,276.7	**2,333.2**
Non-life insurance products (*)				**200.3**				**179.8**
Total	**5.7**	**70.2**	**2,875.8**	**3,151.9**	**12.6**	**71.8**	**2,673.8**	**2,938.0**

(*) Premiums for the period

The amounts paid in the life business rose from €4,309.0 million in the first half of 2017 to €4,530.6 million in the reporting period. The amounts paid in the non-life business increased by 5.9% from €50.3 million in the corresponding period of 2017 to €53.3 million in the first six months of 2018.

The increase in the non-life business is due to the growth in the size of the policy portfolio, which reported a slight deterioration in the loss ratio in relative terms (from 28.9% to 26.6% for the reporting period).

(millions €)

	Claims	Annuities	Surrenders	Maturities	Liquidation costs	Total
Insurance products without DPF	-41.9	-	-140.8	-6.3	-3.6	**-192.6**
Insurance products with DPF	-25.5	-3.7	-24.9	-29.6	-	**-83.7**
Financial products with DPF	-951.2	-0.1	-3,192.4	-110.6	-	**-4,254.3**
Non-life business insurance products						**-53.3**
Total 30.06.2018	**-1,018.7**	**-3.8**	**-3,358.1**	**-146.4**	**-3.6**	**-4,530.7**
Insurance products without DPF	-51.7	-	-161.2	-25.5	-4.1	**-242.5**
Insurance products with DPF	-5.2	-3.4	-24.2	-36.6	-	**-69.5**
Financial products with DPF	-1,002.1	-0.1	-2,832.8	-162.1	-	**-3,997.1**
Non-life insurance products						**-50.3**
Total 30.06.2017	**-1,059.0**	**-3.5**	**-3,018.1**	**-224.3**	**-4.1**	**-4,359.3**

Commissions

Net commissions on financial products without DPF, comprised of index-linked and financial unit-linked policies, amounted to €123.4 million, up 28.9% on the corresponding period of 2017 (€95.8 million).

This net increase is due to the unit-linked products as the index-linked product portfolio is gradually maturing.

More information is available in the notes to the interim consolidated financial statements.

Financial income and expense

Net gains on financial instruments decreased to €1,067.9 million compared to €1,202.0 million for the corresponding period of 2017. The €134.1 million decrease is mainly due to the smaller realised gains and losses (€147.4 million) and smaller interest (€97.7 million) offset by an increase in net unrealised gains (€110.9 million).

Commissions and operating expense

Commissions and operating costs amount to €221.5 million for the period, up 1.9% compared to €217.3 million for the corresponding period of 2017.

Investment management costs of €26.3 million are in line with the costs for the corresponding period of 2017. The other administrative costs decreased from €40.3 million for the first half of 2017 to €38.3 million for the period.

Commissions and other acquisition costs as a percentage of net premiums came to 5% compared to 5.1% for the first half of 2017 following the change in the product mix.

Other revenue and expense

Other net expense went from €251.1 million for the first six months of 2017 to €165.4 million for the reporting period, mainly due to exchange rate trends.

Statement of financial position

Investments

The financial investments portfolio amounts to €123,977.1 million (down 0.3% compared to €124,333.0 million at 31 December 2017) as follows:

(millions €)

Investments	30.06.2018	31.12.2017	Change	
Financial assets available for sale	72,715.3	75,456.3	-2,741.0	-3.6%
Financial assets measured at fair value	51,240.6	48,855.1	2,385.4	4.9%
Investments in subsidiaries, associates and joint ventures	2.2	2.3	-0.1	-6.1%
Loans and receivables	19.2	19.3	-0.2	-0.9%
Total	**123,977.3**	**124,333.0**	**-355.9**	**-0.3%**

The group's investment transactions carried out during the first half of the year complied with the guidelines specified in the Finance Policy of the group companies and, in particular, with the general principles of prudence and enhancement of the quality of assets from a medium and long-term perspective.

Although the global financial markets continued to perform positively throughout the period, the group continued to pursue a policy aimed at limiting the financial risk whilst at the same time maintaining a level of profitability that is commensurate with the commitments made to policyholders. The bond portfolio includes bonds issued by the Italian government, foreign governments, international bodies and national banks and corporate bonds distributed over a broad range of issuers, including, in particular, companies from the Eurozone.

Equity

At 30 June 2018, the group reported equity of €4,881.4 million, including the profit for the period of €379.2 million, compared to equity of €4,818.2 million at the start of the period.

It recognised a €85.1 million fair value gain in the fair value reserve under equity compared to €398 million recognised at 31 December 2017 as a result of the different market values compared to the carrying amounts of AFS securities.

As a result of application of shadow accounting, the differences between the fair value and cost of the aforementioned instruments, net of the tax effects, are recognised in this reserve for the sole part pertaining to the group. The policyholders' portion is included under the technical provisions.

Liabilities with policyholders

Liabilities with policyholders, which include technical provisions of the life and non-life businesses as well as financial liabilities of the life business, increased from €119,895.8 million at 31 December 2017 to €119,341.4 million at the reporting date.

Technical provisions and financial liabilities of the life business, considering deferred liabilities with policyholders as well, went from €119,216.3 million at 31 December 2017 to €118,605.1 million at 30 June 2018 (-0.5%).

Technical provisions

The technical provisions of the life business decreased by 4.1%. The decrease is chiefly attributable to the performance of production aggregates and variations in deferred liabilities with policyholders as set out below.

The increase in the non-life business technical provisions was 8.3% from €678.4 million at the end of 2017 to €734.8 million at the reporting date.

Deferred liabilities with policyholders incorporating the policyholders' share of fair value gains and losses on investments decreased from €4,433.2 million to €2,434.9 million at 30 June 2018.

Financial liabilities

Financial liabilities rose by 5.7% from €43,442.9 million at the end of 2017 to €45,912.9 million at the reporting date. This increase is principally attributable to production for the period. It also incorporates fair value gains and losses on investments to which those liabilities are associated.

(millions €)

	30.06.2018	31.12.2017	Change
Liabilities due to policyholders for Life segment	**118,605.1**	**119.217,3**	**-0.5%**
Insurance provisions and financial liabilities:	116,170.2	114.784,1	1.2%
- traditional	65,978.3	67,246.5	-1.9%
- of which financial liabilities	-	-	n.d.
- of which insurance provisions	65,978.3	67,246.5	-1.9%
- linked	50,191.9	47.537,6	5.6%
- of which financial liabilities	45,912.9	43.442,9	5.7%
- of which insurance provisions	4,279.0	4,094.7	4.5%
Deferred liabilities due to policyholders	2,434.9	4,433.2	-45.1%
Insurance provisions for non-life segment	**734.8**	**678.4**	**8.3%**
Provisions for unearned premiums	544.6	496.5	9.7%
Provisions for outstanding claims	188.7	180.5	4.6%
Other insurance provisions	1.5	1.4	4.6%
Liabilities due to policyholders	**119,339.8**	**119.895,8**	**-0.5%**

Measurement of the fair value of financial assets and liabilities

This section summarises the criteria used by the group to measure the fair value of financial instruments. As illustrated in the basis of preparation section of the notes to the interim consolidated financial statements, the application of IFRS 13 governing fair value measurement and the related disclosure is mandatory from 1 January 2013.

The standard does not extend the scope of fair value measurement. The aim, in fact, was to concentrate in a single standard the rules for fair value measurement previously contained in various standards, in some cases, with requirements in conflict with one another.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., not as part of a forced liquidation or distress sale) at the measurement date. Fair value is a market-based measurement that is not entity-specific.

An entity shall measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria based on the origin, type and quality of the information used in the calculation. The aim of this classification is to establish a hierarchy in terms of reliability of the fair value based on the level of discretion applied by entities, giving precedence to the use of market-observable inputs that reflect the assumptions that market operators would make in pricing the asset or liability. The hierarchy also aims to increase consistency and comparability in fair value measurements.

There are three different input levels:

- **level 1**: inputs represented by quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date;
- **level 2**: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly for the assets or liabilities to be measured;
- **level 3**: non-observable inputs for the asset or liability.

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: highest priority is attributed to quoted prices (Level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instrument prices (Level 2) and lowest priority to assets and liabilities whose fair value is determined using valuation techniques based on non-observable and, therefore, more discretional inputs (Level 3).

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument.

The valuation process for financial instruments (which is governed within the Intesa Sanpaolo Group by the "Fair Value Policy") entails the following phases:

- identification of the sources for measurement: for each asset class, the Market Data Reference Guide establishes the processes necessary to identify market parameters and the means according to which such data must be extracted and used;

- certification and treatment of market data for measurements: this stage consists of the precise verification of the market parameters used (checking the integrity of data contained on the proprietary platform with respect to the source), reliability tests (consistency of each single figure with similar or comparable figures) and verification of actual application methods;

- validation of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the compliance of the various measurement techniques used with current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for measurement;

- monitoring consistency of pricing models over time: regular monitoring that the pricing model used in the valuation reflects the market, in order to discover any gaps promptly and start the necessary verifications and actions.

The fair value policy also provides for adjustments to reflect the model risk and other uncertainties relating to valuation. In particular, model risk is represented by the possibility that the valuation of a complex instrument is materially influenced by the model chosen. Indeed, it is possible that models using price elementary instruments with the same quality may give rise to different prices for exotic instruments. In these cases, where possible, alternative models are compared, and where necessary, model inputs are subjected to stress tests, thus obtaining useful elements to quantify fair value adjustments, expressed in terms of measurable financial indicators (vega, delta, correlation shifts), and periodically reviewed. These fair value adjustments, due to model risks, are part of a mark to market adjustment policy adopted for the purposes of also considering, in addition to the model risk described above, other factors that could influence valuation and are essentially attributable to:

- high and/or complex risk profile;
- position illiquidity determined by temporary or structural market conditions or in relation to the entity of exchange values held (in case of excessive concentration); and
- valuation difficulties due to the lack of liquid and observable market parameters.

In the case of Level 2 inputs, the valuation is not based on prices of the financial instrument being valued but on prices or credit spreads derived from official prices of instruments that are substantially similar in terms of price risk, using a given calculation method (pricing method). Resort to this approach entails searching for transactions on active markets relating to instruments that are comparable to the instrument being valued in risk factor terms. The calculation methods classified as Level 2 allow the reproduction of prices of financial instruments listed on active markets (model calibration) without including discretional parameters (i.e., parameters whose values cannot be obtained from prices of financial instruments on active markets or that cannot be pegged at levels that duplicate prices on active markets) that would have a significant influence on the final valuation price.

In order to calculate the fair value of certain types of financial instrument, valuation models are used that entail the use of parameters that cannot be observed directly on the market and, hence, require the valuer to make estimates and assumptions (level 3).

As required by IFRS 13, the following tables provide quantitative information about significant unobservable inputs used for the fair value measurement of financial assets and financial liabilities valued at Level 3 as well as the effects of a change in one or more unobservable parameters used in the valuation technique used to calculate fair value.

(€'000)

Financial assets/liabilities	Valuation technique	Main non-observable inputs	Minimum value of range of changes	Maximum value of range of changes	Unit	Fair value gain	Fair value loss
Securities	Discounted cash flows	Credit spread	-66	95	%	9,478	-13,668

Financial assets/liabilities	Non-observable parameters	Sensitivity (€'000)	Variation in non-observable parameter
Securities held for trading and available for sale	Credit spread	-68	1bps

The amount of securities transferred to another fair value level is specified below:

(thousands €)

	Transfers at 30.06.2018					
	to level 1		to level 2		to level 3	
	from level 2	from level 3	from level 1	from level 3	from level 1	from level 2
Financial assets held for trading	-	-	601	2,928	-	-
Financial assets designated at fair value through profit and loss	8,183	-	245	30,788	-	-
Financial assets available for sale	83,142	9,839	47,452	79,323	93,418	25,754
Hedging derivatives	-	-	-	-	-	-
Financial assets measured at fair value	**91,326**	**9,839**	**48,298**	**113,039**	**93,418**	**25,754**
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit and loss	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-
Financial liabilities measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**

Transfers from one level to another are made on the basis of the empirical observation of intrinsic factors of the instrument being valued or its markets. Transfer from level 1 to level 2 takes place if an adequate number of inputs, i.e., a limited number of investors that hold the float, no longer exist. This event often materialises when the instrument nears maturity. Conversely, securities that upon issue are illiquid and for which trades are numerous, and are thus classified in level 2, are reclassified into Level 1 when an active market is identified.

The impact on profit or loss and equity of Level 3 securities recognised in the period and their changes are analysed below.

(thousands €)

Transfers	Profit & Loss	Other comprhensive Income	Total
Financial assets available for sale	129	7,159	7,288
Financial assets held for trading	-94	-	-94
Financial assets designated at fair value through profito or loss	-92	-	-92
Loans and receivables	-	-	-
Total	**-57**	**7,159**	**7,102**

(thousands €)

	Financial assets available for sale	Financial assets held for trading	Financial assets at fair value through profit and loss FVO
Opening balance	**979,959**	**51,623**	**231,759**
Increases	**524,914**	**-**	**142,563**
Acquisitions	186,535	-	-
Fair value gains recognised in equity	25,178	-	-
Fair value gains recognised in profit and loss	-	-	-
Transfers from L1 to L3 - increases	83,579	-	-
Transfers from L2 to L3 - increases	15,915	-	-
Realised gains	525	-	-
Other increases	213,182	-	142,563
Decreases	**-312,829**	**-3,022**	**-30,930**
Sales and repayments	-36,396	-94	-
Fair value losses recognised in equity	-18,448	-	-
Transfers from L3 to L1 - decreases	-	-	-
Transfers from L3 to L2 - decreases	-69,483	-2,928	-30,788
Fair value losses recognised in profit and loss	-724	-	-92
Realised loss	-321	-	-
Other decreases	-187,457	-1	-50
Foreign currency	**3**	**-**	**-**
Closing balance	**1,192,047**	**48,601**	**343,392**

Fair value gains and losses on securities classified as available-for-sale are recognised in equity caption 1.1.7 “Fair value reserve” except for impairment losses which are recognised in profit or loss in caption 2.4.4. “Impairment losses”. Fair value gains or losses are recognised in caption 1.3 “Gains or losses on remeasurement of financial instruments at fair value through profit or loss” when they relate to securities classified as held for trading and at fair value through profit or loss.

BUSINESS SEGMENTS

The group operates principally in the life business, whilst the contribution of the non-life business is gradually growing.

It is active in Italy and, to a lesser extent, in other European Union member states. Its activities in other countries are conducted entirely by the subsidiary Intesa Sanpaolo Life.

For details regarding the financial position and results of operations of the two life and non-life segments, reference should be made to the annexes to these notes while the performance of the two segments during the period is commented on below.

Life business

The group recorded gross premiums of €8,590.1 million, relating to both premiums on insurance products and financial products with DPF, as well as gross inflows from financial products without DPF.

Gross premiums decreased by 4.3% compared to the corresponding period of 2017.

(millions €)

	30.06.2018	30.06.2017	Change	
Collection of contracts classified as insurance and investment with DPF:	**2,951.6**	**2,758.2**	**193.5**	**7.0%**
- Traditional (Class I)	2,726.4	2,527.8	198.7	7.9%
- Capitalisation (Class V)	0.6	0.5	0.1	24.0%
- Unit-linked (Class III)	8.2	2.3	6.0	263.9%
- Pension funds and Fip (Class VI)	216.4	227.6	-11.2	-4.9%
Collection of contracts classified as investment without DPF:	**5,638.5**	**6,215.2**	**-576.8**	**-9.3%**
- Unit-linked (Class III)	5,638.5	6,215.2	-576.8	-9.3%
Total life business	**8,590.1**	**8,973.4**	**-383.3**	**-4.3%**

Changes in life insurance contracts are set out below:

	Contracts on 31.12.2017	New contracts	Other inflows	Payments and maturities	Other outflows	Contracts on 30.06.2018
Contracts under the scope of IFRS 4	**3,281,780**	**272,536**	**520**	**-156,650**	**-82,010**	**3,316,176**
Traditional	1,074,609	14,169	301	-68,082	-1,086	1,019,911
Capitalisation	2,097	2	-	-75	-	2,024
Unit-linked	498,482	56,850	-	-28,109	-	527,223
Pension	124,446	7,823	-	-481	-782	131,006
Individual pension funds	26,375	-	2	-369	-597	25,411
Temporary Death Policies	1,192,924	169,394	217	-57,171	-77,824	1,227,540
Index-linked	22	-	-	-	-	22
Open pension plans	362,825	24,298	-	-2,363	-1,721	383,039
Contracts under the scope of IAS 39	**438,858**	**85,818**	**36**	**-15,957**	**-8,806**	**499,949**
Unit-linked	41,215	-	1	-4,296	-	36,920
Index-linked	-	-	-	-	-	-
Multi-class	397,643	85,818	35	-11,661	-8,806	463,029
Total	**3,720,638**	**358,354**	**556**	**-172,607**	**-90,816**	**3,816,125**

The net charges relating to claims, including the adjustment to the technical provisions, amount to €3,390.2 million, showing a 4.7% decrease on the €3,237.6 million recognised for the corresponding period of 2017. This performance is the result of the combined effect of the containment of benefits paid and the increase in technical provisions, due principally to the commercial performance.

With regard to amounts paid, charges due to claims increased by 3.8% compared to the first half of 2017.

The provision for payable amounts, net of reinsurance, increased by €32.8 million (€94.4 million for the six months ended 30 June 2017). The reduction in mathematical provisions, after accounting for the reinsurers' share, amounts to €1,417 million (€1,236 million for the first half of 2017), whilst provisions resulting from pension fund management where the investment risk is borne by the policyholders increased by €184 million (€102 million for the corresponding period of 2017). The other technical provisions at 30 June 2017, net of the reinsurers' share, decreased by a net €59.7 million (€31.4 million in the first half of 2017).

Commissions and other acquisition costs, net of profit participation and other commissions received from reinsurers, amount to €92.4 million (€66 million for the first half of 2017). They include acquisition costs relating to insurance contracts and investment contracts with DPF. In particular, the caption includes acquisition commissions of €61.3 million (-7.5%), other acquisition costs of €5.9 million (-23.2%) and collection commissions of €25.1 million (+88.8%).

Investment management costs amount to €26.0 million for the period (€26.1 million for the corresponding period of 2017) and include general costs and personnel expenses related to the management of investment property and equity investments.

Administrative costs amount to €29.6 million, down from €40.3 million for the first six months of 2017.

Non-life business

The Intesa Sanpaolo Vita Group is also active in the non-life business through its subsidiary Intesa Sanpaolo Assicura and with the accident and health insurance products merged into the parent from the former Centrovita Assicurazioni.

Gross premiums for the period amount to €248.3 million, up on the corresponding period of 2017 (€233.2 million). The banking channel contributed €244.9 million, the financial advisors channel contributed €1.5 million whilst the other channels contributed €1.9 million.

A breakdown by product family is as follows:

(millions €)

	30.06.2018	%	30.06.2017	%	Change %
Credit protection	105.1	42.3%	111.9	48.0%	-6.0%
Home and family	59.9	24.1%	53.7	23.0%	11.4%
Motor	52.6	21.2%	48.2	20.7%	9.2%
Health and accidents	20.8	8.4%	10.4	4.5%	99.9%
Other	10.0	4.0%	9.1	3.9%	10.3%
Total	**248.3**	**100.0%**	**233.2**	**100.0%**	**6.5%**

The following table sets out the claims paid in the principal non-life lines of business:

	30.06.2018	30.06.2017	Change %
Health	2.4	1.7	38.5%
CPI	6.4	7.5	-14.9%
Multi-guarantee on loans	2.8	2.8	-2.3%
Property	2.1	1.9	10.8%
CPI on Neos leasing	2.1	1.4	52.6%
Motor	26.5	26.4	0.2%
Other banking-insurance products	1.6	1.2	33.9%
Health	4.1	4.9	-18.0%
CPI	0.9	0.1	n.d.
Multi-guarantee on loans	1.0	0.8	27.1%
Property	1.0	1.4	-25.8%
Total	**50.8**	**50.2**	**1.3%**

(€m)

At 30 June 2018, non-life policies numbered 2,645,795.

Commissions and other acquisition costs, net of profit participation and other commissions received from reinsurers, amount to €65.2 million (€63.4 million for the corresponding period of 2017).

Investment management costs amount to €0.3 million for the period (€0.2 million for the corresponding period of 2017) and include general costs and personnel expenses related to the management of investment property and equity investments.

Administrative costs amount to €12.3 million, up from €10.7 million for the first six months of 2017.

Other information

Principal risks and uncertainties for companies included in the consolidation scope

The Intesa Sanpaolo Group, which encompasses the companies included in the consolidation scope of Intesa Sanpaolo Vita, has had a Risk Management Unit for some time. This department is responsible for the definition, implementation and monitoring of the methodological and organisational framework, as well as for the measurement of risk profiles, the verification of mitigation effectiveness and reporting to senior management.

Within this context, in accordance with the process defined by the ultimate parent for operational risks, the Intesa Sanpaolo Vita Group has set up a monitoring system for financial, insurance and operational risks through an integrated reporting system, which provides management with the information necessary to manage and/or reduce the risks taken on.

Going concern

The group considers that the risks to which it is exposed do not raise any doubts as to its ability to continue as a going concern.

Non-recurring transactions and capital management

No non-recurring transactions took place in the first half of 2018.

Related party transactions

The Intesa Sanpaolo Vita Group has undertaken transactions with Intesa Sanpaolo Group companies as part of its ordinary operations. These transactions, which took place at normal market conditions to the mutual benefit of both parties, are analysed in greater detail in the "Related party transactions" section of the notes to the interim consolidated financial statements.

Supervisory authority

With respect to the November 2016 inspection by IVASS at the parent's offices to obtain the best estimate of the technical provisions, the assumptions used to calculate these provisions and the SCR and the ALM of revaluable products, the supervisory authority found that there was no basis to fine the parent. It ordered that the proceeding be filed with IVASS notice no. 85055/17 of 28 April 2017.

On 6 February 2017, IVASS commenced an inspection of the parent into its measures to prevent money laundering and terrorist financing.

It presented its findings to the parent's board of directors on 23 November 2017.

The parent formulated a plan to resolve the issues detected by IVASS. No serious, repeated, systematic or multiple violations were noted.

Finally, on 14 September 2017, COVIP commenced an inspection of the parent covering the individual pension plans it manages (Il mio futuro, Progetto Pensione and Vita & Previdenza Sanpaolo Più).

The supervisory authority completed its inspection on 2 March 2018 and provided the parent with its report attesting receipt of the documentation.

The parent has yet to receive notification of COVIP's findings.

Ownership structure

Intesa Sanpaolo Vita belongs to the Intesa Sanpaolo Group and is 99.99% controlled by Intesa Sanpaolo S.p.A. which also manages and coordinates it. Its residual share capital is held by 18 third party shareholders. Its share capital is comprised of 655,157,496 ordinary registered shares with no nominal amount.

At 30 June 2018, Intesa Sanpaolo Vita Group held 577,124 shares of the ultimate parent, Intesa Sanpaolo. These shares were acquired in order to service the share incentive plan for senior management in relation to 2012, authorised by the shareholders of Intesa Sanpaolo in their meeting of 22 April 2013 and resolved upon by the boards of directors of Intesa Sanpaolo Vita and Intesa Sanpaolo Life. They were also acquired for the investment plan benefiting all employees (LECOIP) and investments included in pension products. The carrying amount and fair value of the shares is €1.4 million.

A breakdown of the ultimate parent's shares held by the Intesa Sanpaolo Vita Group companies at the reporting date is as follows:

(thousands €)

	Number of Share	Value at 30.06.2018
INTESA SANPAOLO VITA S.p.A.	380,257	946
INTESA SANPAOLO ASSICURA S.p.A.	58,156	145
INTESA SANPAOLO LIFE LIMITED	138,711	345
Total	**577,124**	**1,436**

Main offices

The parent's registered office is located in Corso Inghilterra 3, Turin and its administrative offices are located in Viale Stelvio 55/57, Milan.

Audit

KPMG S.p.A. performs the legally-required audit of the group's consolidated financial statements.

Events after the reporting date and outlook

No events have taken place after the reporting date that would have had a negative effect on the group's financial position, financial performance or cash flows.

Milan, 1 August 2018

The chairman of the Board of Directors

Luigi Maranzana

(signed on the original)

Interim consolidated financial statements

Statement of financial position

(thousands €)

		30.06.2018	31.12.2017
1	**INTANGIBLE ASSETS**	**643,185**	**639,937**
1.1	Goodwill	634,580	634,580
1.2	Other intangible assets	8,605	5,357
2	**TANGIBLE ASSETS**	**1,444**	**1,616**
2.1	Lands and buildings (self used)	-	-
2.2	Other tangible assets	1,444	1,616
3	**AMOUNT CEDED TO REINSURERS FROM INSURANCE PROVISIONS**	**16,401**	**15,762**
4	**INVESTMENTS**	**123,977,148**	**124,333,014**
4.1	Lands and buildings (investment properties)	-	-
4.2	Investments in subsidiaries, associates and joint ventures	2,171	2,312
4.3	Investments held to maturity	-	-
4.4	Loans and receivables	19,172	19,339
4.5	Financial assets available for sale	72,715,254	75,456,258
4.6	Financial assets at fair value through profit or loss	51,240,551	48,855,105
5	**RECEIVABLES**	**270.939**	**365,629**
5.1	Receivables arising from direct insurance operations	17,389	8,892
5.2	Receivables arising from reinsurance operations	920	3,510
5.3	Other receivables	252,630	353,227
6	**OTHER ASSETS**	**2.833.894**	**2,745,033**
6.1	Non-current assets held for sale and discontinued operations	-	-
6.2	Deferred acquisition costs	-	-
6.3	Deferred tax assets	168,614	181,959
6.4	Current tax assets	2,066,819	2,041,458
6.5	Other assets	598,461	521,616
7	**CASH AND CASH EQUIVALENTS**	**619,578**	**768,108**
	TOTAL ASSETS	**128,362,589**	**128,869,099**

(thousands €)

		30.06.2018	31.12.2017
1	**SHAREHOLDERS' EQUITY**	**4,881,365**	**4,818,195**
1.1	**attributable to the Group**	**4,881,365**	**4,818,195**
1.1.1	Share capital	320,423	320,423
1.1.2	Other equity instruments	-	-
1.1.3	Capital reserves	1,328,097	1,328,097
1.1.4	Retained earnings and other equity reserves	2,768,780	2,182,342
1.1.5	Treasury share (-)	-	-
1.1.6	Exchange difference reserves	-	-
1.1.7	Gains or losses on available for sale financial assets	85,137	397,957
1.1.8	Reserve for other unrealized gains (losses) through equity	-268	2,257
1.1.9	Result of the period	379,196	587,119
1.2	**attributable to minority interests**	**-**	**-**
1.2.1	Capital and reserves attributable to minority interests	-	-
1.2.2	Reserve for other unrealized gains (losses) through equity	-	-
1.2.3	Net profit (loss) for the year attributable to minority interests	-	-
2	**PROVISIONS**	**13,616**	**13,024**
3	**TECHNICAL RESERVES**	**73,426,933**	**76,452,900**
4	**FINANCIAL LIABILITIES**	**48,308,657**	**45,790,456**
4.1	Financial liabilities at fair value through profit or loss	45,963,631	43,509,555
4.2	Other financial liabilities	2,345,026	2,280,901
5	**PAYABLES**	**779.655**	**743,297**
5.1	Arising out of direct insurance business	165,264	158,610
5.2	Arising out of reinsurance business	218	3,869
5.3	Other payables	614,173	580,818
6	**OTHER LIABILITIES**	**952.363**	**1,051,227**
6.1	Liabilities of disposal groups held for sale	-	-
6.2	Deferred tax liabilities	417,612	488,244
6.3	Current tax liabilities	364,614	373,390
6.4	Other liabilities	170.137	189,593
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**128,362,589**	**128,869,099**

Income statement

(thousands €)

		30.06.2018	30.06.2017
1.1	Net earned premiums	3,145,921	2,932,445
1.1.1	*Gross premiums written*	3,151,883	2,937,864
1.1.2	*Reinsurance premiums*	-5,962	-5,419
1.2	Commission income	461,401	360,774
1.3	Net income on financial instruments at fair value through P&L	-64,308	41,511
1.4	Income on investments in subsidiaries, associate & joint ventures	-	-
1.5	Income from other financial instruments and lands and buildings	1,252,458	1,235,978
1.5.1	*Interest income*	848,609	933,620
1.5.2	*Other income*	104,242	99,598
1.5.3	*Realised gains*	299,608	202,760
1.5.4	*Unrealised gains*	-	-
1.6	Other revenues	96,974	68,274
1	**TOTAL INCOME**	**4,892,447**	**4,638,982**
2.1	Net insurance benefits and claims	-3,443,511	-3,287,516
2.1.1	*Amounts paid and change in technical reserves*	-3,448,503	-3,289,793
2.1.2	*Reinsurers' share*	4,992	2,277
2.2	Commission expenses	-337,964	-264,988
2.3	Losses on investments in subsidiaries associates & joint ventures	-141	-
2.4	Expenses from other financial instruments and lands and buildings	-120,130	-75,457
2.4.1	*Interest expense*	-46,934	-35,578
2.4.2	*Other expenses*	-7	-1
2.4.3	*Realised losses*	-65,381	-37,324
2.4.4	*Unrealised losses*	-7,809	-2,554
2.5	Operating expenses	-221,467	-217,306
2.5.1	*Commissions and other acquisition costs*	-156,856	-150,643
2.5.2	*Investment management expenses*	-26,269	-26,380
2.5.3	*Other administrative costs*	-38,342	-40,283
2.6	Other costs	-262,345	-319,403
2	**TOTAL EXPENSES**	**-4,385,557**	**-4,164,670**
	PROFIT (LOSS) BEFORE TAX FOR THE PERIOD	**506,889**	**474,312**
3	Income tax	-127,693	-128,876
	PROFIT (LOSS) AFTER TAX FOR THE PERIOD	**379,196**	**345,436**
4	**PROFIT (LOSS) FROM DISCONTINUED OPERATIONS**	**-**	**-**
	CONSOLIDATED NET PROFIT (LOSS) FOR THE PERIOD	**379,196**	**345,436**
	of which attributable to the group	379,196	345,436
	of which attributable to the minority interests	-	-

Statement of comprehensive income

(thousands €)

	30.06.2018	30.06.2017
CONSOLIDATED NET PROFIT (LOSS) FOR THE PERIOD	**379,196**	**345,436**
Other items of income after taxes without reclassification to profit or loss	**-2,559**	**73**
Share of other comprehensive income of associates	-	-
Reserve for revaluation model on intangible assets	-	-
Reserve for revaluation model on tangible assets	-	-
Results of discount operations	-	-
Acturial gains or losses arising from defined benefits plan	46	-
Other items	-2,605	73
Other items of income after taxes with reclassification to profit or loss	**-312,787**	**-87,354**
Foreign currency translation differences	-	-
Reserve for unrealized gains and losses on available for sale financial assets	-312,820	-87,712
Net unrealized gains and losses on cash flows hedging derivatives	-	358
Net unrealized gains and losses on hedge of a net investment in foreign operations	-	-
Share of other comprehensive income of associates	-	-
Results of discount operations	-	-
Other items	34	-
Other comprehensive income	**-315,345**	**-87,281**
Total comprehensive income	**63,851**	**258,155**
Of which attributable to the group	**63,851**	**258,155**
Of which from minority interest	**-**	**-**

Statement of changes in equity

(thousands €)

		Amount as of 31.12.2016	Change in Closing Balances	Allocation	Reclassification adjustents to income statement	Transfers	Change in Profit sharing	Amount as of 30.06.2017
Shareholders' equity attributable to the Group	Share capital	320,423	-	-	-	-	-	320,423
	Other equity instruments	-	-	-	-	-	-	-
	Capital Reserves	1,328,097	-	-	-	-	-	1,328,097
	Revenue reserves and other reserves	1,798,568	-	639,165	-	-	-	2,437,733
	(Own shares)	-	-	-	-	-	-	-
	Result for the period	638,710	-	-293,274	-	-	-	345,436
	Other comprehensive income	479,614	-	431	-18,109	-69,603	-	392,333
	Total attributable to the Group	**4,565,412**	**-**	**346,322**	**-18,109**	**-69,603**	**-**	**4,824,022**
Shareholders' equity attributable to minority interests	Shareholder capital and reserves	-	-	-	-	-	-	-
	Result for the period	-	-	-	-	-	-	-
	Other comprehensive income	-	-	-	-	-	-	-
	Total attributable to minority interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4,565,412**	**-**	**346,322**	**-18,109**	**-69,603**	**-**	**4,824,022**

(thousands €)

		Amount as of 31.12.2017	Change in Closing Balances	Allocation	Reclassification adjustents to income statement	Transfers	Change in Profit sharing	Amount as of 30.06.2018
Shareholders' equity attributable to the Group	Share capital	320.423	-	-	-	-	-	320,423
	Other equity instruments	-	-	-	-	-	-	-
	Capital Reserves	1.328.097	-	-	-	-	-	1,328,097
	Revenue reserves and other reserves	2.182.342	-	586.218	-	220	-	2,768,780
	(Own shares)	-	-	-	-	-	-	-
	Result for the period	587.119	-	-207.923	-	-	-	379,196
	Other comprehensive income	400.214	-	-14.682	-19.488	-281.175	-	84,869
	Total attributable to the Group	**4.818.195**	**-**	**363.613**	**-19.488**	**-280.955**	**-**	**4,881,365**
Shareholders' equity attributable to minority interests	Shareholder capital and reserves	-	-	-	-	-	-	-
	Result for the period	-	-	-	-	-	-	-
	Other comprehensive income	-	-	-	-	-	-	-
	Total attributable to minority interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total		**4.818.195**	**-**	**363.613**	**-19.488**	**-280.955**	**-**	**4,881,365**

Statement of cash flows (indirect method)

(thousands €)

	30.06.2018	30.06.2017
PROFIT (LOSS) BEFORE TAXES FOR THE PERIOD	**506,889**	**474,312**
Change in non-cash items	**-2,897,110**	**-1,595,708**
Change in non-life provision from unearned premium	48,426	54,662
Change in non-life provision for outstanding claims and other insurance provisions	6,915	2,279
Change in mathematical provisions and other life insurance provisions	-3,394,768	-2,190,931
Change in deferred acquisition costs	-	-
Change in provisions	592	-1,183
Non-cash income and expenses from financial instruments, investment property and equity investments	502,088	545,644
Other expenses	-60,363	-6,179
Change in receivables and payables generated by operating activities	**611**	**-557.865**
Change in receivables and payables on direct insurance and reinsurance operations	-2,904	14,806
Change in other receivables and payables	3,515	-572.671
Income taxes paid	**-127,693**	**-128,876**
Net cash generated/absorbed by cash items related to investment and financing activity	**-361,524**	**-527.680**
Financial liabilities related to investment contracts	2,518,201	4.736.204
Payables to banks and customers	-	-
Loans and receivable from banks and customers	-	-
Other financial instruments at fair value through profit and loss	-2,879,725	-5.263.884
CASH FLOW FROM OPERATING ACTIVITY	**-2,878,827**	**-2.335.817**
Net cash generated/absorbed by lands and buildings (investment property)	-	-
Net cash generated/absorbed by equity investments in subsidiaries, associates and joint ventures	141	-
Net cash generated/absorbed by loans and receivable	167	1.354
Net cash generated/absorbed by held to maturity investments	-	-
Net cash generated/absorbed by available for sale financial assets	2,733,195	1,443,154
Net cash generated/absorbed by tangible and intangible assets	-	-
Other cash generated/absorbed by investment activity	-	-
CASH FLOW FROM INVESTING ACTIVITY	**2,733,503**	**1.445.508**
Net cash generated/absorbed by Group's share capital and equity instruments	-3,206	886
Net cash generated/absorbed by own shares	-	-
Dividends payment	-	-
Net cash generated/absorbed by minority interests' share capital and reserves	-	-
Net cash generated/absorbed by subordinated liabilities and participative financial instruments	-	-
Other cash generated/absorbed by other financial liabilities	-	-
CASH FLOW FROM FINANCING ACTIVITY	**-3,206**	**886**
Effect of foreign-exchange differences on cash and cash equivalents	**-**	**-**
OPENING BALANCE OF CASH AND CASH EQUIVALENTS	768,108	1,495,047
INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS	**-148,530**	**-890.423**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	619,578	604.624

The parent’s legal representatives (*)

The chairman – Luigi Maranzana............. (signed on the original)...(**)

(*) For foreign companies, the signature of the general representative for Italy is required.

(**) Specify the position held by the signatory representative.

Notes to the interim consolidated financial statements

Part A - Basis of preparation and accounting policies

Basis of preparation

THE LEGISLATIVE CONTEXT

As set forth by Legislative decree no. 38 of 28 February 2005, those companies falling under the scope of Legislative decree no. 209/05 "Codice delle Assicurazioni Private" (the Italian Private Insurance Code), are required to draw up their consolidated financial statements, starting from 2005, in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission.

The group's interim consolidated financial statements have, therefore, been prepared in compliance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) endorsed by the European Commission pursuant to EC regulation no. 1606 of 19 July 2002, as well as applying the standards or subsequent amendments endorsed after that date.

The new standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation (EU) no. 2016/2067, has replaced IAS 39, which currently governed the classification and measurement of financial instruments, with effect from 1 January 2018. IFRS 9 is structured into the three different areas of classification and measurement of financial instruments, impairment and hedge accounting.

Starting from 1 January 2018, the new standard IFRS 15 also came into force, replacing IAS 18 - Revenue and IAS 11 - Construction Contracts. It was adopted by the Intesa Sanpaolo Vita Group, as well as the Intesa Sanpaolo Group, as of such date.

Moreover, the new standard IFRS 16 will be applicable as of 1 January 2019, replacing the previous standard IAS 17 - Leases which is deemed to have insignificant effects on the insurance group. IFRS 17 will come into effect as of 1 January 2021.

In order to better guide the interpretation and the application of the new standards, reference was also made to the following documents, even though they have not been endorsed by the European Commission:

- "Framework for the preparation and presentation of financial statements" of the International Accounting Standards Board;
- "Implementation guidance, basis for conclusions" and any other documents prepared by the IASB or the International Financial Reporting Interpretations Committee (IFRIC) to supplement the issued standards.

Lastly, again in terms of interpretation, the documents regarding the application of the IFRS prepared by the Italian Accounting Standard Setter (Organismo Italiano di Contabilità, OIC), the Italian Association of Insurance Companies (Associazione Nazionale delle Imprese di Assicurazioni, ANIA) and the Italian Banking Association (Associazione Bancaria Italiana, ABI) were considered.

With regard to IFRS 9, on 3 November 2017, the European Official Journal published Regulation (EU) no. 2017/1988 that extends the two options (temporary exemption and overlay approach) to both insurance financial statements of insurance groups and consolidated financial statements of financial conglomerates, such as Intesa Sanpaolo Group.

Both measures were introduced in 2016 in order to avoid volatility of results deriving from the misalignment of effective dates of the new standard IFRS 17 on insurance contracts expected for 1 January 2021, replacing the current IFRS 4, and the new standard IFRS 9.

In December 2017, the Intesa Sanpaolo Vita Group, together with the ultimate parent, Intesa Sanpaolo, opted for the temporary exemption, which allows insurance groups or predominantly insurance groups to defer the adoption of IFRS 9 to 1 January 2021 in order to implement the standard together with IFRS 17 for the insurance division.

The group checked that it met the criteria for application of the temporary exemption and, specifically, that the carrying amount of its insurance liabilities is greater than 90% of the carrying amount of its total liabilities (predominance ratio).

As required by IFRS 9, the group will present the information required of entities that intend to defer application of the standard until 1 January 2021 at 31 December 2018.

On 1 January 2016, the Solvency II Directive became applicable to the European insurance sector. The new legislation completely revised the calculation method of the synthetic indicators used to measure insurance companies' solvency.

The group's insurance companies took steps to comply with all the new regulations and the new calendar for reporting to the supervisory authority, IVASS. The main reports cover the eligible own funds, the solvency capital requirement (SCR) and the solvency ratio. Intesa Sanpaolo Vita calculated the aggregate solvency ratio of the insurance companies as the insurance parent of the Intesa Sanpaolo Banking Group. Based on article 96 of Legislative Decree 209/2005 (the Italian Private Insurance Code), Intesa Sanpaolo Vita is also required to prepare the "combined" consolidated financial statements of the insurance group, which includes Intesa Sanpaolo Assicura and Intesa Sanpaolo Life, inasmuch as they are 100% subsidiaries, and Fideuram Vita, inasmuch as it is subject to unitary management in accordance with the Italian Private Insurance Code.

With reference to capital management, pursuant to Solvency II and the guidelines provided by the supervisory authority about how to apply the EIOPA guidelines on governance systems, the prospective valuation of risks using the Own Risk and Solvency Assessment (ORSA) criteria, the group companies defined the method to calculate their own funds. The related management rules are designed to assess capital requirements and the optimum allocation of capital.

BASIS OF PRESENTATION

These interim consolidated financial statements comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes. They are accompanied by a directors' report.

They have been prepared based on the instructions about layouts issued by the ISVAP with regulation no. 7 of 13 July 2007, as subsequently amended by measure no. 53/2016, considering the additional disclosures required by IAS 34 for the preparation of interim financial reporting.

The interim consolidated financial statements and these notes have been drawn up in euros as the functional currency. The amounts are expressed in thousands of euros, unless specified otherwise.

Accounting policies

The accounting policies used to draw up these interim consolidated financial statements are the same as those applied to prepare the consolidated financial statements at 31 December 2017, to which reference should be made for more detailed information, except for the new standards applied from 1 January 2018, described in the section on the legislative context.

These accounting policies have been identified assuming the consolidated companies will continue to operate as it is deemed that there are no significant uncertainties that generate doubt as to their ability to continue as going concerns.

Share-based payment

Based on the treasury share repurchase programme commenced by Intesa Sanpaolo S.p.A. to service the senior management free share assignment plan, the group has purchased the ultimate parent's shares.

These shares are measured at fair value. Fair value gains or losses on the shares are recognised in profit or loss with the concurrent recognition of personnel expense of the same amount and an increase in the related equity reserve for the ultimate parent's shares.

Part B - Consolidation policies and scope

Consolidation policies

These interim consolidated financial statements include, as well as the interim financial statements of the parent, Intesa Sanpaolo Vita, those of the subsidiaries Intesa Sanpaolo Life and Intesa Sanpaolo Assicura.

In compliance with IFRS 10, all the investments in subsidiaries, including those working in business sectors that are different to those of the parent, are consolidated with the line-by-line method, which establishes the following:

- the financial statements drawn up according to the IFRS of the parent and its subsidiaries are grouped line by line, summing all the carrying amounts of the assets, liabilities, equity, revenue and costs;

- the carrying amount of the parent's investments in each subsidiary and the corresponding part of their equity are eliminated and the non-controlling interest in the profit or loss for the period and in equity is shown separately;

- any positive differences between the carrying amount of the parent's investments in each subsidiary and the corresponding part of their equity are allocated to the subsidiary's relevant assets and, for the remaining part, to goodwill at the time of first consolidation and, afterwards, among the equity reserves. Any negative differences are recognised in profit or loss. In the case where the investments held by the parent come from transactions carried out with Intesa Sanpaolo Group companies, because they are transactions between entities under common control and in the absence of explicit information regarding this situation in the IFRS, the same carrying amount was maintained;

- intragroup balances and transactions, including revenue, costs and dividends, are eliminated.

The statement of financial position and income statement balances are the sum of the balances in the statements of financial position and income statements consolidated line by line, net of the above eliminations.

All the financial statements of the companies included in the consolidation scope have the same reporting date and are expressed in euros. Segment reporting by geographical segment is not presented because the group mainly operates in Italy.

The interim financial statements used for consolidation are those at 30 June 2018 as they were approved by the relevant bodies of the subsidiaries, adjusted where necessary to comply with the parent's accounting policies. All the group entities and companies use the euro as their functional and presentation currency.

Segment reporting is based on the significant business segments in which the group operates as follows:
- Non-life insurance business;
- Life insurance business.

Details are given in the annex to the notes "Income statement by business segment".

Consolidation scope

The interim consolidated financial statements include Intesa Sanpaolo Vita and the companies that it directly and indirectly controls – as specifically set out by IFRS – including the companies operating in dissimilar sectors from the parent.

Similarly, structured entities are included when the requisite of effective control is met, even if there is no stake in the company.

Companies are considered subsidiaries where Intesa Sanpaolo Vita is exposed to, or has rights to, variable returns from its involvement with them, and has the ability to affect those returns by exercising its own power over the entity in question. Control only exists if the parent concurrently has:

- the power to direct the relevant activities of the subsidiary;
- the exposure, or rights, to variable returns from the involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

On 1 December 2017, Intesa Sanpaolo Smart Care left the consolidation scope as the ultimate parent's Banca dei Territori division subscribed a capital increase acquiring control thereof with a 51% investment in the company.

The transaction is part of the Banca dei Territori division's new service model which comprises expanding the business to the health segment by providing health services, both on a stand-alone basis and in combination with the insurance coverage of Intesa Sanpaolo Assicura.

Following such transaction, Intesa Sanpaolo SmartCare is considered an associate, i.e., subject to significant influence, as Intesa Sanpaolo Vita holds 49% of its voting rights (including "potential" voting rights). The investment in this associate is measured using the equity method, which entails initial recognition of the investment at cost and subsequent remeasurement based on the group's share of the investee's equity. The difference between the value of the investment and the group's share of the investee's equity is included under the carrying amount of the investment.

The attributable portion of the investee's profit or loss for the period is recognised in the specific income statement caption.

A list of the companies consolidated at 31 December 2017 is provided in the annex to the notes "Consolidation scope".

Part C - Notes to the statement of financial position

INTANGIBLE ASSETS (caption 1)

The caption amounts to €643,185 thousand (€639,937 thousand at 31 December 2017).

This caption mainly comprises goodwill and the expenses incurred for software acquired from third parties or developed internally. The table below provides a breakdown of the caption:

(thousands €)

	Costs	Deemed cost or fair value	Carrying amount at 30.06.2018	Costs	Deemed cost or fair value	Carrying amount 31.12.2017
Goodwill	634,580	-	634,580	634,580	-	634,580
Other intangible assets	8,605	-	8,605	5,357	-	5,357
Total	**643,185**	**-**	**643,185**	**639,937**	**-**	**639,937**

Goodwill of €634,580 thousand, unchanged from 31 December 2017, refers to the non-recurring transactions in which the group was involved, especially the merger of Intesa Sanpaolo Vita (€596.3 million) and Sud Polo Vita (€35.3 million) into the parent on 31 December 2011 and the contribution of the Intesa Sanpaolo Previdenza SIM S.p.A. business unit (€2.9 million) on 1 December 2014.

Intesa Sanpaolo Vita as a whole was identified as a cash generating unit considering both the accounting origination of the goodwill recognised in the consolidated financial statements and the structure of the group's internal control and reporting systems, thus comparing the parent's future profitability to the carrying amount of the goodwill recognised in the group's consolidated financial statements.

Goodwill was tested for impairment at 31 December 2017 in line with IAS 36, by comparing the reference cash generating unit's carrying amount to its recoverable amount (the higher of fair value less costs to sell and its value in use). For the purposes of the consolidated financial statements, the parent deemed the analyses at value in use to be suitable. It was determined using the appraisal value, which is the parent's value as a going concern, i.e., the sum of the embedded value (the present value of future profits generated by each policy net of the in-force value and adjusted net asset value) and the value of future business that the parent expects to realise in the next three years, the period of time used as reference under national and international best practice.

The discount rate used to calculate the intrinsic value was derived from the "risk neutral" approach, using the Euroswap curve adjusted by the volatility adjustment defined in the Solvency II regulation. This calculation gave values considerably higher than the carrying amount of goodwill.

Moreover, it was supported by the elements characterising operations in the first six months of 2018 and mainly:

- developments of assets under management, which maintained a substantially stable value;
- variations in surrenders for the traditional class I products which were offset by new multi-class policies, which have a higher profit margin, agreed by customers;
- the trend of new business, recording significant amounts and products with relative profitability above the portfolio's average.

The good performance in the reporting period and forecasts for the entire year are consistent with the 2017 results, without indicating subsequent events that may negatively affect the calculations performed.

Other tangible assets (caption 2.2)

This caption, amounting to €1,444 thousand (€1,616 thousand at 31 December 2017), mainly comprises chattels, electronic systems, equipment and office machines.

AMOUNT CEDED TO REINSURERS FROM INSURANCE PROVISIONS (caption 3)

The balance amounts to €16,401 thousand (€15,762 thousand at 31 December 2017) with an increase of €639 thousand compared to the previous year end.

The reinsurance treaties are entered into with leading counterparties whose degree of solvency is supported by the high ratings assigned.

INVESTMENTS (caption 4)

Total investments (investment property, equity investments and financial assets) amount to €123,977,148 thousand (€124,333,014 thousand at 31 December 2017).

Lands and buildings (investment properties) (caption 4.1)

This caption amounts to €2,171 thousand at 30 June 2018 and refers to the equity measurement of the 49% interest held in Intesa Sanpaolo Smart Care S.r.l. which recognised equity of €4,431 thousand at the reporting date.

Financial assets (captions 4.3, 4.4 , 4.5 and 4.6)

Financial assets amount to €123,974,977 thousand (€124,330,702 thousand at 31 December 2017).

Loans and receivables (caption 4.4)

They amount to €19,172 thousand (€19,339 thousand at 31 December 2017) as follows:

(thousands €)

	30.06.2018	31.12.2017
Loans and receivables from banking customers	14,351	14,533
Interbank loans and receivables	-	-
Deposits with ceding companies	-	-
Financial asset components of insurance contracts	-	-
Other loans and receivables	4,820	4,806
- loans on policies	262	262
- secured loans	-	-
- employee loans	-	-
- other	4,559	4,544
Total	**19,172**	**19,339**

The maximum exposure to the credit risk on loans and receivables is €19,172 thousand, i.e., the carrying amount of such assets.

Available-for-sale financial assets (caption 4.5)

They amount to €72,715,254 thousand (€75,456,258 thousand at 31 December 2017), mainly comprise bonds and may be broken down as follows:

(thousands €)

	30.06.2018				31.12.2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debts instruments	60,794,524	1,427,761	103,711	62,325,996	63,118,916	1,648,944	177,682	64,945,542
- Structured	4,039,205	112,036	356	4,151,596	4,069,978	290,015	417	4,360,410
- Other debt securities	56,755,319	1,315,725	103,355	58,174,399	59,048,938	1,358,929	177,265	60,585,132
Equity instruments	969,481	1	61	969,543	1,579,608	-	61	1,579,669
- Measured at cost	-	-	61	61	-	-	61	61
- Measured at fair value	969,481	1	-	969,482	1,579,608	-	-	1,579,608
UCI shares	8,331,441	-	1,088,274	9,419,716	8,088,831	40,000	802,216	8,931,047
Total	**70,095,446**	**1,427,761**	**1,192,047**	**72,715,254**	**72,787,355**	**1,688,944**	**979,959**	**75,456,258**

The impairment test of investments classified as available-for-sale, which was conducted in compliance with the accounting policies adopted in the preparation of the 2017 annual consolidated financial statements, led to recognition of net losses of €7,809 thousand. This amount includes impairment losses on bonds (€89 thousand), equity instruments (€7,644 thousand) and OEIC units (€76 thousand).

The following table shows the carrying amount of the group's exposure to sovereign risk:

(thousands €)

	DEBT SECURITIES	
	Government bonds	Other debt securities
	Balance Sheet value	Balance Sheet value
Schengen countries	46,259.205	11,397,841
AUSTRIA	2,224	2,233
BELGIUM	4,084	173,511
BULGARIA	60,973	17,738
CROATIA	90,444	10,116
DENMARK	-	25,164
FINLAND	3,017	-
FRANCE	58,270	1,415,167
GERMANY	333,778	442,261
GREECE	-	-
IRELAND	92,250	164,222
ITALY	44,107,148	5,446,725
LUXEMBOURG	-	238,566
NORWAY	-	77,437
THE NETHERLANDS	67,715	1,173,159
POLAND	16,233	-
PORTUGAL	-	8,503
UNITED KINGDOM	99,902	1,417,784
ROMANIA	168,559	-
SLOVENIA	7,008	-
SPAIN	1,116,022	785,256
SWEDEN	-	-
HUNGARY	31,580	-
JAPAN	-	65,041
North Africa	4,447	-
America	5,091	2,596,399
Other countries	564,085	1,433,887
TOTAL	**46,832,828**	**15,493,168**

Financial assets at fair value through profit or loss (caption 4.6)

They amount to €51,240,551 thousand (€48,855,105 thousand at 31 December 2017) and include assets held for trading (€394,001 thousand) and assets designated at fair value through profit or loss (€50,846,550 thousand).

Financial assets held for trading

Financial assets held for trading amount to €394,001 thousand (€528,620 thousand at 31 December 2017).

The breakdown of the caption at 30 June 2018 is set out below:

(thousands €)

	30.06.2018				31.12.2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debts instruments	121,122	13,301	-	134,424	215,980	11,342	2,928	230,250
Structured	17,002	5,330	-	22,332	17,695	2,294	2,928	22,917
Other	104,121	7,971	-	112,092	198,285	9,048	-	207,333
Equity instruments	-	-	-	-	-	-	-	-
UCI shares	155,954	-	48,601	204,555	205,075	-	48,695	253,770
Derivatives	24,131	30,891	-	55,022	7,316	37,284	-	44,600
Total	**301,208**	**44,192**	**48,601**	**394,001**	**428,371**	**48,626**	**51,623**	**528,620**

Assets designated at fair value through profit or loss

Assets designated at fair value through profit or loss amount to €50,846,550 thousand (€48,326,485 thousand at 31 December 2017).

The breakdown of the caption at 30 June 2018 is set out below:

(thousands €)

	30.06.2018				31.12.2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial instruments								
Debts instruments	3,175,789	284,873	2,587	3,463,250	2,999,754	286,690	33,465	3,319,909
- Structured	109,401	156,250	2,587	268,238	-	-	-	-
- Other debt securities	3,066,388	128,624	-	3,195,011	2,999,754	286,690	33,465	3,319,909
Equity instruments	854,253	-	-	854,253	849,229	-	-	849,229
UCI shares	45,946,648	-	19,026	45,965,674	43,711,674	-	19,080	43,730,754
Other financial investments	236,840	-	321,796	558,637	-	-	426,593	426,593
Total	**50,213,530**	**284,873**	**343,410**	**50,841,813**	**47,560,657**	**286,690**	**479,138**	**48,326,485**
Derivatives								
Hedging financial derivatives	-	-	-	-	-	-	-	-
Non-hedging financial derivatives	759	3,978	-	4,737	-	-	-	-
Total	**50,214,289**	**288,851**	**343,410**	**50,846,550**	**47,560,657**	**286,690**	**479,138**	**48,326,485**

RECEIVABLES (caption 5)

They amount to €270,939 thousand (€365,629 thousand at 31 December 2017). Sundry receivables include, in particular, receivables from the ultimate parent for payment of the IRES advance (€486 thousand), tax assets (€45,060 thousand), management commissions on unit-linked and index-linked policies (€96,797 thousand) and other receivables of €110,285 thousand, mainly consisting of hedges of the margins on derivatives agreed with Credit Suisse, Deutsche Bank and Morgan Stanley.

The following table sets out details of the caption at 30 June 2018:

(thousands €)

	30.06.2018	31.12.2017
Direct insurance receivables (caption 5.1)	**17,389**	**8,892**
Premiums due from policyholders	12,576	4,525
Receivables from insurance brokers	608	1,078
Co-insurance receivables	2,104	1,406
Other	2,102	1,883
Reinsurance receivables (caption 5.2)	**920**	**3,510**
Sundry receivables (caption 5.3)	**252.630**	**353,227**
Tax assets	45,060	73,144
Management commissions on unit-linked policies	96,797	103,576
Receivables from the ultimate parent for tax payments on account	486	93,529
Other receivables	110.286	82,978
Total	**270,940**	**365,629**

OTHER ASSETS (caption 6)

The caption amounts to €2,833,894 thousand (€2,745,033 thousand at 31 December 2017).

(thousands €)

OTHER ASSETS	30.06.2018	31.12.2017
Non-current assets held for sale and disposal groups	-	-
Deffered acquisition costs	-	-
Defferred tax assets	168,614	181,959
Current tax assetsi	2,066,819	2,041,458
Other assets	598,461	521,616
Defferred commission expense on investment contracts	517,083	478,547
Other	81,378	43,069
Totale	**2,833,894**	**2,745,033**

Deferred tax assets (caption 6.3)

This caption of €168,614 thousand (€181,959 thousand at 31 December 2017) includes:

- deferred tax assets through profit or loss of €167,767 thousand (€181,748 thousand at 31 December 2017);
- deferred tax assets through equity of €847 thousand (€211 thousand at 31 December 2017).

(thousands €)

	30.06.2018	31.12.2017
Deferred tax assets through profit and loss	167,767	181,748
Deferred tax assets through equity	847	211
Total	**168,614**	**181,959**

Deferred tax assets derive from deductible temporary differences, such as losses on securities, amortisation of insurance contract portfolios, accruals to provisions for risks and charges, amortisation of intangible assets and unused tax losses carried forward.

The deferred tax assets were calculated using the tax rate deemed reasonable considering when they reverse.

Current tax assets (caption 6.4)

Current tax assets amount to €2,066,819 thousand (€2,041,458 thousand at 31 December 2017). The caption includes payments on account and other tax receivables for withholdings or prior year tax assets that can be offset against taxes of subsequent years. The caption also comprises tax assets on mathematical provisions pursuant to article 1.2 of Legislative decree no. 209/2002 as converted by article 1 of Law no. 265/2002 and subsequent amendments.

The following table sets out details of the caption at 30 June 2018:

(thousands €)

	30.06.2018	31.12.2017
Direct taxes	35,497	59,952
Tax on mathematical provisions	2,031,321	1,981,506
Total	**2,066,819**	**2,041,458**

Other assets (caption 6.5)

Sundry assets amount to €598,461 thousand (€521,616 thousand at 31 December 2017). The caption mainly comprises deferred commission expense of €517,083 thousand associated with products of a financial nature without DPF, such as index-linked and unit-linked policies.

The following table sets out details of the caption at 30 June 2018:

(thousands €)

	30.06.2018	31.12.2017
Deferred commission expense on investment contracts	517,083	478,547
Other	81,378	43,069
Total	**598,461**	**521,616**

CASH AND CASH EQUIVALENTS (caption 7)

At 30 June 2018, cash and cash equivalents amount to €619,578 thousand (€768,108 thousand at 31 December 2017). The caption includes cash and cash equivalents and demand deposits, including treasury current accounts.

SHAREHOLDERS' EQUITY (caption 1)

This caption includes equity instruments making up equity, in line with the rules laid down by the Italian Civil Code and the laws regulating the insurance sector, taking into account the necessary adjustments for consolidation. The table below provides a breakdown of the caption at 30 June 2018:

(thousands €)

SHAREHOLDERS' EQUITY	30.06.2018	31.12.2017
Share capital	320,423	320,423
Capital reserves	1,328,097	1,328,097
Revenue reserves and other reserves	2,768,780	2,182,342
Own shares	-	-
Reserve for currency translation differences	-	-
Reserve for unrealized gains and losses on assets available for sales	85,137	397,957
Other gains or losses recognised directly in equity	-268	2,257
Profit for the period/year attributable to the owners of the parent	379,196	587,119
Total	**4,881,365**	**4,818,195**

The increase in equity mainly reflects the profit for the period, the income-related and other reserves and the variation in the fair value reserve.

Share capital (caption 1.1.1)

Share capital comprises:

- the parent's share capital of €320,423 thousand, divided into 655,157,496 ordinary registered shares with no nominal amount;

Capital reserves (caption 1.1.3)

These reserves of €1,328,097 thousand (€1,328,097 thousand at 31 December 2017) include the parent's share premium reserve.

Revenue reserves and other reserves (caption 1.1.4)

The caption includes the legal reserve, the statutory reserve, the extraordinary reserve and other reserves. It also includes the IFRS FTA reserve. These reserves amount to €2,768,780 thousand compared to €2,182,342 thousand at 31 December 2017.

Reserves for unrealized gains and losses on assets available for sales (caption 1.1.7)

The caption includes fair value gains and losses deriving from the remeasurement of financial instruments classified as available-for-sale financial assets.

As a result of application of shadow accounting, the differences between the fair value and cost of the aforementioned instruments, net of the tax effects, are recognised in this reserve for the sole part pertaining to the group. The policyholders' portion is included under the technical provisions.

The table below provides a breakdown of the caption at 30 June 2018:

(thousands €)

	30.06.2018			31.12.2017		
	Unrealized gains	Unrealized losses	Total	Unrealized gains	Unrealized losses	Total
Total gross of shadow accounting	3,143,822	-549,612	2,594,210	5,302,484	-214,237	5,088,247
- Debt instruments	2,630,383	-366,492	2,263,891	4,564,846	-81,641	4,483,205
- Equity instruments	274,253	-13,404	260,849	391,505	-35,720	355,785
- UCI shares	239,186	-169,717	69,470	346,133	-96,876	249,257
Shadow accounting	-2,969,790	498,915	-2,470,875	-4,704,873	189,959	-4,514,914
Total gross of income taxes	174,032	-50,698	123,335	597,611	-24,278	573,333
Tax effects	-53,211	15,013	-38,198	-184,188	8,812	-175,376
Total	**120,821**	**-35,685**	**85,137**	**413,423**	**-15,466**	**397,957**

The following table shows changes in the caption in the period:

(thousands €)

	Debt instruments	Equity instruments	UCI shares	30.06.2018	31.12.2017
Opening balance	**350,116**	**29,235**	**18,606**	**397,957**	**480,023**
Increases	**4,058**	**10,691**	**7,894**	**22,643**	**58,961**
- Fair value gains	3,485	3,651	2,586	9,722	57,972
- Accruals	550	2,288	2,180	5,018	-2,698
- Other increases	23	4,752	3,129	7,903	3,687
Decreases	**-275,730**	**-30,046**	**-29,687**	**-335,463**	**-141,027**
- Fair value losses	-81,408	-3,355	-7,145	-91,909	-102,088
- Impairment losses	-97	-151	-	-248	336
- Utilisations	-16,920	-11,252	-7,034	-35,206	-33,646
- Other decreases	-177,304	-15,288	-15,507	-208,099	-5,629
Closing balance	**78,444**	**9,880**	**-3,186**	**85,137**	**397,957**

OTHER PROVISIONS (caption 2)

The caption amounts to €13,616 thousand at 30 June 2018 (€13,024 thousand at 31 December 2017) and comprises other provisions that mainly include accruals for future personnel expense and for product disputes. The remainder relates to accruals made for tax purposes. The other decreases principally consist of savings on expenses provided for in relation to Intesa Sanpaolo Vita's merger.

INSURANCE PROVISIONS (caption 3)

The table below provides a breakdown of the caption at 30 June 2018:

	30.06.2018	31.12.2017
Non-life insurance provisions	**734,778**	**678,438**
Provisions for unearned premiums	544,601	496,540
Provisions for outstanding claims	188,702	180,488
Other insurance provisions	1,475	1,410
Life insurance provisions	**72,692,155**	**75,774,462**
Provisions for outstanding claims	330,522	297,766
Mathematical provisions	65,471,172	66,786,177
Provisions for policies where the investment risk is borne by the policyholders and provisions for pension fund	4,279,002	4,094,744
Other insurance provisions	2,611,459	4,595,775
Total	**73,426,933**	**76,452,900**

The technical provisions of the life business decreased by 4.1%. This change can be attributed to the portfolio's performance, the revaluation of benefits and the trend of the shadow accounting provision (included in the other provisions), which shows a decrease in line with the financial markets' performance.

The group performed the liability adequacy test (LAT) to check that the net provisions are sufficient to meet its commitments with policyholders. The related results are shown in the technical provisions and amount to €29.9 million (€21.0 million at 31 December 2017).

Insurance provisions and financial liabilities of the life business

Technical provisions and financial liabilities amount to €118,605,063 thousand (€119,216,307 thousand at 31 December 2017). Contracts falling within the scope of IFRS 4, insurance contracts and investment contracts with DPF account for roughly 87% of the life portfolio (88% at 31 December 2017), while the investment contracts falling within the scope of IAS 39 account for about 1% (1% at 31 December 2017). The remainder (12% and 11% at 30 June 2018 and 31 December 2017, respectively) refers to multi-class products.

Non-life insurance provisions

In the non-life business, the technical provisions increased from €678,438 thousand at 31 December 2017 to €734,778 thousand at 30 June 2018 (+8.3%). They mainly refer to the portfolio held by Intesa Sanpaolo Assicura.

FINANCIAL LIABILITIES (caption 4)

Financial liabilities amount to €48,308,657 thousand (€45,790,456 thousand at 31 December 2017).

Financial liabilities at fair value through profit or loss (caption 4.1)

They amount to €45,963,631 thousand (€43,509,555 thousand at 31 December 2017) and include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss.

(thousands €)

	Level 1	Level 2	Level 3	30.06.2018
Financial liabilities held for trading	1,544	47,614	-	49,158
Financial liabilities designated at fair value through profit and loss	-	45,914,473	-	45,914,473
Total	**1,544**	**45,962,087**	**-**	**45,963,631**

	Level 1	Level 2	Level 3	31.12.2017
Financial liabilities held for trading	-	66,692	-	66,692
Financial liabilities designated at fair value through profit and loss	-	43,442,863	-	43,442,863
Total	**-**	**43,509,555**	**-**	**43,509,555**

Financial liabilities held for trading

They amount to €49,158 thousand at 30 June 2018 and include non-hedging derivatives with negative fair values (€66,692 thousand at 31 December 2017).

Financial liabilities designated at fair value through profit or loss

The caption of €45,914,473 thousand (€43,442,863 thousand) at 31 December 2017) includes the financial liabilities associated with index-linked and unit-linked investment contracts which do not present a significant insurance risk and, therefore, do not fall within the scope of IFRS 4 as well as non-hedging derivatives with negative fair values.

Other financial liabilities (caption 4.2)

The caption includes subordinated liabilities, financial liabilities associated with investment contracts with eligible asset products, sundry financial liabilities and deposits from reinsurers. Sundry financial liabilities include other liabilities with policyholders of Intesa Sanpaolo Life.

The table below gives a breakdown of the caption:

	30.06.2018	31.12.2017
		(thousands €)
Subordinated liabilities	1,968,620	1,926,638
Other financial liabilities	374,560	351,704
Deposits under reinsurance business	1,846	2,559
Total	**2,345,026**	**2,280,901**

The increase in this caption compared to the previous year end is mostly due to the interest accrued on subordinated liabilities.

Subordinated liabilities

The caption comprises financial liabilities, recognised at amortised cost, pertaining to the parent, the creditors' repayment of which is subordinated to the settlement of the senior debt in the case of liquidation.

The subordinated liabilities amount to €1,968,620 thousand (€1,926,638 thousand at 31 December 2017).

They do not provide for early repayment or provisions allowing their conversion into equity or into another type of liability.

The two series of bonds placed by Intesa Sanpaolo Vita, recognised at amortised cost, include the issue costs of €3,518 thousand and €5,975 thousand, respectively, for the bonds issued in September 2013 (nominal amount of €500 million) and December 2014 (€750 million).

PAYABLES (caption 5)

The following table sets out details of the caption at 30 June 2018:

	30.06.2018	31.12.2017
		(thousands €)
Direct insurance liabilities	165,264	158,610
Reinsurance liabilities	218	3,869
Other liabilities	614,173	580,818
Total	**779,654**	**743,297**

The caption "Direct insurance liabilities" of €165,264 thousand (€158,610 thousand at 31 December 2017) mainly includes commissions payable to distribution networks, as well as items to be settled deriving from co-insurance agreements.

"Other" mainly include trade payables arising from indirect insurance transactions of €304,572 thousand and the parent's IRES payments on account as part of its participation in the domestic tax consolidation scheme, IRAP liabilities of €43,535 thousand and investment management fees of €61,529 thousand. The caption also comprises the liability for post-employment benefits.

Post-employment benefits

This caption showed the following changes during the period:

(thousands €)

	30.06.2018	31.12.2017
Opening balance	**3,046**	**3,063**
Increases	**34**	**104**
- New entities included in the consolidation scope	-	-
- Current service cost	-	-
- Transfers between group companies	-	-
- Interest cost	34	67
- Other increases	-	37
Decreases	**-110**	**-121**
- Benefits paid	-	-
- Current service cost	-	-
- Curtailments	-1	-
- Other decreases	-109	-121
- Entities excluded from the consolidation scope	-	-
Closing balance	**2,970**	**3,046**

OTHER LIABILITIES (caption 6)

Deferred tax liabilities (caption 6.2)

This caption includes deferred tax liabilities, as defined and regulated by IAS 12. The caption decreased during the period from €488,244 thousand to €417,612 thousand. The following table sets out details of the caption at 30 June 2018:

(thousands €)

	30.06.2018	31.12.2017
Deferred tax liabilities through profit or loss	373,123	311,492
Deferred tax liabilities through equity	44,489	176,752
Total	**417,612**	**488,244**

Current tax liabilities (caption 6.3)

The caption, amounting to €364,614 thousand (€373,390 thousand at 31 December 2017), mainly comprises the accrual for the tax liability on the mathematical provisions (Law no. 265/2002) accrued at the reporting date.

Other liabilities (caption 6.4)

The following table sets out details of this caption:

(thousands €)

	30.06.2018	31.12.2017
Deferred liabilities relating to investment contracts	1,030	990
Pension funds	317	341
Seniority bonuses	2,885	2,765
Other liabilities	165,905	185,462
Total	**170,137**	**189,593**

The caption mainly includes liabilities relating to deferred commission income associated with index and unit-linked investment contracts with an insurance risk considered to be insignificant and to long-term employee benefits.

Deferred operating costs include the portion of the future expenses provision set aside for financial contracts in relation to which it was not necessary to defer the loading.

Other liabilities mainly include the provision for retention commissions. These liabilities refer to the accrual for the cost of retention commissions accrued at the reporting date, even though the related obligation has not materialised since their payment is subject to the retention of the contracts in the portfolio on the renewal date.

Part D - Notes to the income statement

REVENUE

Net premiums (caption 1.1)

The net premiums for the period amount to €3,145,921 thousand, showing an increase of 7.3% compared to the corresponding period of 2017 (€2,932,445 thousand).

(thousands €)

	30.06.2018			30.06.2017		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-Life business						
Non-Life gross earned premiums	200,260	-5,462	**194,798**	179,791	-4,901	**174,890**
Gross written premiums	*248,322*	*-5,097*	***243,226***	*233,198*	*-3,646*	***229,552***
Change in the provisions for unearned	*-48,062*	*-366*	***-48,428***	*-53,407*	*-1,255*	***-54,662***
Life business						
Life gross written premiums	2,951,623	-499	**2,951,124**	2,758,073	-518	**2,757,555**
Total	**3,151,883**	**-5,962**	**3,145,921**	**2,937,864**	**-5,419**	**2,932,445**

COMMISSION INCOME (caption 1.2)

Commissions refer to financial contracts which do not have a significant insurance risk and do not include DPF, such as index-linked and unit-linked policies.

Commission income includes premium loading and, for the unit-linked policies, the management commissions on contracts with investments in an internal fund. Other commission income includes the management commissions retroceded by the managers to the companies for unit-linked products.

The following table shows a breakdown of commission income for the period:

(thousands €)

	30.06.2018	30.06.2017
Unit Linked financial products	436,773	342,286
Index Linked financial products	-	-
Other commission income	24,627	18,488
Total	**461,401**	**360,774**

Gains (losses) on financial instruments at fair value through profit or loss (caption 1.3)

This caption is a net loss of €64,308 thousand (net gain of €41,511 thousand for the corresponding period of 2017). It is broken down in the annex "Gains and losses on financial instruments and investments".

The smaller net gains on financial instruments at fair value through profit or loss are due to the change in fair value observed on financial markets compared to the previous year which affected both instruments designated at fair value through profit or loss and investments held for trading.

Income from other financial instruments and lands and buildings (caption 1.5)

This caption amounts to €1,252,458 thousand (€1,235,978 thousand for the corresponding period of 2017). The increase is substantially due to the greater sales compared to the first six months of 2017 despite the increase in assets under management.

A breakdown of the caption is given in the annex to the notes "Gains and losses on financial instruments and investments.

OTHER INCOME (caption 1.6)

This item amounts to €96,974 thousand (€68,274 thousand for the corresponding period of 2017) and mainly consists of other technical income (€56,517 thousand), mostly relating to the management commissions for unit-linked products and pension plans, and exchange rate gains on investments (€36,536 thousand).

COSTS

Net insurance benefits and claims (caption 2.1)

The caption amounts to €3,443,511 thousand (€3,287,516 thousand for the corresponding period of 2017) as follows:

(thousands €)

	30.06.2018			30.06.2017		
	Gross amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Non-life net insurance benefit and claims	**58,364**	**-5,094**	**53,270**	**51,909**	**-2,014**	**49,895**
Claims paid	50,864	-3,730	47,134	50,270	-2,072	48,198
Changes in the provisions for outstanding claims	8,213	-1,364	6,849	2,205	58	2,263
Change in claims paid to be recovered	-779	-	-779	-582	-	-582
Change in other insurance provisions	65	-	65	16	-	16
Life net insurance benefit and claims	**3,390,139**	**102**	**3,390,241**	**3,237,884**	**-263**	**3,237,621**
Claims payments	4,530,605	-258	4,530,347	4,308,993	-64	4,308,929
Change in the provisions for outstanding claims	32,755	593	33,348	94,375	21	94,396
Change in the mathematical provisions	-1,417,202	-234	-1,417,435	-1,236,101	-220	-1,236,321
Change in the provisions where investments risk is borne by the policyholders and provisions arising from pension fund management	184,258	-	184,258	101,977	-	101,977
Change in other insurance provisions	59,723	-	59,723	-31,360	-	-31,360
Total	**3,448,503**	**-4,992**	**3,443,511**	**3,289,793**	**-2,277**	**3,287,516**

Fee and commission expense (caption 2.2)

Commission expense includes the commissions for the acquisition of contracts classified as financial and, for the unit-linked policies, the management commissions retroceded to placement agents.

The following table gives a breakdown of the caption for the first half of 2018:

(thousands €)

	30.06.2018	30.06.2017
Commission expense for management and dealing services	1,357	1,099
Unit-linked financial products	296,846	260,974
Index-linked financial products	-	-
Retroceded commission income on unit-linked funds	38,936	2,779
Other commission expense	825	136
Total	**337,964**	**264,988**

Expenses from other financial instruments and lands and buildings (caption 2.4)

The caption amounts to €120,130 thousand (€75,457 thousand for the corresponding period of 2017).

Its breakdown is provided in the annex to the notes "Gains and losses on financial instruments and investments". The caption mainly consists of fair value losses of €7,809 thousand on available-for-sale financial assets, realised losses of €65,381 thousand and interest expense of €46,934 thousand.

OPERATING EXPENSES (caption 2.5)

The following table gives a breakdown of the costs in question:

(thousands €)

	30-06-2018	30-06-2017
Commissions and other acquisition costs	157,555	151,101
Deffered commissions	120,765	125,166
Other acquisitions expenses	11,380	12,311
Change in deffered acquisition costs	-5	-4
Acquisition commissions	25,414	13,628
Commissions and other acquisitions costs net of commissions and profit commissions from reinsurers	-698	-458
Investment management expenses	26,269	26,380
Other administrative expenses	38,342	40,283
Total	**221,467**	**217,306**

The investment management costs mainly consist of costs of financial instruments (€6,200 thousand) and investment management commissions and custody expenses (€20,069 thousand).

The decrease in other administrative costs is due to variations in IT, consultancy and commercial costs.

OTHER EXPENSES (caption 2.6)

This caption, equal to €262,345 thousand (€319,403 thousand for the corresponding period of 2017), includes, inter alia, the net accruals to the provisions for risks and charges (€232 thousand), depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets (€1,237 thousand), exchange rate losses (€35,091 thousand) and other technical costs (€215,917 thousand). The latter amount mostly consists of retention commissions paid to the sales network.

INCOME TAXES (caption 3)

This caption represents the consolidated tax expense calculated in compliance with the rules in force in the different countries where the group companies operate, taking into account the effects of deferred tax assets and liabilities.

The following table sets out details of this caption:

(thousands €)

	30.06.2018	30.06.2017
Current tax	46,662	93,522
Change in current tax related to previous years	-	-
Decrease in current taxes of the period	-	-
Change in deferred tax receivables	25,421	12,206
Change in deferred tax	55,610	23,148
Total	**127,693**	**128,876**

Part E - Related parties

The group companies have performed transactions with companies of Intesa Sanpaolo Group as part of their normal operations, which are summarised below. These transactions were carried out at normal market conditions and to both parties' mutual advantage. The group did not carry out atypical and/or unusual transactions during the year, either intragroup, with related parties or third parties.

(thousand €)

	Ultimate parent	Entities controlled by the ultimate parent	Other related parties	TOTAL
Loans and receivables	-	4,559	-	4,559
Available-for-sale financial assets	2,697,165	77	-	2,697,242
Financial assets at fair value through profit or loss	78,760	11,641	-	90,401
Other receivables	121,230	3,237	27,361	151,828
Other assets	895,953	48,476	143,699	1,088,128
Cash and cash equivalents	83,737	-9,234	848	75,351
ASSETS	**3,876,845**	**58,756**	**171,908**	**4,107,508**
Technical provisions	-	-	-	-
Financial liabilities	665,879	18,785	-	684,664
Fair value reserve	94,198	-	-	94,198
Payables	102,407	82,998	39,500	224,905
Other Liabilities	25,774	23,259	-	49,033
LIABILITIES	**888,258**	**125,043**	**39,500**	**1,052,800**
Net premiums	-	-	-	-
Commission income	-	-	3,030	3,030
Gains (losses) on investments	-4,314	641	-4,148	-7,821
Net gains on available-for-sale financial assets	32,500	-43	-	32,457
Other income	10,375	9,928	-	20,303
Net charges relating to claims	-70	-979	-	-1,049
Commission expense	-127,697	-31,559	-96,667	-255,924
Commissions and other acquisition costs	-82,844	-51,431	-	-134,275
Investment management costs	-	-12,923	-607	-13,531
Other administrative costs	-3,696	-3,907	-343	-7,946
Other costs	-72,697	-68,765	-	-141,462
INCOME STATEMENT	**-248,443**	**-159,038**	**-98,737**	**-506,218**

Assets and liabilities mainly refer to:

- ownership of bonds issued by the ultimate parent, Intesa Sanpaolo, or its subsidiaries;
- ownership of OEIC units managed by Intesa Sanpaolo Group companies;
- financial protection arrangements for unit-linked products;
- receivables and payables relating to personnel secondment or recharging of costs for the use of equipped space made available by the group;
- commission expense which is deferred and relates to contracts which do not fall under the scope of application of IFRS 4;
- deposits on current accounts opened with group banks;

- security deposits with Intesa Sanpaolo and its subsidiaries;
- liabilities for investment contracts which do not fall under the scope of application of IFRS 4;
- subordinated loans;
- commissions payable to the Intesa Sanpaolo networks accrued by the latter for the placement of products of insurance companies;
- receivables and payables with the ultimate parent Intesa Sanpaolo for the tax consolidation scheme for IRES purposes;
- payables to Intesa Sanpaolo Group companies that provide IT services.

Income and expense refer mainly to:

- net gains on the financial instruments issued by group companies;
- fees that have accrued on current accounts opened with banks;
- costs and income from existing service contracts involving the reciprocal secondment of personnel or making available equipped spaces;
- net expenses from awarding insurance benefits to group companies and the change in the technical provisions;
- interest expense on subordinated loans;
- the cost of commission fees and commission expense to the network for the placement of insurance or investment contracts;
- management commissions recognised to group companies that manage the securities portfolios;
- expenses for IT services supplied by the outsourcer of the Intesa Sanpaolo Group.

Significant non-recurring events and transactions

Please see the “Other information” section of the Directors’ report for information on significant non-recurring events and transactions.

Annexes to the notes to the interim consolidated financial statements

Income statement by business segment

(amount in €)

		Non-Life business		Life business		Consolidation adjustments		Total	
		Total 30-06-2018	Total 30-06-2017	Total 30-06-2018	Total 30-06-2017	Total 30-06-2018	Total 30-06-2017	Total 30-06-2018	Total 30-06-2017
1.1	Net earned premiums	194,797,914	174,890,000	2,951,123,462	2,757,555,000	-	-	3,145,921,376	2,932,445,000
1.1.1	*Gross premiums written*	*200,260,331*	*179,791,000*	*2,951,622,770*	*2,758,073,000*	-	-	*3,151,883,101*	*2,937,864,000*
1.1.2	*Reinsurance premiums*	*-5,462,417*	*-4,901,000*	*-499,308*	*-518,000*	-	-	*-5,961,725*	*-5,419,000*
1.2	Commission income	-	-	461,400,595	360,774,000	-	-	461,400,595	360,774,000
1.3	Net income on financial instruments at fair value through P&L	107,743	289,000	-64,415,290	41,222,000	-	-	-64,307,547	41,511,000
1.4	Income on investments in subsidiaries, associate & joint ventures	-	-	-	-	-	-	-	-
1.5	Income from other financial instruments and lands and buildings	12,083,661	7,232,000	1,240,374,110	1,228,746,000	-	-	1,252,457,771	1,235,978,000
1.6	Other revenues	15,974,724	13,552,000	83,556,834	58,150,000	-2,557,060	-3,428,000	96,974,498	68,274,000
1	**TOTAL INCOME**	**222,964,042**	**195,963,000**	**4,672,039,711**	**4,446,447,000**	**-2,557,060**	**-3,428,000**	**4,892,446,693**	**4,638,982,000**
2.1	Net insurance benefits and claims	-53,269,786	-49,895,000	-3,390,241,090	-3,237,621,000	-	-	-3,443,510,876	-3,287,516,000
2.1.2	*Amounts paid and change in technical reserves*	*-58,363,861*	*-51,909,000*	*-3,390,139,016*	*-3,237,884,000*	-	-	*-3,448,502,877*	*-3,289,793,000*
2.1.3	*Reinsurers' share*	*5,094,075*	*2,014,000*	*-102,074*	*263,000*	-	-	*4,992,001*	*2,277,000*
2.2	Commission expenses	-	-	-337,963,599	-264,988,000	-	-	-337,963,599	-264,988,000
2.3	Losses on investments in subsidiaries associates & joint ventures	-	-	-140,757	-	-	-	-140,757	-
2.4	Expenses from other financial instruments and lands and buildings	-1,675,088	-130,000	-118,454,898	-75,327,000	-	-	-120,129,986	-75,457,000
2.5	Operating expenses	-77,005,807	-74,276,000	-149,021,768	-146,542,000	4,560,168	3,512,000	-221,467,407	-217,306,000
2.6	Other costs	-43,569,995	-42,450,000	-218,263,387	-277,192,000	-511,460	239,000	-262,344,842	-319,403,000
2	**TOTAL EXPENSES**	**-175,520,676**	**-166,751,000**	**-4,214,085,499**	**-4,001,670,000**	**4,048,708**	**3,751,000**	**-4,385,557,467**	**-4,164,670,000**
	PROFIT (LOSS) BEFORE TAX FOR THE PERIOD	**47,443,366**	**29,212,000**	**457,954,212**	**444,777,000**	**1,491,648**	**323,000**	**506,889,226**	**474,312,000**

Consolidation area

Entity name	Country of office registration	Country of principal place of business (5)	Method (1)	Activity (2)	Direct shareholding	%Group equity ratio (3)	Avalaibility of minority interest to voting right	Consolidation
INTESA SANPAOLO VITA S.p.A.	086		G	1				100.00
INTESA SANPAOLO LIFE DAC	040		G	2	100.00	100.00		100.00
INTESA SANPAOLO ASSICURA S.p.A.	086		G	1	100.00	100.00		100.00

(1) consolidation method: line by line consolidation method =G, proportionate consolidation method =P, line by line consolidation method arising from joint management = U

(2) 1= italian insurance companies; 2= EU insurance companies; 3= non EU insurance companies; 4=insurance holding companies; 5=Eu reinsurance companes; 6=non EU reinsurance companies; 7=banks; 8=asset management companies; 9=holding diverse; 10=real estate companies; 11=others

(3) net group partecipation percentage. The total percentage of votes exercitable at shareholders's general meeting, which differs from that of direct on indirect shareholding

% availability to minority interest of voting rights in the general shareholders' meeting

5) this disclosure is required if the operational headquarters' nation is different from the registered office one.

Consolidation scope: investments in companies with significant non-controlling interests

Entity name	% Non controlling interest	% Availability to minority interest of voting rights in the general shareholders' meeting	Consolidated profit (loss) attributable to minority interests	Shareholders' equity to minority interest	Assets total	Investment	Insurance provisions	Financial liabilities	Equity	Net profit (loss) of the period	Dividend distributed to third parties	Gross premium written
INTESA SANPAOLO SMART CARE S.r.l.	51		146,774	2,259,866	15,857,193				4,431,109	-287,792		

Non-consolidated equity investments

Entity name	Country of office registration	Country of principal place of business	Financial instruments(1)	Type (2)	Direct shareholding	% Group equity ratio(3)	% avalaibility of minority interest to voting right	Carrying amount
INTESA SANPAOLO SMART CARE S.r.l.	086		11	B	49			2,171,243

(1) 1= italian insurance companies; 2= EU insurance companies; 3= non EU insurance companies; 4=insurance holding companies; 5=Eu reinsurance companes; 6=non EU reinsurance companies; 7=banks; 8=asset management companies; 9=holding diverse; 10=real estate companies; 11=others

(2) a=non consolidated subsidiaries (IFRS10) ; b=associated companies (IAS28); c=joint ventures (IFRS11); Indicate with an (*) the companies classified as held for sale in accordance with IFRS 5 and report the key below the prospectus

(3) net group partecipation percentage. The total percentage of votes exercitable at shareholders's general meeting, which differs from that of direct on indirect shareholding

% availability to minority interest of voting rights in the general shareholders' meeting

5) this disclosure is required if the operational headquarters' nation is different from the registered office one.

Interests in non-consolidated structured entities

(amounts in €)

Name	Revenue received from the structured entity during the year	Carrying amount (at the transfer date) of the assets transferred to the structured entity during the year	Carrying amount of the assets recognised by the reporting entity related to the structured entity	Matching statement of financial position asset caption	Carrying amount of liabilities recognised by the reporting entity related to the structured entity	Matching statement of financial position liability caption	Maximum exposure to risk of failure
GERMAN POST PENS 3,75 18/01/2021	1,875	-	111,608	A4.5	-	-	101,622
E-MAC NL05-3 A 25/07/2038	-1,207	-	3,681,867	A4.5	-	-	3,570,132

Breakdown of technical insurance items

(amount in €)

		30-06-2018	30-06-2017
Non-Life business			
Net earned premiums		194,797,914	174,890,000
a	Premiums written	243,225,664	229,552,000
b	Change in the provisions for unearned premiums and for unexpired risks for non-life segment	-48,427,730	-54,662,000
Acquisition and administration cost related to the insurance business		-53,269,786	-49,895,000
a	Claims paid and change in insurance provision	-47,133,661	-48,198,000
b	Changes in the provisions for outstanding claims and other insurance provisions for life segment	-6,849,355	-2,263,000
c	Change in claims paid to be recovered	778,481	582,000
d	Change in other insurance provisions	-65,251	-16,000
Life business			
Net earned premiums		2,951,123,462	2,757,555,000
Acquisition and administration cost related to the insurance business		-3,390,241,090	-3,237,621,000
a	Claims payments	-4,530,346,948	-4,308,929,000
b	Change in the provisions for outstanding claims	-33,348,204	-94,396,000
c	Change in the mathematical provisions	1,417,435,156	1,236,321,000
d	Change in the provisions where investments risk is borne by the policyholders and provisions arising from pension fund management	-184,257,963	-101,977,000
e	Change in other insurance provisions	-59,723,131	31,360,000

Breakdown of insurance expenses

		Interest	Other income	Other expenses	Realized gains	Realized losses	Sum of realized discounted operations	Unrealized gains and reversal of impairment losses		impairment losses		Sum of unrealized discounted operations	Sum of discounted operations 30-06-2018	Sum of discounted operations 30-06-2017
								Unrealized gains	Reversal of the impairment of the period	Unrealized losses	Accumulated depreciation			
Income and expenses from investments		**876,630,098**	**144,964,202**	**-385,136,418**	**886,232,054**	**-251,854,297**	**1,270,835,639**	**229,191,157**	**-**	**-1,292,033,398**	**-7,809,000**	**-1,070,651,241**	**200,184,398**	**1,405,208,000**
a	Arising from investment property	-	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**
b	Arising from associates, subsidiaries and joint venture	-	-	-140,757	-	-	**-140,757**	-	-	-	-	**-**	**-140,757**	**-**
c	Arising from held-to-maturity financial assets	-	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**
d	Arising from loans and receivables	213,832	-	-	2,865,652	-2,013,342	**1,066,142**	-	-	-	-	**-**	**1,066,142**	**-2,722,000**
e	Arising from available for sale financial assets	848,335,061	104,241,671	-6,862	296,741,889	-63,367,240	**1,185,944,519**	-	-	-	-7,809,000	**-7,809,000**	**1,178,135,519**	**1,198,591,000**
f	Arising from financial assets held for trading	4,161,465	-	-2,617,975	9,532,595	-12,666,164	**-1,590,079**	274,176	-	-14,265,065	-	**-13,990,889**	**-15,580,968**	**6,240,000**
g	Arising from financial assets designated as at fair value through profit or loss	23,919,740	40,722,531	-382,370,824	577,091,918	-173,807,551	**85,555,814**	228,916,981	-	-1,277,768,333	-	**-1,048,851,352**	**-963,295,538**	**203,099,000**
Income and expenses from receivables		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Results of cash and cash equivalents (liquidity)		**66,606**	**-**	**-**	**-**	**-**	**65,606**	**-**	**-**	**-**	**-**	**-**	**65,606**	**230,000**
Income and expenses from cash and cash equivalents		**-50,337,763**	**-**	**-18,905**	**30,613,611**	**-25,469,743**	**-45,212,800**	**930,714,881**	**-**	**-17,866,389**	**-**	**912,848,492**	**867,635,692**	**-203,406,000**
a	Arising from financial assets held for trading	-3,404,221	-	-18,905	30,613,611	-23,465,138	**3,725,347**	14,191,421	-	-15,290,136	-	**-1,098,715**	**2,626,632**	**-5,936,000**
b	Arising from financial assets designated as at fair value through profit or loss	-	-	-	-	-2,004,605	**-2,004,605**	916,523,460	-	-2,576,253	-	**913,947,207**	**911,942,602**	**-161,892,000**
c	Arising from other financial liabilities	-46,933,542	-	-	-	-	**-46,933,542**	-	-	-	-	**-**	**-46,933,542**	**-35,578,000**
income and expenses from payables		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL		**826,357,941**	**144,964,202**	**-385,155,323**	**916,845,665**	**-277,324,040**	**1,225,688,445**	**1,159,906,038**	**-**	**-1,309,899,787**	**-7,809,000**	**-157,802,749**	**1,067,885,696**	**1,202,032,000**

Breakdown of rec las s ified financ ial as sets and effec ts on profit or los s and comprehensive income

(amount in €)

		Non-Life business		Life business	
		30.06.2018	30.06.2017	30.06.2018	30.06.2017
Commissions and other acquisition costs		-65,177,594	-63,813,000	-92,376,945	-87,288,000
a	deffered commissions	-59,451,668	-58,903,000	-61,313,744	-66,263,000
b	other acquisitions expenses	-5,460,702	-4,606,000	-5,919,618	-7,705,000
c	change in deffered acquisition costs	5,154	4,000	-	-
d	acquisition commissions	-270,378	-308,000	-25,143,583	-13,320,000
Commissions and other acquisitions costs net of commissions and profit commissions from reinsurers		698,401	458,000	-	-
Investment management expenses		-258,777	-242,000	-26,010,651	-26,138,000
Other administrative expenses		-12.267.837	-10.679.000	-30.634.172	-33.116.000
sum		**-77.005.807**	**-74.276.000**	**-149.021.768**	**-146.542.000**

Breakdown of other comprehensive income

(amount in €)

	Allocation		Transfer to profit or loss account		Other changes		Total changes		Taxes		Balance at	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017	30.06.2018	30.06.2017	30.06.2018	30.06.2017	30.06.2018	30.06.2017	30.06.2018	31.12.2017
Other items of income without reclassification to profit or loss	46,083	73,000	-	-	-2,604,826	-	-2,558,743	73,000	-	-	-2,250,743	378,000
Change in shareholders' equity of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets revaluation reserve	-	-	-	-	-	-	-	-	-	-	-	-
Tangible assets revaluation reserve	-	-	-	-	-	-	-	-	-	-	-	-
Gains (losses) of non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
Actuarial gains (losses) arising from defined benefit plans	46,083	73,000	-	-	-	-	46,083	73,000	-	-	-331,917	-378,000
Other items	-	-	-	-	-2.604.826	-	-2.604.826	-	-	-	-2.604.826	-
Other items of income with reclassification to profit or loss	**-14,728,577**	**358,000**	**-19,487,929**	**-18,109,000**	**-278,570,012**	**-69,603,000**	**-312,786,518**	**-87,354,000**	**-**	**-**	**-87,805,482**	**-400,592,000**
Foreign currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-
Net unrealized gains (losses) on available for sale financial assets	-14,762,441	-	-19,487,929	-18,109,000	-278,570,012	-69,603,000	-312,820,382	-87,712,000	-	-	-85,136,618	397,957,000
Profit (loss) on cash flow hedges	-	358,000	-	-	-	-	-	358,000	-	-	2,635,000	2,635,000
Profit (loss) on hedges of investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the equity of investees	-	-	-	-	-	-	-	-	-	-	-	-
Gains (losses) of non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-
Other items	33,864	-	-	-	-	-	33,864	-	-	-	33,864	-
Other comprehensive income	**-14,682,494**	**431,000**	**-19,487,929**	**-18,518,000**	**-281,174,838**	**-69,603,000**	**-315,345,261**	**-87,281,000**	**-**	**-**	**-84,868,739**	**-400,214,000**

Breakdown of reclassified financial assets and effects on profit or loss and comprehensive income

financial assets categories affected by the reclassification		type of activity	reclassified financial instruments amount for the period at the reclassification date	gross book value as at 30-06-2018 Details on reclassified financial instruments		Fair value 30-06-2018 Reclassified at		reclassified financial instruments for the period		financial instruments which are reclassified untill 30-06-2018		reclassified financial instruments for the period		financial instruments which are reclassified untill 30-06-2018	
from	To			reclassified financial instruments for the period	financial instruments which are reclassified untill 30-06-2018	reclassified financial instruments for the period	financial instruments which are reclassified untill 30-06-2018	fair value gains or losses through profit or loss	fair value losses or gains through equity	fair value gains or losses through profit or loss	fair value losses or gains through equity	fair value gains or losses that would be recognised through profit or loss withouth reclassification	fair value gains or losses that would be recognised through equity without reclassification	fair value gains or losses that would be recognised through profit or loss withouth reclassification	fair value gains or losses that would be recognised through equity without reclassification
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-	-	-	-
Sum			-	-	-	-	-	-	-	-	-	-	-	-	-

The parent’s legal representatives (*)

The chairman – Luigi Maranzana................(signed on the original)…...(**)

(*) For foreign companies, the signature of the general representative for Italy is required.
(**) Specify the position held by the signatory representative.

Independent auditors' report

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

Report on review of interim consolidated financial statements

To the board of directors of
Intesa Sanpaolo Vita S.p.A.

Introduction

We have reviewed the accompanying interim consolidated financial statements of the Intesa Sanpaolo Vita Insurance Group, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, included into the interim financial report of the group as at and for the six month ended 30 June 2018. The directors are responsible for the preparation of these 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 interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of 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 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 interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the group's interim consolidated financial statements of the Intesa Sanpaolo Vita Insurance 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.

Milan, 2 August 2018

KPMG S.p.A.

(signed on the original)

Maurizio Guzzi
Director of Audit