INTESA SANPAOLO

Basel 3 Pillar 3

Disclosure as at 31 March 2021

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa al pubblico al 31 marzo 2021". In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on group.intesasanpaolo.com.

This document contains certain forward-looking statements, projections, objectives, estimates and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements, projections, objectives, estimates and forecasts are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The Intesa Sanpaolo Group's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.

All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Basel 3 Pillar 3

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Intesa Sanpaolo S.p.A. Registered Office: Piazza S. Carlo, 156 10121 Torino Italy Secondary Registered Office: Via Monte di Pietà, 8 20121 Milano Italy Share Capital Euro 10,084,445,147.92 Torino Company Register and Fiscal Code No. 00799960158 "Intesa Sanpaolo" VAT Group representative Vat Code No. 11991500015 (IT11991500015) Included in the National Register of Banks No. 5361 ABI Code 3069.2 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund and Parent Company of the banking group "Intesa Sanpaolo" included in the National Register of Banking Groups

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Introduction

Notes to the Basel 3 Pillar 3 disclosure

With effect from 1 January 2014, the reforms of the accord by the Basel Committee ("Basel 3") were implemented in the EU legal framework. Their aim is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and increase banks' transparency and disclosures.

In doing so, the Committee maintained the approach founded on three Pillars, underlying the previous capital accord, known as "Basel 2", supplementing and strengthening it to increase the quantity and quality of intermediaries' available capital as well as introducing counter-cyclical regulatory instruments, provisions on liquidity risk management and financial leverage containment.

In particular, Pillar 3 – which concerns public disclosure obligations on capital adequacy, risk exposure and the general characteristics of related management and control systems, with the aim of better regulating the market – was also reviewed. Amongst other things, the amendments introduced greater transparency requirements, more information on the composition of regulatory capital and the methods used by banks to calculate capital ratios.

That said, the content of "Basel 3" was incorporated into two EU legislative acts:

- Regulation (EU) 575/2013 of 26 June 2013 (CRR), which governs the prudential supervision requirements of Pillar 1 and public disclosure requirements (Pillar 3);
- Directive 2013/36/EU of 26 June 2013 (CRD IV), which, among other things, deals with the access to the activity of credit institutions, freedom of establishment, freedom to provide services, supervisory review process, and additional equity reserves.

EU legislation is complemented by the provisions issued by the Bank of Italy, in particular with Circular 285 of 17 December 2013, which contains the prudential supervision regulations applicable to Italian banks and banking groups, reviewed and updated to adjust the internal regulations to the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and taking into account the needs detected while supervising banks and other intermediaries.

The above Circular does not dictate specific rules for the preparation and disclosure of Pillar 3 reporting, but simply reports the list of provisions envisaged for that purpose by the CRR. Therefore, the issue is directly regulated by:

- the CRR, Part Eight "Disclosure by Institutions" (Art. 431-455), as amended by Regulation (EU) 2019/876 (CRR II), progressively applicable in accordance with the provisions of Art. 3, point 3(k), and supplemented by Regulation (EU) 2013/1423, issued in accordance with the mandate given to the EBA by Art. 492 of the CRR, in Part Ten, Title I, Chapter 3 "Transitional provisions for disclosure of own funds";
- the Regulations of the European Commission, whose preparation may be entrusted to the European Banking Authority (EBA), which draws up plans for regulatory or implementing technical standards;
- the Guidelines issued by the EBA - in line with the mandate entrusted to it by Regulation (EU) 1093/2010, which created it - for the purpose of establishing uniform templates for the publication of various types of information.

The issue of disclosure, handled for the first time in 2004, and subsequently revised in 2006 in the "Basel Framework" document, was the subject of an initial revision by the Basel Committee through its standard "Revised Pillar 3 disclosure requirements", published in January 2015. This document contains indications that the Supervisory Authorities should incorporate in the national regulations (in our case the EU) so that they come into force. At the end of March 2017, the Basel Committee published the standard "Pillar 3 disclosure requirements - consolidated and enhanced framework" which constitutes the second phase of the review of the regulatory framework concerning public disclosure, started with the abovementioned document issued in January 2015. This second review aims to further promote market regulations through the consolidation of all the requirements already introduced and the arrangement of a dashboard of a bank's key prudential metrics to support the market in the analysis of the data and achieve greater comparability.

The third phase of the review process initiated by the Basel Committee on Banking Supervision (BCBS) was completed in December 2018 - following the public consultation launched in February and concluded in May - with the publication of the final version of the document "Pillar 3 disclosure requirements - updated framework". This document, in line with the previous revision phases and together with the revision of the leverage ratio disclosure requirements contained in the document "Revisions to leverage ratio disclosure requirements" published in June 2019, aims to establish a single reference framework for disclosure, with a view to harmonising the market rules. The new updated framework covers the following areas:

i) revisions and additions to the Pillar 3 regulatory framework resulting from the completion of the reform of the Basel 3 regulatory framework in December 2017, with the introduction of changes to the disclosure requirements for credit risk, operational risk, leverage ratio, credit valuation adjustment (CVA), the risk management summary models, the determination of risk-weighted assets (RWA), and the key prudential metrics;
ii) new requirements on encumbered assets, with the introduction of a new disclosure requirement that obliges banks to provide disclosure on both encumbered and unencumbered assets;

iii) new disclosure requirements on capital distribution restrictions to provide Pillar 3 users with additional information on the capital ratios that would give rise to capital distribution restrictions imposed by national regulators.

The new information introduced is intended to strengthen the disclosure requirement, with particular regard to the risk of coupon cancellation, and to provide greater support for investment decisions, price formation and market stability.

Further guidance on Pillar 3 was provided by the EBA in December 2014 with a specific document regarding the guidelines on materiality, proprietary and confidentiality and on the frequency of disclosure to be provided in Pillar 3 (EBA/GL/2014/14 - Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013), which governs the following additional significant aspects of the preparation of Pillar 3 disclosure:

– application by the institutions of the materiality criterion;
– application by the institutions of the proprietary and confidentiality criteria;
– need to publish the disclosure more frequently than once a year.

In this regard, on 14 December 2016, the EBA published the first version of the "Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013" (EBA/GL/2016/11), subsequently updated on 4 August 2017. These guidelines aim to increase and improve the consistency and comparability of the information to be provided for Pillar 3, requiring, from 31 December 2017, the publication of new tables in the Pillar 3 disclosure, for G-SIBs and O-SIIs banks, specifying their frequency of publication, with detailed information on credit and counterparty risk - including risk mitigation techniques and credit quality - as well as market risk. These guidelines were also implemented in the amendment of the CRR (CRR II) published in the Official Journal of the European Union (Regulation (EU) 2019/876).

The EBA also supplemented the above-mentioned guidelines (EBA/GL/2016/11) with the publication, in June 2017, of the "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) 575/2013" (EBA/GL/2017/01), containing additional disclosure requirements for liquidity risk measured through the liquidity coverage ratio.

In January 2018, the EBA issued the "Guidelines on uniform disclosures under Article 473a of Regulation (EU) 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds" (EBA/GL/2018/01) which establish the templates for the publication of information relating to the impacts on own funds resulting from the introduction of the regulation (EU) 2017/2395, containing "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds". As the Intesa Sanpaolo Group opted for the transitional arrangement through the "static" approach to mitigate this impact, it is also required to provide market disclosure on the amounts of its own funds, Common Equity Tier 1 Capital, Tier 1 Capital, CET1 ratio, Tier 1 ratio, Total ratio and fully loaded Leverage ratio, as if it had not adopted this transitional arrangement. As explained in the remainder of this introduction, these Guidelines were amended by the Guidelines EBA/GL/2020/12 as part of the measures introduced in the wake of the COVID-19 epidemic.

In addition to the disclosure requirements set out in the "Guidance to banks on non-performing loans", published by the ECB in March 2017 and applicable from the reporting dates for the financial year 2018, which formed the basis for the supplementation of existing tables, in December 2018 the EBA published the final version of the document "Guidelines on disclosures of non-performing and forborne exposures" (EBA/GL/2018/10), applicable from 31 December 2019 and aimed at promoting uniformity in the disclosure requirements for NPLs. This latest document has already been taken into account in the preparation of the related tables in Section 7 - Credit risk: credit quality of the Basel 3 Pillar 3 - Disclosure as at 31 December 2020.

Commission Implementing Regulation 1423/2013 of 20 December 2013, applicable from 31 March 2014, laid down implementing technical standards with regard to disclosure of own funds requirements, establishing uniform templates for the purposes of disclosure of information regarding: i) the full reconciliation of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, as well as the filters and deductions applied; and ii) the terms and conditions of outstanding instruments in Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

Starting from 1 January 2016, in application of Delegated Regulation 2015/1555 of 28 May 2015 which sets out "regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440 of the CRR", the disclosure obligations concerning the countercyclical capital buffers have also been applied. Accordingly, the disclosure by the Intesa Sanpaolo Group includes – in addition to the amount of the countercyclical capital buffer – details on the geographical distribution of relevant credit exposures for the purpose of calculating the countercyclical capital buffer according to the regulations.

With specific reference to the information on the Leverage ratio, in February 2016 Commission Implementing Regulation 2016/200 was published in the Official Journal of the European Union, laying down implementing technical standards with regard to the disclosure on the Leverage ratio, under Regulation (EU) 575/2013.

Consequently, the Intesa Sanpaolo Group is publishing the Leverage ratio on the basis of the provisions contained in the above-mentioned Regulation. As noted below, the disclosures required by this Delegated Act were supplemented by the Guidelines EBA/GL/2020/11 as part of the measures introduced in the wake of the COVID-19 epidemic.

With regard to the information on encumbered assets, in December 2017 Commission Delegated Regulation (EU) 2017/2295 was published in the Official Journal of the European Union, which adopts the EBA Regulatory Technical Standards (RTS) (EBA/RTS/2017/03) and establishes the regulatory technical standards for the disclosure of encumbered and unencumbered assets. Consequently, the Intesa Sanpaolo Group is publishing this disclosure on the basis of the provisions contained in the Delegated Regulation.

As mentioned above, following the publication in the Official Journal of the European Union on 7 June 2019 of Regulation (EU) 2019/876 – also known as CRR II (Capital Requirements Regulation) and part of the broader package of regulatory reforms, also referred to as the Risk Reduction Measures (RRM), which also include the CRD V (Capital Requirements Directive), the BRRD II (Banking Recovery and Resolution Directive) and the SRMR II (Single Resolution Mechanism Regulation) – significant changes were introduced, particularly with regard to Part Eight of the CRR. In line with the regulatory changes introduced by CRR II, and to streamline and standardise the periodic disclosure to be provided to the market, the EBA, in accordance with the mandate given to it by Article 434 bis "Uniform disclosure formats" of the CRR II, has drawn up implementing technical standards transposed in Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) 575/2013 repealing Commission Implementing Regulation (EU) 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295. These provisions will be applicable from June 2021.

As part of the context linked to the COVID-19 pandemic, in order to mitigate the possible negative effects of the current crisis generated by the COVID-19 pandemic and ensure disclosure regarding the areas affected by the containment measures adopted for that purpose, thereby promoting sufficient and suitable understanding of the risk profile of supervised institutions, on 2 June 2020, the EBA published the final version of the document "Guidelines to address gaps in reporting data and public information in the context of COVID-19" (EBA/GL/2020/07), which contains the guidelines for reporting and disclosure of exposures subject to the measures applied in response to the COVID-19 crisis, whose first-time application, for disclosure purposes, starts on 30 June 2020.
From that date, therefore, and on a half-yearly basis, the three templates required by the above-mentioned Guidelines have been added to the Intesa Sanpaolo Group's public disclosure in "Credit risk: credit quality" section.

Also within the emergency scenario outlined above, Regulation (EU) 2020/873 of 24 June 2020, amending Regulations (EU) 575/2013 and Regulation (EU) 2019/876 containing temporary support provisions in terms of capital and liquidity, was published with an accelerated approval procedure (the "quick-fix").
The Regulation establishes that institutions that decide to apply the provisions of the new transitional IFRS 9 rules relating to adjustments to loans after 31 December 2019, amending the rules introduced by Regulation (EU) 2017/2395, and/or the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (the prudential filter for exposures to central governments classified as FVTOCI), in addition to disclosing the information required in Part Eight of the CRR, they are required to disclose the amounts of own funds, Common Equity Tier 1 capital and Tier 1 capital, the total capital ratio, the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio, and the leverage ratio they would have in case they did not apply that treatment.
To complete the regulatory framework that took shape due to the pandemic crisis, following the adoption of the CRR "quick-fix", on 11 August 2020 the EBA published the additional guidelines on reporting and disclosure already referred to above, in which it provides clarifications and instructions for the applications of the regulatory changes for the purpose of filling out the credit risk, market risk, own funds and leverage ratio templates and, for the latter, the related disclosure ("Guidelines on supervisory reporting and disclosure requirements in compliance with the CRR 'quick fix' in response to the COVID-19 pandemic" EBA/GL/2020/11), in addition to clarifying the disclosure obligations relating to temporary treatment introduced by the quick-fix ("Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic" – EBA/GL/2020/12).
Among the various provisions set out in Regulation (EU) 2020/873, the ISP Group has opted not to use either the changes to the transitional regime for the application of IFRS 9 (art. 473a CRR) or the FVTOCI prudential filter (Art. 468 CRR) for the purpose of calculating own funds as at 31 March 2021, in line with the approach adopted starting from 30 June 2020.

Lastly, on 23 December 2020, Commission Delegated Regulation (EU) 2020/2176 entered into force, which amends Commission Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items. The Regulation introduced the criterion of prudential amortisation applied to all software assets over a three-year period, regardless of their estimated useful lives for accounting purposes. The Intesa Sanpaolo Group has applied the provisions of the above-mentioned Regulation for the calculation of the capital ratios as at 31 March 2021.

Lastly, with regard more generally to the situation resulting from the COVID-19 pandemic, details of the specific guidance provided by the Authorities and the consequent choices made by the Group can be found in the 2020 Annual Report and the Interim Statement as at 31 March 2021.

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In accordance with the above provisions and in line with the approach described above, this document has been prepared on a consolidated basis with reference to a "prudential" scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes. There were no significant changes in the prudential or the accounting scope of consolidation with respect to 31 December 2020.
In line with the related supervisory reports, the comparative data relating to previous periods were not restated to take account of the changes in the scope of consolidation.

Under the terms of Art. 433 of the CRR, banks publish the disclosures envisaged in European regulations at least once a year, at the same time as the financial statements. They are also required to assess the need to publish some or all these disclosures more frequently, based on the significant characteristics of current activities.
In particular, entities must assess whether there is a need to publish disclosures more frequently in relation to "Own Funds" (Art. 437), "Capital Requirements" (Art. 438), and disclosures regarding risk exposure or other aspects subject to rapid change. In this regard, it is also necessary to consider the specific instructions introduced by the EBA Guidelines

(EBA/GL/2016/11, EBA/GL/2018/10 and EBA/GL/2020/07), which require interim disclosures of certain information. Given the above regulatory provisions, when issuing its interim statements for March and September, the Intesa Sanpaolo Group publishes summary disclosures on its “Own Funds”, “Capital Requirements”, “Liquidity Risk” and “Leverage ratio”, supplemented in the half-yearly report with additional information on credit, counterparty, market and operational risks.
In relation to the scope of application of the provisions of the CRR, which refers – as previously indicated – to a “prudential” consolidation scope, and the provisions of the CRR, this document does not illustrate all the types of risk that the Intesa Sanpaolo Group is exposed to. Details on own funds and capital ratios are also published in the consolidated Interim Statements for March and September and in the Half-yearly Report.

All the amounts reported in this disclosure, unless otherwise specified, are stated in millions of euro.

The preparation of the Pillar 3 disclosure on capital adequacy, risk exposure and the general characteristics of the related management and control systems of Intesa Sanpaolo is governed, in compliance with the applicable regulations, by the “Guidelines on the disclosure of Financial information to the Market”, approved by the Board of Directors. The governance of the Pillar 3 disclosure requires the Chief Risk Officer to ensure that the risk information provided therein complies with the prudential regulation and is consistent with Group risk management guidelines and policies and with the measurement and control of the Group’s exposure to the different risk categories.
Furthermore, as regards public disclosure, the document is accompanied by the declaration of the Manager responsible for preparing the Company’s financial reports, pursuant to paragraph 2 of Art. 154-bis of the Consolidated Law on Finance, which confirms that the accounting information contained in the document corresponds to the supporting documentation, ledgers and other accounting records.
The preparation of Financial disclosures to the Market is one of the processes subject to assessment under the Group “Administrative and Financial Governance Guidelines”, which were also approved by the Board of Directors and updated in 2020, as required by Art. 154-bis of the Consolidated Law on Finance, which has qualified by law the role of the Manager responsible for preparing the Company’s financial reports, assigning to this role specific responsibilities aimed at guaranteeing the presentation of a true and fair view of the information on balance sheet, income statement and financial position of the Group.

The Group's website publishes information, upon the required deadlines, on the value of the indicators of global systemic importance (Governance\Risk management Section of the website: “Indicators of the assessment methodology to identify the global systemically important banks”).

Own funds

Qualitative and quantitative disclosure

Introduction

As previously mentioned, the harmonised rules for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013 and amended by Regulation (EU) 2019/876 (CRR II), which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) into European Union laws, became applicable from 1 January 2014.

The above provisions have been incorporated into the following two regulations:
- Bank of Italy Circular 285: "Supervisory regulations for banks" which renders the above-mentioned provisions operational;
- Implementing Regulation No. 680/2014, as amended, laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) 575/2013 (CRR) of the European Parliament and of the Council. From June 2021 this regulation will no longer apply because it has been repealed by Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) 575/2013 with regard to supervisory reporting of institutions.

These provisions are supplemented by the European Commission Delegated Regulations and the ECB Decisions on the definition of Own Funds, listed below:
- Commission Delegated Regulation (EU) 342/2014 of 21 January 2014, supplementing Directive 2002/87/EC of the European Parliament and of the Council and Regulation (EU) 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the application of the calculation methods of capital adequacy requirements for financial conglomerates;
- Commission Delegated Regulation (EU) 2015/923 of 11 March 2015, amending Delegated Regulation (EU) 241/2014 supplementing Regulation (EU) 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions;
- Commission Delegated Regulation (EU) 2016/101 of 26 October 2015 supplementing Regulation (EU) 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation;
- Decision No. 2015/656 of the European Central Bank of 4 February 2015 on the conditions under which credit institutions are permitted to include interim or year-end profits in Common Equity Tier 1 capital;
- Regulation (EU) 2017/2395[1] of the European Parliament and Council of 12 December 2017, amending Regulation (EU) 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State, updating Regulation 575/2013 CRR through the addition of the new Article 473a "Introduction of IFRS 9".

This regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:
- Tier 1 Capital, in turn composed of:
  - Common Equity Tier 1 Capital (CET1);
  - Additional Tier 1 Capital (AT1);
- Tier 2 Capital (T2).

Tier 1's predominant element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, retained earnings reserves, undistributed income for the period, valuation reserves, eligible minority interests, net of the deducted items.
In order to be eligible for Common Equity, the equity instruments issued must guarantee absorption of losses on going concern, by satisfying the following characteristics:
- maximum level of subordination;
- option for suspending the payment of dividends/coupons at the full discretion of the issuer and in a non-cumulative manner;
- unredeemability;
- absence of redemption incentives.

At present, with reference to the Intesa Sanpaolo Group, no equity instrument other than ordinary shares is eligible for inclusion in Common Equity.
A number of prudential filters are also envisaged with effects on Common Equity:
- filter on profits associated with future margins deriving from securitisations;
- filter on cash flow hedge (CFH) reserves;
- filter on profits or losses on liabilities designated at fair value (derivatives or otherwise) associated with changes in own credit risk (DVA);
- adjustments to fair value assets associated with the "prudent valuation".

[1] As already mentioned in the Introduction of this document, this Regulation has been amended by Regulation (EU) 2020/873.

The regulation also envisages a series of elements to be deducted from Common Equity Tier 1:
- losses for the current year;
- goodwill, intangible assets and residual intangible assets;
- deferred tax assets (DTA) associated with future income not deriving from temporary differences (e.g. DTA on losses carried forward);
- expected losses exceeding total credit risk adjustments (the shortfall reserve) for exposures weighted according to IRB approaches;
- net assets deriving from defined benefit plans;
- direct, indirect or synthetic holdings of the entity in Common Equity Tier 1 Capital instruments;
- exposures for which it is decided to opt for deduction rather than a 1,250% weighting among RWA;
- non-significant investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations);
- deferred tax assets (DTA) that rely on future profitability and arise from temporary differences (deducted for the amount exceeding the thresholds envisaged in the regulation);
- significant investments in CET1 instruments issued by companies operating in the financial sector (deducted for the amount exceeding the thresholds envisaged in the regulation);
- the applicable amount of insufficient coverage for non-performing exposures, as governed by Regulation 2019/630 of the European Parliament and Council of 17 April 2019 (minimum loss coverage for non-performing exposures).

The AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares or AT1 equity instruments), once the deductions of items and exemptions provided for in Regulation (EU) 575/2013 (CRR) have been applied.

Tier 2 Capital is mainly composed of items such as eligible subordinated liabilities and any excess of credit risk adjustments over and above expected losses (the excess reserve) for exposures weighted according to IRB approaches, once the deductions of items and exemptions provided for in Regulation (EU) 575/2013 (CRR) have been applied. Following the issue of Regulation (EU) 2019/876 (CRR II), the eligibility of class 2 instruments with a residual duration of less than five years (being amortised) is determined based on the carrying amount instead of the nominal value.

The transitional period for the introduction of the “Basel 3” regulatory framework, which provided for the partial inclusion within or deduction from Own Funds of certain items to enable a gradual impact of the new regulatory requirements, in accordance with the provisions of Directive 2013/36/EU (CRD IV) and the CRR, ended in 2017, and the exemption period established by Regulation (EU) 575/2013 (CRR), regarding the amendments to be applied to IAS 19, also ended in 2018. In addition, as at 31 March 2021, the Intesa Sanpaolo Group no longer held any subordinated instruments subject to specific transitional rules (i.e. grandfathering, which would have ended in 2021) aimed at the gradual exclusion from own funds of instruments that do not meet the requirements of the new rules.

The transitional period (2018-2022), also aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. The Intesa Sanpaolo Group has exercised the option provided in the above-mentioned EU Regulation 2395/2017 of adopting the “static” approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET1 solely for the FTA component of the impairment.
In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any shortfall reserve – is re-included in the capital according to phase-in percentages of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, and 25% in 2022. During the transitional period, the Group may also elect to change this approach once only, subject to authorisation from the Supervisory Authority, moving from the “static” approach to the “dynamic” approach or suspending the application of the transitional treatment in favour of the fully loaded regime. During 2018, two EBA Q&As were published (2018_3784, 2018_4113) which specified that, during the transitional period, any Deferred Tax Assets (DTAs) connected to IFRS 9 FTA-related adjustments should not be considered as deductions from CET 1 as envisaged by the CRR.
Considering that the approval of Law 145 of 30 December 2018 (2019 Budget Act) led to the recognition of DTAs linked to the deferred deductibility, over 10 financial years starting from 2018, of the value adjustments recognised in shareholders’ equity because they are related to the first-time adoption of IFRS 9, as envisaged by the aforementioned Regulation and the subsequent EBA Q&As, those DTAs have been neutralised for the purposes of CET 1 Capital during the transitional period established for the IFRS 9 impact (which extends until 2022) limited to the complementary portion of the phase-in percentages detailed above. Law 160 of 27 December 2019 (2020 Budget Act), like the previous Law, deferred the deduction of the portions pertaining to 2019 of the above value adjustments to the tax period 2028.

In November 2019, Q&A 2018_4302 was published which allows the amount of net deferred tax assets that rely on future profitability to be treated for prudential purposes, within the deductions from the CET 1 items provided for in the CRR, independently and distinctly from the accounting framework applied to them. In this respect, the EBA clarified that for the deduction of the above-mentioned DTAs from CET 1 items, the netting rules established by the CRR apply and that therefore the amount of the DTAs – calculated for prudential purposes – may differ from the related net balance reported in the periodic reports and determined according to the applicable accounting rules.

With regard to Regulation (EU) 2019/876, also known as CRR II (Capital Requirements Regulation) – which is part of the broader package of regulatory reforms that also include the CRD V (Capital Requirements Directive), the BRRD II (Banking Recovery and Resolution Directive) and the SRMR II (Single Resolution Mechanism Regulation) – and to Regulation (EU) 2019/630 as regards minimum loss coverage for non-performing exposures, these were all in force as at 31 March 2021 and already partially applicable.

The above-mentioned Regulation (EU) 2019/876 (CRR II), in Article 494b “Grandfathering of own funds instruments and eligible liabilities instruments”, introduced a new transitional regime, applicable until 28 June 2025, which allows own funds instruments – issued before 27 June 2019 (the date of entry into force of CRR II), which do not meet the specific conditions set out in points p), q) and r) of Article 52 (“Additional Tier 1 instruments”), as amended by Article 1 point 23) of CRR II, and in points n), o) and p) of Article 63 (“Tier 2 instruments”), as amended by Article 1 point 27) of CRR II – to qualify as AT1 and T2 instruments.
In addition, as at 31 March 2021, the Intesa Sanpaolo Group no longer held any subordinated instruments subject to the above-mentioned transitional rules.

In addition, as already mentioned in the introduction to this document, as at 31 March 2021, the Group, in line with the approach adopted starting from 30 June 2020, has not yet adopted the new IFRS 9 transitional rules relating to adjustments to loans after 31 December 2019 or the reintroduction of the prudential filter for exposures to central governments classified to the FVTOCI category, both introduced by the Regulation (EU) 2020/873 of 24 June 2020 (“quick-fix”).

Lastly, for the purposes of calculating capital ratios as at 31 March 2021, the Intesa Sanpaolo Group applied Commission Delegated Regulation (EU) 2020/2176, which entered into force on 23 December 2020 and which amends Commission Delegated Regulation (EU) 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items. The Regulation introduced the criterion of prudential amortisation applied to all software assets over a three-year period, regardless of their estimated useful lives for accounting purposes. Specifically, the difference, if positive, between prudential accumulated amortisation and accounting accumulated amortisation (including impairment losses) is fully deducted from CET1. The remaining portion of the net carrying amount of each software asset not deducted as a result of the prudential treatment, is included in the RWAs with a 100% risk weight.

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 31 March 2021 is summarised in the table below.

(millions of euro)

	31.03.2021	31.12.2020
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**57,472**	**57,717**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**528**	**706**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**58,000**	**58,423**
D. Items to be deducted from CET 1	**-9,432**	**-9,482**
E. Transitional period - Impact on CET1 (+/-)	**1,512**	**2,129**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**50,080**	**51,070**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**6,220**	**7,486**
of which AT1 instruments subject to transitional adjustments	-	-
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**6,220**	**7,486**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**9,598**	**9,632**
of which T2 instruments subject to transitional adjustments	-	-
N. Items to be deducted from T2	**-275**	**-255**
O. Transitional period - Impact on T2 (+ / -)	**-**	**-**
P. Total Tier 2 (T2) (M - N +/- O)	**9,323**	**9,377**
Q. Total own funds (F + L + P)	**65,623**	**67,933**

The tables below provide a detailed summary of the various capital levels before regulatory adjustments, together with the reconciliation between Common Equity Tier 1 and net book value.

The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments have been reported in Attachment 1 to the Basel 3 Pillar 3 - Disclosure as at 31 December 2020.
Attachment 1 of this document, on the other hand, reports the General Own Funds Disclosure Template envisaged in Implementing Regulation (EU) 1423/2013.

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Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	31.03.2021	31.12.2020
Group Shareholders' equity	65,347	65,871
Minority interests	362	450
Shareholders' equity as per the Balance Sheet	**65,709**	**66,321**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-6,214	-7,480
- Minority interests eligible for inclusion in AT1	-6	-6
- Minority interests eligible for inclusion in T2	-5	-5
- Ineligible minority interests on full phase-in	-319	-408
- Ineligible net income for the period (a)	-1,105	-821
- Treasury shares included under regulatory adjustments	260	263
- Other ineligible components on full phase-in (b)	-848	-147
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**57,472**	**57,717**
Regulatory adjustments (including transitional adjustments) (c)	**-7,392**	**-6,647**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**50,080**	**51,070**

(a) Common Equity Tier 1 capital as at 31 March 2021 includes the net income as at that date, less the related dividend, calculated taking into account the payout envisaged in the 2018-2021 Business Plan (70% for 2021) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) The amount as at 31 March 2021 primarily includes the dividend and the portion intended for charitable donations relating to 2020 net income, as approved by the Shareholders' Meeting on 28 April 2021.

(c) Adjustments for the transitional period as at 31 March 2021 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (50% in 2021) set to decrease progressively until 2022.

Common Equity Tier 1 Capital (CET1)

(millions of euro)

Information	31.03.2021	31.12.2020
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	10,084	10,084
Share premium reserve	27,444	27,444
Reserves (a)	20,169	17,408
Accumulated other comprehensive income (b)	38	294
Net income (loss) for the period	1,516	3,277
Net income (loss) for the period not eligible (c)	-1,105	-
Dividends and other foreseeable charges (d)	-706	-821
Minority interests	32	31
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**57,472**	**57,717**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-260	-263
Goodwill	-3,793	-3,814
Other intangible assets	-2,958	-2,946
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,817	-1,824
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-288	-299
Defined benefit pension funds assets	-	-
Prudential filters	528	706
- of which Cash Flow Hedge Reserve	*666*	*728*
- of which Gains or Losses due to changes in own credit risk (DVA)	*151*	*212*
- of which Prudent valuation adjustments	*-289*	*-234*
- of which Other prudential filters	*-*	*-*
Exposures to securitisations deducted rather than risk weighted at 1250%	-84	-104
CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically, which exceed the threshold of 10% of Common Equity	-	-
Deductions with 10% threshold (e)	-	-
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	*-*	*-*
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	*-*	*-*
Deductions with threshold of 17.65% (e)	-	-
Positive or negative elements - other	-232	-232
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-8,904**	**-8,776**
Total adjustments in the transitional period (CET1)	**1,512**	**2,129**
Common Equity Tier 1 (CET1) - Total	**50,080**	**51,070**

(a) Amount included in CET1, includes a negative effect of about 3,265 million euro deriving from the adoption of IFRS 9, in addition to the 2020 income allocated to reserves.

(b) The caption "Accumulated other comprehensive income" includes a positive effect of about 328 million euro deriving from the adoption of IFRS 9.

(c) Common Equity Tier 1 capital as at 31 March 2021 includes the net income as at that date, less the related dividend, calculated taking into account the payout envisaged in the 2018-2021 Business Plan (70% for 2021) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(d) The figure considers the dividends on 2020 results, subject to ECB Recommendation dated 15 December 2020 on dividend policy in the aftermath of the COVID-19 epidemic, the portion of the remuneration of the AT1 instruments issued at the date and the portion of 2020 income allocated to charity, net of the tax effect.

(e) See the specific table for the details of the calculation of the deduction thresholds.

For the purposes of calculating own funds as at 31 March 2021 the net income for the first quarter of 2021 was considered, less the related dividend, calculated according to the payout ratio envisaged in the 2018-2021 Business Plan (70% for 2021) and other foreseeable charges. With regard to the payout ratio on 2021 net income, on 15 December 2020, the European Central Bank, following the previous guidance in this regard, had published a Recommendation on dividend policies during the COVID-19 epidemic, asking significant credit institutions to exercise utmost caution when making decisions on dividends or dividend distributions to remunerate shareholders and reserving the right to review the Recommendation before 30 September 2021, when, in the absence of significant adverse developments, it intends to repeal the Recommendation and resume assessing banks' capital and distribution plans based on the outcomes of the normal supervisory cycle. Accordingly, the payout ratio is subject to future indications from the European Central Bank regarding the dividend policy that significant credit institutions may adopt after 30 September 2021.

As envisaged by Article 36 (1)(k)(ii) of (EU) Regulation 575/2013 which governs this circumstance, in place of the weighting of the positions towards securitisations that meet the requirements to receive a weighting of 1,250%, it was chosen to proceed with the direct deduction of these exposures from the Own Funds.
The amount of such deduction as at 31 March 2021 is equal to -84 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

Information	31.03.2021	31.12.2020
Additional Tier 1 capital (AT1)		
AT1 instruments	6,214	7,480
Minority interests	6	6
Additional Tier 1 capital (AT1) before regulatory adjustments	**6,220**	**7,486**
Regulatory adjustments to Additional Tier 1 (AT1)	**-**	**-**
Adjustments in the transitional period, including minority interests (AT1)	**-**	**-**
Additional Tier 1 (AT1) - Total	**6,220**	**7,486**

Additional Tier 1 (AT1) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfather-ing	Original amount in currency	Contribution to the own funds (millions of euro)
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	NO	1,000,000,000	880
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	NO	1,250,000,000	1,240
Intesa Sanpaolo	6.25% fixed rate (up to the first call date)	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	749
Intesa Sanpaolo	3.75% fixed rate (up to the first call date)	NO	27-Feb-2020	perpetual	27-Feb-2025	Eur	NO	750,000,000	749
Intesa Sanpaolo	4.125% fixed rate (up to the first call date)	NO	27-Feb-2020	perpetual	27-Feb-2030	Eur	NO	750,000,000	749
Intesa Sanpaolo	5.875% fixed rate (up to the first call date)	NO	01-Sep-2020	perpetual	01-Sep-2031	Eur	NO	750,000,000	743
Intesa Sanpaolo	5.5% fixed rate (up to the first call date)	NO	01-Sep-2020	perpetual	1-Mar-2028	Eur	NO	750,000,000	730
Ubi Banca	5.875% fixed rate (up to the first call date)	NO	20-Jan-2020	perpetual	20-Jan-2025	Eur	NO	400,000,000	374
Total Additional Tier 1 equity instruments									**6,214**

Tier 2 Capital (T2)

(millions of euro)

	31.03.2021	31.12.2020
Tier 2 Capital (T2)		
T2 Instruments	9,593	9,627
Minority interests	5	5
Excess of provisions over expected losses eligible (excess reserve)	-	-
Tier 2 capital before regulatory adjustments	**9,598**	**9,632**
Tier 2 Capital (T2): Regulatory adjustments		
T2 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
T2 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-275	-255
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-275**	**-255**
Total adjustments in the transitional period, including minority interests (T2)	**-**	**-**
Tier 2 Capital (T2) - Total	**9,323**	**9,377**

Tier 2 (T2) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to the own funds (millions of euro)
Intesa Sanpaolo	6.625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	784
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,188
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	1,062
Intesa Sanpaolo	2.855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	429
Intesa Sanpaolo	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	192
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,298
Intesa Sanpaolo	3-month Euribor + 1.9%/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	497
Intesa Sanpaolo	1.98% fixed rate	NO	11-Dec-2019	11-Dec-2026	NO	Eur	NO	160,250,000	153
Intesa Sanpaolo	3-month Euribor + 206 bps/4	NO	11-Dec-2019	11-Dec-2026	NO	Eur	NO	188,000,000	180
Intesa Sanpaolo	5.148% fixed rate	NO	10-Jun-2020	10-Jun-2030	NO	GBP	NO	350,000,000	390
Intesa Sanpaolo	3.75% fixed rate	NO	29-Jun-2020	29-Jun-2027	NO	Eur	NO	309,250,000	301
Intesa Sanpaolo	3-month Euribor + 405 bps/4	NO	29-Jun-2020	29-Jun-2027	NO	Eur	NO	590,500,000	565
Intesa Sanpaolo	2,925% fixed rate	NO	07-Dec-2020	14-Oct-2030	NO	Eur	NO	150,000,000	477
Ubi Banca	4.25% fixed rate	NO	05-May-2016	05-May-2026	NO	Eur	NO	750,000,000	749
Ubi Banca	4.45% fixed rate	NO	15-Mar-2017	15-Sep-2027	NO	Eur	NO	500,000,000	515
Ubi Banca	5.875% fixed rate	NO	04-Mar-2019	04-Mar-2029	NO	Eur	NO	500,000,000	511
Ubi Banca	4.375% fixed rate	NO	12-Jul-2019	12-Jul-2029	NO	Eur	NO	300,000,000	302
Total Tier 2 instruments									**9,593**

Deduction thresholds for DTAs and investments in companies operating in the financial sector

(millions of euro)

	31.03.2021	31.12.2020
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	4,857	4,894
B. Threshold of 10% for CET1 instruments of financial sector entities where the institution has a significant investment and for DTA that rely on future profitability and arise from temporary differences	4,857	4,894
C. Threshold of 17.65% for significant investments and DTA not deducted in the threshold described under point B	7,393	7,401

The regulations envisage that for certain regulatory adjustments, such as those for DTAs based on future income and deriving from temporary differences, and for significant and minor investments in CET1 instruments issued by companies in the financial sector, certain thresholds or "deductibles" are specified, calculated on Common Equity estimated using different approaches:

- for minor investments in CET1 instruments issued by companies in the financial sector, the deduction of amounts exceeding 10% of CET1 prior to deductions deriving from exceeding the thresholds is envisaged;
- for significant investments in CET1 instruments and DTAs, on the other hand, the following is envisaged:
  - an initial threshold for deductions, calculated as 10% of CET1 prior to deductions deriving from exceeding the thresholds, adjusted to take into account any excess over the threshold described in the previous point;
  - a further threshold is indicated, calculated on 17.65% of Common Equity (calculated in the same way as the point above, minus the DTAs that are dependent on future profitability and arise from temporary differences and significant investments in CET1 instruments issued by financial sector entities), to be applied in aggregate on amounts not deducted using the first threshold.

All amounts not deducted must be weighted among risk-weighted assets at 250%.

Capital requirements

Qualitative and quantitative disclosure

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group's total own funds must amount to at least 12.79% of total risk-weighted assets (total capital ratio including the minimum requirement for Pillar 1, the additional Pillar 2 requirement of 1.5%, the capital conservation buffer of 2.5% on a fully-loaded basis already from 2019, the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.75% on a fully-loaded basis from 2021, and the institution-specific countercyclical capital buffer of 0.04% in the first quarter of 2021) arising from the risks typically associated with banking and financial activity (credit, counterparty, market and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risks as a result of insurance coverage. The competent authorities, as part of the Supervisory Review and Evaluation Process (SREP), may require higher capital requirements compared to those resulting from the application of the regulatory provisions.

As already illustrated in the Section on "Own Funds", the total regulatory capital is made up of the algebraic sum of the elements specified below:

- Tier 1 Capital (capable of absorbing losses under going concern conditions). This capital is divided into Common Equity Tier 1 Capital and Additional Tier 1 Capital;
- Tier 2 Capital (capable of absorbing losses in the event of a crisis).

The elements indicated above are subject to the following limits:

- Common Equity Tier 1 must at all times be equal to at least 4.5% of risk-weighted assets;
- Tier 1 Capital must at all times be equal to at least 6% of risk-weighted assets;
- Own Funds (i.e. the total regulatory capital), equal to Tier 1 plus Tier 2 Capital, must at all times be equal to at least 8.0% of risk-weighted assets.

Following the Supervisory Review and Evaluation Process (SREP), the ECB annually makes a final decision on the capital requirement that Intesa Sanpaolo must comply with at consolidated level.

On 25 November 2020, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2021. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.59% for 2021 on a fully loaded basis.
This is the result of:

a) an SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, and an additional Pillar 2 capital requirement of 1.5%, of which 4.5% and 0.84%, respectively, in the Common Equity Tier 1 ratio and 6% and 1.13%, respectively, in the Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis already from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer[2], the Common Equity Tier 1 ratio to be met is 8.63% on a fully loaded basis.

There were no changes in the scope of application of the internal models for credit risk, counterparty risk for derivatives and Securities Financing Transactions (SFTs) and operational risks compared to 31 December 2020.

The annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 2021.

[2] Countercyclical Capital Buffer calculated taking into account the exposure as at 31 March 2021 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating to 2021, where available, or the most recent update of the reference period (requirement was set at zero per cent in Italy for H1 2021).

Overview of RWAs (EU OV1 GL EBA 2016/11)

(millions of euro)

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			31.03.2021	31.12.2020	31.03.2021
	1	**Credit risk (excluding CCR)**	**255,174**	**266,383**	**20,413**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*82,379*	*82,598*	*6,590*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*1,056*	*999*	*84*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*144,647*	*154,835*	*11,572*
Article 438(d)	*5*	*Of which equity with simple risk-weighted approach or PD/LGD*	*27,092*	*27,951*	*2,167*
Article 107 Article 438(c)(d)	**6**	**CCR**	**6,828**	**7,977**	**546**
Article 438(c)(d)	*7*	*Of which mark to market*	*1,624*	*1,641*	*130*
Article 438(c)(d)	*8*	*Of which original exposure*	-	-	-
	9	*Of which the standardised approach*	-	-	-
	10	*Of which internal model method (IMM)*	*4,258*	*5,059*	*341*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*228*	*360*	*18*
Article 438(c)(d)	*12*	*Of which CVA*	*718*	*917*	*57*
Article 438(e)	**13**	**Settlement risk**	**-**	**-**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**9,372**	**9,842**	**750**
	15	*Of which IRB approach*	-	-	-
	16	*Of which IRB supervisory formula approach (SEC-IRBA)*	*6,653*	*7,095*	*532*
	17	*Of which internal assessment approach (IAA)*	-	-	-
	18	*Of which standardised approach (SEC-SA and SEC-ERBA)*	*2,719*	*2,747*	*218*
Article 438 (e)	**19**	**Market risk**	**21,632**	**19,521**	**1,731**
	20	*Of which the standardised approach*	*2,396*	*2,291*	*192*
	21	*Of which IMA*	*19,236*	*17,230*	*1,539*
Article 438(e)	**22**	**Large exposures**	**-**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**27,559**	**27,559**	**2,205**
	24	*Of which basic indicator approach*	*636*	*636*	*51*
	25	*Of which standardised approach*	*4,077*	*4,077*	*326*
	26	*Of which advanced measurement approach*	*22,846*	*22,846*	*1,828*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**15,497**	**15,790**	**1,240**
Article 500	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**TOTAL**	**336,062**	**347,072**	**26,885**

The total amount of risk-weighted exposures recorded as at 31 March 2021 was 336.1 billion euro, a change of approximately -11 billion euro compared to December 2020. In particular, please note the following:

- for credit risk (excluding counterparty risk), the reduction recorded on the advanced IRB approach portfolios was mainly attributable to the completion of the sale of the UBI Group branches to BPER[3], while the change in equity instruments was largely due to the decrease in the insurance exposures;
- for counterparty risk, a reduction mainly related to interest rate trends;
- for securitisations included in the banking book, a saving on the SEC-IRBA approach, as a result of the natural trend in volumes of the GARC transactions;
- for market risk, growth mainly linked to movements in the financial and sovereign sector on medium/long-term maturities;
- for operational risk, there was no change, in line with the half-yearly update of the models;
- the reduction in the amounts below the thresholds for deduction (250%) was mainly due to the change in the significant financial investments.

For details of the RWA changes with the IRB, IMM and IMA approaches, see the qualitative comments at the bottom of the RWA flow statements below (EU CR8, EU CCR7 and EU MR2-B).

RWA flow statements of credit risk exposures under the IRB approach in the first quarter (EU CR8 GL EBA 2016/11)

(millions of euro)

		RWA AMOUNTS	CAPITAL REQUIREMENTS
1	**RWAs as at 31 December 2020**	**187,493**	**14,999**
2	Asset size	-985	-79
3	Asset quality	-1,831	-147
4	Model updates	-	-
5	Methodology and policy	-	-
6	Acquisitions and disposals	-8,073	-646
7	Foreign exchange movements	608	50
8	Other	-874	-70
9	**RWAs as at 31 March 2021 (*)**	**176,338**	**14,107**

(*) As at 31 March 2021, the RWA relating to IRB models amounted to 176,338 million euro was attributable to the Foundation IRB approach for 1,056 million euro (Row 3 EU OV1), to the Advanced IRB approach for 144,647 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 27,092 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 3,543 million euro (Row 27 EU OV1).

The aggregate of the RWAs relating to the exposures subject to credit risk measured using advanced approaches[4] was identified as 176,338 million euro in March 2021, a decrease compared to the amount of 187,493 million euro in the previous quarter. The changes during the period were mainly attributable to the following components:

- -8,073 million euro due to the completion of the sale to BPER of the business line consisting of the branches of the UBI Group[5];
- -1,831 million euro due to changes in the credit rating of the Retail counterparties and restructuring of the equity portfolio;
- -985 million euro due to a decrease in volumes of transactions in the Corporate and Equity aggregates, marginally offset by an increase in the Banks aggregate;
- +608 million euro due to changes in foreign currency exposures, reflecting exchange rate fluctuations, driven in particular by the EUR/USD appreciation.

[3] For more details regarding the above-mentioned sale as part of the UBI Banca acquisition, see Intesa Sanpaolo's 2020 Annual Report and Interim Statement as at 31 March 2021.

[4] The risk-weighted exposures have been calculated in accordance with the instructions of the CRR, Part Three, Title II, Chapter 3, and the capital requirement has been calculated in accordance with Article 92(3)(a).

[5] For more details regarding the above-mentioned sale as part of the UBI Banca acquisition, see Intesa Sanpaolo's 2020 Annual Report and Interim Statement as at 31 March 2021.

RWA flow statements of CCR exposures under the IMM in the first quarter (EU CCR7 GL EBA 2016/11)

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 31 December 2020**	**5,059**	**405**
2	Asset size	-514	-41
3	Credit quality of counterparties	-288	-23
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	1	-
8	Other	-	-
9	**RWAs as at 31 March 2021**	**4,258**	**341**

With regard to the changes in RWAs related to CCR exposures (derivatives and SFTs, determined based on the IMM, in accordance with part three, title II, chapter 6 of the CRR) the value of the aggregate decreased in the quarter: 5,059 million euro at the end of December 2020 and 4,258 million euro at the end of March 2021. The change of -801 million euro was mainly attributable to the following components:

– -514 million euro due to the reduction in exposures in the portfolio, mainly attributable to the rise in interest rates;
– -288 million euro due to the improvement in the credit rating of several counterparties in the portfolio.

RWA flow statements of market risk exposures under the IMA in the first quarter (EU MR2-B GL EBA 2016/11)

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 31 December 2020**	**5,421**	**7,360**	**3,938**	**-**	**511**	**17,230**	**1,379**
1a	*Regulatory adjustment*	*4,322*	*5,631*	*1,310*	*-*	*-*	*11,263*	*901*
1b	*RWAs at the previous quarter-end (end of the day)*	*1,099*	*1,729*	*2,628*	*-*	*511*	*5,967*	*478*
2	Movement in risk levels	295	758	274	-	-196	1,131	90
3	Model updates/changes	-	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	-	-	-	-	-	-	-
8a	*RWAs at the end of the reporting period (end of the day)*	*1,394*	*2,487*	*2,902*	*-*	*315*	*7,098*	*568*
8b	*Regulatory adjustment*	*4,131*	*5,889*	*2,118*	*-*	*-*	*12,138*	*971*
8	**RWAs as at 31 March 2021**	**5,525**	**8,376**	**5,020**	**-**	**315**	**19,236**	**1,539**

The RWAs relating to market risks increased compared to the fourth quarter of 2020. The regulatory VaR metric still incorporates the volatility following the outbreak of the COVID-19 pandemic. An efficient allocation between sovereign and financial spread positions has limited the overall effects on the total RWAs.

Institution-specific Countercyclical Capital Buffer

Below is the information relating to the “Countercyclical capital buffer”, prepared based on the ratios applicable at 31 March 2021 and Delegated Regulation (EU) 2015/1555 of the Commission of 28 May 2015 which integrates regulation (EU) 575/2013 of the European Parliament and of the Council (so-called CRR) regarding the regulatory technical standards pertaining to the publication of information in relation to the compliance of the institutions’ obligation to hold a countercyclical capital buffer pursuant to Article 440 of the CRR. As established by Article 140, paragraph 1, of directive 2013/36/EU (so-called CRD IV), the institution-specific countercyclical capital buffer is the weighted average of the countercyclical ratios which are applied in the countries where the relevant credit exposures of the institutions are located.

CRD IV established the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical buffer rate (for exposures towards Italian counterparties) at 0% also for the second quarter of 2021.

The relevant credit exposures include all the classes of exposure other than those under Article 112, letters from a) to f), of regulation (EU) 575/2013. The following portfolios are excluded: exposures to central administrations or central banks; exposures to regional administrations or local authorities; exposures to public-sector entities; exposures to multilateral development banks; exposures to international organisations; exposures to institutions.

As at 31 March 2021:

- the countercyclical capital ratios at individual country level were set, with the methods summarised above, generally equal to 0%, with the exception of the following countries: Norway (1.00%), Hong Kong (1.00%), the Czech Republic (0.50%), Slovakia (1.00%), Bulgaria (0.50%) and Luxembourg (0.50%);
- at consolidated level, Intesa Sanpaolo’s specific countercyclical ratio amounts to 0.039%.

Amount of the Institution-specific Countercyclical Capital Buffer

(millions of euro)

Total risk exposure	336,062
Specific countercyclical ratio of the institution	0.039%
Specific countercyclical capital buffer requirement of the institution	131

Comparison of own funds, capital ratios and leverage ratio with and without the application of transitional provisions for IFRS 9 (EU IFRS 9-FL GL EBA 2020/12)

(millions of euro)

	Available capital (amounts)	31.03.2021	31.12.2020	30.09.2020	30.06.2020	31.03.2020
1	Common Equity Tier 1 capital (CET1)	50,080	51,070	50,325	43,260	42,339
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	48,568	48,941	48,193	41,128	40,212
3	Tier 1 capital	56,300	58,556	57,821	48,856	47,935
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	54,788	56,427	55,689	46,724	45,808
5	Total capital	65,623	67,933	67,097	56,788	54,971
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	65,016	66,773	65,838	55,506	53,711
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	336,062	347,072	342,251	295,973	297,119
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	337,071	348,519	343,750	297,523	298,732
	Capital ratios					
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	14.9%	14.7%	14.7%	14.6%	14.2%
10	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.4%	14.0%	14.0%	13.8%	13.5%
11	Tier 1 capital (as a percentage of the risk exposure amount)	16.8%	16.9%	16.9%	16.5%	16.1%
12	Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.3%	16.2%	16.2%	15.7%	15.3%
13	Total capital (as a percentage of the risk exposure amount)	19.5%	19.6%	19.6%	19.2%	18.5%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.3%	19.2%	19.2%	18.7%	18.0%
	Leverage ratio					
15	Leverage ratio total exposure measure	786,344	814,646	881,054	745,133	722,405
16	Leverage ratio	7.2%	7.2%	6.6%	6.6%	6.6%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7.0%	6.9%	6.3%	6.3%	6.4%

As described in the chapter “Own Funds”, the first-time adoption of IFRS 9 and the adoption of the “static” approach during the transition period (2018-2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios as at 31 March 2021 (with and without applying the transitional provisions for IFRS 9) shown in the table above due to the following:

- the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9, after eliminating the shortfall existing as at 31 December 2017 on IRB exposures;
- the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the afore-mentioned Regulation, aimed at mitigating the impact of FTA;
- a positive impact on CET 1 resulting from the change in the classification of the financial assets in the new categories established by IFRS 9 and the consequent change in measurement metrics;
- a reduction in the CET1 ratio as a result of the increase in DTAs that rely on future profitability limited to the complementary portion of the phase-in percentages envisaged for the transitional period, as established by the related Q&As (2018_3784 and 2018_4113);
- the increase in the excess reserve, which, according to the provisions of the aforementioned Regulation, may be added to the Tier 2 capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET 1 as a result of the adoption of said transitional adjustment;
- the reduction of the risk-weighted assets (RWA) on standard exposures which, as a result of the increase in the provisions linked to the first-time adoption of IFRS 9, reduced the risk exposure (EAD);
- the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

From 30 September 2019, the deduction of DTAs and investments in companies in the financial sector described in the section on Own Funds ceased to be applied following the application of the Danish Compromise, except for the insurance own funds instruments originating from the UBI Group, for which no request has yet been made for extension of the Danish Compromise. As a consequence, the difference between the amount of the 250% risk-weighted DTAs in the IFRS 9 transitional approach and those re-determined on the assumption IFRS 9 had not been applied (fully-loaded IFRS 9), as described in detail in the above-mentioned section, results in an increase in risk-weighted exposures for the latter, which will cease at the end of the transitional period (2022).

Liquidity risk

LIQUIDITY RISK

The Group's liquidity position – supported by suitable high-quality liquid assets (HQLA) and the significant contribution from stable customer deposits – remained within the risk limits set out in the current Group Liquidity Policy in the first three months of 2021. Both regulatory indicators, LCR and NSFR, which also benefited from the positive contribution from the UBI Group from the end of August 2020, were well above 100%.

Over the last 12 months, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) no. 2015/61, has amounted to an average of 167.2%.

The table below contains the quantitative information on the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured in accordance with the EU regulations and subject to periodic reporting to the competent Supervisory Authority. The figures shown refer to the simple average of the last 12 months of monthly observations[6] for each quarter.

[6] EBA – "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) 575/2013", June 2017.

Liquidity Coverage Ratio (LCR) disclosure template and additional disclosure (EU LIQ1 EBA GL 2017/01)

(millions of euro)

	SCOPE OF CONSOLIDATION	TOTAL UNWEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
	Quarter ending	31-Mar-2021	31-Dec-2020	30-Sep-2020	30-Jun-2020	31-Mar-2021	31-Dec-2020	30-Sep-2020	30-Jun-2020
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	HIGH-QUALITY LIQUID ASSETS								
1	**Total high-quality liquid assets (HQLA) (a)**					**140,393**	**123,984**	**108,645**	**98,980**
	CASH-OUTFLOWS								
2	**Retail deposits and deposits from small business customers, of which:**	**263,896**	**248,185**	**227,253**	**212,544**	**18,549**	**17,451**	**16,020**	**15,032**
3	*Stable deposits*	*190,689*	*178,534*	*163,195*	*152,165*	*9,534*	*8,927*	*8,160*	*7,608*
4	*Less stable deposits*	*73,207*	*69,651*	*64,058*	*60,379*	*9,015*	*8,524*	*7,860*	*7,424*
5	**Unsecured wholesale funding**	**136,835**	**125,637**	**114,918**	**107,675**	**61,492**	**55,535**	**51,565**	**49,576**
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*42,431*	*40,384*	*38,418*	*36,578*	*10,605*	*10,094*	*9,602*	*9,142*
7	*Non operational deposits (all counterparties)*	*91,761*	*82,542*	*73,815*	*67,927*	*48,244*	*42,730*	*39,278*	*37,264*
8	*Unsecured debt*	*2,643*	*2,711*	*2,685*	*3,170*	*2,643*	*2,711*	*2,685*	*3,170*
9	**Secured wholesale funding**					**1,563**	**1,352**	**1,432**	**1,557**
10	**Additional requirements**	**67,247**	**66,413**	**65,123**	**63,640**	**17,432**	**17,580**	**17,384**	**16,816**
11	*Outflows related to derivative exposure and other collateral requirements*	*5,048*	*4,983*	*4,801*	*4,430*	*4,976*	*4,768*	*4,555*	*4,215*
12	*Outflos related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	*62,199*	*61,430*	*60,322*	*59,210*	*12,456*	*12,812*	*12,829*	*12,601*
14	**Other contractual funding obligations**	**3,351**	**2,827**	**2,155**	**2,273**	**3,219**	**2,824**	**2,153**	**2,270**
15	**Other contingent funding obligations**	**116,324**	**108,323**	**98,997**	**92,915**	**4,935**	**4,627**	**4,340**	**4,143**
16	**TOTAL CASH OUTFLOWS**					**107,190**	**99,369**	**92,894**	**89,394**
	CASH-INFLOWS								
17	Secured lending (e.g. reverse repos)	22,365	24,018	28,701	32,206	622	770	925	1,116
18	Inflows from fully performing exposures	22,082	21,192	21,532	21,545	14,973	13,595	13,783	13,742
19	Other cash inflows	22,085	22,122	21,850	21,876	7,906	8,137	8,378	8,619
19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restriction or which are denominated in non-convertible currencies)					-	-	-	-
19b	(Excess inflows from related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	**66,532**	**67,332**	**72,083**	**75,627**	**23,501**	**22,502**	**23,086**	**23,477**
20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
20c	*Inflows subject to 75% cap*	*66,533*	*67,333*	*72,083*	*75,627*	*23,501*	*22,501*	*23,086*	*23,477*
21	**LIQUIDITY BUFFER**					**140,393**	**123,984**	**108,645**	**98,980**
22	**TOTAL NET CASH OUTFLOWS**					**83,689**	**76,867**	**69,808**	**65,917**
23	**LIQUIDITY COVERAGE RATIO (%)**					**167.2%**	**159.1%**	**154.2%**	**150.0%**

(a) Liquidity reserves held by subsidiaries based in a third country subject to restrictions to assets transferability are recognised only for the portion intended to cover net cash outflows in that third country. All excess amounts are therefore excluded from the Group's consolidated LCR.

At the end of March 2021, the amount of total unencumbered HQLA reserves at the various Treasury Departments of the Group, considering cash and deposits held with Central Banks, totalled 162 billion euro (170 billion euro in December 2020). With the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, added in, the Group's unencumbered liquidity reserves totalled 169 billion euro (195 billion euro in December 2020).
Total unencumbered reserves at the end of March were down by around 26 billion euro compared to the end of 2020, mainly due to the effect of the outflows resulting from the sale of the former UBI branches to BPER[7], as well as the associated reduction, partly of a temporary nature, in credit claims pledged as collateral, recognised under "Other eligible reserves" and withdrawn during the quarter in connection with the sale of assets included in the branches transferred to BPER.

(millions of euro)

	Unencumbered (net of haircut)	
	31.03.2021	**31.12.2020**
HQLA Liquidity Reserves	**161,627**	**170,264**
Cash and Deposits held with Central Banks (HQLA)	103,578	80,698
Highly liquid securities (HQLA)	58,049	89,566
Other eligible and/or marketable reserves	**7,729**	**24,403**
Total Group Liquidity Buffer	**169,356**	**194,667**

Considering the high amounts of unencumbered liquidity reserves (liquid or eligible), the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the limit threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the risk factors.

[7] For more details regarding the above-mentioned sale as part of the UBI Banca acquisition, see Intesa Sanpaolo's 2020 Annual Report and Interim Statement as at 31 March 2021.

Leverage Ratio

Qualitative and quantitative disclosure

Under the Basel 3 prudential regulations, the Leverage ratio entered definitively into effect on 1 January 2015. The Leverage ratio measures the degree to which Tier 1 Capital covers the Banking Group's total exposure. The ratio is calculated by considering off-balance sheet exposures and assets. The objective of the indicator is to contain the degree of indebtedness on banks' accounts by establishing a minimum level of coverage of exposures with equity. The ratio, which is monitored by the authorities, is expressed in percent form and is subject to a regulatory minimum threshold of 3% (the Basel Committee's reference value).

The Leverage ratio is calculated quarterly. The indicator is monitored at both the individual and Banking Group level.

The Leverage ratio is calculated as the ratio of Tier 1 Capital to total exposure. Focusing on the denominator of the ratio, total exposure includes on-balance sheet exposures, net of any components deducted from Tier 1 Capital, and off-balance sheet exposures.
In view of the provisions of Decision (EU) 2020/1306 of the European Central Bank, which determines the existence of exceptional circumstances, from the reporting date of 31 December 2020 the Intesa Sanpaolo Group has applied the provisions of Article 500b of Regulation (EU) 873/2020, which allow for the temporary exclusion of certain exposures to central banks from the total exposure measure in view of the COVID-19 pandemic.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 31 March 2021 is presented below, disclosed in accordance with the regulatory principles of the CRR and set out according to the provisions of (EU) Implementing Regulation 2016/200.

The Leverage ratio is indicated according to the transitional provisions.

(millions of euro)

Capital and total exposure measure	**31.03.2021**	**31.12.2020**
Tier 1 capital	56,300	58,556
Leverage ratio total exposure measure	786,344	814,646
Leverage ratio	**7.2%**	**7.2%**

Declaration of the Manager responsible for preparing the Company’s financial reports

The Manager responsible for preparing the Company’s financial reports, Fabrizio Dabbene, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document “Basel 3 - Pillar 3 as at 31 March 2021” corresponds to the corporate records, books and accounts.

Milan, 5 May 2021

Fabrizio Dabbene
Manager responsible for preparing
the Company’s financial reports

Attachment 1

Own funds: own funds disclosure template

(millions of euro)

		31.03.2021	31.12.2020	Reference article of Regulation (EU) 575/2013
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	37,528	37,528	26, paragraph 1, 27, 28, 29
	of which: instrument type 1	37,528	37,528	EBA list as per article 26 (3)
	of which: instrument type 2	-	-	EBA list as per article 26 (3)
	of which: instrument type 3	-	-	EBA list as per article 26 (3)
2	Retained earnings	22,728	20,673	26, paragraph 2(c)
3	Accumulated other comprehensive income (and other reserves)	-3,227	-2,971	26, paragraph 1, 27, 28, 29
3a	Funds for general banking risk	-	-	26, paragraph 1(f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1 capital	-	-	486, paragraph 2
5	Minority interests (amount allowed in consolidated CET1)	32	31	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	411	2,456	26, paragraph 2
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**57,472**	**57,717**	**Sum of rows from 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-289	-234	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-6,751	-6,760	36, paragraph 1(b), 37
9	Transitional adjustment related to IAS 19 and IFRS 9	1,512	2,129	Articles 473 and 473bis of Reg. 2395/2017
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-1,817	-1,824	36, paragraph 1(c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	666	728	33, paragraph 1(a)
12	Negative amounts resulting from the calculation of expected loss amounts	-288	-299	36, paragraph 1(d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	-	-	32, paragraph 1
14	Gains or losses on liabilities measured at fair value resulting from changes in own credit rating	151	212	33, paragraph 1(b)
15	Defined-benefit pension fund assets (negative amount)	-	-	36, paragraph 1(e), 41
16	Direct and indirect holdings by the institution of own CET1 instruments (negative amount)	-260	-263	36, paragraph 1(f), 42
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	36, paragraph 1(g), 44
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	36(1)(h), 43, 45, 46, 49 (2 and 3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	36(1)(i), 43, 45, 47, 48(1)(b), 49 (1,2 and 3), 79
20	Other CET1 deduction items based on instructions from the National Authority	-232	-232	Circ. 285 of the Bank of Italy - Part 2 C.1 Sec.6 Guidelines
20a	Exposure amount of the following items which qualify for a risk weighting of 1250%, where the institution opts for the deduction alternative	-84	-104	36, paragraph 1(k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-	36, paragraph 1(k)(i), 89, 90, 91
20c	of which: securitisation positions (negative amount)	-84	-104	36, paragraph 1(k)(ii), 243 (1)(b), 244 (1)(b), 253
20d	of which: free deliveries (negative amount)	-	-	36, paragraph 1(k)(iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	-	36, paragraph 1(c), 38, 48 (1)(a)
22	Amount exceeding the 15% threshold (negative amount)	-	-	48, paragraph 1
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	36(1)(i), 48(1)(b)
24	Empty field in the EU	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-	36, paragraph 1(c), 38, 48 (1)(a)
25a	Losses for the current financial year (negative amount)	-	-	36, paragraph 1(a)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-	36, paragraph 1(l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-	36, paragraph 1(j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**-7,392**	**-6,647**	**Sum of rows from 7 to 20a, 21, 22 and from 25a to 27**
29	**Common Equity Tier 1 capital (CET1)**	**50,080**	**51,070**	**Row 6 less row 28**

(millions of euro)

		31.03.2021	31.12.2020	Reference article of Regulation (EU) 575/2013
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	6,214	7,480	51, 52
31	of which: classified as equity under applicable accounting standards	6,214	7,480	
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	-	-	486, paragraph 3
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	6	6	85, 86
35	of which: instruments issued by subsidiaries subject to phase-out	-	-	486, paragraph 3
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**6,220**	**7,486**	**Sum of rows 30, 33 and 34**
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-	52, paragraph 1(b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	56 (b), 58
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	56 (c), 59, 60, 79
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	56 (d), 59, 79
41	Empty field in the EU	-	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-	**Sum of rows from 37 to 42**
44	**Additional Tier 1 (AT1) capital**	**6,220**	**7,486**	**Row 36 less row 43**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**56,300**	**58,556**	**Sum of rows 29 and 44**
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	9,865	9,966	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	-	-	486, paragraph 4
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	5	5	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	-	-	486, paragraph 4
50	Credit risk adjustments net of transitional adjustments related to IFRS 9	-	-	62 (c)(d) and Art. 473bis Reg. 2395/2017 (7)(c)
51	**Tier 2 (T2) capital before regulatory adjustments**	**9,870**	**9,971**	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-272	-339	63 (b)(i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	66 (b), 68
54	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount	-275	-255	66 (d), 69, 79
56	Empty field in the EU	-	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-547**	**-594**	**Sum of rows from 52 to 56**
Tier 2 (T2) capital: regulatory adjustments				
58	**Tier 2 (T2) capital**	**9,323**	**9,377**	**Row 51 less row 57**
59	**Total capital (TC = T1 + T2)**	**65,623**	**67,933**	**Sum of rows 45 and 58**
60	**Total risk-weighted assets**	**336,062**	**347,072**	

(millions of euro)

		31.03.2021	31.12.2020	Reference article of Regulation (EU) 575/2013
Capital ratios and buffers				
61	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	14.90%	14.71%	92, paragraph 2(a)
62	Tier 1 capital (as a percentage of the risk exposure amount)	16.75%	16.87%	92, paragraph 2(b)
63	Total capital (as a percentage of the risk exposure amount)	19.53%	19.57%	92, paragraph 2(c)
64	Institution-specific buffer requirement (CET1 requirement pursuant to Article 92 (1)(a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer, expressed as a percentage of risk exposure amount)	7.79%	7.59%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	2.50%	
66	of which: countercyclical buffer requirement	0.04%	0.03%	
67	of which: systemic risk buffer requirement	-	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.75%	0.56%	
68	Common Equity Tier 1 capital available to meet capital buffers (as a percentage of total risk exposure amount)	7.11%	7.12%	CRD 128
69	[not relevant in EU regulation]			
70	[not relevant in EU regulation]			
71	[not relevant in EU regulation]			
Amounts below the deduction thresholds (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	1,058	1,013	36(1)(h), 46, 45, 56 (c) 59, 60; 66 (c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	2,937	2,983	36, paragraph 1(i), 45, 48
74	Empty field in the EU	-	-	
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	3,250	3,323	36, paragraph 1(c), 38, 48
Applicable caps on the inclusion of provisions in T2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-	62
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	905	969	62
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)				
80	Current cap on CET1 instruments subject to phase-out arrangements	-	-	484 (3), 486 (2 and 5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (3), 486 (2 and 5)
82	Current cap on AT1 instruments subject to phase-out arrangements	205	615	484 (4), 486 (3 and 5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (4), 486 (3 and 5)
84	Current cap on T2 instruments subject to phase-out arrangements	473	1,418	484 (5), 486 (4 and 5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	484 (5), 486 (4 and 5)

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GALLERIE D'ITALIA.
THREE MUSEUMS, A NATIONWIDE CULTURAL NETWORK.

Gallerie d'Italia enables Intesa Sanpaolo to share its artistic and architectural heritage with the general public: 1,000 of its artworks are displayed in historic palazzos in three cities, creating a unique network of museums.

Housed in a palace of great architectural importance, **Gallerie d'Italia - Piazza Scala, Milan** has a selection of two hundred 19th-century Lombard masterpieces from art collections owned by Fondazione Cariplo and Intesa Sanpaolo, with a dedicated exhibit on Italian art of the 20th century.

Gallerie d'Italia - Palazzo Leoni Montanari, Vicenza is home to art of the Veneto region from the 1700s as well as Attic and Magna Graecia pottery. It also holds one of the most important collections of Russian icons in the West.

Gallerie d'Italia - Palazzo Zevallos Stigliano, Naples hosts the *Martyrdom of Saint Ursula*, the last known painting by Caravaggio, alongside more than 120 examples of Neapolitan art dating from the early 17th to the early 20th century.

A fourth hub for **Gallerie d'Italia is currently under construction in Piazza San Carlo, Turin**, with a special focus on photography and the digital world.

Cover photo:

CARLO CANELLA
(Verona, 1800 - Milan, 1879)
The New Gallery in Milan with night-time passers-by, 1870
oil on canvas, 60.90 x 54.50 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Piazza Scala, Milan

The New Gallery in Milan with night-time passers-by was painted by the artist Carlo Canella, who specialised in perspective views of various Italian cities, particularly Milan and Verona, from the mid-1830s onwards.
His painting depicts the Galleria Vittorio Emanuele II a few years after it opened in 1867. The new Gallery found instant favour and acclaim among the people of Milan. The annals tell us that singers were the first to frequent the Gallery, trying out their voices in spontaneous singing contests beneath the great dome of the Octagon. Luxurious cafés, bookshops and numerous fashionable clothes stores flourished on the Gallery's ground floor.
The painting received instant praise for its novel subject matter and the artist's success in setting the scene in a gallery, which appears brightly lit despite the upper part being in shadow.

The piece is part of the collection on permanent display at **Gallerie d'Italia - Piazza Scala**, Intesa Sanpaolo's museum hub **in Milan**. Its 19th-century section begins with Neoclassicism and goes right through to the early 20th century, taking in a century of Italian art on the way, with historic paintings, Italian unification battles, *vedute* and landscapes, genre paintings and masterpieces of Symbolism.


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