Interim Report at 30 September 2020

Bank of INTESA SANPAOLO

Mission

of Fideuram – Intesa Sanpaolo
Private banking

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

To offer financial advisory services covering the full spectrum of our clients’ assets with the support of expert professionals, acting with total transparency and complete respect for the rules.

FIDEURAM
INTESA SANPAOLO PRIVATE BANKING

Interim report
at 30 September 2020

Introduction

The steady, global spread of the Covid-19 epidemic in the first half of the year, which was followed by a second wave after the summer, has led to the introduction of restrictive measures, the interruption of production activities, and severe consumer anxiety in nearly all countries. The combination of these factors has significantly impaired economic activity. The epidemic has had a major impact on the global economy and, in a vertically integrated international economy, the repercussions among countries and industrial sectors further amplify the effects of the crisis. The productive organisation of the Italian economy, which is based on small and medium enterprises, has proven to be especially fragile in this context. Important sectors like tourism, manufacturing, and restaurant services will find it very difficult to recover quickly. The peculiar nature of the current crisis stems from the combination of a supply shock (with a consequent reduction in production and investments) and a sharp increase in uncertainty that is paralysing demand (with a consequent reduction in consumer spending and growth in precautionary saving). When the economic system is falling into paralysis, gripped by contracting supply and demand, it is vitally important to guarantee greater liquidity for banks so that they can make loans to efficient enterprises. The recovery of economic activity depends directly on the ways in which the measures adopted by governments and other authorities determine the allocation of losses among the various participants in the economy (businesses, banks, households, governments and central banks) and on the distribution of those losses over time. National governments have implemented various measures to mitigate the impact of the economic crisis on businesses, households and banks. Several measures call for shifting private sector losses directly to the State, through transfers to households and businesses, expansion of the beneficiaries of the government lay-off benefits fund and increase in unemployment benefits. Other measures, such as the issuance of public loan guarantees and moratoria on tax and loan payments, do not alleviate the losses incurred by certain sectors but aim to facilitate the provision of liquidity on favourable terms by the financial system, thereby deferring the losses.

The European Council approved several measures in April in support of the eurozone, providing Member States with resources to confront the crisis. Except for the Recovery Fund, a number of measures are effective beginning 1 June, which are summarised as follows:

- EIB loans: the European Investment Bank has proposed a new €200bn credit facility for Member States. This facility will permit granting long-term bridge loans to companies facing liquidity crises.
- Unconditional ESM loans for medical expenses: the Eurogroup has decided to provide a PCS (Pandemic Crisis Support) credit facility totalling €240bn, guaranteed by the European Stability Mechanism, to be provided to Member States for financing the direct and indirect medical expenses connected with the Covid-19 emergency.
- SURE Program: The European Commission's SURE (Support to mitigate unemployment risks in an emergency) initiative is intended to provide loans to Member States to cover public spending increases tied to job support measures, and especially wage and salary supplement schemes, that are introduced or expanded in response to the health emergency. It will have an endowment of €100bn, financed by the issuance of debt securities guaranteed by all the Member States on a voluntary basis for a minimum of €25bn.
- Recovery Fund: on 28 May the European Commission submitted a proposal for the establishment of a Recovery Fund guaranteed by the European Union budget and financed through the issuance of bonds. The negotiations by European leaders on the characteristics of the Fund concluded on 20 July. The Fund will have a total endowment of €750bn, allocated among forgivable loans (€390bn) and loans (€360bn) to be made to Member States.

The European Central Bank has adopted a diverse series of monetary policy measures:

- on 12 March it announced that temporary long-term refinancing operations (LTRO) would be carried out for the immediate injection of liquidity in support of the eurozone financial system. These operations will support bank loans to those hardest hit by the spread of the coronavirus, and especially small and medium enterprises;
- on 18 March it announced a new pandemic emergency purchase programme (PEPP) with an endowment of €750bn, which was subsequently raised to €1,350bn with purchases of securities scheduled until June 2021. The PEPP programme complemented the existing Quantitative Easing programme for €240bn and the additional €120bn approved on 12 March;
- to prevent any rating downgrades from suddenly reducing the mass of securities that can be used as collateral in Eurosystem credit operations, on 22 April the ECB modified the criteria of acceptability for the securities offered as collateral for credit operations, by reducing the collateral margins and temporarily reducing the minimum rating level for marketable securities from BBB- to BB.

The Italian Government has taken the following measures to address the shock caused by the containment measures implemented in response to the Covid-19 epidemic:

- Decree Law no. 18 of 17 March ("Cura Italia" - "Cure Italy"), which includes €25bn to shore up the Italian National Health Service, job and household income support, and the liquidity of small and medium enterprises (with a direct cost of €5bn and €350bn in loan guarantees).

- Decree Law no. 23 of 8 April ("Decreto Liquidità" - "Liquidity Decree"), which expands the pool of loans that the Government intends to guarantee by an additional €400bn (raising the total of State guarantees of business loans to about €750bn).
- Decree Law no. 34 of 19 May ("Decreto Rilancio" - "Relaunch Decree"), which contains €55bn in new funding complementing the €25bn allocated by the Cura Italia decree. The purpose of these new measures is to reinforce the health care system, extend the social safety nets, provide support to household income and transfers in the form of forgivable loans to firms in the hardest-hit sectors. Moreover, measures that do not impact net debt were approved: these consisted in deferral of tax payment deadlines, loan moratoria, loan guarantees, the creation of provisions for direct assistance to businesses in the form of loans or capital injections or the release of payment of arrears due to local entities.
- Decree Law no. 104 of 14 August ("Decreto Agosto" -"August Decree"), which contains additional measures amounting to €25bn to reinforce the recovery from the negative consequences of Covid-19 and to support workers, families and enterprises, and especially the disadvantaged areas of Italy.

The recovery will then depend on financial market performance, the risks of activities, and the overall effectiveness of the adopted measures. The near future will be largely conditioned by the way in which Italy and Europe will handle the emergency, first at the medical level and then in economic and financial terms.

In this context of severe macroeconomic and market tensions, the managed assets sector has suffered major impacts generated by the impairment of customers' financial assets and the procedures used to manage customer relationships, which are extremely limited due to social distancing measures. Our Group responded immediately and broadly to mitigate their effects. It immediately launched an intense series of communication activities with its customers, while continuing to plan new investment solutions designed to seize the opportunities offered by the relevant context. These measures made it possible to grow client assets in consequence of the outstanding results of net inflows (€8.2bn in total, of which €2.5bn for managed assets), which more than offset the impact deriving from the changes in stock indices and interest rates.

Our Group's stability remains based on a fivefold foundation:

- a business model which integrates production and distribution;
- sustainable revenue deriving mainly from recurring fees generated by a solid base of managed assets;
- appropriate staff distribution across our branches and networks, with a good balance between fixed and variable costs;
- a structured risk monitoring system on different control levels;
- effective management of legal and tax disputes with sufficient provisions set aside.

Consolidated shareholders' equity at 30 September 2020 was €3.6bn and the Common Equity Tier 1 Ratio was 28.3% in the absence of any distribution of dividends. Financial resources acquired as customer deposits totalled €41bn, up €2bn since the end of 2019. They mainly consist of current accounts and deposits that are highly stable over time. Liquidity from liabilities is mainly invested in a portfolio of securities with medium-to-long term maturities containing a substantial proportion of eligible securities. The Group's business model and the strategies adopted to put our future growth plans into effect leave us strongly placed to tackle the volatility of the financial markets without any impact on our business continuity.

BUSINESS CONTINUITY

The Group has undertaken all necessary measures to deal effectively with the public health emergency ever since it began, ensuring the business continuity of its processes and services. Fideuram has participated in the Emergency Unit of Intesa Sanpaolo and activated its own Crisis Management Operations Unit, which has gradually implemented measures, protocols and precautions in complete compliance with orders issued by the Authorities. Through the intranet site, all colleagues have been kept constantly informed about the orders issued by the Authorities and consequent internal decisions taken to guarantee the protection of employees and customers, communications with stakeholders and business continuity.
Employee safety has been pursued through the provision of personal protection equipment, restrictions on travel, extension of flexible work and increases in the spaces between people. Social distancing is prescribed for indoor premises, offices and branches, with frequent cleaning cycles being ensured in compliance with instructions issued by the Ministry of Health. Those colleagues who have tested positive to the virus are constantly monitored over the course of their illness, and any colleagues who came into contact with the positive individuals must avoid coming to work. Access to the affected premises is prohibited and they are decontaminated before they may be used again. Teleworking, which was already an established practice at the Group, has been extended to almost all employees of the central departments since the emergency began. Measures to upgrade the security of teleworking have been implemented at the same time, increasing the level of protection to improve management of secure access to the corporate network. Specific measures, designed to allow working away from Group offices, were drawn up for critical Finance, Treasury, Investment

Management and Operations activities. Specific measures were drawn up for the Branches to ensure containment of infection risks and thereby avoid the closure of operational sites and interruption of service. Customer access is allowed for just one person at a time on appointment. A special section has been set up on the corporate intranet to handle internal communications, with messages being sent to all employees to provide them with updates and operational instructions at critical times. Punctual messages were also sent to suppliers, customers, and media, with the authorities, public institutions and industry associations being kept constantly up to date. Specific messages to customers were issued in response to the growing menace of online fraudsters exploiting the current emergency situation. Those messages provide practical advice on how to avoid falling victim to cyber attacks.

SUPPORTING INITIATIVES

In response to the difficulties faced by numerous customers, concrete financial support measures have been provided since the beginning of the public health emergency, either directly or through the services offered by Intesa Sanpaolo. Specifically:

- arrangements were made with Intesa Sanpaolo so that our customers can obtain the business loans prescribed by the Liquidity Decree;
- specific commercial offers were created for both private customers and business customers, designed to satisfy their liquidity requirements tied to the emergency period;
- three-month suspension of payments on outstanding medium-long term loan instalments on customer request were allowed either for the amount of principal alone or for the entire instalment, and this can be extended for another three or six months according to the duration of the emergency.

At the end of September, customers had been provided with about €447m in new, subsidised rate loans, and ten requests for moratoria on loan instalments were accepted. These measures allowed our customers to manage their payments during the emergency and confirm the important financial and social role played by the Group.

THE 2020 OUTLOOK

For the fourth quarter of 2020, the impossibility of returning to normality in sectors like travel, tourism and entertainment, job and income losses, and the possibility of new outbreaks of the epidemic may slow down the recovery. Income and employment remain below their pre-crisis levels.

The purchase programmes executed by central banks will offset the increased recourse to the market taken by governments and, together with reassurances that official rate increases are excluded for a prolonged period of time, will also guarantee low rates for medium and long-term loans. Notwithstanding the deterioration in the dynamic of Italian public debt, the rise in premiums will be slowed down by European protection measures, including Eurosystem purchase programmes.

The flow of credit to the economy through the Italian banking system in the fourth quarter of 2020 will continue to benefit from the liquidity support measures adopted by the Government and other national and international authorities. In particular, government-guaranteed business loans will continue to be issued until 31 December. The weakening in household loans in 2020 is affected by the reduction in available income, uncertainty and consequent rise in precautionary saving, which hold back spending decisions. On the other hand, interest rates will remain very low, and no restrictions have been imposed on household loans by banks.

The significant increase in customer deposits will continue, especially for demand deposits. In fact, customer preference for liquidity, risk aversion and market yields that remain low will continue to feed current account balances. Use of the broad refinancing facilities offered by the European Central Bank will make it possible to limit medium-long term funding needs. The broad inflow of funds into current accounts and the substantial contribution made by TLTRO III, both in terms of negative interest rates and enormous volumes, will make it possible to contain the cost of inflows. Loan rates will remain very low, notwithstanding the foreseeable worsening in perceived risk. Credit conditions will remain favourable, partly due to the policy measures implemented in support of credit.

BUDGETARY IMPACT

In this perspective, European Regulators have also taken action, by issuing a series of measures to ensure that financial intermediaries have sufficient flexibility to manage this crisis period. Financial institutions have been requested, inter alia, to avoid excessive pro-cyclical effects in the application of IFRS 9 – Financial Instruments. The documents published by Authorities and Standard Setters suggest that in light of the present uncertainty, currently used methods must not be applied mechanically when calculating the loss forecasts prescribed by IFRS 9. Instead, it is necessary to use an appropriate measuring stick that takes the extraordinary circumstances adequately into account. A series of documents intended to provide initial methodological support to banks were issued in sequence by various European and national Supervisory Authorities as the emergency unfolded with the spreading epidemic. Subsequently, even the IASB (International Accounting Standards Board) expressed its opinions on the most important issues related to the impacts of Covid-19.

The exceptional characteristics of the present crisis, the uncertainty surrounding the duration of the public health emergency and the measures that are still being hammered out by Governments and the European Union render the application of accounting standards based on market values and prospective valuations extremely complex.

On the basis of the general overview as given above, the accounting items of concern to our Group that are most impacted by the public health emergency are listed as follows:

- Classification of loans in risk stages: in accordance with regulatory guidance, the performing positions that are affected by statutory moratoria measures or which are decided independently by the Group in consequence of the Covid-19 emergency are normally classified in stage 2, and they are not considered forborne in compliance with prudential rules.

- Intangible assets with a finite useful life: no criticalities have arisen over the resilience of the recoverable value, inter alia in consideration of the amortisation process that has reduced their book values from their original recognition values.

THE INTERIM REPORT AT 30 SEPTEMBER 2020

The following operations were carried out in the first nine months of 2020, as part of the process to simplify the Group organisational structure:

- the liquidation of Morval Vonwiller Assets Management Co. Ltd;
- the transfer of the equity investment in Morval Vonwiller Advisors S.A. from the sub-holding Southern Group Ltd to Intesa Sanpaolo Private Bank (Suisse) Morval and the liquidation of Southern Group;
- the merger of Morval SIM into Intesa Sanpaolo Private Banking.

Finally, in the third quarter of 2020, the Monaco asset management company Morval Gestions SAM changed its own name to Intesa Sanpaolo Private Monaco SAM.

The Consolidated Interim Report comprises the balance sheet, income statement, statement of comprehensive income and statement of changes in shareholders' equity, accompanied by explanatory notes on the Group's performance. The balance sheet and income statement as at and for the period ended 30 September 2020 referred to in the explanatory notes have been reclassified to facilitate comparison of the figures for different periods and to enable a clearer and more immediate understanding of the Group's financial position and results. These statements were prepared using appropriate groupings of the items in the official financial statements. Detailed information on the reclassifications is presented in specific reconciliation statements provided in the schedules accompanying this Report.

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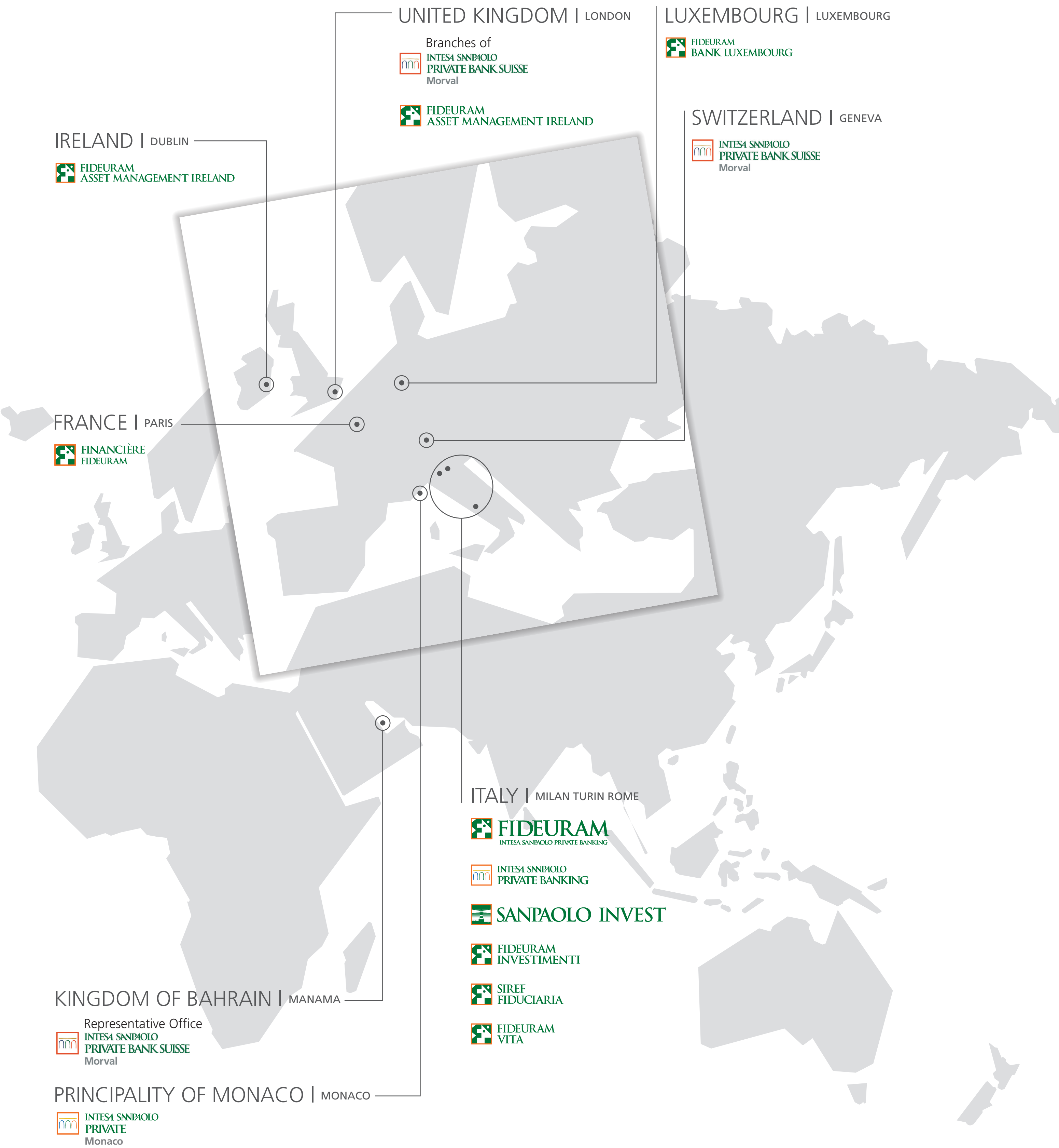
Group Structure



CAYMAN ISLANDS | GEORGE TOWN

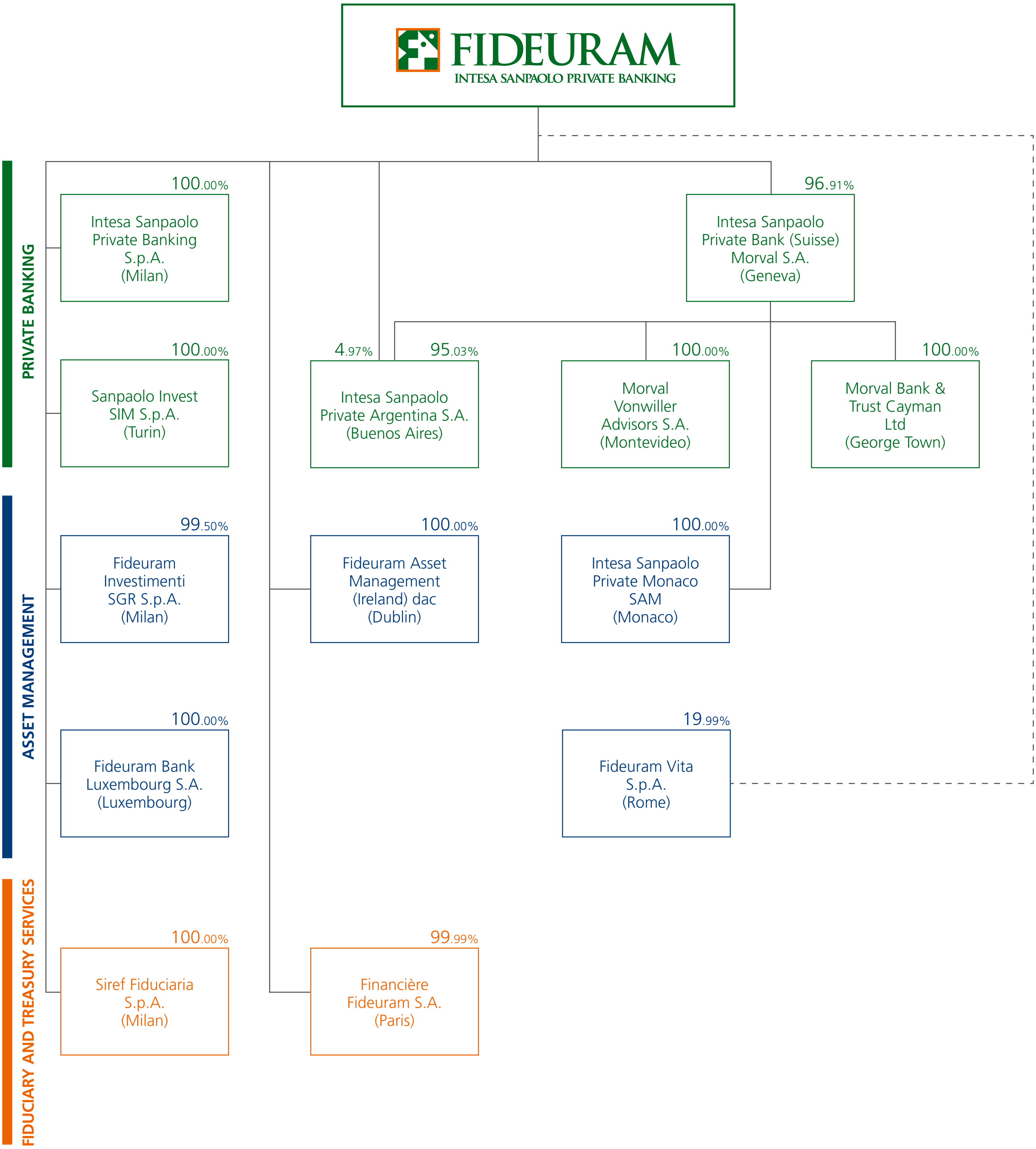
morvalbank&trust

URUGUAY | MONTEVIDEO

morvalvonwiller
advisors

ARGENTINA | BUENOS AIRES

INTESA SANPAOLO
PRIVATE
Argentina



Subsidiaries
Associates

Company Officers

Shareholders' Meeting

Board of Directors

Chairman
PAOLO MOLESINI

Senior Deputy Chairman
PAOLO MARIA VITTORIO GRANDI

Deputy Chairman
GIANGIACOMO DOMENICO LUIGI NARDOZZI TONIELLI

Managing Director
TOMMASO CORCOS

Directors
GIOVANNI BATTISTA BISOGNI
ELENA DAVID
CLAUDIA DE BENEDETTI
DANIELE PIETRO GIUDICI
ELIANO LODESANI
PIERO LUONGO
GIUSEPPE RUSSO

Secretary to the Board of Directors
FILIPPO MAMMOLA

Related Parties Committee

Chairman
GIANGIACOMO DOMENICO LUIGI NARDOZZI TONIELLI

Members
GIOVANNI BATTISTA BISOGNI
PIERO LUONGO

General Management

General Manager
TOMMASO CORCOS

Joint General Managers
FABIO CUBELLI (Business Coordination Area)
LINO MAINOLFI (Operational and Financial Coordination Area)

Board of Statutory Auditors

Chairman
GIULIO STEFANO LUBATTI

Statutory Auditors
MARCO ANTONIO MODESTO DELL'ACQUA
ELISA BAUCHIERO

Acting Auditors
ALESSANDRO COTTO
FRANCESCA MONTI

Independent Auditors

KPMG S.p.A.

Highlights

OPERATING RESULTS

Personal financial advisers
No. 5,785

Customers

Fideuram
No. 598,774

Sanpaolo Invest
No. 159,283

Siref Fiduciaria
No. 1,879
mandates

Intesa Sanpaolo Private Banking
No. 37,968
households

Intesa Sanpaolo Private Bank (Suisse) Morval
No. 1,779

Total net Inflows

€8.2 bn

of which net Inflows into managed assets

€2.5 bn

Client assets

€243.8 bn

of which managed assets

€164.5 bn

of which Advanced Advisory Service

€37.6 bn

FINANCIAL RESULTS

Fideuram and Sanpaolo Invest
13 years

Intesa Sanpaolo Private Banking
13 years

Average length of Customer Relationship

Net Recurring Fees
€1.2 bn

Cost / Income Ratio
31%
(31% in the first nine months of 2019)

Consolidated Net Profit
€623 m

Return On Equity
25%
(32% in the first nine months of 2019)

Key Performance Indicators

	30.9.2020	30.9.2019	VAR. %
CUSTOMER FINANCIAL ASSETS			
Net inflows into managed assets (€m)	2,542	987	158
Total net inflows (€m)	8,152	7,319	11
Client assets (€m)	243,799	235,876	3
OPERATING STRUCTURE			
Personal Financial Advisers (No.)	5,785	5,902	
Staff (No.)	3,129	3,187	
- women (No.)	1,410	1,425	
- outside Italy (No.)	309	313	
Bank Branches (No.)	233	233	
Personal Financial Advisers' Offices (No.)	322	323	
CONSOLIDATED FINANCIAL RESULTS			
Consolidated net profit (€m)	623	659	-5
Group shareholders' equity (€m)	3,586	2,718	32
Basic consolidated net earnings per share (€)	0.415	0.439	-5
Total assets (€m)	50,747	46,870	8
Wealth created (€m)	2,137	2,147	-
Value distributed (€m)	1,932	1,901	2
PROFITABILITY INDICATORS			
Return on Equity (%)	25	32	
Return on Assets (%)	2	2	
Cost / Income Ratio (%)	31	31	
Payroll costs / Operating margin (%)	18	18	
Annualised net profit / Average client assets (%)	0.3	0.4	
Economic Value Added (€m)	528	572	
Counterparty rating (S&P Global Ratings)	**Long term: BBB**	**Short term: A-2**	**Outlook: Negative**

Glossary

Net inflows: total subscriptions minus disinvestments.

Client assets: consist of:

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

Personal Financial Advisers: professionals registered in Italy's Unified Register of Financial Advisers, including Trainee Financial Advisers. At the foreign companies, the Personal Financial Advisers are professionals, natural and legal persons, engaged in the sales business.

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

Basic consolidated net earnings per share: ratio of consolidated net profit to weighted average ordinary shares outstanding.

Wealth created and value distributed: wealth created measures the economic value generated by the production and distribution of financial services using Fideuram's factors of production (capital and labour). Value distributed shows how the wealth created is distributed among the Group's main stakeholders.

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

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

Cost / Income Ratio: the ratio of net operating expenses to net operating income.

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


Consolidated
Interim Report

Reclassified Financial Statements

Consolidated balance sheet

(reclassified - €m)

	30.9.2020	31.12.2019	CHANGE	
			AMOUNT	%
ASSETS				
Financial assets measured at fair value through profit or loss	357	349	8	2
Financial assets measured at fair value through other comprehensive income	3,069	3,189	(120)	-4
Debt securities measured at amortised cost	15,402	15,275	127	1
Loans to banks	20,137	17,198	2,939	17
Loans to customers	9,444	9,329	115	1
Hedging derivatives	14	20	(6)	-30
Equity investments	179	170	9	5
Property and equipment and intangible assets	590	614	(24)	-4
Tax assets	143	164	(21)	-13
Other assets	1,412	1,459	(47)	-3
TOTAL ASSETS	**50,747**	**47,767**	**2,980**	**6**
LIABILITIES				
Due to banks	3,275	3,033	242	8
Due to customers	41,069	39,024	2,045	5
Financial liabilities held for trading	42	33	9	27
Hedging derivatives	1,032	930	102	11
Tax liabilities	99	94	5	5
Other liabilities	1,172	1,215	(43)	-4
Provisions for risks and charges	472	478	(6)	-1
Share capital and reserves	2,963	2,054	909	44
Net profit	623	906	(283)	-31
TOTAL LIABILITIES	**50,747**	**47,767**	**2,980**	**6**

Consolidated income statement
(reclassified - €m)

	9 MONTHS 2020	9 MONTHS 2019	CHANGE	
			AMOUNT	%
Net interest income	154	132	22	17
Net profit (loss) on financial assets and liabilities at fair value	16	33	(17)	-52
Net fee and commission income	1,260	1,276	(16)	-1
INTERMEDIATION MARGIN	**1,430**	**1,441**	**(11)**	**-1**
Profit on equity investments and other income (expense)	5	3	2	67
NET OPERATING INCOME	**1,435**	**1,444**	**(9)**	**-1**
Personnel expenses	(255)	(263)	8	-3
Other administrative expenses	(145)	(143)	(2)	1
Depreciation and amortisation	(43)	(42)	(1)	2
NET OPERATING EXPENSES	**(443)**	**(448)**	**5**	**-1**
OPERATING MARGIN	**992**	**996**	**(4)**	**-**
Net impairment of loans	(15)	-	(15)	n.s.
Net provisions for risks and charges and net impairment of other assets	(34)	(38)	4	-11
Net non-recurring income (expenses)	6	9	(3)	-33
GROSS INCOME (LOSS)	**949**	**967**	**(18)**	**-2**
Income taxes for the period on continuing operations	(294)	(279)	(15)	5
Integration and voluntary redundancy expenses (net of tax)	(10)	(13)	3	-23
Effects of purchase price allocation (net of tax)	(1)	(1)	-	-
Expenses regarding the banking system (net of tax)	(21)	(15)	(6)	40
NET PROFIT	**623**	**659**	**(36)**	**-5**

n.s.: not significant

Quarterly consolidated balance sheets

(reclassified - €m)

	30.9.2020	30.6.2020	31.3.2020	31.12.2019	30.9.2019	30.6.2019	31.3.2019
ASSETS							
Financial assets measured at fair value through profit or loss	357	348	346	349	347	317	310
Financial assets measured at fair value through other comprehensive income	3,069	3,027	2,964	3,189	3,616	3,529	3,277
Debt securities measured at amortised cost	15,402	15,204	15,156	15,275	14,641	13,240	13,194
Loans to banks	20,137	19,867	19,226	17,198	16,244	15,135	14,525
Loans to customers	9,444	9,101	9,006	9,329	9,465	9,620	9,263
Hedging derivatives	14	11	10	20	12	7	1
Equity investments	179	176	172	170	166	163	158
Property and equipment and intangible assets	590	605	614	614	613	609	563
Tax assets	143	150	193	164	170	175	178
Other assets	1,412	1,451	1,293	1,459	1,596	1,520	1,472
TOTAL ASSETS	**50,747**	**49,940**	**48,980**	**47,767**	**46,870**	**44,315**	**42,941**

	30.9.2020	30.6.2020	31.3.2020	31.12.2019	30.9.2019	30.6.2019	31.3.2019
LIABILITIES							
Due to banks	3,275	4,713	2,787	3,033	3,030	3,098	3,741
Due to customers	41,069	38,993	40,157	39,024	37,983	35,775	34,131
Financial liabilities held for trading	42	44	69	33	42	25	27
Hedging derivatives	1,032	1,025	989	930	1,094	979	890
Tax liabilities	99	63	99	94	119	90	102
Other liabilities	1,172	1,295	1,303	1,215	1,405	1,399	1,329
Provisions for risks and charges	472	449	459	478	479	458	470
Share capital and reserves	2,963	2,939	2,895	2,054	2,059	2,035	2,022
Net profit	623	419	222	906	659	456	229
TOTAL LIABILITIES	**50,747**	**49,940**	**48,980**	**47,767**	**46,870**	**44,315**	**42,941**

Quarterly consolidated income statements

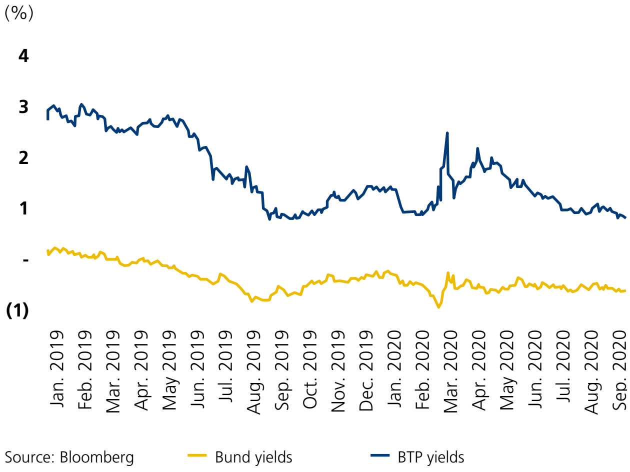
(reclassified - €m)

	2020			2019			
	Q3	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Net interest income	52	54	48	45	43	46	43
Net profit (loss) on financial assets and liabilities at fair value	4	9	3	8	5	15	13
Net fee and commission income	420	413	427	471	433	418	425
INTERMEDIATION MARGIN	**476**	**476**	**478**	**524**	**481**	**479**	**481**
Profit on equity investments and other income (expense)	4	1	-	2	1	2	-
NET OPERATING INCOME	**480**	**477**	**478**	**526**	**482**	**481**	**481**
Personnel expenses	(91)	(86)	(78)	(93)	(92)	(83)	(88)
Other administrative expenses	(47)	(49)	(49)	(55)	(52)	(46)	(45)
Depreciation and amortisation	(14)	(15)	(14)	(13)	(15)	(14)	(13)
NET OPERATING EXPENSES	**(152)**	**(150)**	**(141)**	**(161)**	**(159)**	**(143)**	**(146)**
OPERATING MARGIN	**328**	**327**	**337**	**365**	**323**	**338**	**335**
Net impairment of loans	3	(16)	(2)	(2)	2	1	(3)
Net provisions for risks and charges and net impairment of other assets	(12)	(16)	(6)	8	(15)	(13)	(10)
Net non-recurring income (expenses)	-	-	6	-	-	-	9
GROSS INCOME (LOSS)	**319**	**295**	**335**	**371**	**310**	**326**	**331**
Income taxes for the period on continuing operations	(99)	(92)	(103)	(116)	(96)	(89)	(94)
Integration and voluntary redundancy expenses (net of tax)	(4)	(2)	(4)	(7)	(4)	(5)	(4)
Effects of purchase price allocation (net of tax)	-	(1)	-	(1)	-	(1)	-
Expenses regarding the banking system (net of tax)	(12)	(3)	(6)	(1)	(7)	(4)	(4)
Net profit (loss) for the period attributable to non-controlling interests	-	-	-	1	-	-	-
NET PROFIT	**204**	**197**	**222**	**247**	**203**	**227**	**229**

Economic scenario

In the third quarter of 2020, there was a significant recovery in global economic activity from the extremely depressed levels reached during the previous quarter (especially in April), in consequence of the spread of the Covid-19 epidemic and the restrictions adopted by governments to contain it. The recovery in mobility and activity had already been quite vigorous in advanced economies in May and June, and it then continued during the summer, with a palpable deceleration in the second half of the period, especially in Europe, as the likely effect of the new increase in the spread of the virus. In China, success in controlling the virus was reflected in the continuation of its recovery, which had already begun in March. A major increase in production and consumption of goods generally occurred across advanced economies, while the consumption of services, especially those that require direct interaction, continued to suffer the negative impact of the epidemic, notwithstanding the gradual reopening that began in the spring. The response of economic policy, both in monetary and fiscal terms, was swift and incisive in all of the leading advanced economies (especially in the United States). The most important measures to confront the economic impact of the pandemic were approved or at least outlined in March or during the second quarter of 2020. So, there were no important new developments from this point of view during the summer, except for approval of the Recovery Fund by the European Council on 21 July, although its guidelines did not diverge significantly from the plan presented by the European Commission at the end of May. In the United States, Congress was still unable to reach an agreement by the beginning of October on an additional package of fiscal support, although at the beginning of the summer, the markets had deemed its approval high likely. With regard to monetary policy, the only significant development, albeit not unexpected, was the adoption at the end of August by the Federal Reserve of a new approach to managing monetary policy ("Flexible Average Inflation Targeting"), which implies that the inflation target has to be reached on average over the course of the business cycle, thereby establishing the possibility that prolonged periods during which the target is missed be followed by periods when inflation temporarily exceeds the target. This change in approach was then reflected in September in a substantial promise by the Fed to keep rates at zero for several more years (although this scenario had already been broadly taken priced in by the markets). Finally, during the summer, attention grew markedly on the result of the November elections in the United States, with a growing perception that control of both the White House and the two houses of Congress by the Democratic Party was becoming the most likely scenario.

10-year Bund and BTP yields



Source: Bloomberg

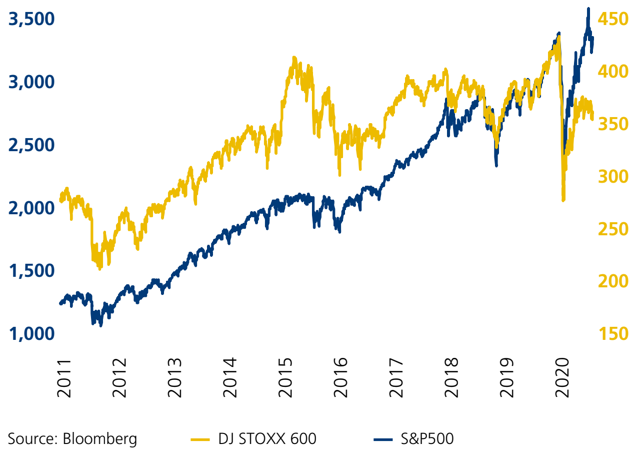
In the **United States**, notwithstanding a significant acceleration in the spread of the epidemic during the first half of the summer and the absence of additional fiscal support due to the inability of Congress to reach an agreement, consumption and production activity continued the recovery that began in May, although with a broadly foreseeable deceleration in growth rates. Even employment continued to grow from the lows reached in April, but in September only a little more than half of the approximately 22 million jobs lost due to the pandemic had been recovered. The negative impact of the epidemic on demand caused a reduction, albeit not pronounced, in inflation. At its September meeting, the Federal Reserve aligned its own decisions with the new, previously mentioned monetary policy approach, committing itself to keeping rates at zero at least until inflation returned to 2% and maximum sustainable employment levels had been reached.

In the **Eurozone,** the recovery in business confidence indicators and economic activity data after the strong recovery in May and June remained vigorous at the beginning of summer, but then it suffered an evident correction in August and September, probably in consequence of the second wave in the spread of the virus (although with hospitalisation and mortality rates far lower than those in the spring), which gradually forced authorities to introduce new restrictive measures. In spite of the deceleration at the end of summer, growth in the third quarter proceeded at unprecedented rates in sequential terms. On the other hand, the negative demand shock was reflected in a sharp change in price trends: total inflation turned negative in August, for the first time since 2016, while core inflation (which excludes food and fuel), which was already far from the European Central Bank target before the pandemic, fell to new lows. Moreover, the European Central Bank did not adopt additional expansionary measures during the period, while on the fiscal side, the European Council approved the Recovery Fund in July. This is a programme of measures totalling €750bn (of which €390bn in transfers), aimed especially at the countries and sectors most heavily hit by the pandemic, and which still has to be ratified by the European Parliament and the national governments of the European Union.

In **Asia**, economies suffered the impact of the pandemic on global growth but, especially in the Far East, they generally benefited from their greater control over the spread of the virus. In China, GDP had already returned to pre-epidemic levels in the second quarter, and growth continued at robust rates even in the third quarter, accompanied by gradual growth in consumption (especially services), after the more rapid growth in industrial activity and investments. Notwithstanding the relatively limited spread of the virus in Japan, the impact of the epidemic was still quite severe there, although it did recover over the summer months. Prime Minister Abe resigned unexpectedly at the end of August due to health reasons and was replaced by Suga, which guaranteed substantial continuity in the management of economic policy.

The recovery in economic activity was reflected in positive performance on the stock markets, especially in the United States, where the S&P500 index rose by 8.5%, notwithstanding a fall in September and a stream of discouraging news concerning both the spread of the epidemic and the continuity of fiscal support. In Europe instead, stock prices remained unchanged from the beginning of the period (+0.2% for the Stoxx-600 index, with underperformance on the Italian market). The performance of emerging markets was positive instead (+8.7% for the MSCI dollar index) and, to a lesser extent, in Japan (+4.3% for the Topix index). There were no significant changes on the bond market for either U.S. government bonds or Eurozone government bonds, with the rates on 10-year Treasuries and Bunds substantially unchanged, but with a significant reduction in the spread between the BTP and the Bund.

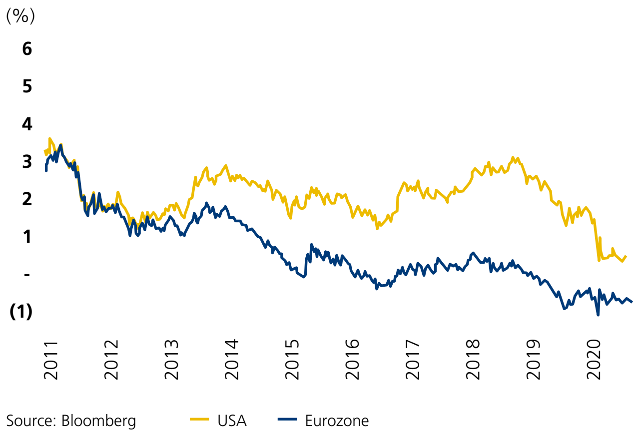
Stock market performance



Source: Bloomberg

Bond market performance

(10-year government bond yields)



Source: Bloomberg

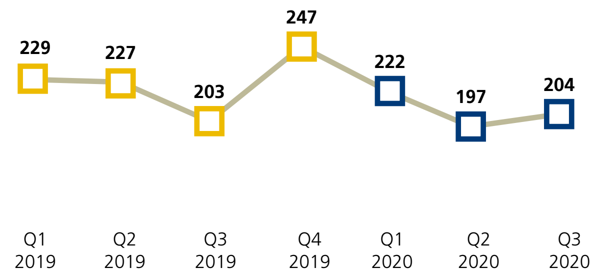
Overview of consolidated results

In a market context that has suffered significantly from the global spread of the Covid-19 virus, the Fideuram – Intesa Sanpaolo Private Banking Group ended the first nine months of 2020 with **consolidated net profit** of **€623m**, down €36m (-5%) on the same period of 2019.
Operating income, totalling €992m, was largely stable as compared with the first nine months of 2019 (-€4m). The Group's Cost/Income Ratio was 31%, holding steady from the same period last year. The return on equity (R.O.E.) was 25%, down from the 32% reported at 30 September 2019, due to the significant increase in consolidated shareholders' equity. By resolution on 30 March 2020, the Shareholders' Meeting of Fideuram decided not to distribute dividends in accordance with the request made to banks with the ECB Recommendation of 27 March 2020 in response to the emergency triggered by the Covid-19 epidemic.

The analysis of the main income statement items shows that net operating income fell by €9m (-1%), mainly due to the reduction in the profit on financial assets measured at fair value (-€17m) and net fee and commission income (-€16m), which was only partly offset by the increase in net interest income (+€22m). Conversely, net operating expenses were down by €5m and provisions for risks and charges decreased by €4m. Impairment of loans grew sharply (+€15m), mainly due to increased impairment of loans to customers and non-recurring income fell by €3m. So, gross income (loss) from continuing operations fell by €18m from the figure for the first nine months of 2019.

Consolidated net profit

(€m)



At 30 September 2020, there were a total of 5,785 Personal Financial Advisers compared with 5,834 at 31 December and 5,902 at 30 September 2019. Client assets per Personal Financial Adviser were approximately €42m at 30 September 2020. Total Group staff came to 3,129, down from 3,179 at 31 December 2019 and 3,187 at 30 September 2019. Bank branches totalled 233 and Personal Financial Advisers' offices totalled 322.

Business model

Fideuram - Intesa Sanpaolo Private Banking is the number one Private Bank in Italy and among the largest in Europe with client assets totalling about €244bn.
Since 2015, it has directed the business of the Intesa Sanpaolo Group Private Banking Division, which brings together the companies providing the Group's financial advisory, asset management and fiduciary services. The Division's mission is to serve high-end customers, creating value with products and services conceived for excellence, while ensuring the increased profitability of client assets through the constant development of our product range and service delivery solutions. The Fideuram Group specialises in particular in the provision of financial advisory services and the development, management and distribution of financial, insurance and banking products and services.

The Group's positioning is principally focused on the Private Banking customers and High Net Worth Individuals. Our products and services are provided by approximately 5,800 highly qualified professionals in four separate networks (Fideuram, Sanpaolo Invest, Intesa Sanpaolo Private Banking and Intesa Sanpaolo Private Bank (Suisse) Morval) with their own brand identities, service models, and customer profiles.

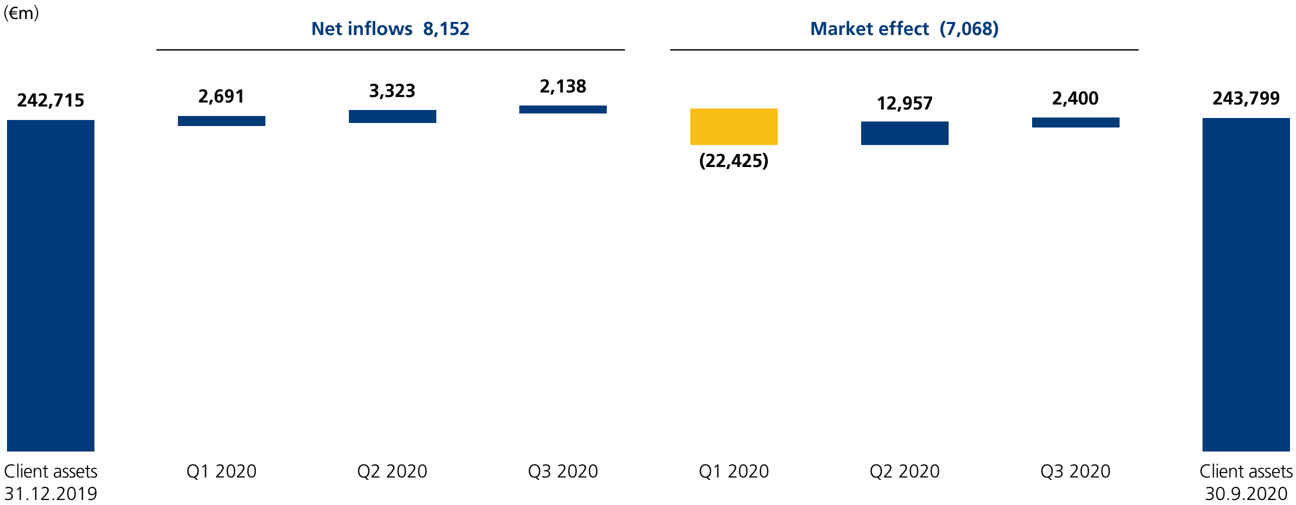
The Group's service model is centred on professional advisory services and the creation of long-standing relationships of trust between our customers and Personal Financial Advisers. The Group benefits from a strong and stable retail customer base, which can rely on a dedicated service model and tailored product offering. Our advisory services are offered as Basic Advisory Services, which we provide for all customers free of charge in line with the requirements of the MiFID 2 directive, and as three Advanced Advisory Services (SEI, View and Private Advisory), which are paid services designed specifically for customers with greater financial assets and provided on the basis of a contract. The investment solutions proposed by our Personal Financial Advisers are for the most part developed and managed within the Group through dedicated product companies. In addition, the Group's marketing agreements with leading international investment houses mean that we are also able to offer third-party products in accordance with the "Guided Open-Architecture Model" that the Group has adopted to complement its expertise and satisfy even the most complex customer needs. The Fideuram Group also engages in banking activities (asset gathering and lending), offering its customers a complete range of banking products and services. Fideuram - Intesa Sanpaolo Private Banking is a member of the Intesa Sanpaolo Banking Group and wholly owned by Intesa Sanpaolo S.p.A..

Client financial assets

Client assets totalled **€243.8bn** at 30 September 2020, up by €1.1bn from 31 December 2019 due to the €8.2bn in net positive inflows (+€833m from the first nine months of the previous year). Market performance moved in the opposite direction, being severely impacted in the first nine months of 2020 by the uncertainty generated by the global spread of the Covid-19 epidemic, reducing assets by €7.1bn (-€3.5bn in managed assets and -€3.6bn in non-managed assets). During the first nine months of the year, the negative market performance, which had had a negative impact in the first quarter of 2020 (-€22.4bn) was partly recovered in the second and third quarters of the year (+€12.9bn and +€2.4bn, respectively).

Client assets

(€m)



Analysis of the aggregated items shows that **managed assets** (67% of total client assets) totalled **€164.5bn**, down €934m from the amount at the end of 2019. The decrease affected mutual funds (-€2.1bn) and life insurance (-€0.2bn) and was partly offset by the increase in discretionary accounts (+€1.2bn). **Non-managed assets** increased to a total of **€79.3bn**, or €2bn higher than at 31 December 2019.

Client assets

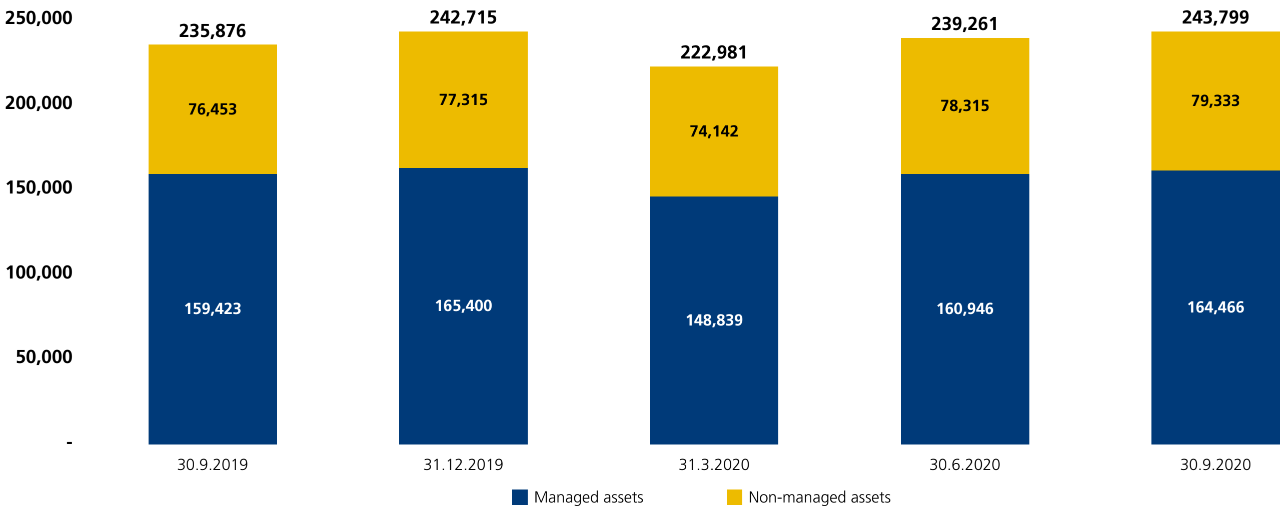
(€m)

	30.9.2020	31.12.2019	CHANGE	
			AMOUNT	%
Mutual funds	59,032	61,093	(2,061)	-3
Discretionary accounts	46,236	45,038	1,198	3
Life insurance	56,694	56,905	(211)	-
including: Fideuram Vita / Intesa Sanpaolo Vita unit linked	*36,373*	*36,457*	*(84)*	-
Pension funds	2,504	2,364	140	6
Total managed assets	**164,466**	**165,400**	**(934)**	**-1**
Total non-managed assets	**79,333**	**77,315**	**2,018**	**3**
including: Securities	*43,809*	*44,814*	*(1,005)*	*-2*
Total client assets	**243,799**	**242,715**	**1,084**	**-**

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

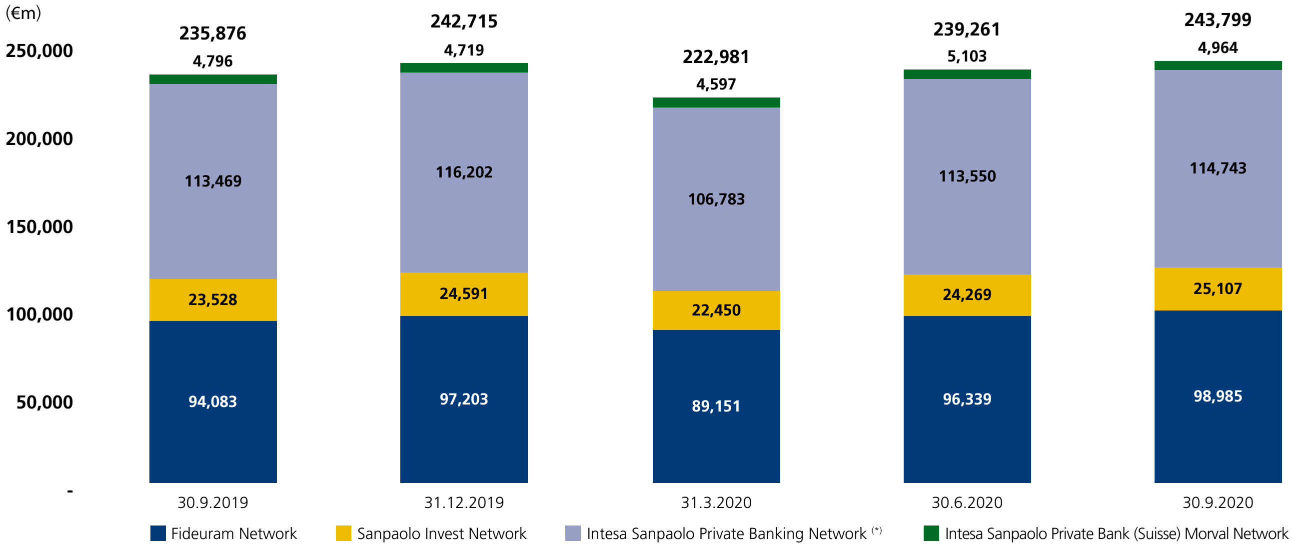
Client assets - by type of inflows

(€m)



Client assets - by sales network

(€m)



(*) The figures for the Intesa Sanpaolo Private Banking sales network include the client assets of Siref Fiduciaria.

Inflows into managed and non-managed assets

The Group's distribution networks brought in €8.2bn in **net inflows** in the first nine months of 2020, up €833m (+11%) on the total for the first nine months of 2019. The analysis of aggregated figures shows that the inflows into managed assets rose sharply from the corresponding period of the previous year (+€1.5bn). This was mainly attributable to the Group personal financial advisers directing a portion of inflows from customers towards managed asset products in the second and third quarters of the year. Non-managed assets were positive at €5.6bn, down €722m from the figure for the corresponding period in 2019.

Net inflows

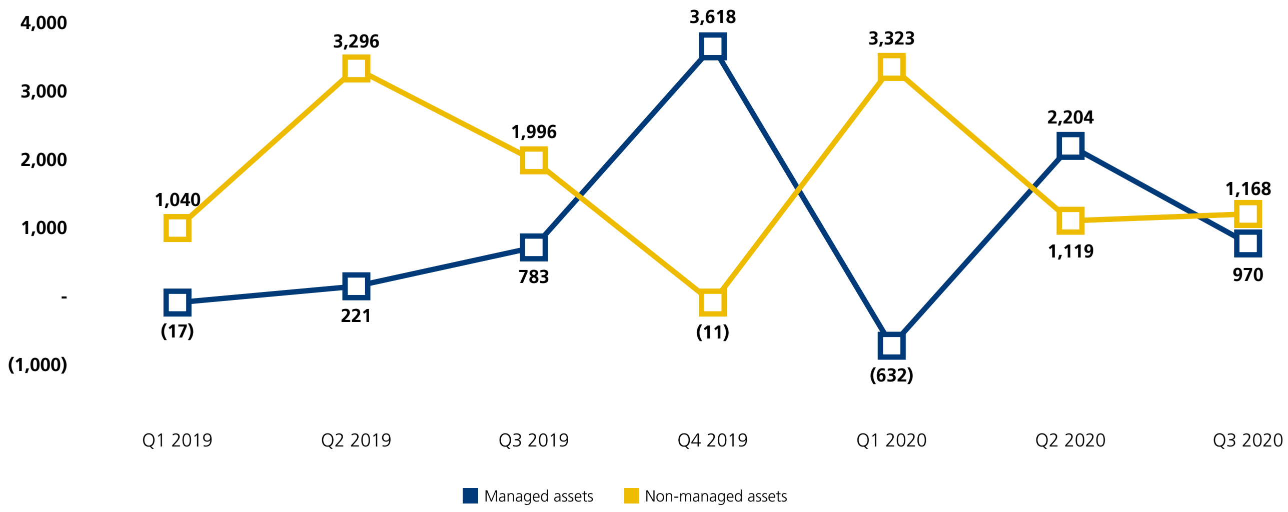
(€m)

	9 MONTHS 2020	9 MONTHS 2019	CHANGE	
			AMOUNT	%
Mutual funds	(494)	(1,187)	693	-58
Discretionary accounts	2,229	1,098	1,131	103
Life insurance	689	970	(281)	-29
including: Fideuram Vita / Intesa Sanpaolo Vita unit linked	*585*	*(98)*	*683*	*n.s.*
Pension funds	118	106	12	11
Total managed assets	**2,542**	**987**	**1,555**	**158**
Total non-managed assets	**5,610**	**6,332**	**(722)**	**-11**
including: Securities	*2,571*	*1,686*	*885*	*52*
Total net inflows	**8,152**	**7,319**	**833**	**11**

n.s.: not significant

Net inflows

(€m)



Customer segmentation

CLIENT ASSETS at 30 September 2020

- Fideuram: €99bn
- Sanpaolo Invest: €25.1bn
- Intesa Sanpaolo Private Banking: €110.3bn
- Siref Fiduciaria: €4.4bn (*)
- Intesa Sanpaolo Private Bank (Suisse) Morval: €5bn

(*) The figure does not include the fiduciary mandates regarding Group client assets. The total number of fiduciary mandates is 61,151, with total client assets of €12.2bn.

CUSTOMERS at 30 September 2020

- Fideuram: no. 598,774
- Sanpaolo Invest: no. 159,283
- Intesa Sanpaolo Private Banking: no. 37,968 (**)
- Siref Fiduciaria: no. 1,879 mandates (*)
- Intesa Sanpaolo Private Bank (Suisse) Morval: no. 1,779

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

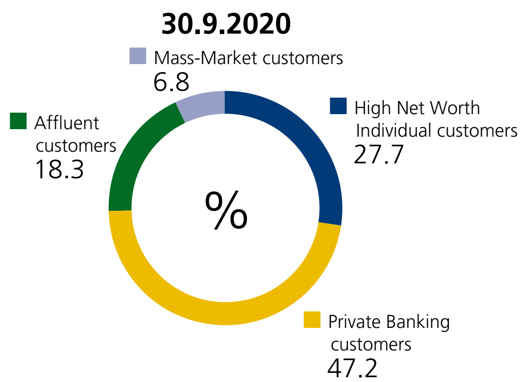
Analysis of the Group's customer base shows that it is concentrated in the Private Banking and High Net Worth Individual (HNWI) segments.
This focus on high-end customers (about 75% of client assets, corresponding to about 15% of customers, come from Private Banking and HNWI customers) enables our Personal Financial Advisers to target a segment with high growth prospects in the Italian market. The Group supports its customers with a dedicated service model using ad hoc organisational management (Private Banking and HNWI branches) and customised products and services. The table and graphs below analyse client assets by type of customer.

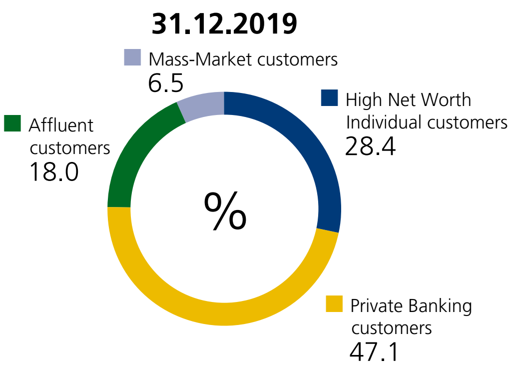
Client assets by type of customer (***)

(€m)

	30.9.2020	31.12.2019	CHANGE	
			AMOUNT	%
High Net Worth Individual customers	67,446	68,819	(1,373)	-2
Private Banking customers	114,995	114,401	594	1
Affluent customers	44,718	43,752	966	2
Mass-Market customers	16,640	15,743	897	6
Total	**243,799**	**242,715**	**1,084**	**-**

Percentage analysis of client assets by type of customer





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

Advanced Advisory Services

The Fideuram Group is a leading Italian banking group in the provision of financial advisory services and in the distribution, development and management of financial services and products for private individuals. The Group's principal distinctive strengths, emblematic of its market leadership, are founded on a business model that anchors the distribution of products and services in the professional relationships between our Personal Financial Advisers and their customers. This is supported by the strength of a banking group with renowned brands - Fideuram, Intesa Sanpaolo Private Banking and Sanpaolo Invest - and a network of 233 bank branches and 322 Personal Financial Advisers' offices, which make a decisive contribution to customer loyalty. Our guided open-architecture model offers third-party products to complement our Group products. The professional relationship between each Personal Financial Adviser and customer is based on a financial advisory service model governed by a specific contract. The services under this model are delivered in two ways:

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

In particular, the Group offers its customers the following fee-paying Advanced Advisory Services:

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

A total of approximately 65,000 customers were subscribed to our Advanced Advisory Services at the end of September 2020, accounting for approximately €38bn of client assets.

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

Customers subscribed to Advanced Advisory Services

(number)

	30.9.2020	31.12.2019	CHANGE AMOUNT	CHANGE %
High Net Worth Individual customers	934	972	(38)	-4
Private Banking customers	16,867	17,620	(753)	-4
Affluent customers	30,723	31,485	(762)	-2
Mass-Market customers	16,011	16,074	(63)	-
Total	**64,535**	**66,151**	**(1,616)**	**-2**

Advanced Advisory Service client assets

(€m)

	30.9.2020	31.12.2019	CHANGE AMOUNT	CHANGE %
High Net Worth Individual customers	6,456	6,475	(19)	-
Private Banking customers	22,285	23,307	(1,022)	-4
Affluent customers	7,905	8,069	(164)	-2
Mass-Market customers	938	933	5	1
Total	**37,584**	**38,784**	**(1,200)**	**-3**

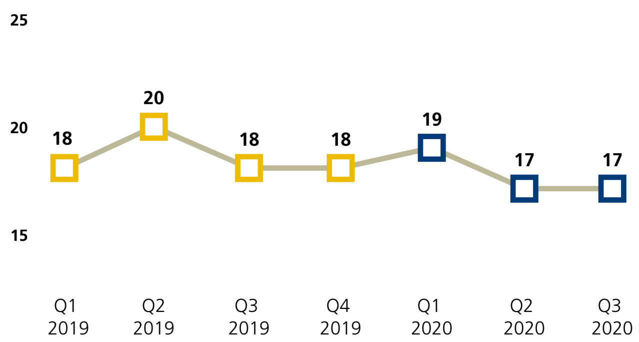
Advanced Advisory Service fee and commission income

(€m)

	9 MONTHS 2020	9 MONTHS 2019	CHANGE AMOUNT	CHANGE %
Fee and commission income	85	89	(4)	-4
Fee and commission expense	(32)	(33)	1	-3
Net fee and commission income	**53**	**56**	**(3)**	**-5**

Quarterly net fee and commission income from Advanced Advisory Services

(€m)



Analysis of the income statement

The Fideuram - Intesa Sanpaolo Private Banking Group ended the first nine months of 2020 with consolidated net profit of €623m, down €36m on the same period in the previous year (-5%).

Net operating income totalled €1.4bn, down €9m (-1%) compared with the first nine months of 2019. This result is attributable to:

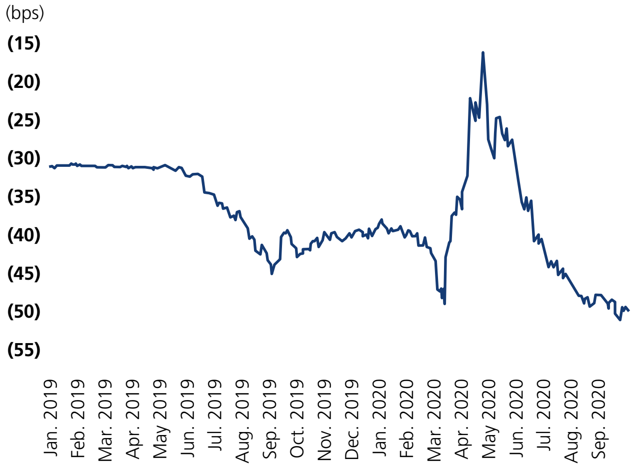
- increased net interest income (+€22m);
- reduced net profit on financial assets measured at fair value (-€17m);
- reduced net fee and commission income (-€16m).

Net interest income

(€m)

	9 MONTHS 2020	9 MONTHS 2019	CHANGE AMOUNT	CHANGE %
Interest expense on due to customers	(32)	(28)	(4)	14
Interest expense on due to banks	(11)	(13)	2	-15
Interest income on debt securities	168	171	(3)	-2
Interest income on loans	106	88	18	20
Net interest on hedging derivatives	(68)	(71)	3	-4
Other net interest income	(9)	(15)	6	-40
Total	**154**	**132**	**22**	**17**

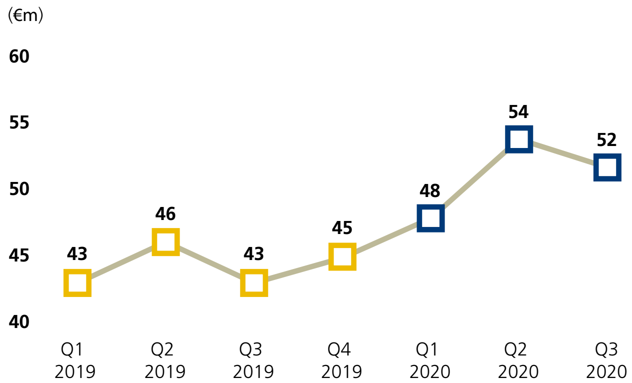
3-month Euribor rate



Source: Bloomberg

Net interest income totalled €154m, up €22m from the first nine months of last year (+17%), due to the greater average volumes of treasury time deposits and the reduced average cost of interbank funding. Analysis of the quarterly changes reveals a third quarter correction in the growth trend, mainly attributable to the decrease in short-term interest rates, to which most of the assets were indexed.

Quarterly net interest income



Net profit (loss) on financial assets and liabilities at fair value

(€m)

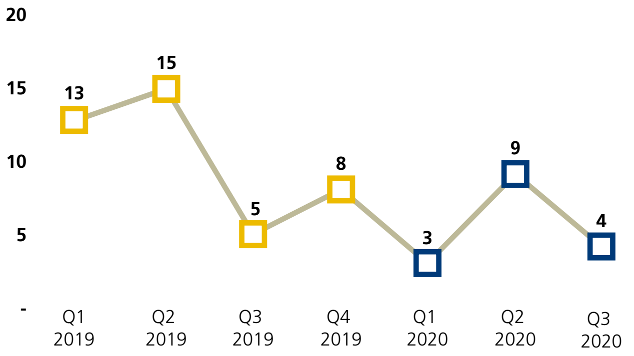
	9 MONTHS 2020	9 MONTHS 2019	CHANGE AMOUNT	%
Net profit (loss) on sale of financial assets measured at fair value through other comprehensive income	4	20	(16)	-80
Net profit (loss) of financial assets measured at fair value through profit or loss	10	14	(4)	-29
Net profit (loss) on hedging derivatives	2	(1)	3	n.s.
Total	**16**	**33**	**(17)**	**-52**

n.s.: not significant

Net profit (loss) on financial assets and liabilities at fair value came to €16m, down €17m due to the lower sales of debt instruments in the portfolio of securities measured at fair value through other comprehensive income (-€16m), due to the worsening market conditions caused by the pandemic and the reductions in fair value of the financial instruments held to service the incentive plans of the risk takers and sales networks (-€4m). Net profit on hedging activities increased by about €3m.

Quarterly net profit (loss) on financial assets and liabilities at fair value

(€m)



Net fee and commission income

(€m)

	9 MONTHS 2020	9 MONTHS 2019	CHANGE AMOUNT	%
Fee and commission income	1,860	1,850	10	1
Fee and commission expense	(600)	(574)	(26)	5
Net fee and commission income	**1,260**	**1,276**	**(16)**	**-1**

Net fee and commission income totalled €1.3bn, a decrease of €16m compared with the first nine months of 2019 (-1%).

Net recurring fees

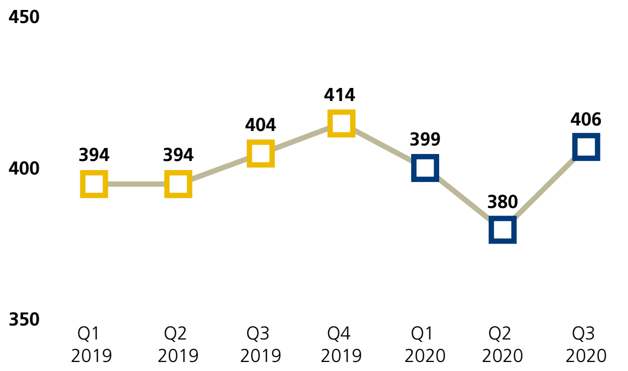
(€m)

	Q1	Q2	Q3	TOTAL
2020	399	380	406	1,185
2019	394	394	404	1,192
Change	**5**	**(14)**	**2**	**(7)**

Net recurring fees totalled €1.2bn, down slightly (-€7m, -1%) from the same period of last year. This trend was due to the repositioning of customer assets towards lower-income products that was only partly offset by the favourable effect of growth in average managed assets, which went from €154.9bn at 30 September 2019 to €160.3bn at 30 September 2020 (+€5.4bn, +3.5%). Analysis of the quarterly changes highlights an increase in net recurring fees in the third quarter of 2020 due to the steady recovery in average managed assets, which marks a reversal in the trend from the first two quarters of the year, when the strong correction on the financial markets due to the global spread of the Covid-19 epidemic had a negative impact.

Quarterly net recurring fees

(€m)



Performance fees totalled €1m, compared with €2m in the first nine months of 2019. The Fideuram Group charges the performance fees on individual discretionary accounts annually, except when the customer decides to close the account early. The Group calculates the performance fees on its internal insurance funds on a daily accrual basis in relation to the performance of the fund, applying a High Water Mark clause that means performance fees are only charged when the value of the fund rises above the highest value reached on the previous dates when performance fees were charged. The performance fees on the Group's mutual funds are charged annually, with the exception of two funds for which performance fees are charged half-yearly (applying a High Water Mark clause).

Net front-end fees

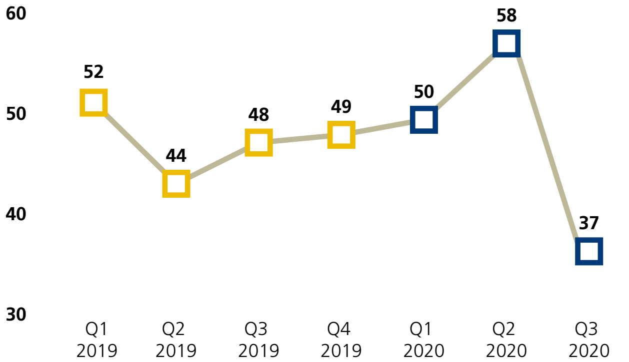
(€m)

	Q1	Q2	Q3	TOTAL
2020	50	58	37	145
2019	52	44	48	144
Change	**(2)**	**14**	**(11)**	**1**

Net front-end fees totalled €145m, substantially the same as the net amount for the same period last year (up €1m; +1%). The Group's sales networks distributed bond loans and certificates, largely issued by Intesa Sanpaolo Group companies, that brought in approximately €3.5bn in gross inflows during the first nine months of 2020, substantially in line with the volumes placed in the first nine months of 2019. With regard to the quarterly changes, there was a downturn in net front-end fees in the third quarter of 2020 due to the lower volumes of non-managed assets distributed during the period.

Quarterly net front-end fees

(€m)



Other fee and commission expense

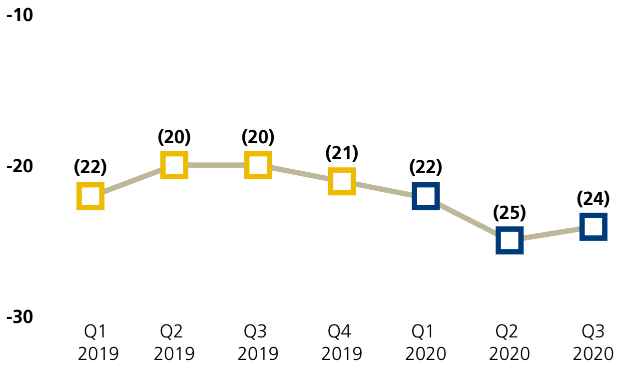
(€m)

	Q1	Q2	Q3	TOTAL
2020	(22)	(25)	(24)	(71)
2019	(22)	(20)	(20)	(62)
Change	**-**	**(5)**	**(4)**	**(9)**

The **other fee and commission expense** totalled €71m, up by €9m compared to the same period of 2019 due to the greater incentives accrued in the period in favour of the sales networks.

Quarterly other fee and commission expense

(€m)



Profit on equity investments and other income (expense) showed an increase of €2m compared to the same period of the previous year, which was mainly attributable to the growth in the net result of investments consolidated with the equity method.

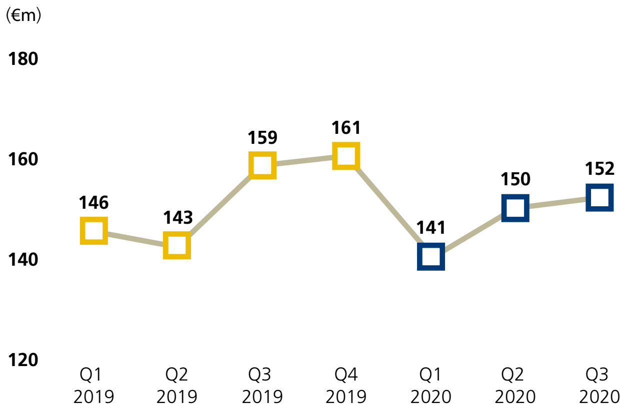
Net operating expenses

(€m)

	9 MONTHS 2020	9 MONTHS 2019	CHANGE	
			AMOUNT	%
Personnel expenses	255	263	(8)	-3
Other administrative expenses	145	143	2	1
Depreciation and amortisation	43	42	1	2
Total	**443**	**448**	**(5)**	**-1**

Net operating expenses totalled €443m, down €5m (-1%) from the same period last year. The detailed analysis shows how personnel expenses, which totalled €255m, fell by €8m due to the centralisation of certain control functions (Audit and Compliance) at Intesa Sanpaolo beginning 1 September 2019 and, to a lesser extent, due to the different dynamics of the variable component of compensation. Other administrative expenses totalled €145m, up €2m, due to the increase in the cost of the service with Intesa Sanpaolo resulting from the previously mentioned centralisation of Audit and Compliance functions and, to a lesser extent, higher info-provider costs, which were partly offset by the reduction in advertising expenses and indirect employee costs. Depreciation and amortisation increased by €1m, due to higher amortisation of software.

Quarterly net operating expenses



Net impairment of loans was a negative €15m, in contrast with a zero balance during the first nine months of last year. This performance is attributable to the increase in credit risk resulting from the spreading public health emergency, which pushed up net impairment of loans and advances to customers (+€10m) and loans and advances to banks (+€5m).

Net provisions for risks and charges and net impairment of other assets

(€m)

	9 MONTHS 2020	9 MONTHS 2019	CHANGE AMOUNT	CHANGE %
Personal Financial Advisers' termination indemnities and incentives	25	31	(6)	-19
Litigation and complaints	4	4	-	-
Network Loyalty Schemes	4	4	-	-
Net impairment of (recoveries on) debt securities	1	(1)	2	n.s.
Total	**34**	**38**	**(4)**	**-11**

Net provisions for risks and charges and net impairment of other assets came to €34m, down €4m (-11%) compared to the same period last year. Detailed analysis of the item shows that the provision for the termination of Personal Financial Adviser agency agreements decreased by €6m. This was due to the discounting component of the fund. The provisions set aside to cover contingent liabilities from lawsuits, litigation, claims from receivers and customer complaints, and the provisions for the Network Loyalty Schemes remained substantially in line with the figure of the first nine months of 2019. Net impairment of debt securities showed an amount of €1m, attributable to the impairment on bonds in the portfolio of financial assets measured at fair value through other comprehensive income.

Net non-recurring income (expenses) include income and expenses that are not attributable to ordinary operations. In the first nine months of 2020, this item recorded income of €6m, mainly ascribable to gains on debt securities in the portfolio at amortised cost. In the first nine months of 2019, the balance of €9m was related to the release of a risk provision for tax dispute, set aside in previous financial years, following a favourable judgement issued by the Court of Cassation.

Income taxes totalled €294m, up €15m from the figure for the same period last year. The balance for the first nine months of 2019 included non-recurring items for €9m attributable to the tax redemption for the greater value of the equity investment in Morval Vonwiller and lower expenses incurred for a tax dispute relating to transfer pricing with the French subsidiary Financière Fideuram. The tax rate was 31%.

Integration and voluntary redundancy expenses (net of tax) recorded a balance of €10m, down €3m from the first nine months of 2019. They mainly refer to the expenses incurred for the non-recurring integration transactions that concerned Intesa Sanpaolo Private Banking, Siref Fiduciaria and the companies of the Intesa Sanpaolo Private Bank (Suisse) Morval Group.

The item **Expenses regarding the banking system (net of tax),** includes the expenses related to maintaining the stability of the banking system, recognised in the income statement in accordance with current regulations. The net amount for this item in the first nine months of 2020 was €21m, up €6m from the same period in the previous year. It includes €12m in expenses for the contribution to the Deposit Guarantee Scheme (DGS Fund) introduced by Directive 2014/49/EU and €9m in expenses accrued for the contribution to the Single Resolution Fund of credit institutions introduced by Directive 2014/59/EU.

Distribution of value

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

The table showing the Wealth created by the Group was prepared using the income statement figures from the Consolidated Financial Statements for the first nine months of 2020, reclassified in accordance with the instructions of the Italian Banking Association (Associazione Bancaria Italiana - ABI), updated on 24 October 2019, following the guidelines of the Global Reporting Initiative (GRI). The Wealth created is the economic value generated in the period, which is for the most part distributed to the stakeholders with whom the Group has relations as part of its daily operations. The Value retained is the difference between the Wealth created and the Value distributed, and it is used for productive investments with the aim of enabling economic growth and financial stability, as well as to ensure the creation of new wealth to the benefit of our stakeholders. The Wealth created by the global business of the Group totalled €2.1bn, substantially in line with the figure for the first nine months of 2019.

This wealth was distributed to stakeholders as follows:

- Colleagues (employees and Personal Financial Advisers) received 37.7% of the Wealth created, amounting to a total of €805m. This included the remuneration paid to employees and the amounts set aside for and paid to the Personal Financial Adviser Networks.
- Our shareholder received 22.8% of the Wealth created, in the form of the proposed dividend pay-out totalling €488m.
- The government, public authorities, institutions and the community received €490m, principally in the form of direct and indirect taxes, amounting to 22.9% of the Wealth created.
- Suppliers received 7% of the Wealth created, totalling €149m paid for goods and services.
- The remainder, €205m, has been retained by the Group. This amount includes the following items in particular: deferred tax assets and liabilities, amortisation and depreciation, and provisions for risks and charges.

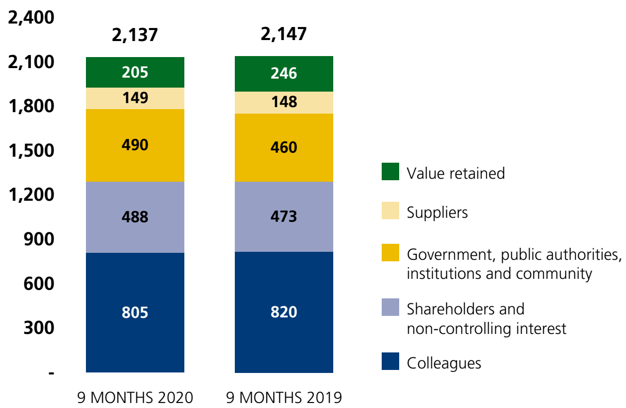
Economic value added

(€m)

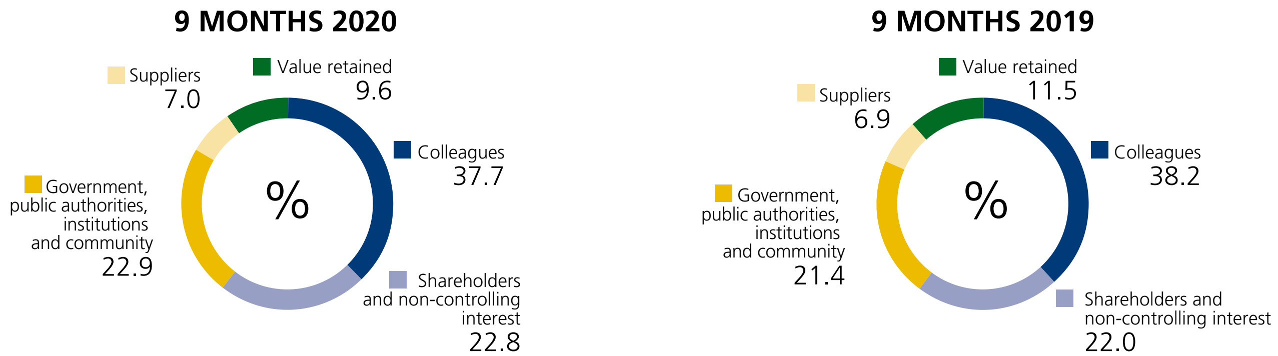
	9 MONTHS 2020	9 MONTHS 2019	CHANGE	
			AMOUNT	%
Wealth created	**2,137**	**2,147**	**(10)**	**-**
Value distributed	**(1,932)**	**(1,901)**	**(31)**	**2**
Colleagues	(805)	(820)	15	-2
Shareholders and non-controlling interest	(488)	(473)	(15)	3
Government, public authorities, institutions and community	(490)	(460)	(30)	7
Suppliers	(149)	(148)	(1)	1
Value retained	**205**	**246**	**(41)**	**-17**

Wealth created

(€m)



Distribution of wealth created (%)



Segment reporting

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

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

Our segment reporting presents the Group's financial results, transaction data and key profitability indicators by Business Segment. These Segments are analysed using data that show their contribution to Group income after consolidation adjustments.

Segment reporting at 30 September 2020

(€m)

	MANAGED FINANCIAL ASSETS	LIFE INSURANCE ASSETS	BANKING SERVICES	TOTAL FOR FIDEURAM GROUP
Net interest income	-	-	154	154
Net profit (loss) on financial assets and liabilities at fair value	-	-	16	16
Net fee and commission income	829	375	56	1.260
Intermediation margin	**829**	**375**	**226**	**1,430**
Net operating expenses	(218)	(62)	(163)	(443)
Other	(19)	(8)	(11)	(38)
Gross income (loss)	**592**	**305**	**52**	**949**
Average client assets	**102,479**	**57,782**	**77,806**	**238,067**
Client assets	**105,268**	**59,198**	**79,333**	**243,799**
Key indicators				
Cost / Income Ratio	26%	17%	71%	31%
Annualised gross income (loss) / Average client assets	0.8%	0.7%	0.1%	0.5%
Annualised net fee and commission income / Average client assets	1.1%	0.9%	0.1%	0.7%

MANAGED FINANCIAL ASSETS SEGMENT

The Managed Financial Assets Segment covers the Group's discretionary account and mutual fund business, which totalled €105.3bn at 30 September 2020 (43% of total client assets), up €490m on 30 September 2019. Total net inflows were a positive €1.7bn, having risen sharply from the same period in the previous financial year (+€1.8bn). The segment's contribution to gross income (loss) totalled €592m, up €22m on the first nine months of 2019, principally due to the increase in net fee and commission income. The ratio of net fee and commission income to client assets was 1.1%, while the ratio of gross income (loss) to client assets was 0.8%.

Managed financial assets

(€m)

	9 MONTHS 2020	9 MONTHS 2019	% CHANGE
Net interest income	-	-	-
Net profit (loss) on financial assets and liabilities at fair value	-	-	-
Net fee and commission income	829	819	1
Intermediation margin	**829**	**819**	**1**
Net operating expenses	(218)	(230)	-5
Other	(19)	(19)	-
Gross income (loss)	**592**	**570**	**4**
Average client assets	**102,479**	**101,820**	**1**
Client assets	**105,268**	**104,778**	**-**
Key indicators			
Cost / Income Ratio	26%	28%	
Annualised gross income (loss) / Average client assets	0.8%	0.7%	
Annualised net fee and commission income / Average client assets	1.1%	1.1%	

LIFE INSURANCE ASSETS SEGMENT

This segment covers the Group's life insurance and pension fund business, which totalled €59.2bn at 30 September 2020 (24% of total client assets), up €4.6bn from 30 September 2019, principally due to strong life insurance performance (+€4.3bn). Total net inflows came to €807m, down €269m from the first nine months of 2019. The contribution to gross income (loss) was €305m, up by €2m on the same period in 2019. The ratio of net fee and commission income to client assets was 0.9%, while the ratio of gross income (loss) to client assets was 0.7%.

Life insurance assets

(€m)

	9 MONTHS 2020	9 MONTHS 2019	% CHANGE
Net interest income	-	-	-
Net profit (loss) on financial assets and liabilities at fair value	-	-	-
Net fee and commission income	375	371	1
Intermediation margin	**375**	**371**	**1**
Net operating expenses	(62)	(60)	3
Other	(8)	(8)	-
Gross income (loss)	**305**	**303**	**1**
Average client assets	**57,782**	**53,075**	**9**
Client assets	**59,198**	**54,645**	**8**
Key indicators			
Cost / Income Ratio	17%	16%	
Annualised gross income (loss) / Average client assets	0.7%	0.8%	
Annualised net fee and commission income / Average client assets	0.9%	0.9%	

BANKING SERVICES SEGMENT

The Banking Services Segment covers the Group's banking and financial services, together with its central departments, holding activities and finance activities, as well as - generally speaking - the coordination and control activities for its other operating segments. This segment includes non-managed assets, mainly securities and current accounts, which totalled €79.3bn at 30 September 2020 (33% of total client assets), up €2.9bn compared with the figure at 30 September 2019. Total net inflows in the segment were €5.6bn, down €722m compared with the same period of 2019.
The contribution of this segment to gross income was €52m. The €42m decrease in gross income compared with the corresponding period in the previous financial year was mainly attributable to the decrease in net interest and trading income and to greater impairment of loans. The ratio of net fee and commission income to client assets and the ratio of gross income (loss) to client assets were 0.1%.

Banking services

(€m)

	9 MONTHS 2020	9 MONTHS 2019	% CHANGE
Net interest income	154	132	17
Net profit (loss) on financial assets and liabilities at fair value	16	33	-52
Net fee and commission income	56	86	-35
Intermediation margin	**226**	**251**	**-10**
Net operating expenses	(163)	(158)	3
Other	(11)	1	n.s.
Gross income (loss)	**52**	**94**	**-45**
Average client assets	**77,806**	**71,090**	**9**
Client assets	**79,333**	**76,453**	**4**
Key indicators			
Cost / Income Ratio	71%	62%	
Annualised gross income (loss) / Average client assets	0.1%	0.2%	
Annualised net fee and commission income / Average client assets	0.1%	0.2%	

n.s.: not significant

Asset and liability management

The tables below show the main balance sheet items compared with the corresponding figures at 31 December 2019.

The Group's **financial assets**, totalling €18.8bn, are essentially in line with the figure at the end of 2019 (+€9m).

Financial assets

(€m)

	30.9.2020	31.12.2019	CHANGE	
			AMOUNT	%
Financial assets measured at fair value through profit or loss	357	349	8	2
Financial assets measured at fair value through other comprehensive income	3,069	3,189	(120)	-4
Debt securities measured at amortised cost	15,402	15,275	127	1
Hedging derivatives	14	20	(6)	-30
Total	**18,842**	**18,833**	**9**	**-**

This trend is mainly attributable to the increase in debt securities measured at amortised cost (+€127m) for the purchase of Intesa Sanpaolo bonds, which was partly offset by the reduction in financial assets measured at fair value through other comprehensive income (-€120m).

Financial liabilities

(€m)

	30.9.2020	31.12.2019	CHANGE	
			AMOUNT	%
Financial liabilities held for trading	42	33	9	27
Hedging derivatives	1,032	930	102	11
Total	**1,074**	**963**	**111**	**12**

Financial liabilities totalled €1.1bn, consisting entirely of derivatives. This item was up €111m (+12%) compared to the figure at 31 December 2019, mainly due to fair value changes on the derivatives used to hedge the interest rate risk of certain fixed-rate bonds in the portfolio.

Loans to banks

(€m)

	30.9.2020	31.12.2019	CHANGE	
			AMOUNT	%
Due from Central Banks	120	163	(43)	-26
Current accounts	3,157	3,547	(390)	-11
Term deposits	16,741	12,868	3,873	30
Repurchase agreements	-	500	(500)	-100
Other	119	120	(1)	-1
Total	**20,137**	**17,198**	**2,939**	**17**

Loans to banks totalled €20.1bn, up €2.9bn (+17%) on the figure at 31 December 2019. This was due to the growth in term deposits with Intesa Sanpaolo (+€3.9bn), which was only partly offset by the reduction in repurchase agreements (-€500m) and current accounts (-€390m).

Due to banks

(€m)

	30.9.2020	31.12.2019	CHANGE	
			AMOUNT	%
Current accounts	594	408	186	46
Term deposits	680	578	102	18
Repurchase agreements	1,959	1,944	15	1
Debts for leases	19	22	(3)	-14
Other	23	81	(58)	-72
Total	**3,275**	**3,033**	**242**	**8**

Due to banks totalled €3.3bn, up €242m (+8%) on the figure at the end of 2019, mainly due to increased inflows on current accounts (+€186m) and term deposits (+€102m). The repurchase agreements included €931m for the securities lending transactions with Intesa Sanpaolo.

The Group continued to be a **net lender on the interbank market**, with net interbank deposits of €16.8bn, to which contribute €20.1bn in loans receivable (of which €19bn to Intesa Sanpaolo Group companies) and €3.3bn in loans payable (of which €2.6bn to Intesa Sanpaolo Group companies).

Loans to customers

(€m)

	30.9.2020	31.12.2019	CHANGE AMOUNT	CHANGE %
Current accounts	7,342	6,663	679	10
Repurchase agreements	-	214	(214)	-100
Loans	903	862	41	5
Other	1,141	1,555	(414)	-27
Non-performing assets	58	35	23	66
Total	**9,444**	**9,329**	**115**	**1**

Loans to customers totalled €9.4bn and mainly comprised short-term loans (repayable within 12 months or revocable loans without a specified term). The €115m increase from 31 December 2019 is mainly attributable to the growth in current account overdrafts (+€679m), only partly offset by the reduction in other loans (-€414m) and repurchase agreements with institutional customers (-€214m).
Net problem loans, representing a minimal amount in the portfolio, totalled €58m, up €23m on the figure at the end of 2019. In detail: doubtful loans totalled €1m, in line with the figure at the end of 2019. Unlikely to pay loans totalled €17m, down €2m on 31 December 2019, while past due or overdue loans amounted to €40m, up sharply (+€25m) from the end of 2019, due to the growth in credit risk following the spread of the Covid-19 public health emergency.

Due to customers

(€m)

	30.9.2020	31.12.2019	CHANGE AMOUNT	CHANGE %
Current accounts	33,573	35,193	(1,620)	-5
Term deposits	6,285	3,411	2,874	84
Repurchase agreements	860	32	828	n.s.
Debts for leases	266	280	(14)	-5
Other	85	108	(23)	-21
Total	**41,069**	**39,024**	**2,045**	**5**

n.s.: not significant

Due to customers totalled €41.1bn, up €2bn (+5%) on the figure for 2019. The detailed analysis shows growth in term deposit inflows (+€2.9bn) and repurchase agreements (+€828m), which was partly offset by the reduction in inflows on current accounts (-€1.6bn).

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

(€m)

	LOANS	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (*)	TOTAL
Italy	2,279	153	2,432
Spain	-	340	340
United States	-	212	212
Ireland	-	67	67
Belgium	-	55	55
France	-	42	42
Luxembourg	-	20	20
Switzerland	-	2	2
Austria	-	1	1
Total	**2,279**	**892**	**3,171**

(*) The Italian government bonds in the portfolio of financial assets measured at fair value through other comprehensive income, which had a total face value of €200m, were covered by financial-guarantee contracts.

Property and equipment and intangible assets

(€m)

	30.9.2020	31.12.2019	CHANGE AMOUNT	CHANGE %
Owned real estate	61	62	(1)	-2
Rights of use of leased assets	286	304	(18)	-6
Other property and equipment	13	14	(1)	-7
Property and equipment	**360**	**380**	**(20)**	**-5**
Goodwill	140	140	-	-
Other intangible assets	90	94	(4)	-4
Intangible assets	**230**	**234**	**(4)**	**-2**
Total property and equipment and intangible assets	**590**	**614**	**(24)**	**-4**

Property and equipment and intangible assets totalled €590m, down by €24m from 31 December 2019, mainly due to the amortisation of rights of use on leased assets.
The item includes €140m in goodwill regarding Private Banking divisions acquired by the subsidiary Intesa Sanpaolo Private Banking between 2009 and 2013. Other intangible assets also include, for €28m, the valuation of client assets recognised after purchase price allocation of the Morval Vonwiller Group. That acquisition, which was completed in the second quarter of 2018, entailed the initial recognition in the consolidated financial statements of an intangible asset with a finite useful life for €34m, to be amortised in the income statement for 15 years based on the estimated life cycle of the acquired client assets.

The **provisions for risks and charges** at 30 September 2020 were down €6m from the figure at the end of 2019, illustrated as follows.

Provisions for risks and charges

(€m)

	30.9.2020	31.12.2019	CHANGE	
			AMOUNT	%
Litigation, securities in default and complaints	75	79	(4)	-5
Personnel expenses	83	106	(23)	-22
Personal Financial Advisers' termination indemnities	254	235	19	8
Network Loyalty Schemes	57	55	2	4
Other	3	3	-	-
Total	**472**	**478**	**(6)**	**-1**

The provision for litigation, disputes, securities in default and complaints was down €4m, as a result of utilisation in the first nine months of the year. The provisions for personnel expenses fell by €23m, mainly due to the payment of variable components of remuneration. The provisions for the termination of Personal Financial Adviser agency agreements and the Network Loyalty Schemes were up €19m and €2m, respectively, due to additional provisions set aside in the period.

Shareholders' equity

Group shareholders' equity including net profit for the period totalled €3.6bn at 30 September 2020, having changed as follows:

Group shareholders' equity

(€m)

Shareholders' equity at 31 December 2019	**2,960**
Change in valuation reserves	(6)
Other changes	9
Net profit	623
Shareholders' equity at 30 September 2020	**3,586**

By resolution on 30 March 2020, the Shareholders' Meeting of Fideuram decided not to distribute dividends in accordance with the request made to banks by the ECB with its Recommendations of 27 March and 28 July 2020, which were issued in response to the emergency triggered by the Covid-19 epidemic. Therefore, the entire €851m profit for the year of Fideuram at 31 December 2019 was entirely allocated to reserves.
The €6m decrease largely refers to the reduction in the valuation reserve for financial assets measured at fair value through other comprehensive income after changes in the fair value of the bond portfolio during the period. At the end of September 2020, the valuation reserve for financial assets measured at fair value through other comprehensive income equalled a positive €10m (+€20m at the end of 2019).
The Group did not hold any treasury shares at 30 September 2020.

Fideuram S.p.A.'s own funds and main capital ratios at 30 September 2020 are shown below.

Fideuram S.p.A. Capital Ratios

(€m)

	30.9.2020	31.12.2019
CET1	1,886	1,033
Tier 1	1,886	1,033
Own funds	1,886	1,033
Total risk-weighted assets	6,452	6,218
CET1 Ratio	**29.2%**	**16.6%**
Tier 1 Ratio	**29.2%**	**16.6%**
Total Capital Ratio	**29.2%**	**16.6%**

As a member of the Intesa Sanpaolo Banking Group, Fideuram is subject to the laws and regulations regarding capital requirements on the basis of its separate accounts, but is not required to present this information on a consolidated basis. In order to provide comprehensive information, the Group voluntarily estimates its consolidated capital requirements, taking its membership of the Intesa Sanpaolo Banking Group into account. At 30 September 2020, this calculation showed our Common Equity Tier 1 Ratio to be 28.3%, up sharply from 19.2% at the end of December 2019. This was due to the increase in own funds following the previously mentioned decision to allocate to reserves the €851m profit for the year realised by Fideuram in 2019.

Risk management and control

CREDIT RISK

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

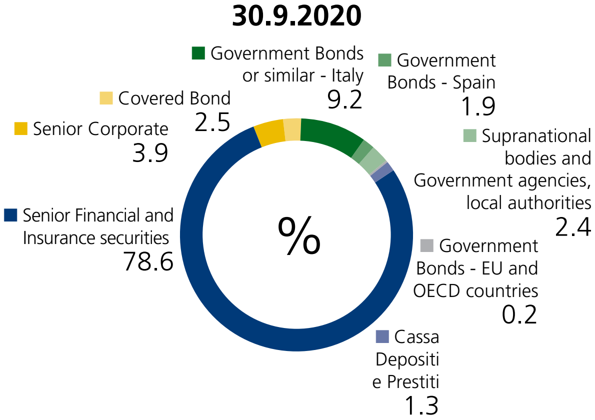
The credit risk management policy, which is integrated and consistent with the guidelines issued by Intesa Sanpaolo, is subject to approval by the Corporate Bodies of Fideuram, which have the prerogative of making strategic risk management decisions for the Fideuram Group. The Group's credit risk policies are formulated by the Board of Directors and governed by internal lending regulations. These regulations ensure appropriate loan portfolio risk management, governing the authority to grant loans and specifying the company bodies so authorised, together with their related limits. The internal regulations also specify the organisational units responsible for managing credit risk, problem loans and non-performing loans. Credit risk management is carried out by a central unit that is separate from those in charge of granting and managing loans.

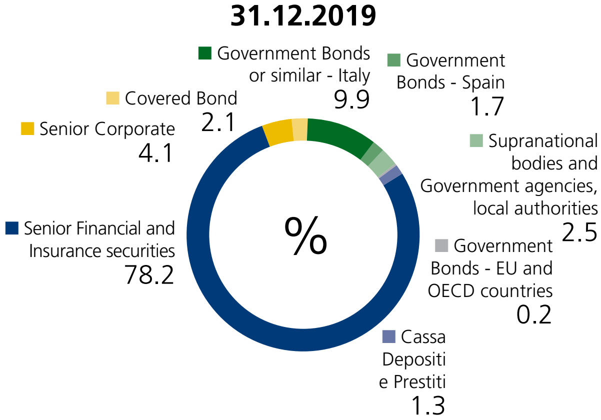
In the Fideuram Group, the authorisation levels for granting and managing loans are determined according to the face value of the granted loans (except for the subsidiary Intesa Sanpaolo Private Banking). A project is underway for alignment with the decision-making RWA analogously to what has been adopted in the Intesa Sanpaolo Group, where the components that contribute to determination of the Risk Weighted Assets (RWA) constitute the key elements for determining the Authority to Grant and Manage Loans, within the limits of the Credit Risk Appetite (CRA) and the credit limit, pricing of the loan, calculation of the impairment on performing and non-performing exposures, and calculation of the economic and regulatory capital. The authority levels limit the decision-making authority at the time the loan is granted, by specifying the delegated professionals and the decision-making procedures for the loans made to individual counterparties. If the granted loan exceeds specific limits, a "Compliance Opinion" must be requested from the delegated bodies of Intesa Sanpaolo.

The Group's credit strategies are directed towards the efficient selection of individual borrowers. Irrespective of any collateral, the granting of any loan is always subject to an appropriate analysis of the applicant's creditworthiness and their current and prospective ability to generate adequate cash flows to repay the debt. The quality of the loan portfolio is ensured through the adoption of special operating procedures at every stage in the life of each loan, which use special monitoring systems to obtain prompt notification of any symptoms of impairment in the collateral securing the loans granted. In addition, dedicated application procedures monitor any signs of non-performing loan positions. This monitoring is carried out during every stage in the loan management process (enquiry, granting and monitoring) and consists of a critical analysis of all the relevant indicators and the periodic review of every position. Further controls are carried out by our central departments on both the nature and quality of the overall exposures. In addition, special controls are carried out to limit the concentration of exposure within the Intesa Sanpaolo Group. Risk monitoring and measurement tools and techniques developed within the Group are also used to this end.
In order to mitigate the credit risk of loans and advances to customers, the Group normally obtains collateral, bank guarantees or irrevocable mandates to sell financial instruments. The types of collateral obtained are principally products distributed by the Fideuram Group (mutual funds and discretionary accounts) or financial instruments listed on major regulated markets. Bonds are only accepted as collateral if the issuer or loan has an appropriate rating (by leading rating agencies).
The value of the financial instruments obtained as collateral is discounted differentially in relation to the type of product and technical form concerned, as a precautionary measure when calculating the credit limit to be granted, with a view to protecting the Group against any fluctuations in market value. The concentration of collateral in issuers is very low, except for mutual funds and other products distributed by the Fideuram Group. There were no encumbrances capable of undermining the legal validity of any collateral, which is moreover subject to periodic verification.
The Group uses bilateral netting agreements, which offset creditor and debtor positions in the event of the default of one counterparty, to mitigate the counterparty risk in Security Financing Transactions (SFT), specifically securities lending transactions and repurchase agreements. Aside from what has already been indicated (bilateral netting), when OTC (unregulated) derivatives are subject to a Clearing House, counterparty risk is mitigated through an additional level of collateralization represented by centralised margining. ISDA and ISMA/GMRA agreements are used to this end, which also enable one to reduce the regulatory capital allocation while operating in accordance with the supervisory regulations.

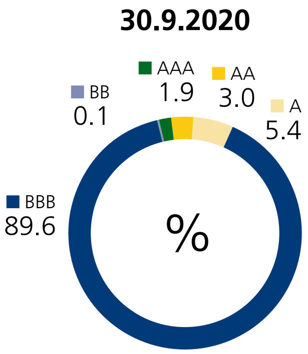
At 30 September 2020, the Group portfolio was broken down as follows by product type and rating.

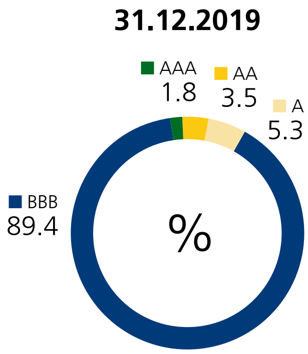
Analysis by product type





Analysis by rating





The potential impairment of assets undergoes detailed ongoing monitoring, examining overdue/past due positions and carefully analysing all the other indicators available. Loans assessed as high risk, confirmed over time, are identified and allocated to other categories appropriate to their risk profile. Exposures to insolvent parties (even if insolvency has not been declared by court order) or parties in substantially equivalent situations are classified as doubtful loans, regardless of any loss estimates prepared by the intermediary.
Exposures where the borrower is assessed as being unlikely to meet their payment obligations in full (principal and/or interest) are classified as unlikely to pay loans.
Lastly, loans that are past due and/or overdue which have exceeded the objective overdue payment conditions specified by the Bank of Italy are also considered problem loans. The Group's internal lending regulations govern the procedures for transferring performing positions to non-performing assets, and specify the different types of problem loans, their management and the company bodies empowered to authorise the transfer of positions between different classes of loans. Doubtful loans, net of adjustments, accounted for a very small percentage of total loans (0.01% of loans to customers). Loss forecasts are formulated analytically for each individual loan based on all the relevant valuation factors (debtor assets, employment income and estimated recovery date etc.). The valuations are examined at regular intervals and revised if any significant new elements emerge.

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

Forbearance measures represent the forbearance offered to a debtor who is facing, or is about to face difficulties in satisfying his own payment obligations (troubled debt). The term "forbearance" means the contractual amendments that are accorded to the debtor in financial difficulty (modification), and the disbursement of a new loan so that the pre-existing obligation can be satisfied (refinancing). Forbearance also refers the contractual modifications which the debtor may freely request in the ambit of a contract that has already been signed, but only if the creditor believes that that debtor is in financial difficulty (embedded forbearance clauses). Therefore, the notion of "forborne" has to exclude renegotiation of contracts for commercial reasons/practice that are made irrespective of the debtor's financial difficulties. The exposures subject to forbearance measures ("forborne assets" or "forborne exposures") are necessarily identified on the basis of a "by transaction" approach, in accordance with the provisions of EBA regulations. In this context, "exposure" refers to the renegotiated contract and not to all of the exposures to the same debtor. Unlike the forbearance measures, which concern the outstanding loans to counterparties in financial difficulty, renegotiations for commercial reasons involve debtors who are not in financial difficulty and include all the transactions aimed at adjusting the cost of the debt to market conditions. These commercial renegotiations of loans involve a change in the original conditions of the contract, usually requested by the borrower and generally relating to aspects concerning the cost of the debt (or its duration), with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer would borrow from another intermediary and the bank would incur a decrease in expected future revenues. Under specific conditions, these transactions are similar in accounting terms to the premature repayment of the original debt and the opening of a new loan.

Loans and advances to customers: credit quality

(€m)

	30.9.2020		31.12.2019		CHANGE
	NET EXPOSURE	%	NET EXPOSURE	%	NET EXPOSURE
Doubtful loans	1	-	1	-	-
Unlikely to pay	17	-	19	-	(2)
Past due or overdue loans	40	-	15	-	25
Non-performing assets	**58**	**-**	**35**	**-**	**23**
Performing loans	9,386	79	9,294	79	92
Debt instruments	2,478	21	2,509	21	(31)
Loans to customers	**11,922**	**100**	**11,838**	**100**	**84**

MARKET RISK

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

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

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

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

The portfolio of Level 2 financial assets measured at fair value through profit or loss consisted of the insurance policies taken out to insure the market yields of the Personal Financial Adviser Networks' Loyalty Schemes. The fair value of Class I policies is determined using a prospective actuarial method based on the principle of the initial equivalence of the average present values of the contractual commitments of the insurer and the average present values contracted by the policyholder/contracting party. The fair value of Class III policies is calculated as the value of the units at the reporting date plus any pure premiums not yet invested at the valuation date.

The derivatives in the banking book consisted principally of Interest Rate Swaps. As a rule, the Fideuram Group uses fair value hedge derivatives to reduce its exposure to adverse fair value movements due to interest rate risk. The Chief Risk Officer is responsible for assessing hedge effectiveness, carrying out prior assessments of the conditions that make hedge accounting applicable and formally documenting each hedging relationship. These assessments use prospective tests when the hedges are taken out, followed by retrospective tests at monthly intervals.

The Group uses derivatives (mainly interest rate swaps) to hedge interest rate risk following a strategy that involves buying swaps linked to the individual fixed-coupon bonds in the portfolio. This strategy has made the Group's long-term securities holdings less sensitive to interest rate risk. Where risk concentration is concerned, the securities holdings are highly diversified as a result of the stringent limits specified by the Financial Portfolio Policy, which limits the maximum exposure to any single corporate Group to 5% of the total holdings, with the sole exception of Intesa Sanpaolo.

An approach consistent with fair value measurement hierarchy Level 2 is used for the measurement of derivatives, based on commonly accepted valuation processes and fed by market data providers. Hedging and treasury derivatives taken out in ordinary investment activities (interest and exchange

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

(€m)

	30.9.2020			31.12.2019		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets measured at fair value through profit or loss	17	340	-	21	328	-
Financial assets measured at fair value through other comprehensive income	3,069	-	-	3,172	17	-
Hedging derivatives	-	14	-	-	20	-
Property and equipment	-	-	62	-	-	63
Total	**3,086**	**354**	**62**	**3,193**	**365**	**63**
Financial liabilities held for trading	-	42	-	-	33	-
Hedging derivatives	-	1,032	-	-	930	-
Total	**-**	**1,074**	**-**	**-**	**963**	**-**

rate derivatives in particular) that are not traded on regulated markets, but traded bilaterally with market counterparties, are known as over-the-counter (OTC) instruments and valued using special pricing models.

The banking book comprises long-term investment securities, interest rate hedging derivatives and loans.
The banking book totalled €48.1bn at 30 September 2020.

Banking book

(€m)

	30.9.2020	31.12.2019	CHANGE	
			AMOUNT	%
Financial assets measured at fair value through other comprehensive income	3,069	3,189	(120)	-4
Debt securities classified as loans to banks	12,924	12,766	158	1
Debt securities classified as loans to customers	2,478	2,509	(31)	-1
Hedging derivatives	14	20	(6)	-30
Total securities and derivatives	**18,485**	**18,484**	**1**	**-**
Loans to banks	20,137	17,198	2,939	17
Loans to customers	9,444	9,329	115	1
Total loans	**29,581**	**26,527**	**3,054**	**12**
Total banking book	**48,066**	**45,011**	**3,055**	**7**

The internal system used to measure interest rate risk evaluates and describes the effect of changes in interest rates on the economic value and net interest income and identifies all significant sources of risk that influence the banking book:

- repricing risk: risk originating from mismatches in due dates (for fixed rate positions) and the rate revision date (for variable rate positions) of the financial items due to parallel movements in the yield curve;
- yield curve risk: risk originating from mismatches in due dates and the rate revision date due to changes in the inclination and shape of the yield curve;
- basis risk: risk originating from the imperfect correlation in the adjustment of the interest income and interest expense rates of variable rate instruments, which may differ due to their indexing parameter, rate revision procedure, indexing algorithm, etc. This risk arises after non-parallel changes in market rates.

The interest rate risk of the banking book is measured using the following methods:

- Shift sensitivity of the economic value (ΔEVE).
- Net interest income:
  - shift sensitivity of net interest income (ΔNII);
  - dynamic simulation of net interest income (NII).
- Value at Risk (VaR).

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at the level of individual cash flow for each financial instrument, on the basis of different instantaneous rate shocks and reflects the changes in the discounted value of the cash flows of positions already carried on the balance sheet for the entire remaining duration until maturity (run-off balance sheet). In the measurements, the balance sheet items are represented according to their contractual profile, with the exception of those categories of instruments that feature risk profiles different from the contractually envisaged ones.

For these transactions, it was consequently decided to use a behavioural representation in order to calculate the risk measurements. In particular:

- for loans, prepayments are taken into account so as to reduce the exposure to rate risk (overhedge) and liquidity risk (overfunding);
- for those items that are contractually payable on demand, a financial representation model is implemented to reflect the behavioural characteristics of stability of the assets and partial and delayed reaction to the changes in market rates, in order to stabilise net interest income both in absolute and variable terms over time;
- for the cash flows used both for the contractual and the behavioural type, they are developed at the contractual rate or at the FTP.

The changes in net interest income and economic value are subject to monthly monitoring in accordance with the limits and sub-limits approved by the Group Financial Risk Committee (GFRC).
Accordingly, the measurements are shown according to the details used to run the test, in terms of credit limit and sub-credit limit, time buckets (short, medium, and long-term), company, and currency.

The scenarios used to check the limits are:

- to check exposure in terms of ΔEVE: instantaneous and parallel shock of +/-100 bps;
- to check exposure in terms of ΔNII: instantaneous and parallel shock of +/-50 bps.

For a parallel upward movement in the rate curve by 100 bps, the sensitivity value at 30 September 2020 was a negative -€7m. In contrast, the net interest income sensitivity was negative -€121m in the event of a -50 bps shock.

The Value at Risk is calculated as the maximum potential loss of the market value of the portfolio that might occur during the following ten business days with a statistical confidence level of 99% (parametric VaR). The VaR is also used to consolidate the exposure to financial risks assumed after banking book activities, and thus also considering the benefits generated by the diversification effect. The VaR calculation models feature several limits, since they are based on the statistical assumption of a normal distribution of yields and on the observation of historic data, which might not be followed in future. Therefore, the results of the VaR do not guarantee that any possible future losses cannot exceed the calculated statistical estimates.

At 30 September 2020, the VaR totalled €13.4m, as calculated on a one-day time horizon and considering the rate, credit spread and volatility components. After the intense volatility experienced by the financial markets in connection with the Covid-19 emergency, a significant increase in the market risk of a proprietary portfolio was found beginning 9 March, with the assigned limit being exceeded (€16m, in contrast with a limit of €9m), and whose inertial recovery would not occur before January 2021. In response to the extraordinary market situation, the GFRC revised the VaR limits at the Group level, assigning a new threshold of €19m, which allowed it to stay within the limits. However, Intesa Sanpaolo remains free to reduce the new limit at any time if the markets return to normal conditions.

The Fideuram Group engages in hedging to immunise its banking book from changes in the fair value of investments caused by movements in the interest rate curve (interest rate risk). The Group adopts both specific hedges (Micro Fair Value Hedge) and generic hedges (Macro Fair Value Hedge). The micro fair value hedges are mainly used to hedge bonds. Macro fair value hedges of fixed rate loans were introduced. The hedges are characterised by the missing identification of the individual underlying assets that are hedged. This choice, determined by the natural fractioning (both in terms of number and amount) of the mortgage exposures, entails periodic checks that the sensitivity and fair value of the hedging derivative (or derivatives) are sufficient to cover the same measures calculated on the hedged assets. The type of hedge in question is implemented by purchasing amortizing Interest Rate Swaps with a long maturity date (usually 30 years), which require quarterly amortisation of the same amount for both the pay fixed and receive floating legs, with the latter being indexed to the 3-month Euribor benchmark.

At the end of September 2020, the overall size of the existing eight hedges was about €252m in original notional value. All the Macro Fair Value Hedge that were (subsequently) completed are fully effective and efficient in terms of sensitivity, fair value, in situations of capital gains and losses on the derivatives. The principal types of derivatives used are represented by Interest Rate Swaps (IRS) that are plain bullet or have an accreting notional, inflation linked, Overnight Index Swaps (OIS), Cross Currency Swaps (CCS) realised with independent counterparties or with other Group companies which, in turn, hedge the risk on the market. The derivatives are not listed on regulated markets, but traded on OTC circuits. The OTC contracts also include those that are intermediated through clearing houses.

The Group also adopted a type of hedge to mitigate the risk of exposure to changes in future cash flows attributable to movements of the interest rate curve (so-called Cash Flow Hedge). Specifically, the hedged flows are those associated to the coupons of two floating-rate Intesa Sanpaolo bonds with a residual maturity of up to five years. The methods of performing effectiveness tests are similar to those relating to the hedging of micro fair value hedges, with some differences linked to the fact that the subject of the hedge are the cash flows and not the value of the hedged asset.

EXCHANGE RATE RISK

Exchange rate risk is defined as the possibility of fluctuations in market exchange rates generating either positive or negative changes in the value of the Group's net assets.

The principle sources of exchange rate risk are:

- Purchases of securities and other financial instruments in foreign currencies.
- Buying and selling of foreign currencies.
- Collection and/or payment of interest, commission, dividends or administrative expenses in foreign currencies.

Spot and forward transactions on foreign exchange markets were mainly entered into with the aim of optimising proprietary risk arising in relation to the buying and selling of foreign currencies to and from customers. Exchange rate risk is mitigated by the practice of funding in the same currency as the assets, while the residual exposures are included in the trading book.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will fail to satisfy its own payment commitments due to its inability both to obtain funds on the market (funding liquidity risk) and to sell its own assets (market liquidity risk). The internal system for control and management of liquidity risk is developed within the Group Risk Appetite Framework and in compliance with the maximum limits of tolerance of liquidity risk approved in that Framework, which require that the Group has to maintain adequate liquidity so as to deal with periods of tension on different funding markets, inter alia through the formation of adequate liquidity reserves represented by marketable securities that can be refinanced at central banks. Accordingly, a balanced relationship has to be maintained between inflows and outflows in both the short and medium-to-long term. This objective is developed by the "Group Guidelines for Governance of Liquidity Risk" approved by the Corporate Bodies of Intesa Sanpaolo. These guidelines incorporate the latest regulatory provisions covering liquidity risk and illustrate the duties of the various corporate functions, the rules and set of control and management processes designed to assure prudent monitoring of that risk, by preventing crisis situations from arising. In particular, from the organisational point of view, the duties assigned to the Board of Directors have been defined in detail, and top management is delegated with several important compliance measures, such as approval of the measurement methods, definition of the principal assumptions underlying the stress scenarios, and the composition of the attention indicators used to activate emergency plans.

In regard to measurement metrics and tools to attenuate liquidity risk, aside from defining the methodological framework used to measure the short-term and structural liquidity indicators, the maximum tolerance limit for liquidity risk (risk appetite), the methods used to define the Liquidity Reserves, and the rules and parameters for performing the stress tests are formalised. The short-term liquidity indicators aim to assure an adequate and balanced level between negative and positive cash flows having a certain or estimated due date falling within a 12-month time ho-

rizon, with the aim of confronting periods of tension, including extended ones, on the different funding markets. Accordingly and consistently with the maximum limit on tolerance for liquidity risk, the system of limits is defined by envisaging short-term indicators over a one-month time horizon (Liquidity Coverage Ratio - LCR).
The LCR indicator, whose minimum limit has been 100%, has the purpose of reinforcing the short-term liquidity risk profile, assuring that it holds sufficient, unrestricted high-quality liquid assets (HQLA) that may be easily and immediately converted into cash on private markets to satisfy liquidity requirements at 30 days in a liquidity stress scenario as defined in the Delegated Regulation No. 2015/61/EU.

The structural Liquidity Policy requires adoption of the structural requirement mandated by the Basel III Net Stable Funding Ratio (NSFR) regulation. That indicator aims to promote greater use of stable inflows, preventing medium and long-term operations from causing excessive imbalances to be financed on a short-term basis. Accordingly, it sets a minimum "acceptable" amount of funding for more than one year according to the needs originating from the liquidity and residual duration characteristics of off-balance sheet assets and exposures.

In that context, the Contingency Funding Plan (CFP) has been implemented. This contains different lines of action that can be activated to deal with potential stress situations, indicating the dimension of the mitigating effects that could be pursued over a short-term time horizon. Moreover, it is required that governance procedures be in place to govern a possible liquidity crisis, defined as a situation of difficulty or incapacity to meet one's own cash commitments as they fall due, unless procedures are activated and/or tools are used in a way that cannot be associated with ordinary administration in terms of their intensity or procedures.
The key principles of said regulatory changes introduce prudential rules regarding both short-term liquidity risk management and long-term liquidity risk management (structural liquidity).
The Group's solidity is based on balance sheet liabilities that are mainly centred on retail customer deposits. These are deposits that benefit from considerable stability over time, meaning that the Group does not need to depend on the interbank market and can thus avoid exposure to the risk of a liquidity crisis in that market. In addition to the stability of customer deposits, where interest-bearing assets are concerned, the Group has an investment portfolio that is governed by stringent liquidity limits for securities (readily-negotiable and eligible for Central Bank refinancing) in accordance with the provisions of the Financial Portfolio Policy based on highly-prudential criteria suitable for ensuring high and stable liquidity.
The introduction of said Policy also involved setting up an operational limit monitoring and reporting unit in line with the revised Group regulations. Liquidity risk exposure is monitored constantly to ensure that the operational limits and relevant regulations are respected. The methods adopted to measure the Group's exposure to liquidity risk follow the cardinal principles of the European Banking Authority (EBA) and the provisions of the Supervisory Regulations, and ensure that the asset and liability items are calculated in a wholly suitable manner for providing an appropriate representation of expected cash flows.

OPERATIONAL RISK

Operational risk is defined as the risk of loss arising from inadequate or ineffective internal processes, human resources or systems, or from external events. Operational risk also includes legal and compliance risk, model risk, information technology risk and financial disclosure risk; instead, strategic and reputational risks are not included.
The Group implements an operational risk assumption and management strategy based on the principles of prudent management and aimed at guaranteeing its long-term soundness and business continuity. Moreover, the Group devotes special attention to striking an optimal balance between growth and earnings targets and the consequent risks.
To that end, the Group drew up a framework for the management of operational risks some time ago, establishing rules and organisational processes for measuring, managing and monitoring operational risk.
The Group calculates its capital requirement using the Advanced Measurement Approach (AMA) in partial use with the standardised approach (TSA) and basic indicator approach (BIA) to meet its supervisory requirements.
The Group's Operational Risk Management activities are monitored by Bodies, Committees, and units that interact with different responsibilities and roles to create an effective operational risk management system that is integrated in decision-making processes and in the management of business operations.
The internal model for calculating capital absorption of the Group has been designed to combine all the main sources of information, whether quantitative (operational loss: internal and external events) or qualitative (Self-Diagnosis: Scenario Analysis and Assessment of the Operational Context).
The capital at risk is therefore considered to be the minimum amount at Group level which would be required to meet the maximum potential loss that could be incurred. It is estimated using a Loss Distribution Approach model (an actuarial statistical model for calculating the Value at Risk of operational losses), which is applied both to the quantitative data and to the results of the scenario analysis over a one-year time horizon, with a confidence interval of 99.90%. This method also involves applying a correction factor obtained from qualitative risk assessments of the operating context (AOC), in order to take the effectiveness of the internal controls in the various different Organisational Units into account.

Fideuram, in accordance with the framework of Intesa Sanpaolo, is responsible for identifying, assessing, managing and mitigating risks. It has clearly identified internal units coordinated by Operational Risk Management which are responsible for the Operational Risk Management processes (collection and structured recording of information on operational loss events, scenario analyses and the evaluation of risks associated with the operating context).

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

- the Board of Directors is responsible for the development and strategic supervision of the risk management policies, and for ensuring the smooth operation, efficiency and effectiveness of the operational risk management and control system over time, while also deciding on matters regarding compliance with the criteria for determining the bank's capital requirement;

- the Audit Coordination Committee is responsible for monitoring the adequacy of the operational risk management and control system, and for ascertaining its compliance with the related regulatory requirements;
- the Internal Audit Department is responsible for periodically auditing the operational risk management system, and for reporting on it to the Company Bodies;
- the Operational Risk Committee is a consultative body that is responsible for analysing the reports on the operational risk profile of the Bank and for proposing any actions required to prevent and mitigate operational risk;
- the Decentralised Operational Risk Management (ORM) Unit, which reports to the Chief Risk Officer of Fideuram, is responsible for organising and maintaining the set of activities provided for by the operational risk management system.

At the Division level, losses for €8m were incurred, including €5.5m attributable to provisions, indemnities, legal expenses and the use of provisions for unlawful acts committed by the Personal Financial Advisers, €1m attributable to disputes with customers over the sales relationship, €825k for external fraud (cyber fraud, ATM thefts and card cloning), and €254k for Covid-19 related costs (expenses for decontamination and purchase of personal protection equipment, unrecoverable penalties for missed participation at previously scheduled events). The expenses incurred so that employees can operate on a smart working basis or to upgrade IT and security systems have to be treated as investments and not extra costs directly connected with the pandemic. A smaller portion is attributable to the costs of anomalies in computer flows and errors in the performance and management of processes.

The Private Banking Division continued its work on improving the processes and controls in place to mitigate risk and contain losses, and participated fully in every initiative launched by Intesa Sanpaolo.

LEGAL AND TAX RISK

The Group is involved in civil and tax lawsuits as well as in criminal proceedings against third parties as part of its normal business operations.
The Group monitors pending cases constantly in consultation with external legal advisers, examining them in the light of the relevant contractual documents, the conduct concerned, internal investigations and any critical aspects highlighted by the aforesaid legal advisers during lawsuits. The Group has set aside provisions for legal disputes to cover, among other things, the liabilities that could, according to internal and external legal advice, be incurred as a result of pending legal and other disputes. At 30 September 2020, these provisions totalled €75m. The total provisions and the amount of the individual provisions set aside are calculated based on external and internal legal advisers' estimations of the proceedings having negative outcomes. At 30 September 2020, the number and value of pending proceedings were not sufficient to have any potential significant impact on the business, assets or financial position of the Group.
The situation regarding legal and tax risk at 30 September 2020 had changed as follows with respect to the situation described in the consolidated financial statements at 31 December 2019.

Cases regarding alleged unlawful and/or improper conduct by former Personal Financial Advisers authorised to offer products and services outside Group premises
In regard to the serious irregularities committed by a former Personal Financial Adviser at Sanpaolo Invest, the subsidiary received 63 claims of misappropriation by the end of September 2020, with claims totalling €28m. About €17m of that amount related to the misappropriation alone, and the remainder to additional types of losses. The audits performed by the Internal Audit Department and the Legal Affairs Department confirmed that the misappropriated amounts totalled €13m. The Company has also received another 209 claims for about €32m, mainly concerning false account statements and unauthorised transactions, and claims for reimbursement of the fees and commissions for the Advanced Advisory Service.
During the first nine months of 2020, the subsidiary accepted and reimbursed over €4m in claims, on top of the approximately €1m already paid in 2019. Therefore, 206 claims were pending at 30 September 2020 for a total of about €52m in claims. At the same time, the Company continued its out-of-court and judicial activities against the illegitimate beneficiaries to recover the expropriated funds.
The risk of additional expenditure stemming from the unlawful acts committed by the Personal Financial Adviser is covered by a provision for €9m (of which €2.8m were accrued in the first nine months of 2020), determined according to the assessment of confirmed claims of misappropriation and claims for incorrect account statements and unauthorised transactions, without considering the recovery actions that have already been undertaken, the orders issued for the seizure of evidence, and the coverage provided by the special insurance policy, which the Company promptly activated in accordance with the policy conditions.

In the first nine months of 2020, Fideuram renewed a Personal Financial Adviser misconduct insurance policy with Generali Italia in coinsurance with AIG, through the broker AON S.p.A., which covers claims consequent upon unlawful acts committed by Fideuram, Sanpaolo Invest and Intesa Sanpaolo Private Banking Personal Financial Advisers for amounts in excess of €3m. The annual per-claim limit provided for in the policy is €16m (to cover all complaints, including out-of-court settlements, regarding the unlawful/improper conduct of a single Personal Financial Adviser).

Tax disputes
The judgements in the proceedings of first instance issued by the Milan Provincial Tax Court were filed in February. Those judgements accepted the appeals by Intesa Sanpaolo Private Banking against the tax assessments for the 2014 and 2015 tax years. With those assessments, the Tax Authorities disallowed the deductibility of the amortisation of the goodwill arising from the transfer of a company division. That dispute followed other proceedings on the same issue and which had been undertaken for the 2011, 2012 and 2013 tax years, with conflicting outcomes for the company at the next level of jurisdiction. Since the tax office's claim is groundless, no amount has been set aside in the provision for risks and charges.

Human capital

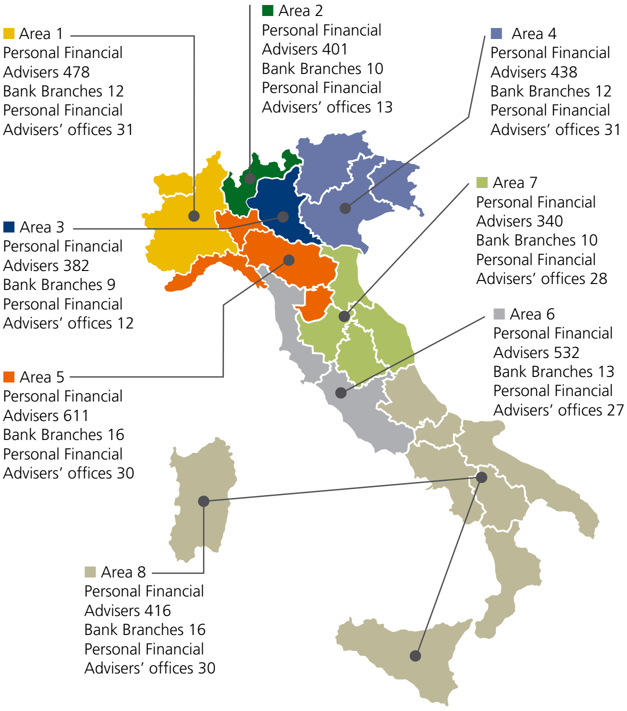
DISTRIBUTION NETWORKS

At 30 September 2020, the Group's distribution networks (Fideuram, Sanpaolo Invest, Intesa Sanpaolo Private Banking and Intesa Sanpaolo Private Bank (Suisse) Morval Networks) totalled 5,785 Personal Financial Advisers compared with 5,834 at the beginning of 2020.

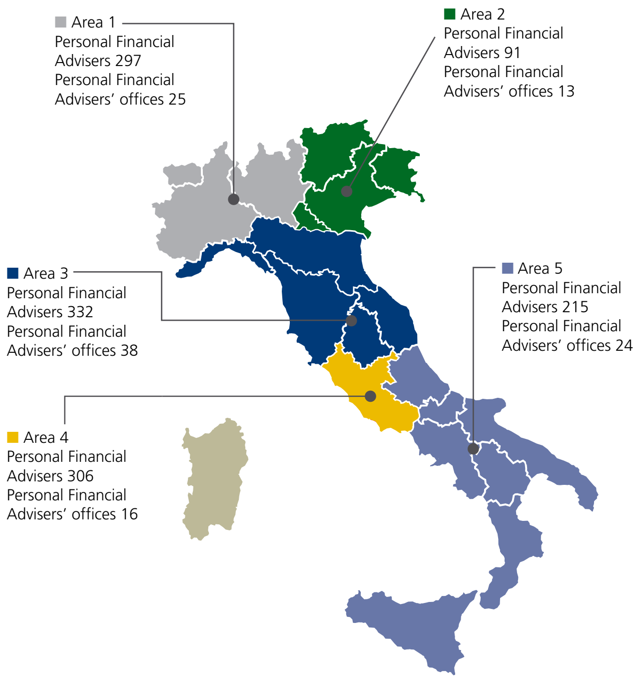
NINE MONTHS	BEGINNING OF PERIOD 1.1.2020	IN	OUT	NET	END OF PERIOD 30.9.2020
Fideuram Network	3,614	75	91	(16)	3,598
Sanpaolo Invest Network	1,254	27	40	(13)	1,241
Intesa Sanpaolo Private Banking Network	912	33	53	(20)	892
Intesa Sanpaolo Private Bank (Suisse) Morval Network	54	4	4	-	54
Total	**5,834**	**139**	**188**	**(49)**	**5,785**

TWELVE-MONTH PERIOD	BEGINNING OF PERIOD 1.10.2019	IN	OUT	NET	END OF PERIOD 30.9.2020
Fideuram Network	3,621	131	154	(23)	3,598
Sanpaolo Invest Network	1,299	36	94	(58)	1,241
Intesa Sanpaolo Private Banking Network	917	40	65	(25)	892
Intesa Sanpaolo Private Bank (Suisse) Morval Network	65	3	14	(11)	54
Total	**5,902**	**210**	**327**	**(117)**	**5,785**

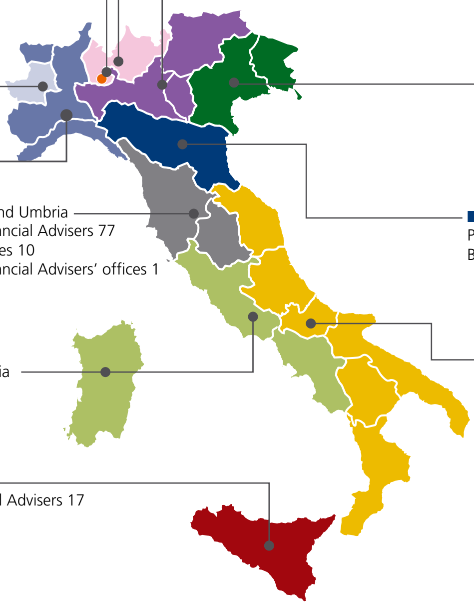
Fideuram Network: 8 Areas



Sanpaolo Invest Network: 5 Areas



Intesa Sanpaolo Private Banking Network: 11 Areas



The Fideuram and Sanpaolo Invest Networks' recruitment programmes brought in 102 new professionals in the first nine months of 2020 (compared with 160 new Personal Financial Advisers recruited in the corresponding period of 2019) and 167 over the past 12 months, compared with 226 new employees in the previous twelve-month period. During the first nine months of the year, 131 Personal Financial Advisers left the Group, but only 22% of them moved to competitor networks.

Personal Financial Advisers of the Fideuram Network

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
NINE MONTHS					
1.1.2020 - 30.9.2020	3,614	75	91	(16)	3,598
1.1.2019 - 30.9.2019	3,662	121	162	(41)	3,621
TWELVE-MONTH PERIOD					
1.10.2019 - 30.9.2020	3,621	131	154	(23)	3,598
1.10.2018 - 30.9.2019	3,664	176	219	(43)	3,621

Personal Financial Advisers of the Sanpaolo Invest Network

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
NINE MONTHS					
1.1.2020 - 30.9.2020	1,254	27	40	(13)	1,241
1.1.2019 - 30.9.2019	1,344	39	84	(45)	1,299
TWELVE-MONTH PERIOD					
1.10.2019 - 30.9.2020	1,299	36	94	(58)	1,241
1.10.2018 - 30.9.2019	1,394	50	145	(95)	1,299

The Intesa Sanpaolo Private Banking Network currently numbers 828 Personal Financial Advisers who are salaried employees registered in Italy's Unified Register of Financial Advisers and 64 freelance professionals on agency contracts.

Personal Financial Advisers of the Intesa Sanpaolo Private Banking Network

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
NINE MONTHS					
1.1.2020 - 30.9.2020	912	33	53	(20)	892
1.1.2019 - 30.9.2019	927	37	47	(10)	917
TWELVE-MONTH PERIOD					
1.10.2019 - 30.9.2020	917	40	65	(25)	892
1.10.2018 - 30.9.2019	932	43	58	(15)	917

The Intesa Sanpaolo Private Bank (Suisse) Morval Network is composed of 54 Personal Financial Advisers.

Personal Financial Advisers of the Intesa Sanpaolo Private Bank (Suisse) Morval Network

	BEGINNING OF PERIOD	IN	OUT	NET	END OF PERIOD
NINE MONTHS					
1.1.2020 - 30.9.2020	54	4	4	-	54
1.1.2019 - 30.9.2019	62	7	4	3	65
TWELVE-MONTH PERIOD					
1.10.2019 - 30.9.2020	65	3	14	(11)	54
1.10.2018 - 30.9.2019	67	4	6	(2)	65

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

Moreover, we continued to see steady growth in the Personal Financial Advisers who have joined our Team project, conceived to promote collaboration between Personal Financial Advisers with a view to developing and providing enhanced support for their customers. At the end of September 2020, 1,526 Personal Financial Advisers had joined together in teams, collectively managing a total of around €14.9bn assets for over 115,000 customers.

EMPLOYEES

Total Group staff, including secondments to and from other companies in the Intesa Sanpaolo Group not included in the scope of consolidation of the Fideuram Group and atypical staff, came to 3,129 at 30 September 2020, compared with 3,179 at 31 December 2019.
Direct employees totalled 3,100.

Employees

(number)

	30.9.2020	31.12.2019	30.9.2019
Private Banking	**2,804**	**2,852**	**2,862**
Fideuram - Intesa Sanpaolo Private Banking (*)	1,269	1,265	1,261
Intesa Sanpaolo Private Banking (*)	1,348	1,399	1,408
Sanpaolo Invest SIM	15	16	16
Intesa Sanpaolo Private Bank (Suisse) Morval	145	146	148
Morval Bank & Trust Cayman	10	10	11
Intesa Sanpaolo Private Argentina	6	5	5
Morval Vonwiller Advisors	11	11	13
Asset Management	**240**	**241**	**241**
Fideuram Asset Management (Ireland)	64	66	64
Fideuram Bank (Luxembourg)	65	65	65
Fideuram Investimenti SGR (*)	108	107	109
Intesa Sanpaolo Private Bank Monaco	3	3	3
Fiduciary and treasury services	**85**	**86**	**84**
Financière Fideuram	5	4	4
Siref Fiduciaria	80	82	80
Total	**3,129**	**3,179**	**3,187**

(*) Data restated on a like-for-like basis to account for the merger of Morval SIM into Intesa Sanpaolo Private Banking effective from 1 January 2020, after which several resources were seconded to Fideuram and Fideuram Investimenti.

Events after 30 September 2020 and outlook

There were no significant events after the reporting period requiring any changes to be made to the consolidated financial statements at 30 September 2020.

As part of the broader project for international development of the Private Banking Division, the Fideuram Board of Directors meeting held on 5 October 2020 approved:

- the acquisition of a 69% stake in Reyl & Cie S.A., a Swiss bank that controls the banking group by the same name;
- the liquidation of Morval Bank & Trust Cayman Ltd (unless it receives a better valuation) and Intesa Sanpaolo Private Monaco SAM.

After the necessary authorisations were issued, on 26 October 2020 the Extraordinary Shareholders' Meetings of Intesa Sanpaolo Private Banking and Fideuram Investimenti SGR approved the partial demerger in favour of Fideuram Investimenti of the business unit of Intesa Sanpaolo Private Banking, comprised by the organisational unit responsible for providing the portfolio management service, effective from 1 January 2021. At the same time as the effective date of that transaction, Fideuram Investimenti SGR will change its company name to Fideuram - Intesa Sanpaolo Private Banking Asset Management SGR.

Upon completion of the acquisition of UBI Banca S.p.A. by Intesa Sanpaolo S.p.A., the Board of Directors meeting of Fideuram held on 2 November 2020 approved the partial demerger of UBI in favour of:

- Fideuram, to which a 100% stake in IW Bank S.p.A. will be assigned, together with the business unit of UBI Banca S.p.A. comprised by the units dedicated to performance of the service activities in favour of IW Bank;
- Intesa Sanpaolo Private Banking, to which the business unit comprised by the divisional unit "TOP Private Banking" will be assigned.

The policies for development of managed asset inflows, both inside and outside Italy, the amount of client assets, which continue to generate recurring fees, together with cost controls and constant focus on risk management, will allow the Group end the current year with a net profit, albeit lower than in the previous year.

The Board of Directors
2 November 2020

Accounting policies

DECLARATION OF COMPLIANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Consolidated Interim Report at 30 September 2020 has been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission.

BASIS OF PREPARATION

The Consolidated Interim Report comprises the balance sheet, income statement, statement of comprehensive income and statement of changes in shareholders' equity, accompanied by explanatory notes on the Group's performance. The financial statements are published in the format mandated in the 6th update to Bank of Italy Circular 262/2005, in force from 1 January 2019. The Interim Report uses the euro as its presentation currency, and all the figures herein are stated in millions of euro unless specified otherwise.

This Report was prepared in accordance with the same accounting policies adopted for the financial statements at 31 December 2019, where they are described in greater detail.

The income statement for the first nine months of 2020 is compared with the income statement for the corresponding period in 2019, while the balance sheet at 30 September 2020 is compared with the balance sheet at 31 December 2019. The balance sheet and income statement as at and for the period ended 30 September 2020 referred to in the explanatory notes have been reclassified to facilitate comparison of the figures for different periods and to enable a clearer and more immediate understanding of the Group's financial position and results. These statements were prepared using appropriate groupings of the items in the official financial statements. Detailed information on the reclassifications is presented in specific reconciliation statements provided in the schedules accompanying this Report.

The Consolidated Interim Report is not subject to an audit by the Independent Auditors.

SCOPE AND METHODS OF CONSOLIDATION

The companies included in the scope consolidation of Fideuram at 30 September 2020 are listed below.

Investments in subsidiaries at 30 September 2020

COMPANY NAME	COMPANY NAME	OPERATIONAL HEAD OFFICE	TYPE OF OWNERSHIP (*)	TYPE OF OWNERSHIP (*)		% VOTES (**)
				ASSOCIATE COMPANY	% OWNED	
1. Sanpaolo Invest SIM S.p.A. Share capital: EUR 15,264,760 in shares of EUR 140 each	Turin	Turin	1	Fideuram	100.000%	
2. Intesa Sanpaolo Private Banking S.p.A. Share capital: EUR 105,497,424 in shares of EUR 4 each	Milan	Milan	1	Fideuram	100.000%	
3. Fideuram Investimenti SGR S.p.A. Share capital: EUR 25,850,000 in shares of EUR 517 each	Milan	Milan	1	Fideuram	99.500%	
4. Siref Fiduciaria S.p.A. Share capital: EUR 2,600,000 in shares of EUR 0.52 each	Milan	Milan	1	Fideuram	100.000%	
5. Fideuram Asset Management (Ireland) dac Share capital: EUR 1,000,000 in shares of EUR 1.000 each	Dublin	Dublin	1	Fideuram	100.000%	
6. Fideuram Bank (Luxembourg) S.A. Share capital: EUR 40,000,000 in shares without par value	Luxembourg	Luxembourg	1	Fideuram	100.000%	
7. Financière Fideuram S.A. Share capital: EUR 346,761,600 in shares of EUR 25 each	Paris	Paris	1	Fideuram	99.999%	
8. Intesa Sanpaolo Private Bank (Suisse) Morval S.A. Share capital: CHF 22,217,000 in shares of CHF 100 each	Geneva	Geneva	1	Fideuram	96.910%	
9. Intesa Sanpaolo Private Argentina S.A. Share capital: ARS 13,404,506 in shares of ARS 1 each	Buenos Aires	Buenos Aires	1	Intesa Sanpaolo Private Bank (Suisse) Morval	95.033%	
				Fideuram	4.967%	
10. Intesa Sanpaolo Private Monaco SAM Share capital: EUR 1,200,000 in shares of EUR 100 each	Monaco	Monaco	1	Intesa Sanpaolo Private Bank (Suisse) Morval	100.000%	
11. Morval Vonwiller Advisors S.A. Share capital: UYU 110,600,000 in shares of UYU 1 each	Montevideo	Montevideo	1	Intesa Sanpaolo Private Bank (Suisse) Morval	100.000%	
12. Morval Bank & Trust Cayman Ltd Share capital: USD 7,850,000 in shares of USD 1 each	George Town	George Town	1	Intesa Sanpaolo Private Bank (Suisse) Morval	100.000%	

KEY

(*) Type of ownership 1 = majority voting rights at general shareholders' meetings.

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

The Consolidated Interim Report includes Fideuram and its direct and indirect subsidiaries and the companies over which it exercises significant influence.

The subsidiaries were consolidated line-by-line, except for Morval Vonwiller Advisors S.A., Intesa Sanpaolo Private Bank Monaco SAM and Intesa Sanpaolo Private Argentina S.A., which, due to their limited significance (less than €10m in total assets carried on the books), are consolidated with the equity method, in accordance with Group accounting policies. Fideuram Vita S.p.A., in which Fideuram holds a 19.99% equity interest, is consolidated using the equity method.

The financial statements used for the consolidation were those at 30 September 2020, as approved by the competent bodies of the subsidiaries, adjusted where necessary to align them with Group accounting policies. The financial statement data of companies operating outside the European Monetary Union are translated to euro applying the period-end exchange rates to balance sheet items and the average exchange rates for the period to income statement items. Any exchange rate differences arising from translations at said exchange rates are recognised in the valuation reserve.

The scope of consolidation of the Fideuram Group has not changed significantly since 31 December 2019. Here mention is made only of the following transactions, which were executed in reference to companies under common control and which did not have any impact at the consolidated level:

- the liquidation of Morval Vonwiller Assets Management Co. Ltd;
- the transfer of the equity investment in Morval Vonwiller Advisors S.A. from the sub-holding Southern Group Ltd to Intesa Sanpaolo Private Bank (Suisse) Morval and, subsequently, the liquidation of Southern Group Ltd;
- the merger of Morval SIM into Intesa Sanpaolo Private Banking, effective 1 January 2020.

Consolidated financial statements

Consolidated balance sheet

(€m)

ASSETS	30.9.2020	31.12.2019
10. Cash and cash equivalents	211	335
20. Financial assets measured at fair value through profit or loss	357	349
a) financial assets held for trading	46	36
b) financial assets measured at fair value	-	-
c) other financial assets mandatorily measured at fair value	311	313
30. Financial assets measured at fair value through other comprehensive income	3,069	3,189
40. Financial assets measured at amortised cost	44,983	41,802
a) loans and advances to banks	33,061	29,964
b) loans and advances to customers	11,922	11,838
50. Hedging derivatives	14	20
60. Adjustments to financial assets subject to macro-hedging (+/-)	24	11
70. Equity investments	179	170
80. Reinsurers' share of technical reserves	-	-
90. Property and equipment	360	380
100. Intangible assets	230	234
of which: goodwill	140	140
110. Tax assets	143	164
a) current	13	34
b) deferred	130	130
120. Non-current assets held for sale and discontinued operations	-	6
130. Other assets	1,177	1,107
TOTAL ASSETS	**50,747**	**47,767**

Chairman of the
Board of Directors
Paolo Molesini

Managing Director
Tommaso Corcos

Chief Financial Officer
Domenico Sfalanga

Consolidated balance sheet

(€m)

LIABILITIES AND SHAREHOLDERS' EQUITY	30.9.2020	31.12.2019
10. Financial liabilities measured at amortised cost	44,344	42,057
a) due to banks	3,275	3,033
b) due to customers	41,069	39,024
c) debt on issue	-	-
20. Financial liabilities held for trading	42	33
30. Financial liabilities measured at fair value	-	-
40. Hedging derivatives	1,032	930
50. Adjustments to financial liabilities subject to macro-hedging (+/-)	-	-
60. Tax liabilities	99	94
a) current	39	30
b) deferred	60	64
70. Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80. Other liabilities	1,127	1,167
90. Provision for employment termination indemnities	45	48
100. Provisions for risks and charges:	472	478
a) commitments and guarantees	3	1
b) pensions and other commitments	26	23
c) other provisions for risks and charges	443	454
110. Technical reserves	-	-
120. Valuation reserves	27	33
130. Redeemable shares	-	-
140. Equity instruments	-	-
150. Reserves	2,430	1,515
160. Share premium reserve	206	206
170. Share capital	300	300
180. Treasury shares (-)	-	-
190. Equity attributable to non-controlling interests (+/-)	-	-
200. Net profit (loss) for the period (+/-)	623	906
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**50,747**	**47,767**

Chairman of the
Board of Directors
Paolo Molesini

Managing Director
Tommaso Corcos

Chief Financial Officer
Domenico Sfalanga

Consolidated income statement

(€m)

		9 MONTHS 2020	9 MONTHS 2019
10.	Interest income and similar income	213	193
	of which: interest income calculated with the effective interest method	*274*	*258*
20.	Interest expense and similar expense	(59)	(61)
30.	**Net interest income**	**154**	**132**
40.	Fee and commission income	1,860	1,854
50.	Fee and commission expense	(596)	(578)
60.	**Net fee and commission income**	**1,264**	**1,276**
70.	Dividends and similar income	-	-
80.	Net profit (loss) on trading activities	13	10
90.	Net profit (loss) on hedging derivatives	2	(1)
100.	Profit (loss) on sale or repurchase of:	10	20
	a) financial assets measured at amortised cost	6	-
	b) financial assets measured at fair value through other comprehensive income	4	20
	c) financial liabilities	-	-
110.	Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	(4)	21
	a) financial assets and liabilities measured at fair value	-	-
	b) other financial assets mandatorily measured at fair value	(4)	21
120.	**Total net interest and trading income**	**1,439**	**1,458**
130.	Net impairment for credit risk related to:	(14)	-
	a) financial assets measured at amortised cost	(12)	-
	b) financial assets measured at fair value through other comprehensive income	(2)	-
140.	Gains/losses on contractual changes without cancellation	-	-
150.	**Operating income**	**1,425**	**1,458**
160.	Net insurance premiums	-	-
170.	Other income/expense from insurance activities	-	-
180.	**Operating income from financing and insurance activities**	**1,425**	**1,458**
190.	Administrative expenses:	(634)	(628)
	a) personnel expenses	(255)	(268)
	b) other administrative expenses	(379)	(360)
200.	Net provisions for risks and charges	(33)	(42)
	a) commitments and guarantees	(1)	-
	b) other net provisions	(32)	(42)
210.	Depreciation of property and equipment	(36)	(36)
220.	Amortisation of intangible assets	(18)	(15)
230.	Other income/expense	190	184
240.	**Operating expenses**	**(531)**	**(537)**
250.	Profit (loss) on equity investments	8	4
260.	Net fair value gains (losses) on property and equipment and intangible assets	-	-
270.	Goodwill impairment	-	-
280.	Gain (loss) on disposal of investments	-	-
290.	**Profit (loss) before tax from continuing operations**	**902**	**925**
300.	Income taxes for the period on continuing operations	(279)	(266)
310.	**Profit (loss) after tax from continuing operations**	**623**	**659**
320.	Profit (loss) after tax from discontinued operations	-	-
330.	**Net profit (loss) for the period**	**623**	**659**
340.	Net profit (loss) for the period attributable to non-controlling interests	-	-
350.	**Parent company interest in net profit (loss) for the period**	**623**	**659**

Chairman of the
Board of Directors
Paolo Molesini

Managing Director
Tommaso Corcos

Chief Financial Officer
Domenico Sfalanga

Consolidated statement of comprehensive income

(€m)

	9 MONTHS 2020	9 MONTHS 2019
10. Net profit (loss) for the period	**623**	**659**
Other comprehensive income after tax not transferred to the income statement	**(3)**	**(7)**
20. Equity instruments measured at fair value through other comprehensive income	-	-
30. Financial liabilities measured at fair value through profit or loss (changes in own credit rating)	-	-
40. Hedging of equity instruments measured at fair value through other comprehensive income	-	-
50. Property and equipment	-	-
60. Intangible assets	-	-
70. Defined-benefit plans	(3)	(7)
80. Non-current assets held for sale and discontinued operations	-	-
90. Valuation reserves related to investments carried at equity	-	-
Other comprehensive income after tax that may be transferred to the income statement	**(3)**	**57**
100. Hedging of net investments in foreign operations	-	-
110. Exchange rate differences	1	(1)
120. Cash flow hedges	4	6
130. Hedging instruments (undesignated elements)	-	-
140. Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(10)	46
150. Non-current assets held for sale and discontinued operations	-	-
160. Valuation reserves related to investments carried at equity	2	6
170. Total other comprehensive income after tax	**(6)**	**50**
180. Total comprehensive income	**617**	**709**
190. Total comprehensive income attributable to non-controlling interests	-	-
200. Total comprehensive income attributable to parent company	617	709

Chairman of the
Board of Directors
Paolo Molesini

Managing Director
Tommaso Corcos

Chief Financial Officer
Domenico Sfalanga

Statement of changes in consolidated shareholders' equity

(€m)

	BALANCE AT 31.12.2019	CHANGE IN OPENING BALANCES	BALANCE AT 1.1.2020	ALLOCATION OF INCOME FOR THE PREVIOUS YEAR		CHANGES IN THE PERIOD									SHAREHOLDERS' EQUITY AT 30.9.2020	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AT 30.9.2020	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 30.09.2020
							TRANSACTIONS INVOLVING SHAREHOLDERS' EQUITY										
				RESERVES	DIVIDENDS AND OTHER	CHANGES IN RESERVES	ISSUE OF NEW SHARES	PURCHASE OF TREASURY SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES BASED ON TREASURY SHARES	STOCK OPTIONS	CHANGES IN EQUITY INVESTMENTS	TOTAL COMPREHENSIVE INCOME 9 MONTHS 2020			
Share capital:	**300**	**-**	**300**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**300**	**300**	**-**
- ordinary shares	300	-	300	-	-	-	-	-	-	-	-	-	-	-	300	300	-
- other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**206**	**-**	**206**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**206**	**206**	**-**
Reserves:	**1,516**	**-**	**1,516**	**905**	**-**	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,430**	**2,430**	**-**
- from net income	1,425	-	1,425	905	-	(1)	-	-	-	-	-	-	-	-	2,329	2,329	-
- other	91	-	91	-	-	10	-	-	-	-	-	-	-	-	101	101	-
Valuation reserves	**33**	**-**	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6)**	**27**	**27**	**-**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) for the period	**905**	**-**	**905**	**(905)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**623**	**623**	**623**	**-**
Shareholders' equity	**2,960**	**-**	**2,960**	**-**	**-**	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**617**	**3,586**	**3,586**	**-**
Equity attributable to owners of the parent company	**2,960**	**-**	**2,960**	**-**	**-**	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**617**	**3,586**		
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		

Chairman of the Board of Directors
Paolo Molesini

Managing Director
Tommaso Corcos

Chief Financial Officer
Domenico Sfalanga

Statement of changes in consolidated shareholders’ equity

(€m)

	BALANCE AT 31.12.2018	CHANGE IN OPENING BALANCES	BALANCE AT 1.1.2019	ALLOCATION OF INCOME FOR THE PREVIOUS YEAR		CHANGES IN THE PERIOD									SHAREHOLDERS’ EQUITY AT 30.9.2019	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AT 30.9.2019	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 30.9.2019
							TRANSACTIONS INVOLVING SHAREHOLDERS’ EQUITY										
				RESERVES	DIVIDENDS AND OTHER	CHANGES IN RESERVES	ISSUE OF NEW SHARES	PURCHASE OF TREASURY SHARES	DISTRIBUTION OF EXTRAORDINARY DIVIDENDS	CHANGE IN EQUITY INSTRUMENTS	DERIVATIVES BASED ON TREASURY SHARES	STOCK OPTIONS	CHANGES IN EQUITY INVESTMENTS	TOTAL COMPREHENSIVE INCOME 9 MONTHS 2019			
Share capital:	**300**	**-**	**300**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**300**	**300**	**-**
- ordinary shares	300	-	300	-	-	-	-	-	-	-	-	-	-	-	300	300	-
- other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**206**	**-**	**206**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**206**	**206**	**-**
Reserves:	**1,476**	**-**	**1,476**	**24**	**-**	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,515**	**1,515**	**-**
- from net income	1,402	-	1,402	24	-	2	-	-	-	-	-	-	-	-	1,428	1,428	-
- other	74	-	74	-	-	13	-	-	-	-	-	-	-	-	87	87	-
Valuation reserves	**(12)**	**-**	**(12)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**50**	**38**	**38**	**-**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net profit (loss) for the period	**834**	**-**	**834**	**(24)**	**(810)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**659**	**659**	**659**	**-**
Shareholders' equity	**2,804**	**-**	**2,804**	**-**	**(810)**	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**709**	**2,718**	**2,718**	**-**
Equity attributable to owners of the parent company	**2,804**	**-**	**2,804**	**-**	**(810)**	**15**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**709**	**2,718**		
Equity attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		

Chairman of the
Board of Directors
Paolo Molesini

Managing Director
Tommaso Corcos

Chief Financial Officer
Domenico Sfalanga

Schedules

Basis of preparation of the reclassified financial statements

The balance sheet and income statement as at 30 September 2020 have been reclassified to facilitate comparison of the figures for different periods and to enable a clearer and more immediate understanding of the financial position and results. These statements were prepared using appropriate groupings of the items in the official financial statements.
Moreover, the reclassified consolidated income statement has been changed as follows to provide a clearer presentation of the Group's operating performance:

- Net profit (loss) on financial assets, fee and commission income and expense, and the provisions have been stated net of the returns on the insurance policies taken out as part of the Personal Financial Adviser Networks' Loyalty Schemes, recognised in the official Bank of Italy schedule as net profit (loss) on financial assets mandatorily measured at fair value, which - as pertaining to the Personal Financial Advisers - have been recognised as commission expense and provisions.
- The reversal of the time value for the provision for employment termination indemnities and provisions for risks and charges arising from the application of the amortised cost method has been reclassified to net interest income.
- Expenses for stamp duty on current and deposit accounts, which are recognised in the official Bank of Italy schedule under administrative expenses, have been stated net of income from amounts recovered.
- The soft commissions have been reallocated to the administrative expenses that generated them.
- Expenses for fee and commission income, which are recognised in the official Bank of Italy schedule under administrative expenses, have been reclassified among fee and commission income.
- Net provisions for risks and charges relating to credit risk on commitments and guarantees issued have been reclassified among net impairment of loans.
- Net impairment on debt securities have been reclassified among "Net provisions for risks and charges and net impairment of other assets".
- Non-recurring income and expenses, including gains and losses on debt securities measured at amortised cost, have been reclassified in a separate item designated "Net non-recurring income (expenses)".
- Integration and voluntary redundancy expenses have been reclassified, net of tax effect, in a separate item designated "Integration and voluntary redundancy expenses (net of tax)".
- The effects of purchase price allocation have been recognised in a specific item, net of the tax effect, designated "Effects of purchase price allocation (net of tax)".
- The expenses incurred for maintaining the stability of the banking system (consisting of the contributions to the Deposit Guarantee Scheme and to the Single Resolution Fund) have been reclassified in a separate item, net of tax, designated "Expenses regarding the banking system (net of tax)".

Reconciliation statements of the official and reclassified financial statements

Reconciliation of the official consolidated balance sheet and reclassified consolidated balance sheet

(€m)

RECLASSIFIED BALANCE SHEET ITEMS – ASSETS	CONSOLIDATED BALANCE SHEET ITEMS – ASSETS	30.9.2020	31.12.2019
Financial assets measured at fair value through profit or loss		357	349
	Item 20. Financial assets measured at fair value through profit or loss	*357*	*349*
Financial assets measured at fair value through other comprehensive income		3,069	3,189
	Item 30. Financial assets measured at fair value through other comprehensive income	*3,069*	*3,189*
Debt securities measured at amortised cost		15,402	15,275
	Item 40. a) (partial) Financial assets measured at amortised cost – Loans and advances to banks - securities	*12,924*	*12,766*
	Item 40. b) Financial assets measured at amortised cost – Loans and advances to customers - securities	*2,478*	*2,509*
Loans to banks		20,137	17,198
	Item 40. a) Financial assets measured at amortised cost – Loans and advances to banks	*33,061*	*29,964*
	Item 40. a) (partial) Financial assets measured at amortised cost – Loans and advances to banks - securities	*(12,924)*	*(12,766)*
Loans to customers		9,444	9,329
	Item 40. b) Financial assets measured at amortised cost – Loans and advances to customers	*11,922*	*11,838*
	Item 40. b) Financial assets measured at amortised cost – Loans and advances to customers - securities	*(2,478)*	*(2,509)*
Hedging derivatives		14	20
	Item 50. Hedging derivatives	*14*	*20*
Equity investments		179	170
	Item 70. Equity investments	*179*	*170*
Property and equipment and intangible assets		590	614
	Item 90. Property and equipment	*360*	*380*
	Item 100. Intangible assets	*230*	*234*
Tax assets		143	164
	Item 110. Tax assets	*143*	*164*
Other assets		1,412	1,459
	Item 10. Cash and cash equivalents	*211*	*335*
	Item 60. Adjustments to financial assets subject to macro-hedging (+/-)	*24*	*11*
	Item 120. Non-current assets held for sale and discontinued operations	*-*	*6*
	Item 130. Other assets	*1,177*	*1,107*
Total assets	**Total assets**	**50,747**	**47,767**

RECLASSIFIED BALANCE SHEET ITEMS – LIABILITIES	CONSOLIDATED BALANCE SHEET ITEMS – LIABILITIES	30.9.2020	31.12.2019
Due to banks		3,275	3,033
	Item 10. a) Financial liabilities measured at amortised cost – due to banks	*3,275*	*3,033*
Due to customers		41,069	39,024
	Item 10. b) Financial liabilities measured at amortised cost – due to customers	*41,069*	*39,024*
Financial liabilities held for trading		42	33
	Item 20. Financial liabilities held for trading	*42*	*33*
Hedging derivatives		1,032	930
	Item 40. Hedging derivatives	*1,032*	*930*
Tax liabilities		99	94
	Item 60. Tax liabilities	*99*	*94*
Other liabilities		1,172	1,215
	Item 80. Other liabilities	*1,127*	*1,167*
	Item 90. Provision for employment termination indemnities	*45*	*48*
Provisions for risks and charges		472	478
	Item 100. Provisions for risks and charges	*472*	*478*
Share capital and reserves		2,963	2,054
	Items 120, 150, 160, 170 Equity attributable to owners of the parent company	*2,963*	*2,054*
Net profit		623	906
	Item 200. Profit (loss) for the period	*623*	*906*
Total liabilities	**Total liabilities and shareholders' equity**	**50,747**	**47,767**

Reconciliation of the official consolidated income statement and reclassified consolidated income statement

(€m)

RECLASSIFIED CONSOLIDATED INCOME STATEMENT ITEMS	CONSOLIDATED INCOME STATEMENT ITEMS	9 MONTHS 2020	9 MONTHS 2019
Net interest income		154	132
	Item 30. Net interest income	*154*	*132*
Net profit (loss) on financial assets and liabilities at fair value		16	33
	Item 80. Net profit (loss) on trading activities	*13*	*10*
	Item 90. Net profit (loss) on hedging derivatives	*2*	*(1)*
	Item 100. b) Net profit (loss) on sale or purchase of financial assets measured at fair value through other comprehensive income	*4*	*20*
	Item 110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	*(4)*	*21*
	- Item 110. (partial) Component of the returns on insurance policies for the Networks	*1*	*(17)*
Net fee and commission income		1,260	1,276
	Item 60. Net fee and commission income	*1,264*	*1,276*
	- Item 60. (partial) Soft commission	*(1)*	*(2)*
	- Item 110. (partial) Component of the returns on insurance policies for the Networks	*-*	*5*
	- Item 190. b) (partial) Component of administrative expenses relating to fee and commission income	*(3)*	*(3)*
Intermediation Margin		**1,430**	**1,441**
Profit on equity investments and other income (expense)		5	3
	Item 230. Other income/expense	*190*	*184*
	Item 250. Profit (loss) on equity investments	*8*	*4*
	- Item 230. (partial) Recovery of indirect taxes	*(193)*	*(185)*
Net operating income		**1,435**	**1,444**
Personnel expenses		(255)	(263)
	Item 190. a) Personnel expenses	*(255)*	*(268)*
	- Item 190. a) (partial) Costs related to integration	*-*	*5*
Other administrative expenses		(145)	(143)
	Item 190. b) Other administrative expenses	*(379)*	*(360)*
	- Item 60. (partial) Soft commission	*1*	*2*
	- Item 190. b) (partial) Costs related to integration	*5*	*5*
	- Item 190. b) (partial) Costs related to banking system	*32*	*22*
	- Item 190. b) (partial) Component of administrative expenses relating to fee and commission income	*3*	*3*
	- Item 230. (partial) Recovery of indirect taxes	*193*	*185*
Depreciation and amortisation		(43)	(42)
	Item 210. Depreciation of property and equipment	*(36)*	*(36)*
	Item 220. Amortisation of intangible assets	*(17)*	*(15)*
	- Item 220. (partial) Costs related to integration	*9*	*8*
	- Item 220. (partial) Amortisation of client assets recognised in intangible assets following PPA Morval	*1*	*1*
Net operating expenses		**(443)**	**(448)**
Operating margin		**992**	**996**
Net impairment of loans		(15)	-
	Item 130. Net impairment for credit risk	*(15)*	*1*
	Item 200. a) Net provisions for commitments and guarantees	*(1)*	*-*
	- Item 130. a) (partial) Net impairment for credit risk related to financial assets measured at amortised cost - Debt securities	*(1)*	*(1)*
	- Item 130. b) (partial) Net impairment for credit risk related to financial assets measured at fair value through other comprehensive income - Debt securities	*2*	*-*
Net provisions for risks and charges and net impairment of other assets		(34)	(38)
	Item 200. b) Other net provisions	*(32)*	*(42)*
	- Item 110. (partial) Component of the returns on insurance policies for the Networks	*(1)*	*12*
	- Item 130. a) (partial) Net impairment/reversal of impairment for credit risk related to financial assets measured at amortised cost - Debt securities	*1*	*1*
	- Item 130. b) (partial) Net impairment for credit risk related to financial assets measured at fair value through other comprehensive income - Debt securities	*(2)*	*-*
	- Item 200. (partial) Use in excess of Risk provision for tax dispute	*-*	*(9)*
Net non-recurring income (expenses)		6	9
	Item 100. a) Net profit (loss) on sale or repurchase of financial assets measured at amortised cost	*6*	*-*
	- Item 200. (partial) Use in excess of Risk provision for tax dispute	*-*	*9*
Gross income (loss)		**949**	**967**
Income taxes for the period on continuing operations		(294)	(279)
	Item 300. Income taxes for the period on continuing operations	*(279)*	*(267)*
	- Item 300. (partial) Tax impact on costs related to integration	*(4)*	*(5)*
	- Item 300. (partial) Tax impact on costs related to the banking system	*(11)*	*(7)*
Integration and voluntary redundancy expenses (net of tax)		(10)	(13)
	- Item 190. a) (partial) Costs related to integration	*-*	*(5)*
	- Item 190. b) (partial) Costs related to integration	*(5)*	*(5)*
	- Item 220. (partial) Costs related to integration	*(9)*	*(8)*
	- Item 300. (partial) Tax impact on costs related to integration	*4*	*5*
Effects of purchase price allocation (net of tax)		(1)	(1)
	- Item 220. (partial) Amortisation of client assets recognised in intangible assets following PPA Morval	*(1)*	*(1)*
Expenses regarding the banking system (net of tax)		(21)	(15)
	- Item 190. b) (partial) Costs related to banking system	*(32)*	*(22)*
	- Item 300. (partial) Tax impact on costs related to the banking system	*11*	*7*
Net profit	**Item 350. Parent company interest in net profit (loss) for the period**	**623**	**659**

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