INTESA SANPAOLO

Basel 3 Pillar 3

Disclosure as at 31 December 2019

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa al pubblico al 31 dicembre 2019". 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 Disclosure as at 31 December 2019

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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) and Part 10, Title I, Chapter 3, "Transitional provisions for disclosure of own funds" (Art. 492), as amended by Regulation (EU) 2019/876 (CRR II), progressively applicable in accordance with the provisions of Art. 3, point 3(k);
– 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 accordance 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 information 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 "Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) 575/2013" (EBA/GL/2015/22) issued by the EBA on 21 December 2015 also contribute to setting out the disclosure framework. This aspect is not dealt with in this report but in the separate Report on Remuneration and, in summary, in the Report on operations, in the chapter "Corporate Governance and remuneration policies".

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.

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 - at the end of the public consultation process launched in April - 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.

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 Implementing Regulation.

With specific 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 a result of 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 technical implementing standards, which underwent a public consultation process that ended on 16 January 2020, for all the entities subject to the disclosure requirements set out in Part 8 of the CRR and applicable, on the basis of the EBA proposal, from June 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 (as described in Section 2 - Scope of application - Qualitative disclosure).

In 2019, there were no significant changes in the prudential scope of consolidation with respect to December 2018. Specifically, the changes, which are also the same as those recognised for accounting purposes, involved the adoption of the equity method instead of line-by-line consolidation for Intesa Sanpaolo SEC and Imi Finance Luxembourg since they were deemed to have become immaterial.
In the interest of completeness, and referring to Part G of the Notes to the 2019 consolidated financial statements for more detailed information, the main changes that occurred during the year with regard to entities under common control – which consequently have no impact at the consolidated level – consisted, in particular, of the inclusion of:

- Intesa Sanpaolo Private Bank (Suisse) Morval, the new entity created through the merger of Intesa Private Bank (Suisse) and Morval Vonwiller Holding into Banque Morval;
- Morval Vonwiller Asset Management in liquidation;
- Morval Bank &Trust Cayman;

and of the exclusion of:

- Intesa Sanpaolo Group Services, Banca CR Firenze, Cassa di Risparmio in Bologna, Cassa di Risparmio di Pistoia e della Lucchesia, Banca Apulia, Banca Prossima and Mediocredito Italiano, merged into Intesa Sanpaolo;
- Intesa Private Bank (Suisse) and Morval Vonwiller Holding, merged into Banque Morval, subsequently renamed Intesa Sanpaolo Private Bank (Suisse) Morval;
- Consumer Finance Holding Ceska Republika, merged into Vseobecna Uverova Banka;
- Intesa Sanpaolo Real Estate, merged into Intesa Sanpaolo Holding International;
- Intesa Sanpaolo SEC 3, merged into Intesa Sanpaolo.

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 and EBA/GL/2018/10), which require interim disclosures of certain information. Given the above regulatory provisions, when issuing its interim statements for March and September, Intesa Sanpaolo 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. Additional information about the risks is presented in the consolidated financial statements based on the provisions of IFRS 7 and the related explanatory instructions issued by the Bank of Italy (Circular 262 and related updates). In particular, the information on risks is set forth in Part E of the Notes to the consolidated financial statements. Part E also illustrates:

- the various types of risks of the insurance segment (Part E – Information on risks and relative hedging policies: Section 3 – Risks of insurance companies);
- the risks of other companies (Part E – Information on risks and relative hedging policies: Section 4 – risks of other companies);
- banking group foreign exchange risk (Part E – Information on risks and relative hedging policies: Section 2 – Risks of the prudential consolidation: 1.2.3 Foreign exchange risk);
- exposure to structured credit products (Part E – Information on risks and relative hedging policies: Section 2 – Risks of the prudential consolidation: Information on structured credit products);
- legal and tax disputes (Part E – Information on risks and relative hedging policies: Section 2 – Risks of the prudential consolidation: 1.5 Operational risk - Legal risks and tax litigation).

In order to better understand the organisation of the Group, reference is also made to the Report on operations of the consolidated financial statements (Breakdown of consolidated results by business area and geographical area – Balance sheet aggregates).

The "Report on Corporate Governance and Ownership Structures" and the "Report on Remuneration" include all the information concerning the Corporate Governance system of Intesa Sanpaolo and the remuneration policies in force. The documents are available for consultation in the "Governance" section of the Bank's website at: www.group.intesasanpaolo.com.

In particular, the "Report on Corporate Governance and Ownership Structures" includes the information required by paragraph 2 of art. 435 of the CRR:

- in Part II – Information on the adoption of the Corporate Governance Code and other information on Governance:
  - the engagement policy for the selection of members of the management body and their actual knowledge, skills, and experience;
  - the diversity policy adopted in the selection of members of the management body, its objectives and any targets set within the framework of that policy as well as the extent to which these objectives and targets have been achieved;
  - whether the entity has set up a separate risk committee and the number of times that the latter met;
  - the description of the flow of information on risks to the management body.
- in Part III – Summary Tables:
  - the number of directorships held by members of the management body.

The "Report on Remuneration" includes all the information required by Art. 450 of the CRR on the remuneration policy and procedures for those categories of staff whose professional activities have a material impact on the risk profile of the Bank.

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

With regard to the information contained in this document on the geographical distribution of the exposures, it should be noted that the materiality thresholds used to identify the countries to be reported by name are consistent with the provisions of EBA Guidelines GL/2018/10, GL/2016/11 and GL/2014/14.

Lastly, an explanation of the meaning of certain terms and/or abbreviations commonly used in this disclosure is provided in the specific glossary annexed to this document.

The Group's website also 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").

NOTICE

Following the Recommendation of the European Central Bank dated 27 March 2020 regarding dividend policy in the aftermath of the COVID-19 epidemic, the Board of Directors, at its meeting of 31 March 2020, modified the Proposals to the Shareholders' Meeting in respect of the allocation of the net income resulting from the Financial Statements as at 31 December 2019, that had been previously approved on 25 February 2020, as shown on page 591 of the "Annual Report 2019" of Intesa Sanpaolo.
The information contained in this document concerning the payout has not been updated. Likewise, the regulatory capital and prudential ratios have remained unchanged, in line with the corresponding supervisory reporting submitted in February.

Approval, certification and publication of the Basel 3 Pillar 3 disclosure of Intesa Sanpaolo as at 31 December 2019

The Basel 3 Pillar 3 disclosure as at 31 December 2019 ("Pillar 3") of Intesa Sanpaolo has been prepared in accordance with Part Eight of Regulation (EU) 575/2013, considering the specific requirements introduced by the EBA "Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013" of 14 December 2016.

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. Under the governance of the Pillar 3 disclosure, the Manager responsible for preparing the Company's financial reports, the Chief Risk Officer, and the structures reporting to them, must ensure – within their respective areas of responsibility – that the disclosure contained in the document corresponds to the supporting documentation, ledgers and other accounting records and that the information provided 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.

The preparation of Financial disclosures to the Market is one of the processes subject to assessment under the Group "Guidelines for Administrative and Financial Governance", which were also approved by the Board of Directors and updated in 2017, 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 disclosure is prepared in accordance with the internal processes and control systems that have been adopted by the Bank.
Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the following objectives:

- the verification of the implementation of Company strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- the effectiveness and efficiency of the Bank processes;
- the reliability and security of Company information and IT procedures;
- the prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with special regard to those relating to money-laundering, usury and financing of terrorism);
- the compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The Basel 3 Pillar 3 disclosure of Intesa Sanpaolo is accompanied by the certification by the Manager responsible for preparing the Company's financial reports, in accordance with paragraph 2 of the already mentioned Art. 154-bis of the Consolidated Law on Finance.

Considering the importance of this disclosure, Intesa Sanpaolo has decided to submit the annual Pillar 3 Disclosure, as at 31 December, to a limited review on a voluntary basis. The Independent Auditor's report is included.

The document is submitted for approval by the Board of Directors and subsequently published on Intesa Sanpaolo's website at the link www.group.intesasanpaolo.com in the Governance – Risk Management section.

References to the regulatory disclosure requirements

The tables below provide a summary of the location of the market disclosure, in accordance with the regulatory requirements governed by the European legislation and in particular CRR Part Eight and the EBA Guidelines:

- GL/2016/11 – "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No. 575/2013";
- GL/2017/01 – "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 575/2013";
- GL/2018/01 – "Guidelines on uniform disclosures under Article 473a of Regulation (EU) No. 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds".

"Section 7 - Credit risk: credit quality" incorporates the new disclosure requirements presented by the "Guidelines on disclosures of non-performing and forborne exposures", published in December 2018 by the EBA and applicable from 31 December 2019.

Reference to the CRR Part Eight regulatory requirements

CRR Article	Pillar 3 Section Reference	Reference to other company disclosures
435 - Risk management objectives and policies	▪ Introduction (specific reference also to the "Report on Corporate Governance and Ownership Structures") ▪ Section 1 - General requirements ▪ Section 5 - Liquidity risk ▪ Section 6 - Credit risk: general disclosure ▪ Section 11 - Counterparty risk ▪ Section 13 - Market risk ▪ Section 14 – Operational risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E ▪ Consolidated financial statements - Report on operations – Overview of 2019 ▪ Report on Corporate Governance and Ownership Structures
436 - Scope of application	▪ Section 2 - Scope of application	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part A ▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
437 - Own funds	▪ Section 3 - Own Funds ▪ Attachment 1 - Own funds: terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments ▪ Attachment 2 - Own funds: own funds disclosure template	-
438 - Capital Requirements	▪ Section 4 - Capital Requirements	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
439 - Exposure to counterparty credit risk	▪ Section 11 - Counterparty risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
440 - Capital buffers	▪ Section 4 - Capital Requirements	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part F
441 - Indicators of global systemic importance	▪ Introduction (specific reference to information published in the website)	▪ Website (Indicators of the assessment methodology to identify the global systemically important banks)
442 - Credit risk adjustments	▪ Section 6 - Credit risk: general disclosure ▪ Section 7 - Credit risk: credit quality	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part A ▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
443 - Unencumbered assets	▪ Section 17 - Encumbered and unencumbered assets	-
444 - Use of ECAIs	▪ Section 6 - Credit risk: general disclosure ▪ Section 8 - Credit risk: disclosures on portfolios subject to the standardised approach	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
445 - Exposure to market risk	▪ Section 13 - Market risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
446 - Operational risk	▪ Section 14 – Operational risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
447 - Exposures in equities not included in the trading book	▪ Section 15 - Equity Exposures: disclosures for positions not included in the trading book	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
448 - Exposure to interest rate risk on positions not included in the trading book	▪ Section 16 - Interest rate risk on positions not included in the trading book	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
449 - Exposure to securitisation positions	▪ Section 12 – Securitisations	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
450 - Remuneration policy	▪ Introduction (specific reference to the "Report on Remuneration")	▪ Consolidated Financial Statements: Report on operations - Corporate Governance and remuneration policies ▪ Report on Remuneration
451 - Leverage	▪ Section 18 - Leverage ratio	-
452 - Use of the IRB Approach to credit risk	▪ Section 6 - Credit risk: general disclosure ▪ Section 9 - Credit risk: disclosures on portfolios subject to IRB approaches	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
453 - Use of credit risk mitigation techniques	▪ Section 6 - Credit risk: general disclosure ▪ Section 10 - Credit risk mitigation techniques	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
454 - Use of the Advanced Measurement Approaches to operational risk	▪ Section 14 – Operational risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
455 - Use of Internal Market Risk Models	▪ Section 13 - Market risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
492 – Disclosure of own funds	▪ Section 3 - Own Funds ▪ Attachment 2 – Own funds: own funds disclosure template	-

Reference to EBA requirements (EBA/GL/2016/11, EBA/GL/2017/01, EBA/GL/2018/01, EBA/RTS/2017/03 and EBA/GL/2018/10)

The table below shows the location within the Pillar 3 document of the disclosure requirements introduced by the EBA Guidelines (EBA/GL/2016/11 and EBA/GL/2017/01), in force from 31 December 2017. In addition, the requirement was implemented regarding the IFRS 9 transitional period required by the EBA Guidelines (EBA/GL/2018/01), with first-time adoption on 31 March 2018. In addition, the requirements of the EBA RTS (EBA/RTS/2017/03), as endorsed by Regulation (EU) 2017/2295, have been supplemented with regard to encumbered and unencumbered assets. Finally, in "Section 7 - Credit risk: credit quality", the requirements of the EBA Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) have been supplemented, with first-time adoption on 31 December 2019.

EBA GL Table	Description of EBA GL Table	Pillar 3 Section
EU OVA	Institution risk management approach	Section 1 – General requirements
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Section 2 – Scope of application
EU LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	
EU LIA	Explanations of differences between accounting and regulatory exposure amounts	
EU OV1	Overview of RWAs	Section 4 - Capital Requirements
EU CR8	RWA flow statements of credit risk exposures under the IRB approach	
EU CCR7	RWA flow statements of CCR exposures under the IMM	
EU MR2-B	RWA flow statements of market risk exposures under the IMA	
EU INS1*	Non-deducted participations in insurance undertakings	
EU IFRS 9-FL	Comparison of own funds, capital ratios and leverage ratio with and without the application of transitional provisions for IFRS 9	
EU LIQA	Qualitative information of liquidity risk	Section 5 – Liquidity Risk
EU LIQ1	LCR disclosure template and additional disclosure	
EU CRA	General information about credit risk	Section 6 – Credit risk: General disclosure
EU CRB-B	Total and average net amount of exposures	
EU CRB-C	Geographical breakdown of exposures	
EU CRB-D	Concentration of exposures by industry or counterparty types	
EU CRB-E	Breakdown of exposures by residual maturity	
EU CRB-A	Additional disclosure related to the credit quality of assets	Section 7 – Credit risk: Credit quality
EU CR1-A*	Credit quality of exposures by exposure class and instrument	
Template 5**	Quality of non-performing exposures by geography	
Template 3**	Credit quality of performing and non-performing exposures by past due days	
Template 4**	Performing and non-performing exposures and related provisions	
Template 6**	Credit quality of loans and advances by industry	
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	
EU CR2-A	Changes in the stock of general and specific credit risk adjustments	
Template 8**	Changes in the stock of non-performing loans and advances	
Template 1**	Credit quality of forborne exposures	
Template 2**	Quality of forbearance	
Template 7**	Collateral valuation –loans and advances	
Template 10**	Collateral obtained by taking possession and execution processes –vintage breakdown	
EU CRD	Qualitative disclosure on the institution's use of external credit ratings under the standardised approach for credit risk	Section 8 – Credit risk: Disclosures on portfolios subject to the standardised approach
EU CR4	Standardised approach - Credit risk exposure and CRM effects	
EU CR5	Standardised approach - Exposures post CCF and CRM	

EU CR5 bis	Standardised approach - Exposures before CCF and CRM	
EU CRE	Qualitative disclosure on IRB models	Section 9 – Credit risk: Disclosures on portfolios subject to IRB approaches
EU CR7	IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques	
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	
EU CR10	IRB (specialised lending and equities)	
EU CR9	IRB approach – Backtesting of PD per exposure class	
EU CRC	Qualitative disclosure on CRM techniques	Section 10 – Risk mitigation techniques
EU CR3	CRM techniques – Overview	
EU CCRA	Qualitative disclosure on CCR	Section 11 – Counterparty risk
EU CCR1	Analysis of CCR exposure by approach	
EU CCR2	CVA capital charge	
EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk weighting	
EU CCR3 bis	Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation	
EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	
EU CCR6	Credit derivatives exposures	
EU CCR5-A	Impact of netting and collateral held on exposure values	
EU CCR5-B	Composition of collateral for exposures to CCR	
EU CCR8	Exposures to CCPs	
EU MRA	Qualitative disclosure on market risk	Section 13 – Market risk
EU MRB	Qualitative disclosure for institutions using the IMA	
EU MR1	Market risk under the standardised approach	
EU MR2-A	Market risk under the IMA	
EU MR3	IMA values for trading portfolios	
EU MR4	Comparison of VaR estimates with gains/losses	
Template A	Encumbered and unencumbered assets	Section 17 – Encumbered and unencumbered assets
Template B	Guarantees received	
Template C	Sources of encumbrance	
Template D	Accompanying descriptive information	

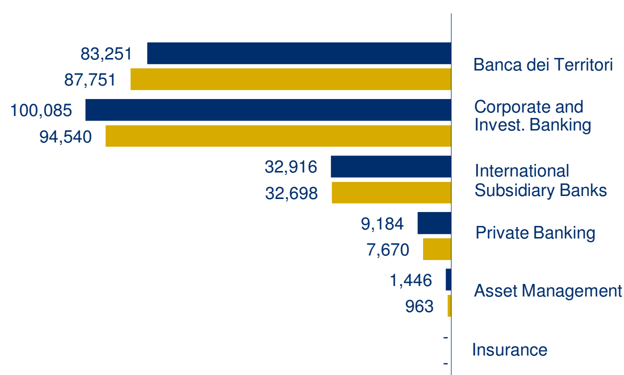
* Table supplemented to comply with the requirements of the "Guidance to banks on non-performing loans" (ECB, March 2017) – Annex 7.
** New table introduced as at 31 December 2019 based on the requirements of the new EBA/GL/2018/10.

Section 1 – General requirements

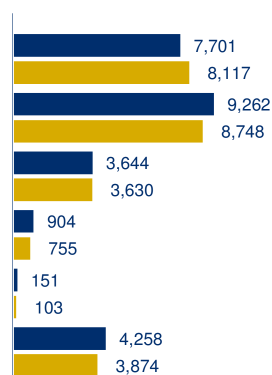
Group's risk profile: key indicators as at 31 December 2019

Consolidated capital ratios (%)	31.12.2019	31.12.2018
Common Equity Tier 1 capital (CET1) net of regulatory adjustments/Risk-weighted assets (Common Equity Tier 1 capital ratio)	13.9	13.5
TIER 1 Capital / Risk-weighted assets	15.3	15.2
Total own funds / Risk-weighted assets	17.7	17.7
Own funds	52,695	48,878
Risk-weighted assets (millions of euro)	298,524	276,446
Absorbed capital (millions of euro)	32,546	31,587

Risk-weighted assets by business area (*)
(millions of euro)



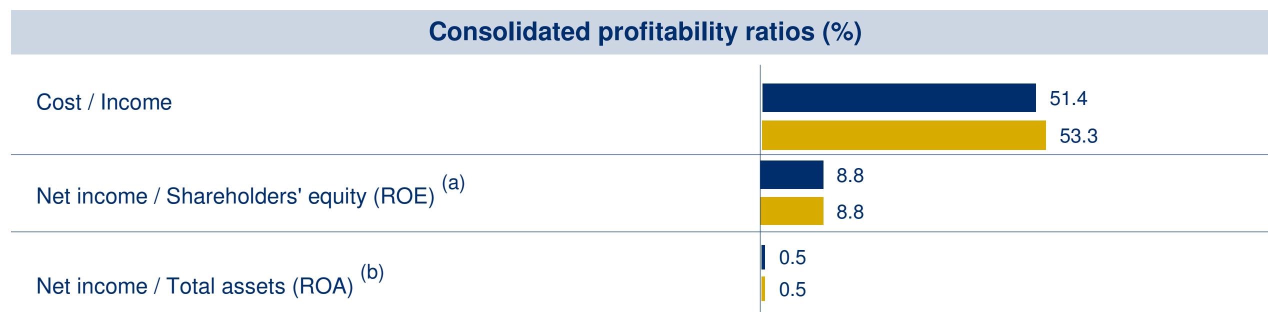
Absorbed capital by business area (*)
(millions of euro)



(*) Excluding Corporate Centre

Figures restated, where necessary and material, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

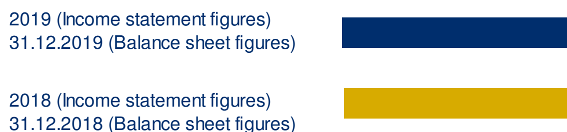
31.12.2019 (dark blue)
31.12.2018 (yellow)

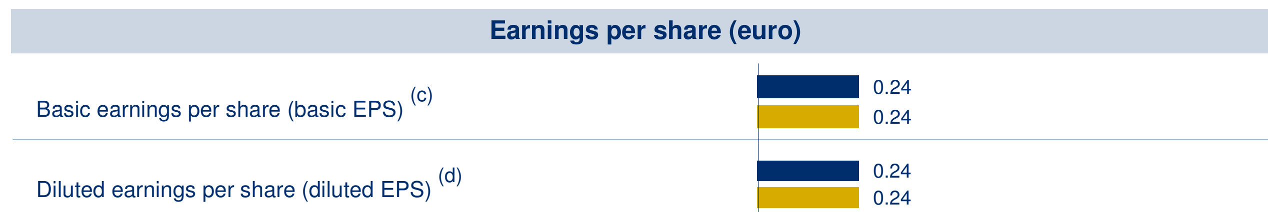


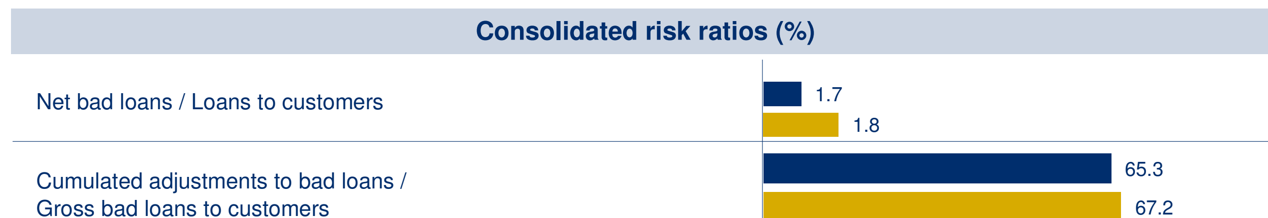
Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

(a) Ratio of net income to shareholders' equity at the end of the period. Shareholders' equity does not take account of AT 1 capital instruments or the income for the period.

(b) Ratio between net income and total assets.



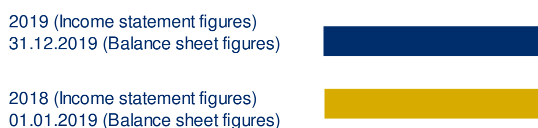




Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations.

(c) Net income (loss) attributable to holders of ordinary shares compared to the weighted average number of outstanding ordinary shares. The figure for comparison is not restated.

(d) The dilutive effect is calculated with reference to the programmed issues of new ordinary shares.



The macroeconomic scenario and the high volatility of the financial markets require constant monitoring of the factors that make it possible to pursue sustainable profitability: high liquidity, funding capability, low leverage, adequate capital base, and prudent asset valuations.
Group liquidity remains high: as at 31 December 2019, both the regulatory indicators LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), also adopted as internal liquidity risk measurement metrics, were well above fully phased-in requirements established by Regulation 575/2013 and Directive 2013/36/EU.

At the end of December, the Central Banks eligible liquidity reserves came to 190 billion euro (175 billion euro at the end of December 2018), of which 118 billion euro, net of haircut, was unencumbered (89 billion euro at the end of December 2018) and unused.
The loan to deposit ratio at the end of December 2019, calculated as the ratio of loans to customers to direct deposits from banking business, came to 93%.
In terms of funding, the extensive branch network remains a stable, reliable source: 80% of direct deposits from banking business come from retail operations (338 billion euro). In addition, the following bond issues were placed during the year:

- covered bonds backed by residential mortgages for 1 billion euro;
- unsecured senior Tokyo Pro-Bonds for 13.2 billion Yen;
- unsecured senior bonds for 3.50 billion euro and 2 billion USD;
- unsecured senior bonds for 250 million CHF;
- unsecured senior green bonds for 750 million euro, focused on the circular economy, under the ISP Sustainability Bond Framework.

With regard to the targeted refinancing operation TLTRO, at the end of December 2019, the Group's participation amounted to 49 billion euro: 17 billion euro of TLTRO III funding (within a maximum of 54 billion euro available), against a partial repayment of 29 billion euro of the amount received in the previous TLTRO II (60.5 billion euro).
The Intesa Sanpaolo Group's leverage ratio was 6.7% as at 31 December 2019.
The capital base also remains high and well above the regulatory requirements.
Own funds, risk-weighted assets and the capital ratios at 31 December 2019 have been calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, which have transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circular 285.
At the end of 2019, total Own Funds came to 52,695 million euro, against risk-weighted assets of 298,524 million euro, which reflected primarily the credit and counterparty risk and, to a lesser extent, the operational and market risk.
The Total Capital Ratio stood at 17.7%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.3%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 13.9%.
As the regulatory conditions for its inclusion (Art. 26, paragraph 2 of the CRR) were met, Common Equity Tier 1 capital includes net income for the year and, consequently, the related dividend proposed.
With regard to the insurance segment, consisting of the Intesa Sanpaolo Vita Insurance Group, including Fideuram Vita - which represent the same scope as the Insurance Division of the Parent Company Intesa Sanpaolo, in terms of entities - the Solvency Ratio as at 31 December 2019 was 238%.
In relation to market risk, the Group's average risk profile in 2019 was 151 million euro, compared to an average of around 74 million euro in 2018. The performance of this indicator derives from an increase in the risk measures, mainly attributable to financial risk operations, consistently with the 2019 Risk Appetite Framework.

The macroeconomic environment and the financial market volatility heighten the complexity of assessing credit risk and measuring financial assets.
Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentration of exposures, limit potential losses in adverse scenarios, and maintain credit quality in line with the objectives of capital and financial stability. The Credit Risk Appetite (CRA) Framework, a specific Risk Appetite Framework for credit risk, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other predictive statistical indicators, to guide lending growth by optimising the management of risk and expected loss.
Intesa Sanpaolo has developed a set of instruments which ensure ongoing monitoring of the relationships, in order to promptly detect any signs of instability and take corrective measures aimed at preventing the possible impairment of the portfolio of loans to customers and financial institutions, as well as the exposures subject to country risk.
The methods used to measure non-performing and performing loans ensure that the impacts of the deteriorating economic environment on a debtor's position are promptly recognised. The economic context has called for constant review of the values of loans that had already shown problematic symptoms and of loans with no obvious signs of impairment. All categories of non-performing loans are carefully assessed.
Bad loans and unlikely-to-pay loans had coverage levels of 65.3% and 38.7% respectively.
With regard to performing loans to customers, the "collective" adjustments, equal to 1,697 million euro, provide a coverage ratio of 0.5%, which is sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.
Constant attention has been paid to the valuation of financial items. The majority of the financial instruments are measured at fair value or are represented by hedging derivatives.
Excluding the insurance segment, whose financial assets are almost all measured using level 1 inputs, the fair value measurement of the remaining financial assets measured at fair value through profit and loss was carried out as follows: around 63% using level 1 inputs, around 30% using level 2 inputs and only around 7% using level 3 inputs.
Investment levels in structured credit products and hedge funds remained low. The structured credit products generated a positive contribution of 27 million euro during the year, whereas the hedge funds generated a profit of 7 million euro.
As regards taxes, deferred tax assets were posted in the consolidated financial statements for 13,751 million euro, of which 8,247 million euro can be converted into tax credits, along with deferred tax liabilities for 1,866 million euro.
In compliance with IAS 12, the amount of deferred tax assets must be tested each year to determine whether there is a qualified probability that they will be recovered and, thus, to justify their recognition and maintenance in the financial

statements ("probability test"). The analysis conducted indicated a taxable base that was sufficient and adequate to allow recovery of the deferred tax assets carried in the financial statements as at 31 December 2019.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly important.
In 2019, no business combinations were finalised that resulted in the recognition of new amounts of specific intangible assets or goodwill. However, during the year several events occurred, summarised below, which resulted in a reduction or different allocation within the Group of total intangible assets recognised compared to 31 December 2018:

- in December 2019 the partnership between Banca 5 and SisalPay was finalised, which involved the establishment of a newco controlled by SisalPay, to which Banca 5 contributed its business lines dedicated to payment activities and commercial operations. The transaction resulted in the derecognition from the financial statements of the goodwill previously allocated to Banca 5, and thus, to Banca dei Territori, which was recorded as a decrease in the capital gain deriving from the transaction;
- on 19 December 2019, Intesa Sanpaolo signed a strategic agreement in respect of payment systems, which provides, among other things, for the transfer to Nexi of the business line consisting of the acquiring activities currently carried out for over 380,000 points of sale. The business line will be transferred through a Nexi subsidiary for a value of 1,000 million euro. Based on the provisions of IFRS 5, the goodwill attributable to the business line, as well as the specific intangible assets recognised in 2018, deriving from the acquisition from Nexi of acquiring contracts with customers of the former Venetian banks, were reclassified to discontinued operations;
- on 11 November 2019, the merger by incorporation of Mediocredito Italiano into Intesa Sanpaolo was also finalised, as envisaged by the 2018-2021 Business Plan. Following this operation, Leasing and Factoring operations for customers already classified as corporate customers were transferred from the Banca dei Territori CGU to the Corporate and Investment Banking CGU. Since the operation was an "internal" reorganisation, it did not change the overall value of the intangible assets at Group level and had no effects in the income statement: the change simply led to a different allocation of the value of goodwill to the Banca dei Territori CGU and the Corporate and Investment Banking CGU.

Moreover, it is also noted that in the fourth quarter of 2019 the acquisition of control of Autostrade Lombarde was also recognised on a final basis, as permitted by IFRS 3, retrospectively adjusting several amounts recognised on a provisional basis at the acquisition date, in order to reflect the new information obtained on the facts and circumstances in place at that date which, if they had been known about at the time, would have influenced the process of Purchase Price Allocation (PPA). The recognition on a final basis of the PPA for Autostrade Lombarde resulted in an increase in the goodwill recorded on that CGU. In that regard, we remind you that in the 2018 Financial Statements Autostrade Lombarde was already identified as a separate CGU, considering the indications set out in IAS 36, and that the company operates in a sector extraneous to the Group, in addition to the fact that Intesa Sanpaolo does not exercise management and coordination on the company pursuant to Article 2497 of the Italian Civil Code.
Intangible assets with finite useful lives (insurance portfolio and assets under management), the amounts of which (137 million euro and 96 million euro respectively) are being gradually amortised (with 33 million euro of amortisation recognised in the income statement for 2019), were analysed with respect to their volume, profitability and discount rates in order to detect any impairment indicators. These analyses did not identify any critical positions.
As regards intangible assets with an indefinite useful life, represented by goodwill (4,055 million euro, plus 49 million euro relating to the acquiring business line reclassified to discontinued operations) and brand name (1,882 million euro), for the 2019 Financial Statements the method for determining the value was the same used in previous years, based on the calculation of the value in use, i.e. the current value of future cash flows that the Group can expect to generate. The exceptions to the approach based on the value in use regard the goodwill recognised on Autostrade Lombarde and on the acquiring line that will be transferred to Nexi. More specifically, with regard to the testing of the goodwill recognised on Autostrade Lombarde, the fair value resulting from the valuation, updated to 31 December 2019 (carried out using the same method as the appraisal which was drawn up by an independent third party to determine the purchase price of Autostrade Lombarde pursuant to IFRS 3 in the 2018 Financial Statements) was used. With regard to the acquiring business line that will be transferred to Nexi and was reclassified to discontinued operations in the 2019 Financial Statements, in line with the provisions of IFRS 5, the latter was measured at the lower of the book value and the sale price, considering that the latter was significantly higher than the value of the assets of the business line, including goodwill.
The determination of Value in Use requires an estimate of the future cash flows that may be generated by each CGU. A period of five years was adopted as the forecasting period for this purpose, as in the previous Financial Statements, i.e. the five-year period 2020-2024. The economic and financial forecasts prepared in support of the 2019 Impairment test were based on the final 2019 data and 2020 budget data, taking into account the January 2020 update of the "Long-term macroeconomic and banking estimates" released by the Research Department. In particular, the forward-looking estimates for 2021 confirm the strategic actions in the 2018-2021 Business Plan, while the quantitative forecasts were updated considering the macroeconomic projections envisaged by said scenario. For the following years, up to 2024, flows are determined through inertial tracking of the flows for 2021, always based on the forecasts relating to the macroeconomic scenario. Thus, the forecasts for the years 2021-2024 do not consider the effect of the new managerial leverage in relation to that envisaged in the Business Plan. Finally, we note that, for the year 2020, the cash flows considered for the impairment test exclude the expected capital gain deriving from the transaction with Nexi. Among various financial valuation techniques, such as that used for the estimate of the value in use, the value of a company at the end of the flow forecast period, the so-called terminal value, is normally determined by infinite compounding, at an appropriate "g" rate, of the cash flow achievable "at full capacity". With regard to the impairment test as at 31 December 2019, for the purposes of the Terminal Value, 2024, the last year of the analytical forecast, separating out the non-recurring components, was projected in perpetuity. The cash flows so determined have been discounted, net of the "g" long term growth rate, by applying a discount rate expressing the cost of capital and calculated as the sum of the returns on a risk-free investment and a risk premium, in turn dependent on the specific risks implicit in the business activities and in country risk. In defining the discount rates, given the extremely low market rates at present, associated with contingent expansionary monetary policies adopted by the ECB, for the purpose of the Terminal Value those rates were prudentially considered risk free and with country risk spreads globally higher by over 200 basis points compared to the current year-end values used for the discounting of flows for the "explicit" horizon.

As this valuation method has yielded values in use for the various CGUs which are higher than their respective book values, no value adjustments have been made to intangible assets with indefinite useful life.
Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out. In particular, the impact on the value in use of an increase in discounting rates of up to 50 basis points or a decrease in the growth rate for Terminal Value purposes of 50 basis points was verified. In addition, analyses were conducted of changes in the value in use resulting from a 10% decrease in Terminal Value flows. These analyses show that such changes would not result in a value in use lower than the book value for any of the CGUs.
In terms of market values, there was a sharp increase in the price of the Intesa Sanpaolo stock over the course of 2019 (+21%). The performance of the price of Intesa Sanpaolo stock in 2019 moved in line with that of the Italian banking securities index, whereas it performed worse than the FTSE MIB index during the same period (around +28%). The target prices published by the main investment houses showed a divergence from price of the Intesa Sanpaolo stock, with a slight lowering of the forecasts for the price of the stock (-8%).
It is believed that impairment tests must be performed with the awareness of the fact that the current economic situation has a deep impact on expected short- and medium-term cash flows from operating activities, without however affecting the Intesa Sanpaolo Group’s primary sources of income and competitive edges, as it has also been demonstrated by the results of the past few years, with constant achievement of the forecast targets. In consideration of such factors, value in use is considered to be a better expression of the recoverable amount of the Group's operating activities in the current market situation.
Accordingly, in developing the valuation model, caution was applied both when estimating projected cash flows and choosing financial parameters:

- expected cash flows do not include the effects of future reorganisations, except for the effects of the actions already considered in the 2018-2021 Business Plan, or capital gains deriving from future sales of assets, but they do take account of the full allocation to the CGUs of the financial effects of the services provided by the Corporate Centre;
- the cost of capital was determined analytically, based on parameters taken from the markets for each CGU, depending on the different risk of the respective businesses, also considering analytically the various risk factors; furthermore, the cost of capital used for the purpose of the terminal value considers the effects of a return to “normalised” conditions of the general context of interest rates and considers risk-free rates and country-risk spreads of over 200 basis points higher overall than the current values at year-end used to discount cash flows in the explicit forecast period;
- the “g” growth rate, for the purpose of terminal value for Italy, which represents the area where residual goodwill is still recognised, has been set at zero in real terms.

With regard to the significant transactions in which the Group was involved during the year 2019, see the 2019 Consolidated Financial Statements.

General risk management principles

The Intesa Sanpaolo Group attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk.
The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of the Group's portfolios.
Risk-acceptance strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Board of Directors. The RAF is established to ensure that risk-acceptance activities remain in line with shareholders' expectations, taking into account the Group's risk position and the economic situation. The framework establishes the general risk appetite principles, together with the controls for the overall risk profile and the main specific risks.
The general principles that govern the Group's risk-acceptance strategy may be summarised as follows:

- The Intesa Sanpaolo Banking Group is focused on a commercial business model in which domestic retail activity remains the Group's structural strength;
- the Group does not aim to eliminate risks, but rather attempts to understand and manage them so as to ensure an adequate return for the risks taken, while guaranteeing the Company's solidity and business continuity in the long term;
- Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, a sound liquidity position and a strong reputation are the key factors to protecting its current and prospective profitability;
- Intesa Sanpaolo aims at a capitalisation level in line with its main European peers;
- Intesa Sanpaolo intends to maintain strong management of the main specific risks (not necessarily associated with macroeconomic shocks) to which the Group may be exposed;
- the Group attaches great importance to the monitoring of non-financial risks, and in particular:
  - limits are set for operational risks (including specific treatment for IT, Cyber and Legal Risk);
  - for compliance risk, the Group aims for formal and substantive compliance with rules in order to avoid penalties and maintain a solid relationship of trust with all of its stakeholders;
  - for reputational risk, the Group strives to actively manage its image and aims to prevent and contain any negative effects on said image.

The general principles apply both at Group level and business unit or company level. In the event of external growth, these general principles shall be applied, by considering the specific characteristics of the market and the competitive scenario where the growth takes place.

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are managed, with the establishment of general principles of risk appetite and the resulting structuring of the management of:

- the overall risk profile; and
- the Group's main specific risks.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even in case of severe stress, and also contains the non-financial risks with appropriate limits.
In detail, management of overall risk is aimed at maintaining adequate levels of:

- capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio and the Risk Bearing Capacity;
- liquidity, sufficient to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situations, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Loan/Deposit Ratio, Asset Encumbrance and Survival Period in an adverse scenario;
- earnings stability, by monitoring the adjusted net income and the adjusted operating costs on revenues, which represent the main potential causes for their instability;
- non-financial risks, in order to minimise the potential impact of negative events that jeopardise the Group's economic stability and image.

In compliance with the EBA guidelines (EBA/GL/2015/02) concerning the "Minimum list of quantitative and qualitative recovery plan indicators", the Group has also included asset quality, market-based and macroeconomic indicators as early warning indicators in the RAF, to ensure consistency with its Recovery Plan.
Management of the specific risks is implemented by establishing specific limits and mitigation measures to be taken in order to limit the impact of especially severe future scenarios on the Group. These limits and measures regard the most significant risk concentrations such as, for example, sovereign risk and the public sector risk, as well as other types of operations deemed worth of specific attention from Corporate Bodies (e.g. operations exposed to valuation risk).

Within the monitoring of the specific risks, the Credit Risk Appetite (CRA) Framework, a specific RAF for credit risk introduced in 2015, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other predictive statistical indicators, to guide lending growth by optimising the management of risk. In 2019, the dedicated framework of processes and infrastructures was completed. The scope of application also includes Originate to Share transactions, in relation to which the portion to be sold on the secondary market (hold to collect and sell) is subject to specific limits, while the share retained on the Bank's books (hold to collect) falls within the ordinary CRA limits.
The CRA limits are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office Department. These contributed to improving the risk profile of the loan portfolio in terms of expected loss and the distribution of loans by risk class.

The limits set in the RAF are divided into two categories, Hard Limits and Soft Limits, which differ in the escalation process triggered by their breach. In particular, with regard to the Group limits, whose governance is established in detail in the Group Risk Appetite Framework Guidelines, the responsibility for approving the remediation plan is assigned:

- to the Board of Directors for the hard limits, typically used for the main metrics used to control overall risk (e.g. Common Equity Tier 1 ratio, Liquidity Coverage ratio, etc.);
- to the Managing Director and CEO for the soft limits, set on the metrics used to monitor the main specific risks (e.g. single name concentration, concentration towards the Italian public sector, etc.).

The limits themselves may be accompanied by the Early Warning thresholds, the exceeding of which is promptly discussed in the competent management committee[1].

Defining the Risk Appetite Framework is a complex process headed by the Chief Risk Officer, which involves close interaction with the Chief Financial Officer and the Heads of the various Business Units, is developed in line with the ICAAP, ILAAP and Recovery Plan processes, and represents the risk framework in which the Budget and Business Plan are developed. Consistency between the risk-acceptance strategy and policy and the Plan and Budget process is thus guaranteed.

Within the annual RAF update process, a number of key steps can be identified:

- Risk Identification: this is carried out within the Group on an ongoing basis, in order to remain constantly in line with the changing internal and external context and to guarantee the adequacy of the controls and restrictions implemented to safeguard business continuity over the long term. The following are analysed in detail: the regulatory contexts, the reference market situation, the Group's position, and the nature of the potential threats, also with the aid of specific stress tests;
- Risk Assessment: this phase assesses the risk actually taken (Risk Profile) with respect to the maximum risk that can be taken on (Risk Capacity) and the risk appetite, investigating the main types of risk of the Group, including prospective risks, using both quantitative and qualitative techniques. In particular, in accordance with the principles of proportionality and materiality, the elements already considered in the previous phase are analysed;
- Reconciliation between the RAF, Business Plan and Budget: consistency between the RAF and the Business Plan/Budget is sought in all phases of the related preparation procedures through a process of mutual consultation and dialogue that lasts for several months, involving not only the structures of the Chief Risk Officer Governance Area and the Chief Financial Officer Governance Area but also the Business Divisions/Structures;
- Approval of the RAF: in line with the provisions of the applicable regulations, the Board of Directors sets and approves the risk objectives, the tolerance threshold (where identified) and the risk management policies.

The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in credit management processes and operational risk control, the use of capital-at-risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Board of Directors along the Group's entire decision-making chain, down to the single operational units and to the single desks.
The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas, in a comprehensive framework of limits and procedures for governance and control.

The assessment of the comprehensive Group risk profile is conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules, the results of which are then also discussed and analysed by the Supervisor.
In accordance with the ECB requirements, the ICAAP process incorporates two complementary perspectives, both of which are analysed from an actual perspective and, on a prospective basis, in a baseline scenario and an adverse scenario:

- Regulatory perspective, in which the regulatory metrics for the Pillar 1 risks over the short term (one year) and the medium term (three years) are represented for both these scenarios;
- Financial and operating perspective, in which the management measures and metrics covering all the risks, including the Pillar 2 risks, are presented, with a time horizon of one year in the adverse scenario, which is extended to three years for the baseline scenario.

The scope of analysis also includes the insurance segment to better capture the specific characteristics of the Group's business model (financial conglomerate).
The quantitative reconciliation between regulatory requirements and management estimates of capital adequacy is set out in a specific document attached to the ICAAP, which reports the differences in scope and definition of risks considered in both areas, as well as the differences, where appreciable, between what is considered in the two perspectives in terms of the main parameters (e.g. confidence interval and holding period) and assumptions (such as those relating to the diversification of effects).

The Group is required to provide a Recovery Plan according to indications received by Supervisory Authorities. The process that oversees the preparation of that plan is an integral part of the regulatory response to cross-border resolution for "too-big-to-fail" banks and financial institutions. The Recovery Plan (introduced by the Bank Recovery and Resolution Directive, transposed into Italian law by Legislative Decree 180 of 16 November 2015) establishes the methods and measures to be used when an institution comes under severe stress and in an early intervention phase, in order to restore financial strength and long-term viability.
Within the annual preparation process for the Recovery Plan, the Chief Risk Officer Governance Area identifies the stress scenarios suitable of highlighting the main vulnerabilities of the Group and its business model (e.g. significant exposure to the domestic market), as well as measuring their potential impacts on the Group's risk profile. The final results showed that the Group has a high level of resilience. Following the publication of the European Banking Authority's Final Report on

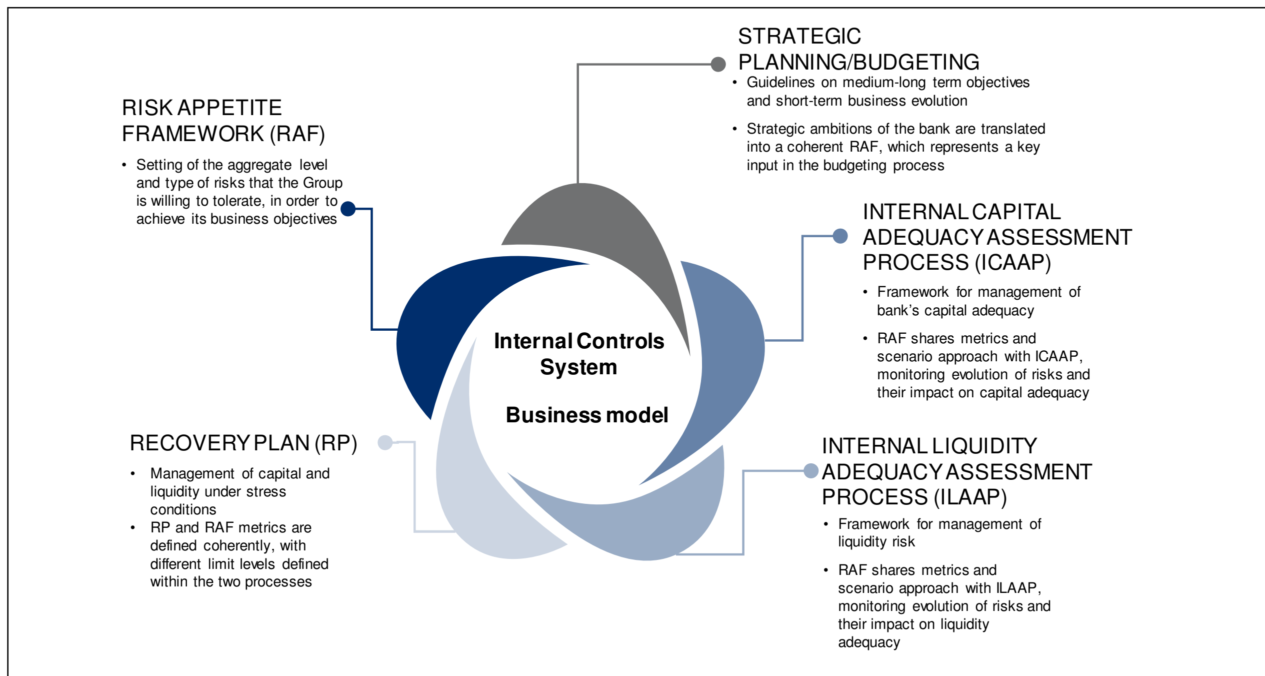
[1] The competent Management Committee varies according to the RAF metrics considered:

- for capital adequacy, credit risk and profit stability metrics, the responsibility lies with the Steering Committee;
- for liquidity and financial risk metrics, the responsibility lies with the Group Financial Risk Committee;
- for non-financial risks metrics, the responsibility lies with the Group Control Coordination, Reputational and Operational Risk Committee.

Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02), dated 1 November 2017, Intesa Sanpaolo has adopted specific criteria for the classification of Group companies among:
- Group-relevant;
- Locally relevant;
- Not relevant.

The application of these criteria to the Group scope has led to the Parent Company as well as Fideuram, the VUB Group, Banka Intesa Sanpaolo d.d., Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, CIB Group, the Privredna Banka Zagreb Group, Banca Intesa Beograd and Intesa Sanpaolo Romania, being classified among the Group-relevant entities. The remaining companies are included in the category of not relevant entities. The above breakdown is consistent with the scope covered by the 2018 Recovery Plan.

The Intesa Sanpaolo Group ensures full consistency of the business model and internal control system with the Business Plan, the Budget, the RAF, the Recovery Plan, the ICAAP and the ILAAP, as illustrated in the diagram below.



Stress Tests

Stress tests are a fundamental risk management tool that enable banks to adopt a forward-looking perspective in their risk management, strategic planning and capital planning activities. As a fundamental element of company decision-making processes, the stress testing must be duly formalised and must have a suitable data infrastructure.

The conduct of the stress tests consists of three basic steps:
- selection and approval of scenarios;
- execution of stress tests;
- approval of results.

Intesa Sanpaolo distinguishes between the following types of stress tests:
- multi-risk exercise, based on scenario analysis, which enables the forward-looking assessment of the simultaneous impact on the Group of multiple risk factors, also taking into account the interrelationships between them and, where applicable, the top management's reaction capacity. This type of exercise, which requires the full revaluation of the impacts, is also used in the Risk Appetite Framework (RAF), Internal Capital Adequacy Assessment Process (ICAAP) / Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan processes;
- regulatory multi-risk exercise, ordered and coordinated by the supervisor/regulator which defines its general assumptions and scenarios, and requires the full revaluation of the impacts;
- situational exercise, ordered by the top management or by the supervisor/regulator in order to assess the impact of particular events (relating to the geopolitical, financial, economic, competitive environment, etc.) from a forward-looking perspective. Its scope may vary from case to case;
- a single or specific risk exercise to assess the impact of scenarios (or single or more specific risk factors) on specific risk areas.

Risk culture

Over the last few years, the Bank has increasingly focused on the dissemination of Risk Culture, understood as, firstly, the set of values and resulting behaviours aimed at transversally strengthening aspects of cooperation, information and the assumption of responsibility in relation to the risk inherent in the banking business. The goal is to promote an approach to work focused on innovation, ethical sustainability and the search for pro-active solutions. Particular attention is paid to widespread full awareness of the guiding principles, also by systematically and carefully updating the reference documents on risk (e.g. *Tableau de Bord,* ICAAP, Risk Appetite Framework) and the information set for the exercise of operational activities.
During 2019 the Risk Culture project moved forward in multiple areas, including internal workshops (specifically, they concerned cyber risk, sustainable financing and climate change, quantum computing, emerging risks and knowledge digitisation), the publication of articles on the issue in the internal magazine, the preparation of a coaching programme focusing on internal cooperation, as well as various initiatives planned and carried out within the single structures.
A new risk assessment survey has been planned for 2020. The survey conducted in the previous years on the entire Group aimed at analysing – through questionnaires and structured interviews that involved around 7,600 people – numerous aspects: awareness of the risks to be addressed, clarity on sustainable risk, compliance with the rules and the limits set, level and diffusion of responsibility, timeliness of response to difficulties, ability to learn from mistakes, quality of the reporting and communication processes, orientation towards cooperation and openness to dialogue, and willingness to nurture talent and experience. Regarding some aspects, the Group demonstrated significant sensitivity and high levels of quality, also compared to a sample of international peers. Thus, the initiatives implemented in the last few years and those currently under way or planned focused on strengthening the aspects that yielded less positive results, such as the timeliness of response to difficulties, orientation towards cooperation and internal communication.
The new version of the survey should manage to confirm the positive results that arose from the assessment of the various initiatives listed.

Risk governance organisation

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are approved by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risk Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.
The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.

The Corporate Bodies also benefit from the action of some Management Committees on risk management. These Committees operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of Corporate control functions, and specifically the risk control function. In particular:

- the Steering Committee, chaired by the Managing Director and CEO, is a body with a decision-making, consulting and reporting role, which, within the Group Risk Analysis Session, seeks to ensure the control and management of risks and safeguard business value at Group level, including the internal control system, in implementation of the strategic guidelines and management policies established by the Board of Directors. Its various tasks include examining the RAF proposal for the Group, in preparation for the presentation to the Board of Directors, the analysis of the ICAAP and ILAAP Group packages and of the Risks Tableau de Bord;
- The Group Financial Risk Committee is a technical body with decision-making, reporting and consulting powers, focused both on the banking business (proprietary financial risks for banking and trading books, as well as Active Value Management) and the life and non-life insurance business (result exposure to the trend in market variables and technical variables). The functions of said Committee are set out in two sessions:
  - the "Risk Analysis and Assessment" session, chaired by the Chief Risk Officer, responsible for evaluating, inter alia, in advance of approval by the Board of Directors, the guidelines on undertaking and measuring financial risks and the liquidity risk and proposals for operational limits, in addition to defining, within the scope of the powers received, the distribution thereof amongst the Group's major units; in addition, the session verifies the financial risk profile and the exposure to the liquidity and interest rate risk of the Group or its main operational units;
  - the Management Guidelines and Operating Choices Session, chaired by the Chief Financial Officer, provides operational guidelines in implementation of the strategic guidelines and risk management policies laid down by the Board of Directors, in respect of management of the banking book, liquidity, interest rate and exchange risk and periodically verifies the Group's overall financial risk profile, as well as taking appropriate measures aimed at mitigating it;
- the Credit Risk and Pillar 2 Internal Models Committee is a technical body with a decision-making, reporting and advisory role. In particular, with regard to the internal risk measurement systems, the Committee acts as the competent Management Committee for:
  - the internal models for the measurement and management of credit risk;
  - the internal models for Pillar 2 risks[2];
- the Group Control Coordination, Reputational and Operational Risk Committee is divided into specific and distinct sessions:
  - the Integrated Internal Control System Session, with a reporting and advisory role, whose objective is to reinforce coordination and the interdepartmental cooperation mechanisms within the Group internal control system, thus promoting the integration of the risk management process;

[2] The scope does not include the Pillar 2 models for the measurement and quantification of financial risks in the banking book, which already come under the scope of the Group Financial Risk Committee; however, it does include the models used for stress testing and forward-looking income statement valuations.

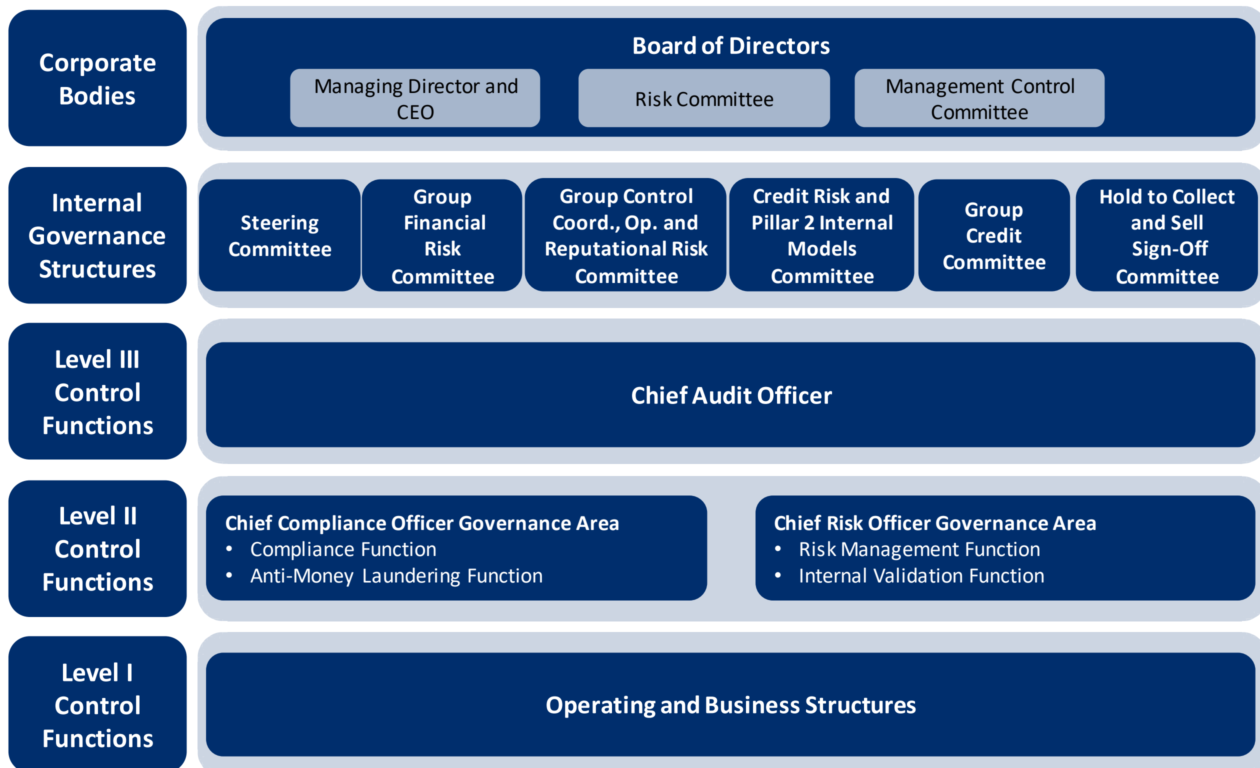
  - o the Operational and Reputational Risk session, with a decision-making, reporting and advisory role, which has the task of supervising the implementation of operational and reputational risk management guidelines and policies in accordance with indications formulated by the Board of Directors and periodically reviewing the overall operational risk profile, monitoring the implementation of the mitigation actions identified in accordance with indications formulated by the Corporate Bodies and/or the Steering Committee.

  The sessions of the Committee are attended by, among others, the Heads of Corporate control functions, as well as the Manager responsible for preparing the Company's financial reports as a permanent member. This contributes to fulfilling the assigned legal obligations and the responsibilities established in the Company Regulations on the supervision of the financial reporting process. It also enables the promotion of the inter-functional coordination and integration of control activities, within its area of responsibility;
- the Group Credit Committee is a technical body with a decision-making and advisory role that has the task of ensuring the coordinated management of issues relating to credit risk, and is organised in two separate sessions (Performing Loans Session and Non-Performing Loans Session). The Committee resolves on the granting, renewal and confirmation of loans within the scope of the powers assigned to it;
- lastly, the Hold-To-Collect and Sell (HTCS) Sign-Off Group Committee is responsible for approving the assumption of market risks put forward by the business structures of the Corporate and Investment Banking Division on the HTCS shares required for Originate to Share transactions. These transactions consist of syndicated loans originated with the intention of being distributed to third-party operators on the primary or post primary market and which provide for a holding period less than or equal to 12 months at the time of their origination.

The Chief Risk Officer Governance Area – located directly reporting to the Managing Director and CEO – in which the risk management functions are concentrated, including the controls on the risk management and internal validation process, represents a relevant component of the "second line of defence" of the internal control system that is separate and independent from the business supporting functions.
This Area is responsible for governing the macro process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved, as well as assisting the Corporate Bodies in setting the Group's risk management guidelines and policies, in accordance with the company's strategies and objectives, and coordinates and verifies their implementation by the responsible units of the Group, also within the various corporate areas, in addition to ensuring the management of the Group's overall risk profile, by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the Corporate Bodies. It also implements the level II controls of credit and other risks, and ensures the validation of internal risk measurement systems.
To that end, the Chief Risk Officer Governance Area is broken down into the following Organisational Units:
- Credit Risk Management Head Office Department;
- Financial and Market Risks Head Office Department;
- Enterprise Risk Management Head Office Department;
- Internal Validation and Controls Head Office Department;
- Foreign Banks Risk Governance
- Coordination of Risk Management Initiatives.

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines along the Bank's entire decision-making chain, down to individual operational units. The risk control functions of subsidiaries with a decentralised management model and the representatives of the Parent Company's risk control function at subsidiaries with a centralised management model report to it.

The Chief Compliance Officer Governance Area, which reports directly to the Managing Director and CEO, in a position that is independent from operating departments and separate from internal auditing, ensures the monitoring of the Group regulatory compliance risk, including conduct risk. Within the Risk Appetite Framework, the Chief Compliance Officer Governance Area (i) proposes the statements and limits set for compliance risk and (ii) collaborates with the Chief Risk Officer Governance Area in the monitoring and control of non-financial risks for compliance purposes and, if the set limits are exceeded, in the identification/analysis of events attributable to non-compliance with regulations and in the identification of appropriate corrective measures.



The Parent Company performs a guidance and coordination role[3] with respect to the Group companies, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Corporate Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.
Irrespective of the control model adopted within their company, the corporate bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.
Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for Listed Companies, has adopted an internal control system capable of identifying, measuring and continuous monitoring the risks typical of its business activities.

Further information on the Intesa Sanpaolo internal control system may be found in Part E of the Notes to the 2019 consolidated financial statements (available for consultation from the “Financial Reports” section of the website www.group.intesasanpaolo.com) and in the Report on Corporate Governance and Ownership Structures (available for consultation from the “Governance” section of the same Group website).

Scope of risks

The risks identified, covered and incorporated within the Economic Capital are as follows:
- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risk, also including legal risk, compliance risk, ICT risk, model risk and financial reporting risk;
- insurance risk;
- strategic risk;
- risk on real estate assets owned for whichever purpose;

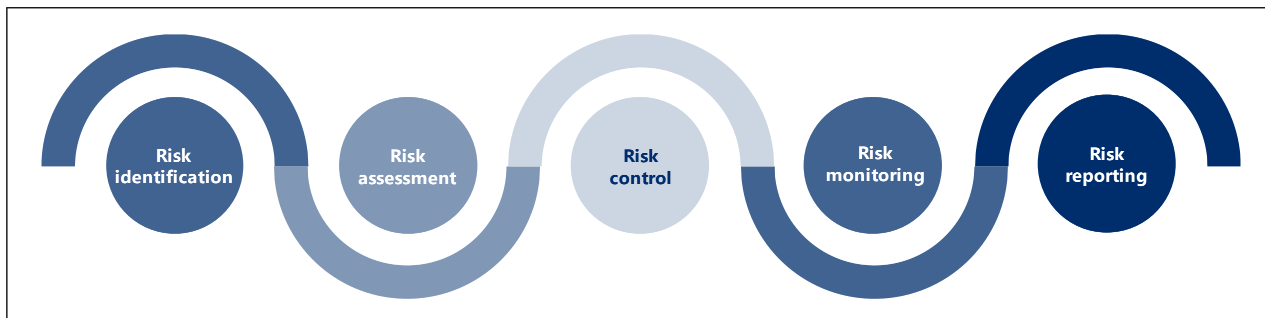
[3] In this regard, it is specified that Intesa Sanpaolo does not exercise management and coordination over Risanamento S.p.A. and Autostrade Lombarde S.p.A. and their subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

– risk on equity investments not subject to line-by-line consolidation;
– risks relating to defined-benefit pension funds.

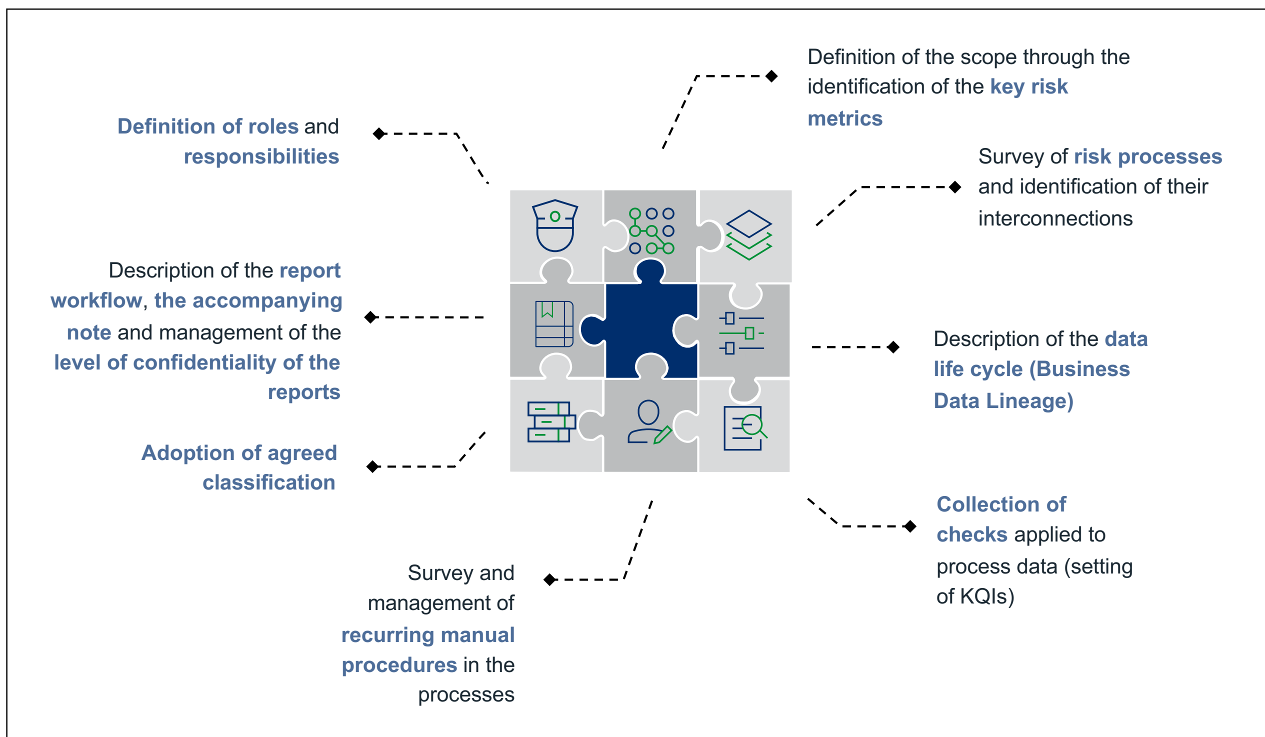
Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including stress tests.

Special attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

The Group also attaches great importance to the management of reputational risk, which it pursues not only through organisational units with specific duties of promotion and protection of the company image, but also through dedicated processes for the identification and assessment of reputational risk and the creation of specific reporting flows. In addition, starting in 2018, a specific add-on for economic capital has been introduced for operational risk, determined on the basis of operational losses, to strengthen the protection against possible reputational repercussions.
Over the years, the Group has developed and implemented the necessary structural and operational improvements for integrated risk reporting that is as complete, accurate and regular as possible, in order to support senior management.



The risk monitoring processes have undergone a progressive strengthening of the Data & Reporting Governance controls, also in compliance with the applicable regulations ("Principles for effective risk data aggregation and risk reporting - BCBS239"). The Group has planned actions in specific areas, including the adoption of agreed classifications and uniform practices for the description of the life cycle of the data within the main risk monitoring processes. More generally, actions have been taken regarding the aspects shown in the diagram below.



The Group has also strengthened its focus on data quality control, defining processes, roles and responsibilities, reference classifications (quality dimensions) and identifying the related support instruments.
The scope of Data & Reporting Governance includes: credit risk, market and counterparty risk, interest rate risk of the banking book, liquidity risk, operational risks and the risk integration process.

Assessments of each single type of risk for the Group are integrated in a summary amount – the Economic Capital – defined as the maximum "unexpected" loss the Group might incur over a year. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risk Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord.
In addition to managing the risks described above, Intesa Sanpaolo pays close attention to the identification and monitoring of specific areas of emerging risk, which, in the medium term, could compromise the achievement of the Group's strategic objectives or significantly influence its financial position and results.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, described in detail in this document.

For the disclosure of the different types of risk governed by Basel 3 Pillar 3 Disclosure (credit, counterparty, market, interest rate, liquidity and operational risk), see the individual sections of this document.
With regard to insurance risk, outside the prudential scope, reference is made to Part E of the Notes to the 2019 consolidated financial statements, available for consultation in the "Financial Reports" section of the Group website www.group.intesasanpaolo.com.

In addition to the risks discussed above, the Group has identified and monitors the following other risks.

Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.
The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Board of Directors, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions ensures that strategic risk is mitigated.
An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

- a component associated with the possible impact of misguided Company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which strategic decisions are reached and by their centralisation with top management, where all significant decisions are always supported by specific activities aimed at identifying and measuring the risks implicit in the initiative;
- the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions, changes in the operating context and changes in the cost of funding. This component is handled not only by using systems for regulating Company management, but also via specific internal capital, determined according to a margin volatility simulation approach, which expresses the risk arising from the business mix of the Group and its Business Units.

Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses, with analyses to assess the impacts on both interest income and margins from the performance of net fees and commissions.

Reputational risk

The Intesa Sanpaolo Group attaches great importance to reputational risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and Supervisory Authorities.
The reputational risk governance model of Intesa Sanpaolo envisages that management and mitigation of reputational risks is pursued:

- through compliance with standards of ethics and conduct by all employees. The Code of Ethics adopted by the Group contains the core values that Intesa Sanpaolo intends to commit itself to and sets out the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with even broader objectives than those required by current legislation. The Group has also issued voluntary conduct policies (human rights policy, environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights;
- systematically and independently by the structures tasked with safeguarding the company reputation, which maintain relations with stakeholders, within their respective areas of responsibility;
- across the various corporate functions, through the Reputational Risk Management processes coordinated by the Chief Risk Officer Governance Area;
- through an integrated monitoring system for primary risks, to limit exposure to those risks, and to comply with the related limits contained in the Risk Appetite Framework.

The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature are founded on trust.
In order to safeguard customers' interests and the Group's reputation, specific attention is also devoted to establishing and managing customers' risk appetite, pursued through the identification of the objective traits of each customer. The assessments of adequacy during the process of structuring products and rendering advisory services are supported by objective information, that considers the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.
More specifically, the sale of financial products is also governed by specific preventive risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).
The abovementioned Reputational Risk Management (RRM) processes are coordinated by the Chief Risk Officer Governance Area and involve control, specialist and business functions, for various purposes. These processes include:

- Reputational Risk Assessment, which seeks to identify the most significant reputational risk scenarios that the Intesa Sanpaolo Group is exposed to. This process is implemented annually and is aimed at gathering the opinion of Top Management regarding the potential impact of these scenarios on the Group's image, in order to identify appropriate communication strategies and specific mitigation actions, where necessary;
- Reputational Risk Clearing, which is aimed at the ex-ante identification and assessment of the potential reputational risks associated with the most significant business operations, the main capital budget projects and the selection of the Group's suppliers/partners;
- Reputational Risk Monitoring, aimed at monitoring the evolution of Intesa Sanpaolo's reputational positioning (on the web, for example) also with the aid of external analyses.

Risk on owned real-estate assets

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in company operations.
The degree of risk in the portfolio of owned properties is represented by calculating an economic capital based on the volatility observed in the past in indexes of mainly Italian real estate prices, the main type of exposure associated with the Group's real-estate portfolio, with a degree of granularity of geographical location and intended use appropriate to the real estate portfolio at the reporting date.

Risk on equity investments not subject to line-by-line consolidation

The risk in the equity investment portfolio is related to the possibility of incurring economic losses due to the adverse changes in values of investments not subject to line-by-line consolidation.
The scope considered consists of the equity instruments held in financial and non-financial companies, and includes financial investment instruments, commitments to purchase, and derivatives with underlying equity instruments and equity funds.
The model used to estimate the Economic Capital is based on a PD/LGD approach similar to the credit risk portfolio model and it is used for the stand-alone equity investment portfolio. The applicable LGD is the regulatory LGD, whereas the model's other parameters are the same as those used in the portfolio model for credit risk.

Risk related to defined-benefit pension funds

The risk related to defined-benefit pension funds is attributable to the possibility of having to increase the reserve that the Parent Company Intesa Sanpaolo maintains to guarantee the benefits of those pension funds, based on an adverse change in the value of the assets and/or liabilities of the pension funds concerned. This risk is fully considered within the assessment of capital adequacy, measured and controlled both with respect to Economic Capital, using an econometric model for the main macroeconomic variables, as well as to prospective baseline and stress scenarios.

Model risk

Model risk is defined as the risk arising from the improper use of the results of the internal models or from errors in the development and/or implementation of the internal models. In continuity with previous years, in order to set an economic capital buffer for model risk within the framework of the 2019 ICAAP, the Internal Validation and Controls Head Office Department updated the assessment of model risk (expressed synthetically through a score) of the Pillar 1 and Pillar 2 methodologies that contribute to the aforementioned calculation of economic capital.

Emerging risks

The strengthening of the overall risk management system also involves the identification, understanding and monitoring of so-called emerging risks, i.e. risks characterised by components that are little-known or rapidly evolving, potentially significant in the medium term to the Group's financial position and business model, even though their effects are not easy to assess and cannot yet be fully integrated into the most consolidated risk management frameworks.
The identification of these types of risks derives primarily from the continuous analysis of the external environment and the main findings gathered by the risk management function during the identification and assessment processes, but also involves comparison with peers and with market best practices, as well as with the Bank's other control/business functions.
In this context, Intesa Sanpaolo attributes particular importance to risks associated with third parties, climate change and geopolitical and geoeconomic tensions.

- In the current connected, digital and highly competitive global scenario, partnerships with third parties offer opportunities to achieve higher levels of efficiency, while optimising operating costs and permitting a greater focus on core activities, by investing in the bank's growth and improvement. At the same time, the increasing recourse to third parties also gives rise to relationships of dependency that may expose the bank to significant risks, relating in particular to control over the

level of service offered, the management and protection of data, the continuity of systems, and concentration, compliance and reputational risks.
The Intesa Sanpaolo Group seeks to contain risks arising from third parties, such as suppliers and outsourcers, with which it establishes collaborative relationships, in particular in the context of outsourcing. In view of this goal, it assesses the potential risks through an adequate selection of the supplier/outsourcer, a defined onboarding process and constant monitoring throughout the life cycle of each partnership.

– The Intesa Sanpaolo Group is aware that it has a direct impact on the environment (due, for example, to its consumption of resources) and an indirect impact (through its business activities) and has long been attentive to climate change risk, i.e. all the risks associated with climate change caused by the accumulation of greenhouse gases in the atmosphere. For example, following the signing of the Paris agreement, it is likely that reducing greenhouse gases (GHG) could have significant financial implications on certain sectors (e.g. reduction/abandonment of fossil fuels) and therefore on companies operating in these sectors, with which the Group has business relations.
The Group is therefore interested in monitoring the effects of climate change, and in 2018 it decided to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), committing itself to the dissemination of transparent reporting on risks and opportunities related to this change. In 2019, Intesa Sanpaolo added a qualitative statement to the RAF, undertaking to develop its integration into the existing risk management framework. In 2019, Intesa Sanpaolo also began to participate in the international working group "TCFD Pilot Banking Group Phase II" coordinated by UNEP FI, tasked with developing and testing shared methods for assessing climate change risk for bank portfolios. In particular, the exercise takes account of both transition risk, i.e. the financial risk that might arise from the process of transitioning to the low-carbon economy, and the physical risk associated with the environmental impacts of climate change (e.g., higher sea levels due to an increased average temperature or extreme climate events such as floods and droughts). The programme involves approximately 40 banks on five continents, which are working to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). With regard in particular to hydrogeological risk (floods and landslides), which also relates to climate change and the possible occurrence of crisis scenarios in Italy which could have repercussions on Intesa Sanpaolo's properties, a series of structures is to be activated. In order to ensure business continuity in the areas most affected by the inclement weather, the crisis delegates of local and central structures are activated for timely reporting of critical situations, with particular regard to delays in the transport of valuables and correspondence, difficulties for personnel in reaching their workplaces, operational issues and problems with branch physical plant. In parallel, the Critical Events Management structure is activated from the first weather alert, along with, in very serious disaster situations, the Emergency Management Operations Centre of the Business Continuity Management Department, which monitors the situation and assesses whether to close facilities temporarily and to take any additional action.
Finally, an interfunctional working group is committed to developing the integration of climate change risk into ordinary risk assessment and monitoring processes, including the credit risks associated with the exposure of the Bank's customers to physical and transitional climate risks, in order to integrate these risks into the management of its business decisions.

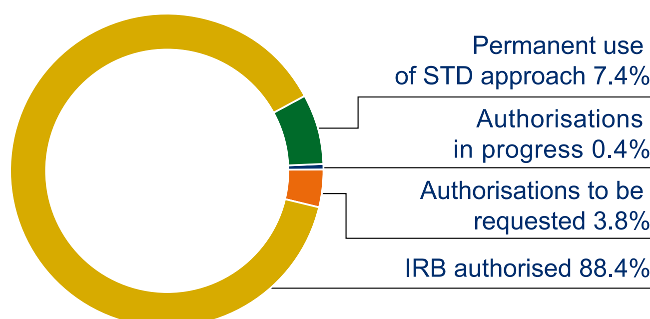
– The outlook for global economic growth shows significant vulnerabilities and downside risks, primarily relating to the uncertainty of the recovery of trade and global manufacturing and geopolitical tensions, which remain high. In addition, the spread of COVID-19, with its implications for public health, economy and trade, may have a significant dampening effect on global growth.

The Basel 3 regulations

In view of compliance with the gradual reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group undertakes adequate initiatives in order to continuously improve the measurement systems and the related risk management systems.
With regard to credit risk, there have been no changes with respect to the situation as at 31 December 2018, except for the extension in May 2019 of the Group's Institutions, Corporate and Retail internal models to the portfolio acquired from the former Banca Apulia, subsequently merged into Intesa Sanpaolo.
In reference to this risk, following the authorization requests submitted to the supervisory authority in late 2019, coverage of the portfolios of the banks within the Italian scope with internal models is now complete. Within the international subsidiaries scope, efforts continue according to the Group roll-out plan agreed with the supervisory authorities.

With regard to the progress of the internal models roll-out plan for credit risk, the share of exposures authorised for the IRB system is 88.4% of the credit portfolio. The pending authorisations, concerning the extension of the internal models to the SME Retail portfolio of the former Banca Apulia and the validation of the internal models for the leasing and factoring transactions of the SME Retail portfolio, represent 0.4% of the portfolio, while requests to be made for the remaining portfolios of the Group's domestic and international banks represent 3.8% of the portfolio. For the remainder, equal to 7.4%, the permanent use of the Standardised approach has been reported to the supervisory authorities.

Roll-out plan for internal models for credit risk(*)



(*) Percentages calculated based on the full standard RWA amounts as at 31/12/19. The portfolios are considered to be covered by IRB models when the authorisation has been received, from the Supervisory Authority, for use of the internal model for at least one of the risk parameters.

With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3.
For reporting purposes, the Parent Company and Banca IMI are authorised to use the internal models approach for the reporting of the requirement with respect to counterparty risk both for OTC derivatives and for SFTs (Securities Financing Transactions, i.e. repos and securities lending).
This authorisation was obtained for derivatives from the first quarter of 2014, and for SFTs from the report as at 31 December 2016.
For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company and Banca IMI since 2010 and were subsequently extended in 2015 to Securities Financing Transactions.
With regard to Operational Risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009.
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 2019.

Other risk factors

In addition to the above risks, the Intesa Sanpaolo Group is carefully assessing the following risk factors.

Brexit
On 31 January 2020, the United Kingdom (UK) officially left the European Union (EU) on the basis of the Withdrawal Agreement (WA) reached by the UK and EU in October 2019 and recently ratified by both parties.
An 11-month transition period set to end on 31 December 2020 began on 1 February 2020, during which:
- Community legislation will continue to apply in the United Kingdom;
- the EU and UK will be required to negotiate the terms of their future relations.

The negotiations will continue in March and are expected to conclude by November or, at the latest, by mid-December 2020, in order to allow ratification by the parties.
In parallel, the European Commission will also need to take its own decisions on equivalence, with regard to financial services in particular, to consider UK legislation as equivalent to that of the EU. The two parties have undertaken to conclude their assessments regarding the equivalence of their respective regimes by 30 June 2020; as stated by the European Commission, approximately 40 equivalence areas will be examined.
Considering that the United Kingdom and the European Union will have to confront very complex, delicate issues and reach an agreement of unprecedented scope, the period available to negotiate an agreement on all aspects of European-British relations and equivalence decisions might not be sufficient. In addition, an extension of the transition period (by one or two years, to be determined by 30 June 2020) is to be regarded as not very likely at present, considering that under British law (W.A. Bill) any extension of the transition period has been deemed unlawful.
At 31 December 2020, unless the transition period is extended, the following scenarios are currently believed to be possible:
- agreement reached on future relations: the two parties succeed in agreeing the terms of their future relations, including with regard to financial services, providing for, in this area, mutual cooperation, yet in a manner respectful of the decision-making and regulatory autonomy and right of each side to take equivalence decisions in its own interest;

- agreement not reached on future relations: the UK and EU are unable to agree the terms of their future relations, including with regard to financial services; this would be a "disruptive no-deal" scenario with the resulting "cliff-edge" effects that could only be mitigated after the fact by individual equivalence decisions by the United Kingdom and EU. In this case, the effects of a deferred hard Brexit (departure without an agreement) would most likely result.

The Intesa Sanpaolo (ISP) Group, which is present in the UK through its Corporate and Investment Banking, Asset Management and Private Banking Divisions, had prepared some time ago, through a dedicated interfunctional project, for the departure of the United Kingdom from the EU without a withdrawal agreement, and therefore for the worst-case scenario of a hard Brexit without an agreement between the parties, in accordance with the expectations of the European supervisory authority.

A project was dedicated to implementing a "Brexit Strategy" to ensure coverage of risks relating to Brexit and operating and business continuity through the formulation of contingency plans. In particular, the following main risks were managed by planning and overseeing the appropriate mitigation measures:

a) *Loss of the European financial services passporting regime*

The Group applied for authorisation for the following from the European Central Bank, which was granted on 29 March 2019:

- to operate as a third-country branch in the United Kingdom, for the branches of Intesa Sanpaolo, Banca IMI and Intesa Sanpaolo Private Banking (ISPB);
- to conduct cross-border factoring activities from Italy with customers in the UK, under the provision of services without an establishment, for Mediocredito Italiano.

The authorisation ensures operating and business continuity following the departure of the United Kingdom from the European Union.

The Group has also submitted the applications to the British authorities for the authorisation required at the end of the transition period. Interactions with the UK supervisory authority are in progress to complete the authorisation procedure by that date. In the event of a hard Brexit, enrolment in the Temporary Permission Regime (TPR) granted by the British authorities would have permitted Group entities present in the UK to continue to operate in the United Kingdom for a maximum of three years, pending formal approval of their applications.

In 2019, continuity was also assured for private banking activities through:

i. authorisation from the Prudential Regulation Authority (PRA), obtained by Intesa Sanpaolo Private Bank (Suisse) Morval, to operate as a third-country Branch in the UK;

ii. transfer of the UK branch of ISPB Italia to the Swiss entity, identified as a hub for the development of private-banking business at the international level.

The Group has also prepared a contingency plan to ensure business continuity for assets that, in the absence of passporting, could no longer be managed by branches in the UK.

With regard to the short-term debt origination activity carried out by the ISP branch in London, the activities required to implement the target solution, involving the management of these activities in the EU, have been completed.

b) *Limitations on the access to central counterparties (CCPs) located in UK by EU branches*

The Group has taken measures to extend its membership in European CCPs for IRDs, CDSs, ETDs, bonds and repos in order to ensure business continuity.

In addition, with regard to positions held with UK CCPs, a risk neutralisation strategy has been implemented, resulting in a significant reduction in regulatory capital.

c) *Contract discontinuity risk*

The Group has initiated a repapering process with counterparties to OTC derivatives contracts not cleared through a CCP and entered into with counterparties based in the United Kingdom, as well as to other types of contracts (supply, outsourcing, etc.). It has also prepared IT and organisational solutions to block operations for any contracts not renegotiated by the end of the transition period.

d) *Risk of non-compliance with Directive 2014/59/EU (BRRD)*

New issues of funding programmes subject to UK law have been modified to include a bail-in recognition clause (pursuant to Art. 55 BRRD). For existing issues, the Single Resolution Board has confirmed that it will conduct a case-by-case analysis of each European bank's situation.

e) *Risk of non-compliance with Regulation (EU) 2016/679 (GDPR)*

The Group has planned adequate safeguards for the transfer of personal data to third countries pursuant to Articles 46-49 GDPR, where the European Commission fails to take an adequacy decision (pursuant to Art. 45 GDPR) by the end of the transition period.

f) *Risk of adoption of a booking model not consistent with the EU supervisory authority's requirements*

The Intesa Sanpaolo Group has formulated and implemented new "*Rules regarding the booking of Treasury and Capital Markets transactions*" that take account of the requirements set by the European Central Bank (ECB) in its document "*Supervisory expectations on booking models*" (August 2018) and, as referenced in the communications between the Group and ECB / Joint Supervisory Team (JST) on *"Brexit Preparedness*", that establish clear, shared criteria guiding the booking of individual transactions and the related controls in place for each business area/product class.

g) *Risk of disruption of operations with market counterparties based in the UK*

With regard to the risk of disruption of operations with market counterparties based in the UK, Intesa Sanpaolo and Banca IMI have begun the onboarding process for EU-based counterparties / brokers (OTFs included) to which UK-based entities have decided to migrate all or part of their operations in the event of a hard Brexit.

At present, although a departure with a withdrawal agreement with effect from 31 January 2020 has emerged, there continues to be uncertainty regarding the regulatory framework that will enter into effect, in particular with regard to financial services, at the end of the transition period. Accordingly, in the coming months the Intesa Sanpaolo Group will continue, through a dedicated project:

- to monitor the status and outcomes of the negotiations, with particular regard to the regulatory framework of reference for financial services;
- to revise contingency plans and update them promptly, adapting them dynamically to regulatory changes, on the basis of the details that emerge in the course of the negotiations;

- to oversee interactions with European and local supervisory authorities, completing the ongoing process of obtaining authorisation to operate in the UK as a third-country branch and a concurrent update to the governance structure of our presence in the UK in order to ensure not only compliance with the new rules but also, and above all, the continuity and development of the business;
- to work on fine-tuning and implementation of the strategies already prepared, confirming the strategic nature of the presence in London and the prospects for the growth of the business and the importance of relations with financial and non-financial counterparties based in the UK.

Interest rate benchmark reform
European benchmark rates are currently undergoing extensive reform, deriving in large part from the introduction of the European regulation on benchmarks (the Benchmarks Regulation, Regulation (EU) 2016/1011), published in 2016 and in effect since January 2018. This regulation, which establishes precise rules for contributors, users and administrators of benchmarks, also requires that they be determined on the basis, insofar as possible, of actual transactions concluded on the relevant markets, in accordance with instructions from the Financial Stability Board, in view of the central role of the relevant rates to the proper functioning of the global financial system.
In the specific case of the short-term benchmark rates declared critical by the European authorities, reforms relating to the following were required:
- Euribor: revision in 2019 by the EMMI (European Money Market Institute) of the method for determining fixings ("hybrid" method), using, where available, transactions concluded on the unsecured money market of up to 12 months by provider banks, in full continuity with the measurement of the market of reference, determination and use of fixing.
- Eonia: with effect from October 2019, determination of fixings by calculating them on the basis of the new risk-free rate published by the European Central Bank (€STR rate), according to the overnight transactions concluded by major European banks and reported according to the rules imposed by Money Market Statistical Reporting (EU 2014/1333). The Eonia fixing will be published until the end of 2021 and then permanently replaced by €STR.

Beyond European borders, the British authorities have already announced that the publication of the Libor will be discontinued at the end of 2021 and there are already alternative risk-free rates available in the individual nations, which will gradually replace the Libor.
In recent years, Intesa Sanpaolo has closely monitored the developments relating to benchmarks, and in 2016 it launched a dedicated project involving the participation of all the corporate functions involved in various capacities. In 2019, internal updates were planned for the Risk Committee and Board of Directors, in addition to the external updates for Consob and Bank of Italy. The subject was also addressed with the relevant Joint Supervisory Team during periodic meetings with the Chief Financial Officer (CFO) and Chief Risk Officer (CRO). Intesa Sanpaolo also participated in various initiatives, including working groups at the European level organised by EMMI and the European Central Bank. In particular, in this latter venue, the Bank participated as a voting member in the Working Group on Risk-Free Rates, whose main activities included the designation of €STR as the new benchmark for the short-term money market and the publication of recommendations for the transition from Eonia to €STR.

Internal project activities extended to various areas, the foremost among which were:
- assessment of the impacts of the transition from Eonia to €STR on the assessments and measurements of the risk of trading and banking book instruments and the assessment of the impacts of the new method of determining the Euribor on net interest income (NII) and economic value (EVE). Counterparty, operational and liquidity risks were also analysed;
- mapping of current contracts with the Euribor, Eonia and Libor rates, with an analysis of contractual clauses and update/inclusion of fallback clauses and analyses of the changes introduced by the International Swaps and Derivatives Association (ISDA), with requests for external legal opinions, where necessary;
- contribution to benchmarks with updates of the method, processes and procedures for contributing to Euribor and discontinuation of contribution to Eonia;
- training for employees with dedicated online and classroom courses for the most specialised areas;
- internal (intranet site) and external (website and communication attached to the account statement at 31 December 2019) communication;
- analysis of accounting impacts, in particular on the subject of hedge accounting, and monitoring of the activities of the IASB and indications from regulators on the development of accounting issues;
- mapping of all IT procedures involving the use of benchmark rates, with adjustments relating to Eonia/€STR/Euribor starting in 2019 and additional measures planned for Libor for 2020-2021;
- involvement in the project of international branches and subsidiaries at the domestic and international level.

As stated in Part A of the Notes to the consolidated financial statements, in the chapter on Accounting policies, the Intesa Sanpaolo Group elected to apply Regulation 34/2020 of 15 January 2020 in advance. This regulation adopted the document issued by the IASB on "Interest Rate Benchmark Reform (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures)", which introduced several amendments regarding hedges (hedge accounting) designed to prevent uncertainties about the amount and timing of the cash flows arising from the rate reform from resulting in the discontinuation of existing hedges and difficulties in designating new hedging relationships.

Section 2 - Scope of application

Qualitative disclosure

Name of the bank to which the disclosure requirement applies

Intesa Sanpaolo S.p.A., Parent Company of the Banking Group "Intesa Sanpaolo", included in the National Register of Banking Groups.

Outline of differences in the basis of consolidation for accounting and prudential purposes

The disclosure contained in this document refers solely to the Banking Group as defined by the prevailing Supervisory Provisions.
The scope of consolidation of the Banking Group (or the "prudential" scope of consolidation) differs from the scope of consolidation of the financial statements (the complete list of consolidated companies is included in Part A of the Notes to the consolidated financial statements), which includes Intesa Sanpaolo and the companies that it directly and indirectly controls. The scope of consolidation - as specified by IAS/IFRS - also includes the companies operating in dissimilar sectors from the Parent Company, as well as private equity investments. Similarly, special purpose entities/vehicles (SPE/SPV) are included when the requisite of effective control recurs, even if there is no stake in the company.

The "prudential" consolidation scope, on the other hand, excludes from line-by-line consolidation the companies carrying out insurance, commercial or other types of business other than banking and finance activities and some types of special purpose vehicles. Moreover, for the purposes of prudential consolidation, the companies that are jointly controlled by Intesa Sanpaolo, which are measured using the equity method in the financial statements, are consolidated using the proportional method.

The table below provides the list of companies fully consolidated or consolidated with the equity method in the financial statements, with details of the "prudential" treatment. The investments in associates and companies that appear in the "Neither consolidated nor deducted" column are weighted to determine the total risk-weighted assets. The Intesa Sanpaolo Group submitted a request to be able to use the option provided by Art. 49 (1) (otherwise known as the "Danish Compromise"), and received notification of the ECB's permission to calculate the Group's consolidated capital ratios applying the Danish Compromise - under which insurance investments are risk weighted instead of being deducted from capital - as of the regulatory filings for 30 September 2019. The new treatment set out above, which entails the application of the weighting in place of the deduction, means that the thresholds established in Articles 46 ("Deduction of holdings of Common Equity Tier 1 instruments where an institution does not have a significant investment in a financial sector entity") and 48 ("Threshold exemptions from deduction from Common Equity Tier 1 items") of the CRR will not be exceeded, with the result that the "Deducted" column will remain blank as of 30.09.2019, the effective date of the permission to apply the Danish Compromise granted by the ECB.

Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2019 (EU LI3 LG EBA 2016/11) *(Table 1 of 4)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
INTESA SANPAOLO S.P.A.	Full consolidation	X				BANK
ARGENTEA GESTIONI S.C.P.A.	Full consolidation			X		PRODUCTION COMPANIES
AUTOSTRADE LOMBARDE S.P.A.	Full consolidation			X		PRIVATE OPERATING HOLDING
BANCA 5 S.P.A.	Full consolidation	X				BANK
BANCA COMERCIALA EXIMBANK S.A.	Full consolidation	X				BANK
BANCA IMI SECURITIES CORP	Full consolidation	X				FINANCIAL COMPANY
BANCA IMI SPA	Full consolidation	X				BANK
BANCA INTESA AD BEOGRAD	Full consolidation	X				BANK
BANK OF ALEXANDRIA	Full consolidation	X				BANK
BANKA INTESA SANPAOLO D.D.	Full consolidation	X				BANK
CIB BANK LTD	Full consolidation	X				BANK
CIB FACTOR FINANCIAL SERVICES LTD UNDER VOLUNTARY LIQUIDATION	Full consolidation	X				FINANCIAL COMPANY
CIB INSURANCE BROKER LTD	Full consolidation			X		EU NO EMU NON-FIN. COMP.
CIB INVESTMENT FUND MANAGEMENT LTD	Full consolidation	X				FINANCIAL COMPANY
CIB LEASING LTD.	Full consolidation	X				FINANCIAL COMPANY
CIB RENT OPERATIVE LEASING LTD	Full consolidation	X				FINANCIAL COMPANY
COMPAGNIA ITALIANA FINANZIARIA SRL - IN SHORT CIF	Full consolidation			X		NON-FIN- GROUPS HOLDING
DUOMO FUNDING PLC	Full consolidation			X		OTHER EU EMU FIN. INTERMEDIARIES
EPSILON SGR S.P.A.	Full consolidation	X				FINANCIAL COMPANY
ETOILE ACTUALIS S.A.R.L.	Full consolidation			X		EU EMU NON FIN. COMPANIES
ETOILE FRANCOIS 1ER SARL	Full consolidation			X		EU EMU NON FIN. COMPANIES
EURIZON CAPITAL SA	Full consolidation	X				FINANCIAL COMPANY
EURIZON CAPITAL SGR SPA	Full consolidation	X				FINANCIAL COMPANY
EURIZON SLJ CAPITAL LIMITED	Full consolidation	X				FINANCIAL COMPANY
FIDEURAM - INTESA SANPAOLO PRIVATE BANKING SPA	Full consolidation	X				BANK
FIDEURAM ASSET MANAGEMENT (IRELAND) DAC	Full consolidation	X				FINANCIAL COMPANY
FIDEURAM BANK (LUXEMBOURG) SA	Full consolidation	X				BANK
FIDEURAM INVESTIMENTI SGR S.P.A.	Full consolidation	X				FINANCIAL COMPANY
FIDEURAM VITA SPA	Full consolidation			X		INSURANCE COMPANIES
FINANCIERE FIDEURAM SA	Full consolidation	X				FINANCIAL COMPANY
IMI CAPITAL MARKET USA CORP	Full consolidation	X				FINANCIAL COMPANY
IMI INVESTMENTS SA	Full consolidation	X				FINANCIAL COMPANY
IMMOBILIARE CASCINA RUBINA S.R.L	Full consolidation			X		PRODUCTION COMPANIES
IN.FRA - INVESTIRE NELLE INFRASTRUTTURE S.R.L.	Full consolidation			X		NON-FIN- GROUPS HOLDING
INIZIATIVE LOGISTICHE S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
INTESA LEASING (CLOSED JOINT STOCK COMPANY)	Full consolidation	X				FINANCIAL COMPANY
INTESA LEASING D.O.O. BEOGRAD	Full consolidation	X				FINANCIAL COMPANY
INTESA SANPAOLO ASSICURA SPA	Full consolidation			X		INSURANCE COMPANIES
INTESA SANPAOLO BANK ALBANIA SH.A.	Full consolidation	X				BANK
INTESA SANPAOLO BANK IRELAND PLC	Full consolidation	X				BANK
INTESA SANPAOLO BANK LUXEMBOURG SA	Full consolidation	X				BANK
INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Full consolidation	X				BANK
INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO	Full consolidation	X				BANK
INTESA SANPAOLO FUNDING LLC	Full consolidation	X				FINANCIAL COMPANY
INTESA SANPAOLO HARBOURMASTER III S.A.	Full consolidation	X				INSTRUMENTAL

Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2019 (EU LI3 LG EBA 2016/11) *(Table 2 of 4)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
INTESA SANPAOLO HOLDING INTERNATIONAL SA	Full consolidation	X				FINANCIAL COMPANY
INTESA SANPAOLO INNOVATION CENTER SPA	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO LIFE DESIGNATED ACTIVITY COMPANY	Full consolidation			X		EU EMU INSURANCE COMPANIES
INTESA SANPAOLO PRIVATE BANK (SUISSE) MORVAL S.A.	Full consolidation	X				BANK
INTESA SANPAOLO PRIVATE BANKING SPA	Full consolidation	X				BANK
INTESA SANPAOLO PROVIS S.P.A.	Full consolidation	X				FINANCIAL COMPANY
INTESA SANPAOLO RE.O.CO. S.P.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Full consolidation	X				BANK
INTESA SANPAOLO SERVITIA S.A.	Full consolidation	X				INSTRUMENTAL
INTESA SANPAOLO SMART CARE S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
INTESA SANPAOLO VITA SPA	Full consolidation			X		INSURANCE COMPANIES
ISP CB IPOTECARIO S.R.L.	Full consolidation	X				FINANCIAL COMPANY
ISP CB PUBBLICO S.R.L.	Full consolidation	X				FINANCIAL COMPANY
ISP OBG S.R.L.	Full consolidation	X				FINANCIAL COMPANY
JOINT STOCK COMPANY BANCA INTESA	Full consolidation	X				BANK
LUX GEST ASSET MANAGEMENT S.A.	Full consolidation	X				FINANCIAL COMPANY
MILANO SANTA GIULIA S.P.A.	Full consolidation			X		PRODUCTION COMPANIES
MORVAL BANK & TRUST CAYMAN LTD	Full consolidation	X				BANK
MORVAL VONWILLER ASSETS MANAGEMENT CO. LTD	Full consolidation	X				FINANCIAL COMPANY
MSG COMPARTO QUARTO SRL	Full consolidation			X		PRODUCTION COMPANIES
MSG COMPARTO SECONDO S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
MSG COMPARTO TERZO SRL	Full consolidation			X		PRODUCTION COMPANIES
MSG RESIDENZE SRL	Full consolidation			X		PRODUCTION COMPANIES
NEVA FINVENTURES S.P.A.	Full consolidation	X				FINANCIAL COMPANY
PBZ CARD D.O.O.	Full consolidation	X				FINANCIAL COMPANY
PBZ INVEST D.O.O.	Full consolidation	X				FINANCIAL COMPANY
PBZ LEASING D.O.O.	Full consolidation	X				FINANCIAL COMPANY
PBZ NEKRETNINE D.O.O.	Full consolidation	X				INSTRUMENTAL
PBZ STAMBENA STEDIONICA DD	Full consolidation	X				BANK
PRAVEX BANK JOINT-STOCK COMPANY	Full consolidation	X				BANK
PRIVATE EQUITY INTERNATIONAL S.A.	Full consolidation	X				FINANCIAL COMPANY
PRIVREDNA BANKA ZAGREB DD	Full consolidation	X				BANK
QINGDAO YICAI FUND DISTRIBUTION CO. LTD.	Full consolidation	X				FINANCIAL COMPANY
RECOVERY PROPERTY UTILISATION AND SERVICECS ZRT.	Full consolidation			X		EU NO EMU NON-FIN. COMP.
RI. RENTAL S.R.L.	Full consolidation			X		PRODUCTION COMPANIES
RISANAMENTO EUROPA S.R.L.	Full consolidation			X		PRIVATE OPERATING HOLDING
RISANAMENTO SPA	Full consolidation			X		PRODUCTION COMPANIES
ROMULUS FUNDING CORP.	Full consolidation			X		OTHER NON-EU FIN. COMPANIES
SANPAOLO INVEST SOCIETA' D'INTERMEDIAZIONE MOBILIARE S.P.A.	Full consolidation	X				FINANCIAL COMPANY
SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO SPA	Full consolidation			X		PRODUCTION COMPANIES
SOCIETA' ITALIANA DI REVISIONE E FIDUCIARIA S.I.RE.F. S.p.A.	Full consolidation	X				FINANCIAL COMPANY
SVILUPPO COMPARTO 3 SRL	Full consolidation			X		PRODUCTION COMPANIES
TRADE RECEIVABLES INVESTMENT VEHICLE SARL	Full consolidation			X		EU EMU VEHICLE COMPANY
VSEOBECNA UVEROVA BANKA A.S.	Full consolidation	X				BANK
VUB ASSET MANAGEMENT, SPRAV. SPOL., A.S.	Full consolidation	X				FINANCIAL COMPANY
VUB LEASING A.S.	Full consolidation	X				FINANCIAL COMPANY

Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2019 (EU LI3 LG EBA 2016/11) *(Table 3 of 4)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
ADRIANO LEASE SEC S.R.L.	Equity method			X		SECURITISATION VEHICLE
AM INVESTCO ITALY SPA	Equity method			X		PRODUCTION COMPANIES
APULIA FINANCE N. 4 S.R.L.	Equity method			X		SECURITISATION VEHICLE
AUGUSTO SRL	Equity method			X		SECURITISATION VEHICLE
AUTOSTRADA PEDEMONTANA LOMBARDA SPA	Equity method			X		COMP. UNDER LOCAL ADMIN. CONTROL
AUTOSTRADE BERGAMASCHE SPA	Equity method			X		PRODUCTION COMPANIES
BACKTOWORK24 S.R.L.	Equity method			X		PRODUCTION COMPANIES
BANCOMAT SPA	Equity method			X		OTHER ACCESSORY FINANCIAL COMP.
BERICA 10 RESIDENTIAL MBS S.R.L. IN LIQUIDATION	Equity method			X		SECURITISATION VEHICLE
BERICA 5 RESIDENTIAL MBS S.R.L. IN LIQUIDATION	Equity method			X		SECURITISATION VEHICLE
BERICA 6 RESIDENTIAL MBS S.R.L. IN LIQUIDATION	Equity method			X		SECURITISATION VEHICLE
BERICA 8 RESIDENTIAL MBS S.R.L. IN LIQUIDATION	Equity method			X		SECURITISATION VEHICLE
BERICA 9 RESIDENTIAL MBS SRL IN LIQUIDATION	Equity method			X		SECURITISATION VEHICLE
BERICA ABS 2 S.R.L. IN LIQUIDATION	Equity method			X		SECURITISATION VEHICLE
BERICA ABS 3 S.R.L.	Equity method			X		SECURITISATION VEHICLE
BERICA ABS S.R.L. IN LIQUIDATION	Equity method			X		SECURITISATION VEHICLE
BRERA SEC S.R.L.	Equity method			X		SECURITISATION VEHICLE
CAMFIN SPA	Equity method			X		PRIVATE OPERATING HOLDING
CASSA DI RISPARMIO DI FERMO SPA	Equity method			X		BANKING SECTOR
CLARIS FINANCE 2005 S.R.L.	Equity method			X		SECURITISATION VEHICLE
COLOMBO SRL	Equity method			X		SECURITISATION VEHICLE
COMPAGNIA AEREA ITALIANA SPA	Equity method			X		PRODUCTION COMPANIES
CONSORZIO BANCARIO SIR S.P.A. (IN LIQUIDATION)	Equity method			X		PRIVATE OPERATING HOLDING
CONSORZIO STUDI E RICERCHE FISCALI GRUPPO INTESA SANPAOLO	Equity method			X		INSTRUMENTAL
DESTINATION ITALIA S.P.A.	Equity method			X		PRODUCTION COMPANIES
DIOCLEZIANO SRL	Equity method			X		SECURITISATION VEHICLE
EQUITER SPA	Equity method			X		OTHER FINANCIAL COMP.
EURIZON CAPITAL (HK) LIMITED	Equity method			X		FINANCIAL COMPANY
EURIZON CAPITAL REAL ASSET SGR SPA	Equity method			X		FUND MANAGEMENT COMPANY
EUROMILANO SPA	Equity method			X		PRODUCTION COMPANIES
EUROPROGETTI & FINANZA S.R.L. IN LIQUIDATION	Equity method			X		COMP. UNDER CENTRAL ADMIN. CONTROL
EUSEBI HOLDINGS B.V.	Equity method			X		EU EMU NON FIN. COMPANIES
EXELIA SRL	Equity method			X		INSTRUMENTAL
EXETRA S.P.A	Equity method			X		PRODUCTION COMPANIES
EXPERIENTIA GLOBAL S.A.	Equity method			X		NON-EU NON FIN. COMPANIES
FI.NAV. COMPARTO A - CREDITI	Equity method			X		MUTUAL FUNDS/SICAV
FOCUS INVESTMENTS SPA	Equity method			X		PRIVATE OPERATING HOLDING
FONDO DI RIGENERAZIONE URBANA SICILIA S.R.L.	Equity method			X		NON-FIN- GROUPS HOLDING
FONDO PER LA RICERCA E L'INNOVAZIONE S.R.L. RIF	Equity method			X		PRODUCTION COMPANIES
FONDO SARDEGNA ENERGIA S.R.L.	Equity method			X		PRIVATE OPERATING HOLDING
IDEAMI S.P.A. IN LIQUIDATION	Equity method			X		NON-FIN- GROUPS HOLDING
IMI FINANCE LUXEMBOURG S.A.	Equity method			X		FINANCIAL COMPANY
IMI FONDI CHIUSI SGR S.P.A.	Equity method			X		FINANCIAL COMPANY
IMMIT - IMMOBILI ITALIANI SRL	Equity method			X		PRODUCTION COMPANIES
IMMOBILIARE NOVOLI S.P.A.	Equity method			X		PRODUCTION COMPANIES
IMPRESOL S.R.L. IN LIQUIDATION	Equity method			X		PRODUCTION COMPANIES
INDACO VENTURE PARTNERS SGR SPA	Equity method			X		FUND MANAGEMENT COMPANY
INIZIATIVE IMMOBILIARI INDUSTRIALI S.P.A. - IN LIQUIDATION	Equity method			X		COMP. UNDER LOCAL ADMIN. CONTROL

Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2019 (EU LI3 LG EBA 2016/11) *(Table 4 of 4)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
INTESA INVEST AD BEOGRAD	Equity method			X		FINANCIAL COMPANY
INTESA SANPAOLO AGENTS4YOU S.P.A.	Equity method			X		FINANCIAL COMPANY
INTESA SANPAOLO CASA S.P.A.	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO EXPO INSTITUTIONAL CONTACT S.R.L.	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO FORMAZIONE SOCIETA' CONSORTILE PER AZIONI	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO FORVALUE S.P.A	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO HIGHLINE SRL	Equity method			X		PRODUCTION COMPANIES
INTESA SANPAOLO HOUSE IMMO S.A.	Equity method			X		INSTRUMENTAL
INTESA SANPAOLO INTERNATIONAL VALUE SERVICES LTD	Equity method			X		INSTRUMENTAL
INTESA SANPAOLO PRIVATE ARGENTINA S.A.	Equity method			X		FINANCIAL COMPANY
INTESA SANPAOLO SEC SA EN LIQUIDATION	Equity method			X		FINANCIAL COMPANY
INTESA SANPAOLO SERVICOS E EMPRENDIMENTOS LTDA EM LIQUIDACAO	Equity method			X		FINANCIAL COMPANY
INTESA SEC. SRL	Equity method			X		FINANCIAL COMPANY
INTOWN SRL	Equity method			X		PRODUCTION COMPANIES
INTRUM ITALY S.P.A.	Equity method			X		PRODUCTION COMPANIES
ISM INVESTIMENTI SPA	Equity method			X		NON-FIN- GROUPS HOLDING
ITALCONSULT SPA	Equity method			X		PRODUCTION COMPANIES
LEONARDO TECHNOLOGY S.R.L.	Equity method			X		PRIVATE OPERATING HOLDING
MANDARIN CAPITAL MANAGEMENT S.A.	Equity method			X		OTHER EU EMU FIN. INTERMEDIARIES
MARKETWALL SRL	Equity method			X		PRODUCTION COMPANIES
MATIPAY S.R.L.	Equity method			X		PRODUCTION COMPANIES
MIR CAPITAL MANAGEMENT SA	Equity method			X		OTHER EU EMU FIN. INTERMEDIARIES
MIR CAPITAL S.C.A. SICAR	Equity method			X		OTHER EU EMU FIN. INTERMEDIARIES
MISR ALEXANDRIA FOR FINANCIAL INVESTMENTS MUTUAL FUND CO.	Equity method			X		OTHER NON-EU FIN. COMPANIES
MISR INTERNATIONAL TOWERS CO.	Equity method			X		NON-EU NON FIN. COMPANIES
MORVAL GESTION S.A.M.	Equity method			X		FINANCIAL COMPANY
MORVAL SOCIETA' DI INTERMEDIAZIONE MOBILIARE S.P.A.	Equity method			X		FINANCIAL COMPANY
MORVAL VONWILLER ADVISORS SA	Equity method			X		FINANCIAL COMPANY
NETWORK IMPRESA S.P.A UNDER ARRANGEMENT WITH CREDITORS	Equity method			X		PRODUCTION COMPANIES
OOO INTESA REALTY RUSSIA	Equity method			X		NON-EU NON FIN. COMPANIES
OVAL MONEY LTD	Equity method			X		EU NO EMU NON-FIN. COMP.
PBZ CROATIA OSIGURANJE PUBLIC LIMITED COMPANY COMPULSORY PENSION	Equity method		X			EU NO EMU OTHER FIN. INT.
PENGHUA FUND MANAGEMENT CO. LTD	Equity method			X		OTHER NON-EU FIN. COMPANIES
PIETRA S.R.L.	Equity method			X		PRIVATE OPERATING HOLDING
PORTOCITTA' SRL	Equity method			X		PRODUCTION COMPANIES
RAINBOW	Equity method			X		OTHER COLL. INVEST. ORG.
RCN FINANZIARIA S.p.A.	Equity method			X		NON-FIN- GROUPS HOLDING
SICILY INVESTMENTS S.A.R.L.	Equity method			X		EU EMU NON FIN. COMPANIES
SISALPAY GROUP S.P.A.	Equity method			X		FIN. GROUP HOLDING
SLOVAK BANKING CREDIT BUREAU, S.R.O.	Equity method			X		EU EMU NON FIN. COMPANIES
SOLAR EXPRESS S.R.L.	Equity method			X		PRODUCTION COMPANIES
SOUTHERN GROUP LIMITED	Equity method			X		FINANCIAL COMPANY
SRM STUDI E RICERCHE PER IL MEZZOGIORNO	Equity method			X		SOC. SEC./CHAR./TRAD. UN./POLIT. INST./ENTITIES
SVILUPPO INDUSTRIALE S.P.A. IN LIQUIDATION	Equity method			X		NON-FIN- GROUPS HOLDING
TRINACRIA CAPITAL S.A.R.L.	Equity method			X		EU EMU NON FIN. COMPANIES
VUB GENERALI DOCHODKOVA SPRAVCOVSKA SPOLOCNOST, A.S.	Equity method		X			OTHER EU EMU FIN. INTERMEDIARIES
YOLO GROUP SRL	Equity method			X		INSUR. BROKERS/AGENTS AND CONSULT.

The table below (LI1) contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet as at 31 December 2019, as well as the allocation of the entries among the regulatory risk categories. The second table below (EU LI2) presents the reconciliation between the total amount based on the regulatory scope of consolidation (book values) and the exposure value subject to capital requirements, for each type of risk.

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories as at 31 December 2019 (EU LI1 LG EBA 2016/11) *(Table 1 of 2)*

(millions of euro)

		Carrying values as reported in published financial statements	**Carrying values under the scope of regulatory consolidation**	**CARRYING VALUES OF ITEMS**						
				Subject to credit risk framework	Subject to counterparty risk framework	*of which: Subject to the CRR framework SFT*	*of which: Subject to the CRR framework Derivatives*	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	Assets									
10.	Cash and cash equivalents	9,745	9,743	9,743	-	-	-	-	-	-
20.	Financial assets measured at fair value through profit or loss	49,414	49,896	3,728	26,482	-	*26,482*	834	45,215	119
	a) financial assets held for trading	45,152	45,234	-	26,482	-	*26,482*	-	45,215	19
	b) financial assets designated at fair value	195	195	195	-	-	-	-	-	-
	c) other financial assets mandatorily measured at fair value	4,067	4,467	3,533	-	-	-	834	-	100
30.	Financial assets measured at fair value through other comprehensive income	72,410	72,438	70,957	-	-	-	1,481	-	-
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	168,202	-	-	-	-	-	-	-	-
40.	Financial assets measured at amortised cost	467,815	468,759	412,672	36,828	*36,828*	-	19,049	-	210
	a) due from banks	49,027	48,893	41,596	7,297	*7,297*	-	-	-	-
	b) loans to customers	418,788	419,866	371,076	29,531	*29,531*	-	19,049	-	210
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	612	-	-	-	-	-	-	-	-
50.	Hedging derivatives	3,029	3,028	-	3,028	-	*3,028*	-	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,569	1,569	1,569	-	-	-	-	-	-
70.	Investments in associates and companies subject to joint control	1,240	7,606	7,606	-	-	-	-	-	-
80.	Technical insurance reserves reassured with third parties	28	-	-	-	-	-	-	-	-
90.	Property and equipment	8,878	8,117	8,117	-	-	-	-	-	-
100.	Intangible assets	9,211	7,456	-	-	-	-	-	-	7,456
	of which:	-	-	-	-	-	-	-	-	-
	- goodwill	4,055	3,390	-	-	-	-	-	-	3,390
110.	Tax assets	15,467	14,724	13,416	-	-	-	-	-	1,308
	a) current	1,716	1,692	1,692	-	-	-	-	-	-
	b) deferred	13,751	13,032	11,724	-	-	-	-	-	1,308
120.	Non-current assets held for sale and discontinued operations	494	494	423	-	-	-	-	-	71
130.	Other assets	7,988	4,420	4,420	-	-	-	-	-	-
Total Assets		**816,102**	**648,250**	**532,651**	**66,338**	***36,828***	***29,510***	**21,364**	**45,215**	**9,164**

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories as at 31 December 2019 (EU LI1 LG EBA 2016/11) *(Table 2 of 2)*

(millions of euro)

		Carrying values as reported in published financial statements	**Carrying values under the scope of regulatory consolidation**	**CARRYING VALUES OF ITEMS**						
				Subject to credit risk framework	Subject to counterparty risk framework	*of which: Subject to the CRR framework SFT*	*of which: Subject to the CRR framework Derivatives*	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	Liabilities and Shareholders' Equity									
10.	Financial liabilities measured at amortised cost	519,382	520,615	-	38,804	*38,804*	-	-	-	481,811
	a) due to banks	103,324	102,861	-	34,299	*34,299*	-	-	-	68,562
	b) due to customers	331,181	332,218	-	4,505	*4,505*	-	-	-	327,713
	c) securities issued	84,877	85,536	-	-	-	-	-	-	85,536
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	826	-	-	-	-	-	-	-	-
20.	Financial liabilities held for trading	45,226	45,320	-	31,892	-	*31,892*	-	38,959	6,361
30.	Financial liabilities designated at fair value	4	4	-	-	-	-	-	-	4
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	75,935	-	-	-	-	-	-	-	-
40.	Hedging derivatives	9,288	9,139	-	9,139	-	*9,139*	-	-	-
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	527	527	-	-	-	-	-	-	527
60.	Tax liabilities	2,321	1,548	-	-	-	-	-	-	1,548
	a) current	455	380	-	-	-	-	-	-	380
	b) deferred	1,866	1,168	-	-	-	-	-	-	1,168
70.	Liabilities associated with non-current assets held for sale and discontinued operations	41	41	-	-	-	-	-	-	41
80.	Other liabilities	12,070	9,845	-	-	-	-	-	-	9,845
90.	Employee termination indemnities	1,134	1,124	-	-	-	-	-	-	1,124
100.	Allowances for risks and charges	3,997	3,860	-	-	-	-	-	-	3,860
	a) commitments and guarantees given	482	450	-	-	-	-	-	-	450
	b) post-employment benefits	232	231	-	-	-	-	-	-	231
	c) other allowances for risks and charges	3,283	3,179	-	-	-	-	-	-	3,179
110.	Technical reserves	89,136	-	-	-	-	-	-	-	-
120.	Valuation reserves	-157	-157	-	-	-	-	-	-	-157
125.	Valuation reserves pertaining to insurance companies	504	504	-	-	-	-	-	-	504
130.	Redeemable shares	-	-	-	-	-	-	-	-	-
140.	Equity instruments	4,103	4,103	-	-	-	-	-	-	4,103
150.	Reserves	13,279	13,279	-	-	-	-	-	-	13,279
160.	Share premium reserve	25,075	25,075	-	-	-	-	-	-	25,075
170.	Share capital	9,086	9,086	-	-	-	-	-	-	9,086
180.	Treasury shares (-)	-104	-104	-	-	-	-	-	-	-104
190.	Minority interests (+/-)	247	259	-	-	-	-	-	-	259
200.	Net income (loss) (+/-)	4,182	4,182	-	-	-	-	-	-	4,182
Total liabilities and shareholders' equity		**816,102**	**648,250**	**-**	**79,835**	***38,804***	***41,031***	**-**	**38,959**	**561,348**

The differences between the carrying values in the accounting scope and the carrying values in the "prudential" scope of consolidation are attributable to the deconsolidation of the companies that are not part of the Banking Group and the proportional consolidation of the subsidiaries subject to joint control, which are consolidated according to the equity method in the financial statements.

Main sources of differences between regulatory exposure amounts and carrying values in financial statements as at 31 December 2019 (EU LI2 LG EBA 2016/11)

(millions of euro)

	Subject to credit risk framework	Subject to counterparty risk (*)	*of which: Subject to the CRR framework (SFT)*	*of which: Subject to the CRR framework (Derivatives)*	Subject to the securitization framework	Subject to the market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**532,651**	**66,338**	***36,828***	***29,510***	**21,364**	**45,215**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	**-**	**79,835**	***38,804***	***41,031***	**-**	**38,959**
Total net amount under the regulatory scope of consolidation	**532,651**	**105,142**	***75,632***	***29,510***	**21,364**	**84,174**
Off-balance-sheet amounts (post CCF)	47,138	1,427	*1,427*	-	6,211	-
Differences due to the treatment of adjustments (exposures subject to IRB approaches - on-balance sheet only)	16,434	-	-	-	-	-
Differences due to the treatment of positions subject to advanced EPE approaches (incl. effect of collateral and netting)	-	-99,560	*-66,715*	*-32,845*	-	-
Effect of collateral (exposures subject to the Standardised Approach)	-7,021	-1,239	*-771*	*-468*	-	-
Reclassification of initial margins and change margins included in counterparty risk (EPE approach)	-21,343	21,343	-	*21,343*	-	-
Other	-7,127	-	-	-	-1,326	-
EXPOSURE AMOUNTS CONSIDERED FOR REGULATORY PURPOSES	**560,732**	**27,113**	***9,573***	***17,540***	**26,249**	**-**

(*) Reconciliation entries for counterparty risk are broken down into SFTs and derivatives, in separate columns.

The main differences between the carrying values determined based on the regulatory scope of consolidation and the amounts of the exposures determined for regulatory purposes, with regard to credit risk, are attributable to the following:

a) the amounts of the off-balance sheet exposures, not included in the carrying values, disclosed for regulatory purposes at their nominal amount after application of the credit conversion factors;

b) the amounts relating to value adjustments, deducted from the gross value for accounting purposes, whereas for regulatory purposes and for the on-balance sheet exposures subject to internal models they do not reduce the value of the EAD, because they are included in the calculation of the Excess Reserve - Shortfall (comparison between value adjustments and expected losses);

c) the amounts related to the value of the collateral received that, in the standardised approach, reduce the carrying value for the determination of the exposure value, in application of the comprehensive approach envisaged by the regulations;

d) the amounts related to initial and variation margins, in relation to derivatives transactions, which are excluded from the exposure value for credit risk purposes because they are included in the calculation of the exposure value of the derivatives subject to the EPE (Expected Positive Exposure) approach.

The main differences attributable to counterparty risk that explain the differences between the carrying values in the financial statements and the regulatory values (EAD) mainly relate to the use of the EPE approach for both Derivatives transactions and SFTs. These include the following factors:

a) for Derivatives, the use of an EPE internal model enables the measurement of the entire portfolio of this type of instrument over time, by simulating the risk factors over a period of one year (in accordance with the regulatory requirement). Derivatives that have a negative fair value at t_0, but could have a positive fair value over the one-year period, are simulated and remeasured;

b) at the same time, the internal model approach allows the Group to fully benefit from the risk mitigation contracts which consist of netting and margining arrangements, which it uses both to reduce bilateral risk and to comply with the EMIR clearing obligations. The exposure to each counterparty, in each simulated scenario, is obtained as the positive difference between the value of the portfolio and any financial collateral received or given to the counterparty. The final EAD corresponds to the weighted average for the period of the simulated exposures, scaled for the alpha prudential factor;

c) for the exposures in SFTs, these are margined daily, through GMRA/GMSLA arrangements, that reduce the exposure and consequently the EAD.

Section 3 - Own Funds

Qualitative 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.

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, 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".

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.
Specific transitional rules (i.e. Grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period that will end in 2021). For the Intesa Sanpaolo Group, the only Additional Tier 1 Capital instrument subject to grandfathering was redeemed in advance during the year.

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 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 December 2019 and already partially applicable.

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As a "financial conglomerate" with a Parent Company of a banking group, Intesa Sanpaolo S.p.A., which controls the Intesa Sanpaolo Vita Insurance Group, on 9 May 2019 the Intesa Sanpaolo Group received permission from the ECB to calculate the Group's consolidated capital ratios, from the report as at 30 September 2019, using the "Danish Compromise" set out in Article 49 of Regulation (EU) 575/2013 (CRR), which allows banks that hold own funds instruments in insurance companies, subject to authorisation from their competent authorities, not to deduct those significant investments from Common Equity Tier 1 Capital (CET 1) and weight them at 370% among RWA.
In addition, based on specific instructions received from the ECB, the T2 subordinated instruments issued by the Group's insurance companies and held by the Parent Company (768 million euro as at 31 December 2019) have been weighted among RWA.

For information on Group and Third-Party Consolidated Shareholders' Equity reference is made to paragraph B1 of Part F of the Notes to the 2019 consolidated financial statements.

Significant restrictions to transferring own funds or to liability repayment within the Group

The following are significant restrictions on the transfer of resources within the Intesa Sanpaolo Group.
On 23 December 2016, the subsidiary Private Equity International issued a new category of class C shares, equal to 5.6% of the company's capital. These shares do not have voting rights at the shareholders' meeting and their yield is related to the economic results of certain investments held by the same Private Equity International.
Moreover, the Intesa Sanpaolo Group is subject to supervisory rules provided by Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) and controls financial institutions subject to the same or similar regulations aiming to maintain an adequate level of regulatory capital in relation to risks taken; therefore the ability of subsidiary banks or financial institutions to distribute capital or dividends is dependent on the fulfilment of the regulatory thresholds set in those regulations.
In addition, within the Group, there are insurance companies subject to the Solvency Capital Requirements of Insurance companies established by the Solvency II legislation.

Aggregate amount of the capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to any mandatory capital requirements

As at 31 December 2019, there were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements.

Quantitative disclosure

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 31 December 2019 is summarised in the table below.

(millions of euro)

	31.12.2019	31.12.2018
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**48,520**	**46,466**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**641**	**376**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**49,161**	**46,842**
D. Items to be deducted from CET 1	**-10,209**	**-13,870**
E. Transitional period - Impact on CET1 (+/-)	**2,590**	**4,269**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**41,542**	**37,241**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**4,096**	**4,856**
of which AT1 instruments subject to transitional adjustments	-	731
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**4,096**	**4,856**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**7,244**	**8,419**
of which T2 instruments subject to transitional adjustments	-	12
N. Items to be deducted from T2	**-187**	**-788**
O. Transitional period - Impact on T2 (+ / -)	**-**	**-850**
P. Total Tier 2 (T2) (M - N +/- O)	**7,057**	**6,781**
Q. Total own funds (F + L + P)	**52,695**	**48,878**

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.

With regard to transitional regime adjustments, you are reminded that for the eligibility of:
- IFRS 9 FTA filter (pursuant to Article 473a amending Regulation (EU) 575/2013);
- other minor captions;

the regulations envisage, as detailed above, specific treatment enabling the gradual entry into force of the rules, to be applied during the transitional period. In this respect, they state specific percentages for deductions and eligibility for Common Equity.

Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements are shown at the end of this Section.

The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments are reported in Attachment 1 to this disclosure.

Attachment 2, on the other hand, reports the General Own Funds Disclosure Template envisaged in Implementing Regulation (EU) 1423/2013.

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	31.12.2019	31.12.2018
Group Shareholders' equity	55,968	54,024
Minority interests	247	407
Shareholders' equity as per the Balance Sheet	**56,215**	**54,431**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-4,091	-4,121
- Minority interests eligible for inclusion in AT1	-5	-4
- Minority interests eligible for inclusion in T2	-3	-4
- Ineligible minority interests on full phase-in	-204	-372
- Ineligible net income for the period (a)	-3,451	-3,534
- Treasury shares included under regulatory adjustments	230	204
- Other ineligible components on full phase-in	-171	-134
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**48,520**	**46,466**
Regulatory adjustments (including transitional adjustments) (b)	**-6,978**	**-9,225**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**41,542**	**37,241**

(a) Common Equity Tier 1 capital includes the net income for the year, less the related dividend and other foreseeable charges (accrued coupon on Additional Tier 1 instruments and allocation to charitable activities).

(b) Adjustments for the transitional period as at 31 December 2019 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (85% in 2019) set to decrease progressively until 2022.
The change compared to 31 December 2018 is substantially attributable to the effects of the application from the third quarter 2019 of the so-called Danish Compromise, which entails risk-weighting the insurance investment instead of deducting it.

Further details are provided below on the composition of each capital level making up Own Funds.

Common Equity Tier 1 Capital (CET1)

(millions of euro)

	31.12.2019	31.12.2018
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	9,086	9,085
Share premium reserve	25,075	24,767
Reserves (a)	13,246	12,975
Accumulated other comprehensive income (b)	347	-904
Net income (loss) for the period	4,182	4,050
Net income (loss) for the period not eligible	-	-
Dividends and other foreseeable charges (c)	-3,451	-3,534
Minority interests	35	27
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**48,520**	**46,466**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-230	-204
Goodwill	-4,465	-4,477
Other intangible assets	-3,547	-3,297
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,360	-1,456
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-316	-208
Defined benefit pension funds assets	-	-
Prudential filters	641	376
- of which Cash Flow Hedge Reserve	*862*	*814*
- of which Gains or Losses due to changes in own credit risk (DVA)	*61*	*-201*
- of which Prudent valuation adjustments	*-282*	*-237*
- of which Other prudential filters	-	-
Exposures to securitisations deducted rather than risk weighted at 1250%	-142	-227
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 [d]	-	-1,727
- 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	-	*-1,727*
Deductions with threshold of 17.65% [e]	-	-1,955
Positive or negative elements - other	-149	-319
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-9,568**	**-13,494**
Total adjustments in the transitional period (CET1)	**2,590**	**4,269**
Common Equity Tier 1 (CET1) - Total	**41,542**	**37,241**

(a) Amount included in CET1, includes a negative effect of about 3.265 million euro deriving from the adoption of IFRS 9.

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

(c) As at 31 December 2019, the figure considers the dividends on 2019 results, the portion of the remuneration of the AT1 instruments issued at the date and the portion of 2019 income allocated to charity, net of the tax effect.

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

(e) As at 31 December 2018 the deductions shown refer only to DTA and Significant investments for which 10% was not deducted.

As the regulatory conditions for its inclusion (Article 26, paragraph 2 of the CRR) were met, Common Equity Tier 1 Capital included net income for the year, net of the related dividend, calculated taking into account the payout envisaged in the 2018-2021 Business Plan (80% for 2019), and other foreseeable costs (accrued coupon on Additional Tier 1 instruments and allocation to charity). In this regard, the Board of Directors has proposed to the Shareholders' Meeting the distribution of an amount of 19.2 euro cents for each ordinary share, for a total dividend of 3,362 million euro.

As envisaged by Article 253 of Regulation (EU) 575/2013 (as amended by Regulation 2017/2401) which governs the case, 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 December 2019 is equal to -142 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

	31.12.2019	31.12.2018
Additional Tier 1 capital (AT1)		
AT1 instruments	4,091	4,121
Minority interests	5	4
Additional Tier 1 capital (AT1) before regulatory adjustments	**4,096**	**4,125**
Regulatory adjustments to Additional Tier 1 (AT1)	**-**	**-**
Adjustments in the transitional period, including minority interests (AT1)	**-**	**-**
AT1 instruments eligible for grandfathering	**-**	**731**
Additional Tier 1 (AT1) - Total	**4,096**	**4,856**

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	6.25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	742
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	NO	1,250,000,000	1,237
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	1,237
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	875
Total Additional Tier 1 equity instruments									**4,091**

In February 2020, two new Additional Tier 1 Capital instruments were issued for a total of 1.5 billion euro (750 million euro each), listed on the Luxembourg Stock Exchange. Both instruments have characteristics in line with the indications of CRD IV and the CRR and have a perpetual term. For both instruments, the coupon will be payable semi-annually in arrears on 27 February and 27 August of each year, with the first payment on 27 August 2020. The two instruments – up to the date for early redemption set, for the first issue, at 27 February 2025 and, for the second, at 27 February 2030 – will pay coupons of 3.75% and 4.125% per annum respectively. For both issues, if this early redemption option is not exercised, a new fixed-rate coupon will be set for the following five years (until the next recalculation date). As envisaged by the regulations applicable to AT 1 instruments, the payment of coupons for both instruments is discretionary and subject to certain limitations.

Tier 2 Capital (T2)

(millions of euro)

	31.12.2019	31.12.2018
Tier 2 Capital (T2)		
T2 Instruments	7,241	7,553
Minority interests	3	4
Excess of provisions over expected losses eligible (excess reserve)	-	850
Tier 2 capital before regulatory adjustments	**7,244**	**8,407**
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	-187	-788
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-187**	**-788**
Total adjustments in the transitional period, including minority interests (T2)	**-**	**-850**
T2 instruments eligible for grandfathering	**-**	**12**
Tier 2 Capital (T2) - Total	**7,057**	**6,781**

Tier 2 (T2) 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	3-month Euribor + 1.94%/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	677
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,664
Intesa Sanpaolo	6.6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,183
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,340
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	1,059
Intesa Sanpaolo	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	377
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	103
Intesa Sanpaolo	2.855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	506
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 p.b./4	NO	11-Dec-2019	11-Dec-2026	NO	Eur	NO	188,000,000	179
Total Tier 2 instruments									**7,241**

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

(millions of euro)

	31.12.2019	31.12.2018
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,895	3,665
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	3,895	3,665
C. Threshold of 17.65% for significant investments and DTA not deducted in the threshold described under point B	6,280	4,947

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, however, an initial threshold on deductions is envisaged, still 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 adjusted for the above 10% threshold, 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%.

Changes in Own Funds

The changes in Own Funds during the year are shown below.

OWN FUNDS	01.01.2019 - 31.12.2019
Common Equity Tier 1 capital (CET1)	
Initial amount	**37,241**
Shares issued during the period and relates share premium	-
Changes in reserves [a]	580
Accumulated other comprehensive income [b]	1,251
Net income for the period (net of foreseeable dividends) [c]	215
Minority interests	8
Regulatory adjustments	
Prudential filters [d]	265
Own CET1 instruments	-26
Goodwill and other intangible assets [e]	-238
Deferred tax assets that rely on future profitability and do not arise from temporary differences	96
Deferred tax assets that rely on future profitability and arise from temporary differences	-
Significant and non-significant investments in CET1 instruments of the financial sector [f]	1,727
Amount by which expected losses exceed total impairment provisions on IRB positions	-108
Deductions deriving from securitisations	85
Other deductions	170
Transitional adjustments	276
Final amount	**41,542**
Additional Tier 1 (AT1)	
Initial amount	**4,856**
Issues/redemptions of AT1 instruments	-30
Minority interests	1
Regulatory adjustments	
Own AT1 instruments	-
Non-significant investments in AT1 instruments of the financial sector	-
Significant investments in AT1 instruments of the financial sector	-
Transitional adjustments and instruments eligible for grandfathering [g]	-731
Final amount	**4,096**
Tier 2 (T2)	
Initial amount	**6,781**
Issues/redemptions of T2 instruments [h]	-312
Minority interests	-1
Excess adjustments over expected losses (excess reserve)	-
Regulatory adjustments	
Own T2 instruments	-
Non-significant investments in T2 instruments of the financial sector	-
Significant investments in T2 instruments of the financial sector [i]	601
Transitional adjustments and instruments eligible for grandfathering	-12
Final amount	**7,057**
Total Own Funds at the end of the reporting period	**52,695**

Below is a summary analysis of the main changes in Own Funds during the period.

Common Equity Tier 1 capital (CET1)

a. The increase in reserves was attributable to the amount of retained earnings for the previous year and other minor effects;
b. the change in accumulated other comprehensive income was due to:
   - the increase in the AFS reserve for insurance companies of 495 million euro;
   - the increase in the reserve for property and equipment of 270 million euro;
   - an increase in the reserve for equity and debt securities measured at fair value of 529 million euro, which mainly reflected the change linked to the measurement of Italian government bonds;
   - the reduction in other minor reserves of 43 million euro;
c. the consolidated net income for the period as at 31 December 2019, amounting to 4,182 million euro, was recognised in Own Funds for 731 million euro, as the resulting amount after the allocation to dividends and charities (516 million euro as at 31 December 2018), due to the regulatory conditions having been met for its inclusion, net of dividends and other foreseeable charges as already mentioned above;
d. the change was attributable to the increase in the cash flow reserves and the deduction deriving from the change in the Bank's credit rating (DVA), offset by the change in the filter for prudent valuation adjustments;
e. the increase was attributable to the capitalisation of the costs incurred for the development of software and other intangible assets;
f. the change was attributable to the application of the Danish Compromise, with effect from the supervisory reporting as at 30 September 2019, according to which insurance investments are treated as risk-weighted assets rather than being deducted from capital.

Additional Tier 1 - AT1

g. The change was attributable to the redemption of the grandfathered securities (with early redemption in the fourth quarter of 2019).

Tier 2 (T2)

h. During the year, two new T2 instruments were issued, which were offset by the period amortisation for instruments with a maturity of less than 5 years and other minor changes;
i. the change was attributable to the application of the Danish Compromise, with effect from the supervisory reporting as at 30 September 2019, according to which insurance investments are treated as risk-weighted assets rather than being deducted from capital and to the vendor loan taken out by Banca 5 following the transfer of the business line, considered to be a Tier 2 item and, as such, deducted from Tier 2 capital.

Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 Capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements

(millions of euro)

	Financial statements scope	Prudential scope	Relevant amount for the purpose of own funds	See table "Own funds disclosure template"
TOTAL ACCOUNTING DATA, OF WHICH			**53,682**	
Assets				
70. Investments in associates and companies subject to joint control	1,240	7,606	-429	8, 19
of which: implicit goodwill in associated companies IAS 28-31	*429*	*1,095*	*-429*	*8, 19*
100. Intangible assets	9,211	7,456	-8,121	8
of which: goodwill	*4,055*	*3,390*	*-4,055*	*8*
of which: other intangible assets	*5,156*	*4,066*	*-4,066*	*8*
110. Tax assets	15,467	14,724	-1,360	10
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*1,508*	*1,508*	*-1,508*	*10*
Liabilities				
10. Securities issued	84,877	85,536	7,241	33, 46, 47, 52
of which: subordinated instruments subject to transitional arrangements	*0*	*0*	*0*	*33, 47*
of which: subordinated instruments not subject to transitional arrangements	*0*	*7,241*	*7,241*	*46, 52*
60. Tax liabilities	2,321	1,548	610	8
a) Current tax liabilities	455	380	N.A.	
b) Deferred tax liabilities	1,866	1,168	N.A.	
of which: tax liabilities related to goodwill and other intangible assets	*0*	*0*	*610*	*8*
120. Valuation reserves	347	347	1,210	3, 11
of which: valuation reserves on securities available for sale	*504*	*0*	*484*	
of which: valuation reserves on financial assets measured at fair value through other comprehensive income	*234*	*718*	*234*	
of which: valuation reserves on cash flow hedges	*-883*	*-863*	*0*	*11*
of which: foreign exchange differences	*-932*	*-932*	*-932*	*3*
of which: legally-required revaluations	*1,834*	*1,834*	*1,834*	*3*
of which: valuation reserves on net actuarial losses	*-410*	*-410*	*-410*	*3*
of which: other	*0*	*0*	*0*	
140 Equity instruments	4,103	4,103	4,091	
150. Reserves	13,279	13,279	15,735	2
of which: impact of the adoption of IFRS 9 net of transitional arrangements		*0*	*2,590*	*9*
160. Share premium reserve	25,075	25,075	25,075	1
170. Share capital	9,086	9,086	9,086	1, 30
of which: ordinary shares	*9,086*	*9,086*	*9,086*	*1*
180. Treasury shares (-)	-104	-104	-230	16
190. Minority interests (+/-)	247	259	43	5, 34, 48
of which CET1 compliant		*0*	*35*	*5*
of which AT1 compliant		*0*	*5*	*34*
of which T2 compliant		*0*	*3*	*48*
200. Net income (loss) for the period (+/-)	4,182	4,182	731	5a
of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period			*731*	*5a*
OTHER COMPONENTS OF OWN FUNDS, OF WHICH:			**-987**	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities			61	14
Value adjustments due to the requirements for prudent valuation			-282	7
Exposures to securitisations deducted rather than risk weighted at 1250%			-142	20a, 20c
IRB shortfall of credit risk adjustments to expected losses			-316	12
IRB Excess of provisions over expected losses eligible			0	50
Filter on unrealised capital gains on real properties			0	20
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment			-187	55
Indirect investments			-121	20
Total own funds as at 31 December 2019			**52,695**	

Section 4 - Capital Requirements

Qualitative disclosure

Assessment of the adequacy of the Bank’s internal capital

The management of capital adequacy consists of a series of policies that determine the size and optimal combination of the various capitalisation instruments, in order to ensure that the levels of capital of the Group and its banking subsidiaries are consistent with the risk profile assumed and meet the supervisory requirements.
The concept of capital at risk differs according to the basis for its measurement, and different target levels of capitalisation are established:

- Regulatory Capital for Pillar 1 risks;
- Overall Economic Capital for Pillar 2 risks (ICAAP).

The Regulatory Capital and the overall Economic Capital differ in terms of their definition and the coverage of risk categories. The former derives from the formats laid down by the supervisory provisions and the latter from the identification of the significant risks for the Intesa Sanpaolo Group and the consequent use of internal models for the exposure assumed.
Capital Management essentially involves the control of capital adequacy through the careful monitoring of both the regulatory constraints (Basel 3 Pillar 1) and current and prospective operational constraints (Pillar 2) in order to anticipate any critical situations within a reasonable period of time and identify possible corrective measures for the generation or recovery of capital.
Accordingly, the capital adequacy assessment process is based on a “twin track” approach: Regulatory Capital for compliance with the Pillar 1 requirements and overall Economic Capital for the Pillar 2 ICAAP process.

The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, also to run its operations. In this regard, the allocation of capital to the Business Units is established on the basis of their specific capacity to contribute to the creation of value, taking into account the level of return expected by the shareholders. To this end, internal systems are used to measure performance (EVA) on the basis of both the Regulatory Capital and the Economic Capital.
Verification of compliance with supervisory requirements and consequent capital adequacy is continuous and depends upon the objectives set out in the Business Plan.
First verification occurs as part of the process of defining budget targets: based on the growth trends expected for loans, other assets and income statement aggregates, the risks are measured and their compatibility with compulsory capital ratios for individual banks and for the Group as a whole is assessed.
Compliance with capital adequacy is obtained via various levers, such as the pay-out policy, the definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of the loan policy on the basis of counterparty risk.
This dynamic management approach is aimed at identifying the risk capital raising instruments and hybrid capital instruments most suitable to the achievement of the objectives.
Compliance with the target levels of capitalisation is monitored during the year and on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheet aggregates.
A further step in the preventive analysis and control of the Group’s capital adequacy takes place whenever extraordinary operations (such as acquisitions, disposals, joint ventures etc.) are resolved upon. In this case, on the basis of the information on the operation to be conducted, its impact on capital ratios is estimated and any necessary actions to ensure compliance with the requirement set forth by Supervisory Authorities are planned.

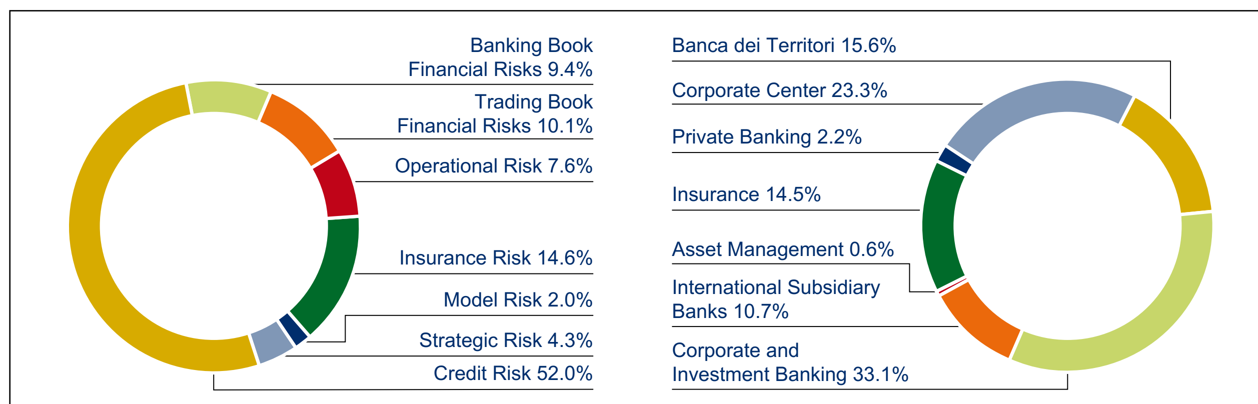
As already mentioned, the Intesa Sanpaolo Group attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk.

The Economic Capital, defined as the maximum “unexpected” loss that the Group may incur over a period of one year, is a key measure for determining the Group’s financial structure and risk tolerance and for guiding its operations, ensuring the balance between risks assumed and shareholder return.
The level of absorption of Economic Capital is estimated on the basis of the current situation, and also from a forward-looking perspective, in accordance with the Risk Appetite Framework, approved by the Group, based on the budget assumptions and the projected economic scenario.

The absorption of Economic Capital by Business Unit reflects the distribution of the Group’s various activities and the specialisations of the business areas.

The following graphs show the breakdown of the Group's Economic Capital by Business Unit and by type of risk.

Absorption of Economic Capital by type of risk and Business Unit



The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.
The majority of risk is concentrated in the "Corporate and Investment Banking" Business Unit (33.1% of the total Economic Capital): this is attributable to the type of customers served (Corporate and Financial Institutions) and Capital Market activities. This Business Unit is assigned a significant share of credit risk and trading book risk.
The "Banca dei Territori" Business Unit (15.6% of the total Economic Capital) is a significant source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of credit risk and operational risk.
Most of the insurance risk is assigned to the "Insurance" Business Unit (14.5% of the total Economic Capital).
The "International Subsidiary Banks" Business Unit is assigned 10.7% of the total risk, predominantly credit risk.
In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, the risks pertaining to the exposures in default, the Banking Book interest rate and exchange rate risk, the risks arising from the management of the Parent Company's FVTOCI portfolio, and the residual portion of insurance risk (23.3% of the overall Economic Capital).
Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (2.2% and 0.6%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.

In accordance with the provisions established by the new rules on capital adequacy, the Group has completed the actions aimed at meeting the Pillar 2 requirements, by preparing and sending the ICAAP Reports to the Supervisory Authority - on approval by the Corporate Bodies - with the figures for the previous year on a consolidated basis.
The Group has also substantially completed the ICAAP Report on the figures as at 31 December 2019 and the forecasts over a three-year period, and the final document is due to be sent to the Supervisor by 30 April 2020. The results of the ICAAP process confirm the Group's capital adequacy: the financial resources available ensure, with adequate margins, coverage of all current and prospective risks, also in stress conditions.

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 12.46% 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 phased-in basis for 2019, the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.38% under the transitional arrangements in force for 2019, and the institution-specific countercyclical capital buffer of 0.08% in the fourth quarter of 2019) 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 8 February 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 March 2019. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.88% under the transitional arrangements for 2019 and 9.25% on a fully loaded basis.
This is the result of:

a) a SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis in 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.38% under the transitional arrangements in force for 2019 and 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer[4], the Common Equity Tier 1 ratio to be met is 8.96% under the transitional arrangements in force for 2019 and 9.38% on a fully loaded basis.

On 26 November 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2020. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 9.06% under the transitional arrangements for 2020 and 9.25% on a fully loaded basis.
This is the result of:

a) a SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.56% under the transitional arrangements in force for 2020 and 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer, the Common Equity Tier 1 ratio to be met is 9.18% under the transitional arrangements in force for 2020 and 9.38% on a fully loaded basis.

[4] Countercyclical Capital Buffer calculated taking into account the exposures as at 31 December 2019 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating either to 2019-2021, where available, or to the latest update of the reference period (requirement was set at zero per cent in Italy for the first quarter of 2020).

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

(millions of euro)

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			31.12.2019	30.09.2019	31.12.2019
	1	**Credit risk (excluding CCR)**	**236,274**	**237,283**	**18,902**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*70,453*	*73,835*	*5,636*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*955*	*1,008*	*77*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*135,453*	*136,147*	*10,836*
Article 438(d)	*5*	*Of which equity with simple risk-weighted approach or PD/LGD*	*29,413*	*26,293*	*2,353*
Article 107 Article 438(c)(d)	**6**	**CCR**	**7,136**	**8,358**	**571**
Article 438(c)(d)	*7*	*Of which mark to market*	*1,547*	*1,758*	*124*
Article 438(c)(d)	*8*	*Of which original exposure*	*-*	*-*	*-*
	9	*Of which the standardised approach*	*-*	*-*	*-*
	10	*Of which internal model method (IMM)*	*4,338*	*5,154*	*347*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*238*	*244*	*19*
Article 438(c)(d)	*12*	*Of which CVA*	*1,013*	*1,202*	*81*
Article 438(e)	**13**	**Settlement risk**	**-**	**-**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**9,051**	**6,941**	**724**
	15	*Of which IRB approach*	*1,144*	*1,178*	*93*
	16	*Of which IRB supervisory formula approach (SFA)*	*3,724*	*2,245*	*296*
	17	*Of which internal assessment approach (IAA)*	*-*	*-*	*-*
	18	*Of which standardised approach*	*4,183*	*3,518*	*335*
Article 438 (e)	**19**	**Market risk**	**18,829**	**20,558**	**1,506**
	20	*Of which the standardised approach*	*2,366*	*2,262*	*189*
	21	*Of which IMA*	*16,463*	*18,296*	*1,317*
Article 438(e)	**22**	**Large exposures**	**-**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**21,212**	**18,344**	**1,697**
	24	*Of which basic indicator approach*	*485*	*496*	*39*
	25	*Of which standardised approach*	*2,090*	*2,006*	*167*
	26	*Of which advanced measurement approach*	*18,637*	*15,842*	*1,491*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**6,022**	**6,909**	**482**
Article 500	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**TOTAL**	**298,524**	**298,393**	**23,882**

The total amount of risk-weighted exposures recorded as at 31 December 2019 was 298.5 billion euro, essentially stable compared to September 2019. In particular, please note the following:

- for credit risk (excluding counterparty risk), the increase in equity instruments, mainly attributable to the weighting of insurance T2 subordinated instruments no longer deducted from capital following the specific instructions received from the ECB, was more than offset by the reduction in the standardised approach portfolios (in particular those belonging to the International Subsidiary Banks perimeter) and in the advanced measurement approach portfolios. For the latter, as specified in the section on the IRB approaches, the increased lending and the application of certain regulatory and methodological adjustments were offset by the introduction of risk mitigation actions;
- for counterparty risk, a reduction mainly linked to the changes in interest rates that affect the exposure;
- for the securitisations included in the banking book, an increase due to the completion of new synthetic securitisations resulting from the sale of non-performing loans;
- for market risk, a decrease due to the internal models, mainly related to the lower market volatility, lower exposure to the Italian government and partial repositioning in the credit market;
- for operational risk, a significant change mainly due to the changes made to the AMA model in compliance with Delegated Regulation (EU) 2018/959[5].

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).
It is noted that, as required by the rules (EBA/GL/2016/11), these tables show the movements of RWAs during the last quarter.

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

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 30 September 2019**	**165,140**	**13,211**
2	Asset size	4,395	352
3	Asset quality	-1,283	-103
4	Model updates	2,351	137
5	Methodology and policy	2,762	221
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-418	-33
8	Other	-5,620	-399
9	**RWAs as at 31 December 2019 (*)**	**167,327**	**13,386**

(*) As at 31 December 2019, the RWA relating to IRB models amounted to 167,327 million euro and was attributable to the Foundation IRB approach for 955 million euro (Row 3 EU OV1), to the Advanced IRB approach for 135,453 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 29,413 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 1,506 million euro (Row 27 EU OV1).

The aggregate of the RWAs relating to the exposures subject to credit risk measured using advanced approaches[6] was identified as 167,327 million euro in December 2019, compared to the amount of 165,140 million euro in the previous quarter. The increase of 2,187 million euro between the two periods was mainly due to the following effects:

- 4,395 million euro resulting from the increase in volumes during the quarter net of the decrease in transactions due to new synthetic securitisations and the signing of the agreement between Intesa Sanpaolo and Prelios;
- -1,283 million euro attributable to an improvement in the credit rating of the counterparties in the portfolio.
- 2,351 million euro resulting from the application of a prudential add-on to the leasing and factoring LGD models for the performing corporate portfolio, temporarily introduced to compensate for the failure to update the time series underlying the model estimates, and from the application of a Prudential Margin on the perimeter of counterparties rated using the rating systems adopted for Structured Finance following the introduction of the New Definition of Default;
- 2,762 million euro following the specific instructions received on 21 January 2020 from the ECB, regarding the application of the same weighting to Tier 2 subordinated instruments, issued by the Group's insurance companies and held by the Parent Company, as that applied to insurance investments, to which the “Danish Compromise" set out in Article 49 of Regulation (EU) 575/2013 applies, which allows for the holdings of own fund instruments of a significant investment in an insurance company to be weighted in the calculation of RWAs in the manner described in paragraph IV of that Article, rather than deducting them from Regulatory Capital;

[5] Commission Delegated Regulation (EU) 2018/959 of 14 March 2018 supplementing Regulation (EU) 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk.

[6] 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).

- -418 million euro attributable to foreign currency exposures due to changes in exchange rates, in particular for the exposures denominated in US dollars;

The remaining reduction of -5,620 million euro was mainly attributable to the sale of a portfolio of unlikely-to-pay loans (transaction "M"), relating to the Corporate and Corporate SME segments, and the completion of several synthetic securitisations with underlyings of performing loans, relating to the Large Corporate, Corporate, Corporate SME, Retail SME and Mortgage segments.

RWA flow statements of CCR exposures under the IMM (Internal Model Method) in the fourth quarter (EU CCR7 LG EBA 2016/11)

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 30 September 2019**	**5,154**	**412**
2	Asset size	-912	-73
3	Credit quality of counterparties	162	13
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-2	-
8	Other	-64	-5
9	**RWAs as at 31 December 2019**	**4,338**	**347**

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 fell between the two quarters: 5,154 million euro in September 2019 and 4,338 million euro in December 2019. In fact, there was a change of -816 million euro mainly due to the decrease in exposures of -912 million euro, only partly offset by an increase of 162 million euro due to a deterioration of the credit rating of the counterparties in the portfolio.

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

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 30 September 2019**	**4,347**	**10,062**	**3,824**	**-**	**63**	**18,296**	**1,464**
1a	*Regulatory adjustment*	*3,036*	*7,161*	*391*	*-*	*5*	*10,593*	*848*
1b	*RWAs at the previous quarter-end (end of the day)*	*1,311*	*2,901*	*3,433*	*-*	*58*	*7,703*	*616*
2	Movement in risk levels	-325	-669	-171	-	27	-1,138	-91
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)*	*986*	*2,232*	*3,262*	*-*	*85*	*6,565*	*525*
8b	*Regulatory adjustment*	*2,888*	*6,689*	*306*	*-*	*15*	*9,898*	*792*
8	**RWAs as at 31 December 2019**	**3,874**	**8,921**	**3,568**	**-**	**100**	**16,463**	**1,317**

The RWAs relating to market risks under the IMA decreased (-1,833 million euro) compared to the third quarter of 2019. The VaR (-473 million euro) and Stressed VaR (-1,141 million euro) measures contributed to this change, due to the lower market volatility, lower exposure to sovereign debt and a partial repositioning in the credit market. The Incremental Risk Charge (-256 million euro) was down compared to the previous quarter, due to lower exposure to credit indices, the measure includes a regulatory add-on of 347 million euro.

Institution-specific Countercyclical Capital Buffer

Below is the information relating to the “Countercyclical capital buffer”, prepared based on the ratios applicable at 31 December 2019 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 establishes 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 ratio (for exposures towards Italian counterparties) at 0% also for the first three months of 2020.

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.

In reference to 31 December 2019:

- the countercyclical capital ratios at individual country level were set, with the methods summarised above, generally at 0%, with the exception of the following countries: Sweden (2.50%), Norway (2.50%), Hong Kong (2.00%), Iceland (1.75%), Czech Republic (1.50%), Slovakia (1.50%), United Kingdom (1.00%), Lithuania (1.00%), Bulgaria (0.50%), Denmark (1.00%), France (0.25%) and Ireland (1.00%);
- at consolidated level, Intesa Sanpaolo’s specific countercyclical ratio amounts to 0.075%.

Amount of the Institution-specific Countercyclical Capital Buffer

(millions of euro)

Total risk exposure	298,524
Specific countercyclical ratio of the institution (%)	0.075%
Specific countercyclical capital buffer requirement of the institution	224

The table below shows the geographic distribution of the relevant credit exposures for the purpose of calculating the institution-specific countercyclical capital buffer as at 31 December 2019.

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 1 of 3)*

(millions of euro)

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
ITALY	46,238	263,096	627	469	6,929	18,183	11,981	70	696	12,747	71.73	-
ALBANIA	493	10	-	-	-	-	77	-	-	77	0.44	-
SAUDI ARABIA	35	169	-	22	-	-	10	1	-	11	0.06	-
ARGENTINA	7	2	-	-	-	-	-	-	-	-	0.00	-
AUSTRALIA	30	769	-	-	-	-	33	-	-	33	0.18	-
AUSTRIA	186	377	-	3	-	-	22	-	-	22	0.13	-
AZERBAIJAN	-	186	-	-	-	-	12	-	-	12	0.07	-
BAILIWICK OF GUERNSEY	-	19	-	-	-	-	2	-	-	2	0.01	-
BAILIWICK OF JERSEY	178	55	-	-	-	-	18	-	-	18	0.10	-
BAHAMAS	108	52	-	-	-	-	6	-	-	6	0.03	-
BAHREIN	2	-	-	-	-	-	-	-	-	-	0.00	-
BANGLADESH	-	46	-	-	-	-	3	-	-	3	0.02	-
BELGIUM	76	1,206	-	7	-	-	45	-	-	45	0.25	-
BELIZE	-	1	-	-	-	-	-	-	-	-	0.00	-
BERMUDA	1	538	-	-	-	-	22	-	-	22	0.12	-
BELARUS	3	1	-	-	-	-	-	-	-	-	0.00	-
BOLIVIA	1	-	-	-	-	-	-	-	-	-	0.00	-
BOSNIA AND HERZEGOVINA	900	8	-	-	-	-	72	-	-	72	0.41	-
BRAZIL	218	736	-	-	-	-	44	-	-	44	0.25	-
BULGARIA	4	21	-	-	-	-	1	-	-	1	0.01	0.50
BURUNDI	7	-	-	-	-	-	1	-	-	1	0.00	-
CANADA	176	134	-	-	-	-	8	-	-	8	0.04	-
CAYMAN ISLANDS	346	416	-	-	-	-	44	-	-	44	0.25	-
CZECH REPUBLIC	256	785	-	-	-	-	59	-	-	59	0.33	1.50
CHILE	5	311	-	-	-	-	12	-	-	12	0.07	-
CHINA	260	772	-	-	-	-	139	-	-	139	0.78	-
CYPRUS	28	272	-	-	-	-	12	-	-	12	0.06	-
COLOMBIA	1	79	-	-	-	-	4	-	-	4	0.02	-
REPUBLIC OF SOUTH KOREA	6	17	-	-	-	-	1	-	-	1	0.01	-
COSTA RICA	3	-	-	-	-	-	-	-	-	-	0.00	-
CROATIA	9,222	231	-	-	-	-	453	-	-	453	2.55	-
CUBA	85	-	-	-	-	-	10	-	-	10	0.06	-
DENMARK	20	84	2	12	-	-	2	1	-	3	0.02	1.00
DOMINICAN REPUBLIC	-	12	-	-	-	-	1	-	-	1	0.01	-
ECUADOR	2	399	-	-	-	-	9	-	-	9	0.05	-
EGYPT	2,440	3	-	-	-	-	140	-	-	140	0.79	-
UNITED ARAB EMIRATES	2	1,045	-	-	-	-	33	-	-	33	0.19	-
ESTONIA	4	-	-	-	-	-	-	-	-	-	0.00	-
ETHIOPIA	113	2	-	-	-	-	-	-	-	-	0.00	-
PHILIPPINES	-	1	-	-	-	-	-	-	-	-	0.00	-
FINLAND	101	169	1	24	-	8	13	1	-	14	0.08	-
FRANCE	814	2,856	30	118	-	5	140	12	-	152	0.86	0.25
GERMANY	722	3,138	9	102	-	-	166	19	-	185	1.04	-
GHANA	-	106	-	-	-	-	7	-	-	7	0.04	-
JAPAN	1	1,260	-	66	-	-	45	-	-	45	0.26	-

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 2 of 3)*

(millions of euro)

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
GREECE	17	34	-	9	-	-	*2*	-	-	2	0.01	-
GUADELOUPE	2	-	-	-	-	-	-	-	-	-	0.00	-
GUATEMALA	1	-	-	-	-	-	-	-	-	-	0.00	-
HONG KONG	56	504	-	-	-	-	*15*	-	-	15	0.09	*2.00*
INDIA	2	457	-	-	-	-	*18*	-	-	18	0.10	-
INDONESIA	43	48	-	-	-	-	*6*	-	-	6	0.03	-
IRELAND	319	206	67	3	-	71	*34*	*4*	-	38	0.22	*1.00*
ICELAND	1	-	-	-	-	-	-	-	-	-	0.00	*1.75*
ISRAEL	4	30	-	-	-	-	*2*	-	-	2	0.01	-
KAZAKHSTAN	9	10	-	-	-	-	*1*	-	-	1	0.00	-
KENYA	-	2	-	-	-	-	-	-	-	-	0.00	-
KUWAIT	-	209	-	-	-	-	*7*	-	-	7	0.04	-
LEBANON	-	1	-	-	-	-	-	-	-	-	0.00	-
LIBERIA	10	5	-	-	-	-	*1*	-	-	1	0.00	-
LIECHTENSTEIN	1	1	-	-	-	-	-	-	-	-	0.00	-
LITHUANIA	2	8	-	-	-	-	-	-	-	-	0.00	*1.00*
LUXEMBOURG	2,360	4,461	26	149	-	-	*434*	*12*	-	446	2.51	-
MACAU	-	13	-	-	-	-	-	-	-	-	0.00	-
MACEDONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
MALAYSIA	1	27	-	-	-	-	-	-	-	-	0.00	-
MALTA	3	25	-	-	-	-	*2*	-	-	2	0.01	-
MOROCCO	14	-	-	-	-	-	*1*	-	-	1	0.01	-
SOUTH AND ISLANDS	10	182	-	-	-	-	*17*	-	-	17	0.09	-
MARTINIQUE	4	-	-	-	-	-	-	-	-	-	0.00	-
MAURITIUS	-	219	-	-	-	-	*10*	-	-	10	0.06	-
MEXICO	99	931	-	99	-	-	*46*	-	-	46	0.26	-
REPUBLIC OF MOLDOVA	94	-	-	-	-	-	*4*	-	-	4	0.02	-
MONGOLIA	-	129	-	-	-	-	*10*	-	-	10	0.05	-
MONTENEGRO	6	-	-	-	-	-	-	-	-	-	0.00	-
NIGERIA	8	1	-	-	-	-	-	-	-	-	0.00	-
NORWAY	81	327	-	3	-	-	*10*	-	-	10	0.05	*2.50*
NEW ZEALAND	2	56	-	-	-	-	*5*	-	-	5	0.03	-
OMAN	33	165	-	-	-	-	*9*	-	-	9	0.05	-
NETHERLANDS	424	2,458	103	55	14	38	*132*	*19*	-	151	0.85	-
PANAMA	93	32	-	-	-	-	*9*	-	-	9	0.05	-
PARAGUAY	1	-	-	-	-	-	-	-	-	-	0.00	-
PERU	1	114	-	-	-	-	*4*	-	-	4	0.02	-
FRENCH POLYNESIA	1	-	-	-	-	-	-	-	-	-	0.00	-
POLAND	263	969	-	-	-	-	*53*	-	-	53	0.30	-
PORTUGAL	111	61	45	3	-	-	*5*	*1*	-	6	0.04	-
PRINCIPALITY OF MONACO	3	11	-	-	-	-	-	-	-	-	0.00	-
PUERTO RICO	-	6	-	-	-	-	*1*	-	-	1	0.01	-
QATAR	-	277	-	-	-	-	*7*	-	-	7	0.04	-
UNITED KINGDOM	1,580	4,402	8	340	-	-	*319*	*23*	-	342	1.92	*1.00*
ROMANIA	1,063	45	-	-	-	-	*62*	-	-	62	0.35	-
RUSSIAN FEDERATION	1,821	5,865	-	-	-	-	*272*	-	-	272	1.53	-
SAN MARINO	4	21	-	-	-	-	*1*	-	-	1	0.01	-
SERBIA	3,700	213	8	-	-	-	*223*	*1*	-	224	1.26	-
SINGAPORE	35	487	-	-	-	-	*14*	-	-	14	0.08	-
SLOVAKIA	3,256	12,056	-	-	-	-	*473*	-	-	473	2.66	*1.50*

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 3 of 3)*

(millions of euro)

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
SLOVENIA	1,290	757	-	-	-	-	*110*	-	-	110	0.62	-
SPAIN	304	2,479	46	90	-	18	*129*	*2*	*2*	133	0.75	-
UNITED STATES OF AMERICA	676	9,112	-	3	18	48	*376*	*5*	*11*	392	2.21	-
REPUBLIC OF SOUTH AFRICA	1	301	-	-	-	-	*15*	-	-	15	0.09	-
SWEDEN	195	244	-	43	-	-	*22*	*1*	-	23	0.13	*2.50*
SWITZERLAND	495	1,269	-	107	-	-	*64*	*13*	-	77	0.43	-
THAILAND	-	6	-	-	-	-	-	-	-	-	0.00	-
TUNISIA	11	2	-	-	-	-	*1*	-	-	1	0.01	-
TURKEY	378	651	-	-	-	-	*77*	-	-	77	0.43	-
UKRAINE	90	23	-	-	-	-	*6*	-	-	6	0.03	-
HUNGARY	3,228	301	-	-	-	-	*207*	-	-	207	1.17	-
URUGUAY	7	84	-	-	-	-	*2*	-	-	2	0.01	-
VENEZUELA	1	3	-	-	-	-	-	-	-	-	0.00	-
BRITISH VIRGIN ISLANDS	5	177	-	-	-	-	*7*	-	-	7	0.04	-
VIETNAM	-	4	-	-	-	-	-	-	-	-	0.00	-
TOTAL	**85,314**	**329,865**	**972**	**1,727**	**6,961**	**18,371**	**16,872**	**185**	**709**	**17,766**	**100.00**	

Non-deducted participations in insurance undertakings (EU INS1 LG EBA 2016/11)

(millions of euro)

Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	5,612
TOTAL RWAs	**20,764**

As already reported in Section 3 – Own Funds, as a “financial conglomerate” with a Parent Company of a banking group, Intesa Sanpaolo S.p.A., which controls the Intesa Sanpaolo Vita Insurance Group, on 9 May 2019 the Intesa Sanpaolo Group received permission from the ECB to calculate the Group’s consolidated capital ratios, from the report as at 30 September 2019, using the Danish Compromise set out in Article 49 of Regulation (EU) 575/2013 (CRR), which allows banks that hold own funds instruments in insurance companies, subject to authorisation from their competent authorities, not to deduct those significant investments from Common Equity Tier 1 Capital (CET 1) and weight them at 370% among RWAs. The first-time adoption resulted in an increase in risk-weighted assets (at 30 September compared to 30 June) of around 12.8 billion euro, in addition to around 2 billion euro resulting from the increase in the value of investments in insurance companies in the third quarter. See Section 3 - Own Funds for details of the effects on Regulatory Capital as at 31 December 2019 from the application of the Danish Compromise.

In addition, based on specific instructions received from the ECB, the T2 subordinated instruments issued by the Group’s insurance companies and held by the Parent Company (768 million euro as at 31 December 2019) have been weighted among RWAs, resulting in additional RWAs of around 2.8 billion euro. These latter figures are not included in the EU INS1 table figures.

THE CAPITAL ADEQUACY OF THE FINANCIAL CONGLOMERATE

The Intesa Sanpaolo Group operates as a financial conglomerate that engages in universal banking activity and insurance services through wholly-owned subsidiary insurance companies:

- Intesa Sanpaolo Vita;
- Intesa Sanpaolo Life;
- Intesa Sanpaolo Assicura;
- Fideuram Vita.

In accordance with Article 49 (5) of the CRR, the own funds requirement and capital adequacy ratio of the financial conglomerate subject to insurance supervision, calculated in accordance with the applicable rules, are set out below.

(millions of euro)

	Amounts
A. Financial conglomerate amount	53,454
B. Capital requirements for banking elements	34,392
C. Solvency margins for insurance elements	3,232
D. Total capital requirements of the financial conglomerate (B+C)	**37,624**
E. Financial conglomerate surplus (defincit) (A-D)	**15,830**
F. Adequacy ratio of the financial conglomerate (A / D)	**142%**

In detail, as at 31 December 2019, the capital of the Intesa Sanpaolo financial conglomerate exceeded its capital requirements, defined as the conglomerate's capital needs, by 15,830 million euro. For the purpose of calculating the capital requirements of the banks, a Total Capital Ratio of 12.46% was considered, as taken from the outcomes of the Supervisory Review and Evaluation Process (SREP) for 2019.

The Solvency II framework of prudential supervision regulations, applicable to the entire European insurance segment, came into force on 1 January 2016. The new regulatory framework completely revised the calculation method for synthetic indicators to measure the solvency of insurance companies.

For 2019, the Group's insurance companies implemented all the new obligations required in that regard by the calendar for sending data reports to the Supervisory Authority IVASS. The main data included in these reports concerned Eligible Own Funds, the Solvency Capital Requirement (SCR) and the Solvency Ratio.

Intesa Sanpaolo Vita calculates the aggregate Solvency Ratio for the insurance companies as the Parent Company of the Insurance Group within the Intesa Sanpaolo Banking Group. Based on Art. 96 of Legislative Decree 209/2005 (the Insurers' Code), Intesa Sanpaolo Vita is also required to prepare the "consolidated aggregate" financial statements of the Insurance Group that includes Intesa Sanpaolo Assicura and Intesa Sanpaolo Life, inasmuch as they are 100% subsidiaries, and Fideuram Vita, inasmuch as it is subject to unitary management in accordance with the insurers' code.

As at 31 December 2019, the Intesa Sanpaolo Vita Group had a regulatory solvency ratio of 238%, understood as the ratio of Group eligible own funds to the solvency capital requirement, both calculated according to Solvency II.

On 28 March 2019, the Ordinary Shareholders' Meeting of Intesa Sanpaolo Vita resolved to distribute a portion of other shareholders' equity reserves in the amount of around 105 million euro, which was paid out on the same date.

Comparison of own funds, capital ratios and leverage ratio with and without the application of transitional provisions for IFRS 9 (EU IFRS 9-FL LG EBA 2018/01)

(millions of euro)

	Available capital (amounts)	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018
1	Common Equity Tier 1 capital (CET1)	41,542	41,747	38,015	37,231	37,241
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	38,952	39,208	34,351	33,534	33,072
3	Tier 1 capital	45,638	46,468	42,755	41,971	42,097
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	43,048	43,929	39,091	38,274	37,928
5	Total capital	52,695	53,167	49,241	48,719	48,878
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	50,953	51,486	46,430	45,881	45,560
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	298,524	298,393	280,260	283,641	276,446
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	300,510	300,284	279,410	282,831	275,533
	Capital ratios					
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	13.9%	14.0%	13.6%	13.1%	13.5%
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	13.0%	13.1%	12.3%	11.9%	12.0%
11	Tier 1 capital (as a percentage of the risk exposure amount)	15.3%	15.6%	15.3%	14.8%	15.2%
12	Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.3%	14.6%	14.0%	13.5%	13.8%
13	Total capital (as a percentage of the risk exposure amount)	17.7%	17.8%	17.6%	17.2%	17.7%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.0%	17.1%	16.6%	16.2%	16.5%
	Leverage ratio					
15	Leverage ratio total exposure measure	682,781	724,167	700,805	702,039	668,562
16	Leverage ratio	6.7%	6.4%	6.1%	6.0%	6.3%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.3%	6.1%	5.6%	5.5%	5.7%

As described in the chapter "Own Funds", the first-time adoption of IFRS 9 and the adoption of the "static" approach during the transitional period (2018-2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios as at 31 December 2019 (with and without applying the transitional provisions for IFRS 9) shown in the table above due to the following:

- the reduction in CET1, 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 CET1 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 CET1 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, based on 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 CET1 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.

The methods for determining the measurement of the overall exposure of the leverage ratio during the transitional period, following a Q&A published in 2019, were extended to exposures subject to internal models (IRB) for the purposes of credit risk, thus adopting the same scaling factor already applied to standard exposures in line with the aforementioned regulation.

Section 5 - Liquidity Risk

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.

Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo, in implementation of the most recent applicable regulatory provisions.

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the Official Journal of the European Union of Delegated Regulation 2015/61 with regard to liquidity coverage requirements (Liquidity Coverage Ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation (EU) 2015/61, as supplemented and amended, from 1 October 2015 banks are required to comply with the short-term indicator provided for in Article 38 (level of 100% from 1 January 2018). The entry into force of the net stable funding ratio (100%) is, instead, planned for June 2021, following final approval and subsequent publication in the Official Journal in May 2019 of the package of banking reforms containing the new EU Directive 2019/878 (CRD V) and the new Regulation 2019/876 (CRR2).

Since March 2015, the Intesa Sanpaolo Group Liquidity Risk Management Guidelines, which already referred to Bank of Italy Circulars 263 and 285, and Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), have reflected all of the latest regulations step-by-step, adjusting the composition of the liquid assets eligible for liquidity reserves and the definition of the 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions of the Basel Committee concerning the Net Stable Funding Ratio (NSFR) have been adopted, in view of the upcoming entry into force of said new European regulations.

The "Group Liquidity Risk Management Guidelines" approved by Intesa Sanpaolo's Corporate Bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. To this end, they include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies.

The key principles guiding the internal control and management system for liquidity risk defined by those Guidelines are as follows:

- the existence of a liquidity management policy approved by senior management and clearly disseminated throughout the Bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.
- liquidity management in crisis situations that takes into account the guidelines on the governance of crisis management processes within the Recovery Plan and the Resolution Plan.

The “Group Liquidity Risk Management Guidelines” set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including approving measurement indicators, defining the main assumptions underlying the stress scenarios composing of early warning thresholds used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company’s Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group’s overall transactions and the liquidity risk to which it is exposed.

The corporate functions of the Parent Company responsible for ensuring the correct application of the Guidelines and the sufficiency of the Group’s liquidity position are the Group Treasury and Finance Department and the Group Planning and Control Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Financial and Market Risks Head Office Department, which is directly responsible, within the Chief Risk Officer (CRO) Area, for measuring liquidity risk on a consolidated basis.

The Group’s liquidity is managed by the aforesaid structures of the CFO area through continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:

- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing operations by Central Banks.

The Financial and Market Risks Head Office Department is directly responsible for level two controls and, as an active member of the Managerial Committees, it performs a primary role in the management and dissemination of information on liquidity risk, helping to improve the Group’s overall awareness of the existing position. In particular, it ensures the measurement of the Group’s current and future exposure to liquidity risks under normal and stressed conditions, verifying compliance with the limits and, if those limits are exceeded, implementing the reporting to the competent Corporate Bodies and monitoring the agreed correction actions in the event of any excesses.

The Chief Audit Officer assesses the functioning of the overall structure of the control system monitoring the process for measuring, managing and controlling the Group’s exposure to liquidity risk and verifies the adequacy and compliance of the process with the requirements established by the regulations. The results of the controls carried out are submitted to the Corporate Bodies, at least once a year.

The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio - LCR), in addition to a system of early warning indicators for maturities from 3 months to one year.

The cumulative projected wholesale imbalances indicator measures the Bank’s independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high-quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations.

The aim of the Intesa Sanpaolo Group’s structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions - the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable” amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. In addition, the Group’s internal policy on structural liquidity also includes early warning indicators for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years).

The Group Liquidity Risk Management Guidelines also envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions. Within this framework, the Treasury and Finance Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term.

The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Financial and Market Risks Head Office Department.

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for 2019: both regulatory indicators, LCR and NSFR, were well above 100%. In 2019, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 160.6%.

At the end of December 2019, the value of unencumbered HQLA reserves was more than 23% comprised of cash and deposits held with Central Banks. Including the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, the Group's unencumbered liquidity reserves amounted to a total of 118 billion euro.

(millions of euro)

	Unencumbered (net of haircut)	
	31.12.2019	31.12.2018
HQLA Liquidity Reserves	**95,762**	**84,346**
Cash and Deposits held with Central Banks (HQLA)	22,326	40,156
Highly liquid securities (HQLA)	73,436	44,190
Other eligible and/or marketable reserves	**22,594**	**4,251**
Total Group's Liquidity Buffer	**118,356**	**88,597**

In view of the high stock of available liquidity reserves (liquid or eligible), the period of independence from wholesale funding, measured by the cumulative projected wholesale imbalances indicator, identifies a financial independence in situations of freeze of the money market ("survival period") for more than 12 months. Also the stress tests, in a combined scenario of market and specific crises (with significant loss in customer deposits), yielded results in excess of the target 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. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.

The corporate assessment on the adequacy of Intesa Sanpaolo's position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group's Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group's culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.

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[7].

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

(millions of euro)

	SCOPE OF CONSOLIDATION	2019 TOTAL UNWEIGHTED VALUE (AVERAGE)				2019 TOTAL WEIGHTED VALUE (AVERAGE)			
	Quarter ending	December 31st	September 30th	June 30th	March 31st	December 31st	September 30th	June 30th	March 31st
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	HIGH-QUALITY LIQUIDIT ASSETS								
1	**Total high-quality liquid assets (HQLA) (a)**					**97,082**	**91,819**	**82,866**	**77,263**
	CASH-OUTFLOWS								
2	**Retail deposits and deposits from small business customers, of which:**	**203,409**	**199,546**	**195,978**	**193,359**	**14,332**	**13,998**	**13,691**	**13,465**
3	*Stable deposits*	*146,514*	*144,313*	*142,412*	*141,006*	*7,326*	*7,216*	*7,121*	*7,050*
4	*Less stable deposits*	*56,895*	*55,233*	*53,566*	*52,353*	*7,006*	*6,782*	*6,570*	*6,415*
5	**Unsecured wholesale funding**	**101,397**	**99,112**	**96,755**	**97,018**	**47,889**	**47,000**	**45,477**	**45,385**
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*34,113*	*32,674*	*32,146*	*32,238*	*8,525*	*8,166*	*8,034*	*8,057*
7	*Non operational deposits (all counterparties)*	*64,012*	*62,835*	*61,526*	*61,762*	*36,092*	*35,231*	*34,360*	*34,310*
8	*Unsecured debt*	*3,272*	*3,603*	*3,083*	*3,018*	*3,272*	*3,603*	*3,083*	*3,018*
9	**Secured wholesale funding**					**1,545**	**1,305**	**1,148**	**1,060**
10	**Additional requirements**	**59,126**	**54,924**	**50,594**	**48,085**	**14,580**	**12,844**	**11,081**	**10,124**
11	*Outflows related to derivative exposure and other collateral requirements*	*3,323*	*2,799*	*2,374*	*2,350*	*2,932*	*2,273*	*1,772*	*1,746*
12	*Outflos related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	*55,803*	*52,125*	*48,220*	*45,735*	*11,648*	*10,571*	*9,309*	*8,378*
14	**Other contractual funding obligations**	**1,495**	**1,328**	**868**	**543**	**1,491**	**1,323**	**863**	**538**
15	**Other contingent funding obligations**	**101,385**	**106,175**	**110,881**	**112,950**	**3,571**	**2,751**	**1,711**	**916**
16	**TOTAL CASH OUTFLOWS**					**83,408**	**79,221**	**73,971**	**71,488**
	CASH-INFLOWS								
17	Secured lending (e.g. reverse repos)	42,159	41,211	40,646	37,203	1,408	1,620	1,909	2,114
18	Inflows from fully performing exposures	20,351	19,667	19,835	20,212	12,927	12,553	12,689	12,944
19	Other cash inflows	21,723	21,705	21,799	21,995	8,339	8,237	8,219	8,252
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**	**84,233**	**82,583**	**82,280**	**79,410**	**22,674**	**22,410**	**22,817**	**23,310**
20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
20c	*Inflows subject to 75% cap*	*84,233*	*82,583*	*82,280*	*79,410*	*22,674*	*22,409*	*22,817*	*23,310*
21	**LIQUIDITY BUFFER**					**97,082**	**91,819**	**82,866**	**77,263**
22	**TOTAL NET CASH OUTFLOWS**					**60,734**	**56,811**	**51,154**	**48,178**
23	**LIQUIDITY COVERAGE RATIO (%)**					**160.6%**	**161.8%**	**162.0%**	**160.4%**

(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.

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

Group liquidity management model and interaction between affiliates
Integrated management is a key factor in the successful governance of liquidity risk. The existence of integrated liquidity management models is also recognised by the current European legislation, which provides the possibility of being exempted from individual compliance with the LCR requirement.
In this context, and in view of the centralised liquidity management model adopted by the Intesa Sanpaolo Group, the ECB has accepted the application for exemption from the individual compliance with the LCR requirement and the related reporting obligations (see Part 6, CRR) for the Italian banks of the Group.
Intesa Sanpaolo is therefore required to comply with the provisions of Part 6 of the CRR, on a consolidated basis and at Italian liquidity sub-group level (see Bank of Italy Circular no. 285 of 17 December 2013 – Part II, Chapter 11, Section III), and at individual level for the international affiliates based in the European Union.
All the international subsidiary banks of the Group comply with the individual LCR requirements, as they were above the minimum regulatory amounts required for all of 2019. To this end, and based on the particular characteristics of each international jurisdiction, adequate liquid reserves are maintained that are readily available at local level. For affiliates resident in a third country subject to restrictions on the free transferability of funds, the calculation of the Group LCR can only include the reserves held there to meet liquidity outflows in that third country (accordingly, all surplus amounts are excluded from the consolidation).

Currency mismatch in the Liquidity Coverage Ratio
The Intesa Sanpaolo Group operates primarily in euro. The EU regulations require the monitoring and reporting of the “LCR in foreign currency” when the aggregate liabilities held in a foreign currency are “material”, i.e. equal to or greater than 5% of the total liabilities held by the institution.
As at 31 December 2019, the US dollar (USD) was confirmed as material currency at consolidated level for the Group. Intesa Sanpaolo has an LCR position in USD of over 100% and has ample highly liquid US dollar (EHQLA) liquidity reserves, mainly consisting of unrestricted deposits held at the Federal Reserve.

Concentration of funding
Intesa Sanpaolo’s funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo’s main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing operations with the Eurosystem (TLTRO II and III). The Group Liquidity Risk Management Guidelines require the regular monitoring of the concentration analyses for the funding (by counterparty/product) and for the liquidity reserves (by issuer/counterparty).

Derivatives transactions and potential collateral calls
Intesa Sanpaolo enters into derivatives contracts with central counterparties and third parties (OTC) covering various risk factors, arising, for example, from changes in interest rates, exchange rates, securities prices, commodity prices, etc. As market conditions change, these risk factors generate an impact on the Group’s liquidity, affecting potential future exposures in derivatives, for which the provision of collateral in the form of cash or other liquid collateral is typically required. The quantification of the potential liquidity absorption, generated by the need for additional collateral in the event of adverse market movements, is measured both through historical analysis of the net collateral paid (Historical Look Back Approach), and by using advanced internal counterparty risk models. These figures are calculated from the potential outflows of the various liquidity indicators, contributing to the determination of the minimum Liquidity Buffer to be held to cover the estimated outflows.

Other liquidity risks not captured in the LCR calculation, but relevant to the Group’s liquidity profile
Participation in payment, settlement and clearing systems requires the development of appropriate strategies and procedures for the control of intraday liquidity risk.
Intraday liquidity risk is the risk of not having sufficient funds to meet payment obligations by the deadlines set, within the business day, in the various systems referred to above (with potentially significant negative consequences also at a systemic level).
Intesa Sanpaolo actively manages its intraday liquidity positions to ensure that its settlement obligations are met in a timely manner, thereby contributing to the smooth operation of the payment circuits across the entire system. Intraday liquidity management necessarily involves careful and continuous monitoring of intraday cash flows exchanged at the various settlement systems used by the Group. To cover intraday liquidity risk, at the Parent Company and at the other Banks/Group companies that participate directly in the payment systems, a minimum portfolio of eligible assets is held in a central bank as an immediately available reserve (in euro or in foreign currency). The control functions also monitor specific indicators of the availability of reserves at the start of the day and their ability to cover any unexpected peaks in collateral, also in relation to specific cases of stress. In particular, the Intraday liquidity usage ratio, which measures the relationship between the maximum cumulative net outflows and the amount of available reserves at the ECB at the start of the day (see BCBS - “Monitoring tools for intraday liquidity management”, April 2013), is extremely low, confirming the careful management of intraday liquidity risk.

Section 6 - Credit risk: general disclosure

Risk management strategies and processes

The Group's strategies, Risk Appetite Framework, and Powers and Rules for credit granting and management are aimed at:
- achieving sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;
- privileging lending business aimed at supporting the real economy and production system;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship in a timely manner.

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.

The 2018-2021 Business Plan includes – among other things – the ambition to excel in asset quality in which the effective management of non-performing loans is one of the first priorities. The transactions completed during the year included the disposal and securitisation of a portfolio of unlikely-to-pay Corporate and SME loans of the Intesa Sanpaolo Group amounting to around 2.7 billion euro of gross book value, in line with the carrying value. The main contents of these strategies and the results for the year are described in the "2018-2021 Business Plan" section of the Report on operations in the 2019 Annual Report.

Structure and organisation of the associated risk management function

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:
- Chief Lending Officer Governance Area
- Chief Risk Officer Governance Area
- Chief Financial Officer Governance Area

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation, in addition to the establishment of the supporting processes and applications.

The Chief Lending Officer Governance Area, with the aid of its structures (BdT Lending Head Office Department, CIB Lending Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Value Control Head Office Department and NPE Head Office Department):
- makes material lending decisions, directly or submitting them to the relevant bodies in relation to the assumption and management of the Group's credit risks, authorising them directly within the scope of their responsibility, including through compliance opinions;
- ensures, for its area of responsibility, the proactive management of credit and guarantees the management and the monitoring of the Group's non-performing and bad loans kept within the Group's internal management;
- ensures the correct classification and valuation for financial reporting purposes of positions under its responsibility that are classified as non-performing loans;
- conceives and manages transactions for the sale of individual NPE positions or portfolios, credit exposures and other assets within scope, with the collaboration of other competent functions;
- performs monitoring and control on outsourced activities, including the monitoring of the performance KPIs of outsourcers, directly making decisions, or submitting them to the Competent Bodies, regarding proposals exceeding the powers delegated to the Outsourcers;
- contributes to the process of formulating the proposal of the Credit Strategies in the analysis of the impacts on the granting of loans and their definition in relation to the relevant credit management variables, without prejudice to the finalisation powers within the remit of the Chief Financial Officer Governance Area;
- coordinates the implementation of Credit Policies by the relevant Group business units, also in the various corporate contexts;
- analyses the evolution of the cost of credit within the Group, also taking into account the application of the aforesaid Credit Strategies;
- allocates and validates the ratings to the relevant positions, also providing support in the definition of the rating allocation processes and tools;
- defines the reference regulations on credit matters, the requirements for the development of credit instruments and contributing to the formulation of the proposals for the assignment of credit granting and management powers, without prejudice to the finalisation powers within the remit of the Chief Risk Officer Governance Area;
- promotes initiatives aimed at disseminating and developing a credit culture;

- ensures, consistently with the guidelines of the Chief Risk Officer Governance Area and in compliance with the Credit Policies, the first level systematic supervision of the relevant loan portfolio, identifying phenomena referring to specific credit aggregates characterised by high levels of anomalies for which to activate the appropriate risk mitigation measures.

The Chief Risk Officer Governance Area is responsible for adapting the Risk Appetite Framework for the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures. Specifically, the Chief Risk Officer Governance Area:
- establishes the metrics for the measurement of credit risk - also with regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis;
- provides risk-adjusted pricing models and guidance on Expected Loss, Economic Capital (ECAP) and RWAs;
- monitors the absorption of capital relating to credit risk, supporting the Chief Financial Officer Governance Area in the active management of capital;
- makes proposals for the assignment of the Credit Granting and Management Powers;
- validates internal risk measurement systems;
- performs level 2 controls for credit risk.

The activities are performed directly by the Chief Risk Officer Governance Area for both the Parent Company and the main subsidiaries, according to a service contract.

With regard to the credit management policies, the Chief Financial Officer Governance Area:
- assists the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration, planning and management control, studies and research, active management of the loan portfolio, relations with investors and rating agencies, and social and environmental responsibility;
- oversees Credit Portfolio Management at Group level, supporting the Divisions in the active management of credit risk, with the aim of improving the risk-return profile of the loan portfolio in order to create value for shareholders, through targeted credit strategies (including a specific incentive and disincentive mechanism) and participation in market operations on performing loans (including those being purchased) and non-performing loan portfolios.

The Chief IT, Digital and Innovation Officer establishes the model and oversees the Group’s Data Governance and Data Quality system, ensuring its dissemination and implementation and coordinating the activities of the parties involved.

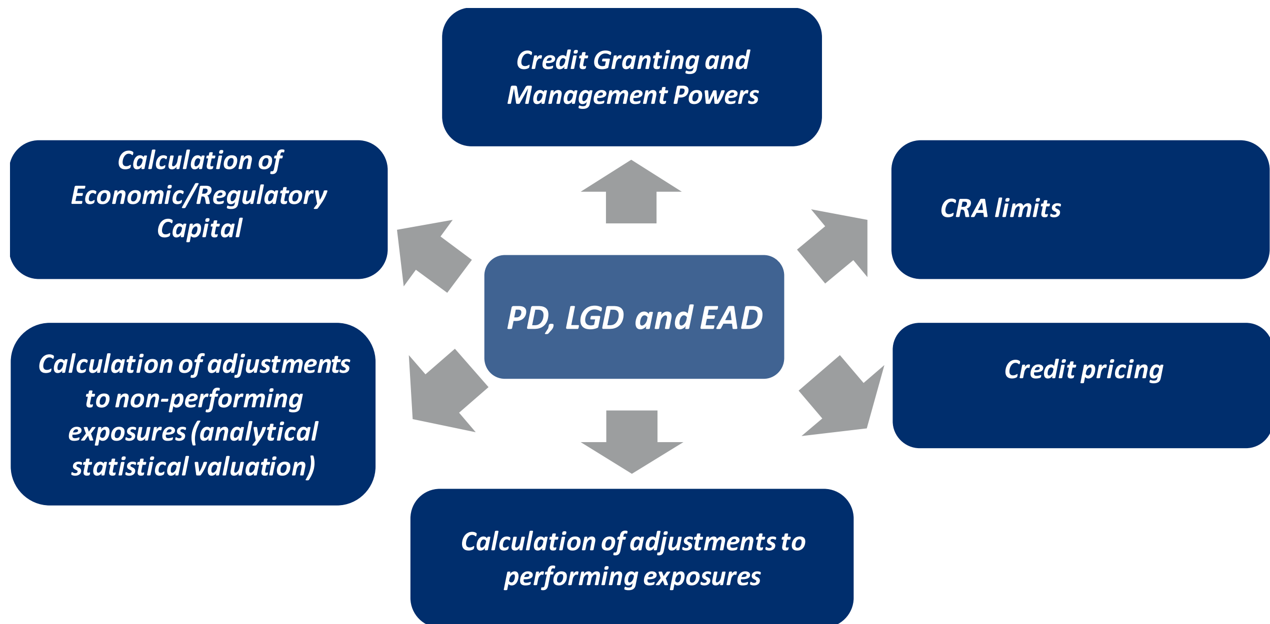
Lastly, as is the case for all the risk areas and above all for credit risk, the Chief Audit Officer performs internal audits aimed at identifying breaches of the procedures and regulations and periodically assessing the completeness, adequacy, functioning (in terms of efficiency and effectiveness) and reliability of the internal control system and the ICT system (ICT audit), at preset intervals according to the nature and extent of the risks.

Scope of application and characteristics of the risk measurement and reporting system

Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentration of exposures, limit potential losses in adverse scenarios, and maintain credit quality in line with the objectives of capital and financial stability.

Expected Loss and Risk Weighted Assets are fundamental elements for the management, measurement and control of credit risk. These measures incorporate the effects of the exposure size (Exposure at Default - EAD), the relative riskiness of the customer (Probability of Default - PD), the loss estimate where insolvency conditions exist - taking into account the guarantees that mitigate the assumption of risk related to the loan (Loss Given Default - LGD) - and the duration of the exposure (maturity).

The components that contribute to the determination of the Risk Weighted Assets are the key elements for the determination of the levels of the Credit Granting Powers, the limits of the Credit Risk Appetite (CRA), the credit pricing, the calculation of the adjustments on performing exposures and the analytical-statistical adjustments on non-performing exposures, as well as the calculation of the economic and regulatory capital.



The Credit Risk Appetite is aimed at optimising the risk/return profile of the assets. The "Rules on Credit Risk Appetite" define the methods for applying the CRA and the methods for calculating the CRA colour class, with associated exposure limits, in order to pursue a growth in lending consistent with the risk appetite defined for the Group.

The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.
The capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group's capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.
The levels of Powers set on terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group's subsidiaries exceeds certain thresholds, a request for a "Compliance Opinion" is made to the competent bodies of the Parent Company.
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting and Management Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.
The credit risk management processes also envisage the periodic review of all the credit positions by the relevant head office or local structures and the assessment of customers not only at the initial lending stage, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, SME Retail, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.
The valuation of the adjustments to the performing and non-performing exposures[8] is based on methods consistent with IFRS 9 and are described in detail in Part A - Section "A. 2 - Main financial statement captions" and in particular in the paragraph "*Impairment of assets"* of the 2019 Consolidated financial statements and Section 7 of this document.

[8] The analytical-statistical valuation of the non-performing exposures applies to past-due, unlikely-to-pay and bad loans positions equal to or less than 2 million euro for the Parent Company. For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

Country risk is an additional component of an individual borrower's insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of international payments, and sovereign risk, which is measured through an assessment of the sovereign states' creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.
The country risk component is used in the granting of credit to non-resident entities in order to obtain a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. These limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, set on an annual basis in the Group Risk Appetite Framework.

Counterparty risk is a particular kind of credit risk associated with OTC and SFT (Securities Financing Transactions namely repurchase agreements and securities lending transactions) derivative contracts, that refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in the case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
With regard to counterparty risk, the Banking Group has an internal model for measuring this risk at regulatory level (which only excludes the banks of the International Subsidiary Banks Division) and at operational level.

Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the purposes of operational measurement of uses of credit lines for derivatives and SFTs. The Financial and Market Risks Head Office Department produces daily estimates for the counterparty risk measurements, for the measurement of the uses of credit lines for OTC derivatives and SFTs for the Parent Company, Banca IMI and Fideuram. It should be noted that the PFE method, in simplified form, is adopted for the banks of the International Subsidiary Banks Division, through the use of internally estimated add-ons.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:
- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives and SFTs with margining agreements (CSA, GMRA and similar);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk;
- definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

The concentration risk arises from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:
- aimed at defining exposure limits for specific geographical areas and sets of counterparties (top 20);
- aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to "large risks" and to credit lines subject to country risk;
- aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

Through specific control, guidance and coordination activities, the Internal Validation and Controls Head Office Department within the Chief Risk Officer Governance Area oversees the credit granting and management processes for the performing loans portfolio at the Group level, and through controls on individual positions, assesses that loans are properly classified. It also assesses the compliance of the internal risk measurement and management systems over time as regards determination of the capital requirements with the regulatory provisions, company needs and changes in the relative market.

The Group's lending activity is focused on Italian customers (80% of the total) and is primarily aimed at households and small and medium enterprises.

The exchange of basic information flows between different Group entities is assured by the Group's Central Credit Register (exposure monitoring and control system) and by the "Posizione Complessiva di Rischio" (global risk position), which highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.
From the September 2018 monthly report – following the preparation of the input and generation architecture for the Anacredit reporting, aimed at supporting the "collection of granular credit and credit risk data" as defined by EU Regulation 2016/867 of 18 May 2016 – a new reporting system has been in place in compliance with the regulatory provisions established by the ECB and implemented by the related Central National Banks.

Policies for hedging and mitigating risk

The risk mitigation techniques include the instruments that contribute to reducing the loss the Bank would incur in the event of counterparty default, i.e. the LGD described in the paragraph above. In particular, they include guarantees and certain types of contracts that result in a reduction in credit risk.
The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual exposure, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.

During the credit granting and managing process, the acquisition of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium/long-term transactions.
The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.
The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.
Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.
The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
- for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
- the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

The management of guarantees received uses a single platform at Group level, which is integrated with the register of assets and the portal that manages the real estate valuations.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery.
In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.
The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.
For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.
Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation rules for credit purposes drawn up by the Bank. The internal rules are consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association and with the European Valuation Standards.
Property valuations are managed through a specific integrated platform covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.
The market value of collateral property is recalculated periodically through various statistical valuation methods, which apply prices/ratios provided by an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.
Asset value is constantly monitored. The experts carry out inspections and verify the work progress for properties under construction. The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the maturities established for the most significant exposures, or when there are real estate guarantees securing non-performing loans.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for real estate guarantees, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value. There is also an "umbrella" insurance policy that, with limited exceptions, covers damages on the entire portfolio of properties mortgaged as collateral for the loans granted. Guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.
The support application verifies whether the guarantees received are eligible with regard to all three methods permitted by the regulations for calculating capital requirements (Standardised and Internal Rating Based). Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

In addition, in recent years, the Bank has been heavily involved in the implementation of two integrated asset and guarantee management systems (PGA - Active Guarantees Portal and ABS - System Assets Archive) in order to improve the efficiency of collateral management. This has been accompanied by the development of a specific system for managing bad loans, to track the main legal actions and particularly those relating to the enforcement of real estate collateral (EPC - Ex Parte Creditoris).

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into International Swap Derivatives Association (ISDA) and International Securities Market Association/Public Securities Association (ISMA/PSA) agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.

In addition, the Group has collateral agreements in place, mainly with daily margining, to hedge OTC derivatives transactions (Credit Support Annexes), also due to the margin requirements for non-centrally cleared derivatives, established by the EMIR; for SFTs, the bank implements daily margining agreements (GMRAs - Global Master Repurchase Agreements and GMSLAs - Global Master Securities Lending Agreements).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

In 2019, the Parent Company continued its activities relating to the “GARC” (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to companies.
The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (including Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013).

During the year – again as part of the “GARC” Project – a “Line B” portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III “Competitiveness of production systems” – Thematic Objective III.3 “Promoting competitiveness of SMEs” – “Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund”.
For details of the transactions carried out in 2019 under the GARC Project, see the description provided in paragraph C. Securitisations of this chapter.
In order to optimise capital absorption, transactions were also entered into to hedge credit risk through financial guarantees on positions held in the Group’s Banking Book, together with new transactions to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Bosnia Herzegovina, Serbia and Moldova.

A project was started for International Subsidiary Banks with the aim of guaranteeing a consistent approach at Group level to the use of the credit risk mitigation techniques. With regard to the Covenant project in particular, the management through a dedicated application is now fully operational.

Total and average of net amount of on-balance sheet and off-balance sheet exposures (EU CRB-B EBA GL 2016/11)

This table reports the net amount of the on- and off-balance sheet exposures as at 31 December 2019 and the average net amount for the period (financial year), with a breakdown by exposure classes, for the IRB and Standardised approaches.

(millions of euro)

		Net value of exposures as at 31 December 2019	Average net exposures over the period
1	**Central governments or central banks**	-	-
2	**Institutions**	64,730	64,623
3	**Corporates**	294,641	296,009
4	*Of which: Specialised lending*	17,815	16,883
5	*Of which: SMEs*	66,487	69,965
6	**Retail**	139,701	138,767
7	*Secured by real estate property*	101,562	99,412
8	*SMEs*	5,225	5,232
9	*Non-SMEs*	96,337	94,180
10	*Qualifying revolving*	-	-
11	*Other retail*	38,139	39,355
12	*SMEs*	17,137	17,719
13	*Non-SMEs*	21,002	21,636
14	**Equity**	8,772	6,526
15	**Total IRB approach**	507,844	505,925
16	**Central governments or central banks**	115,332	129,455
17	**Regional governments or local authorities**	875	905
18	**Public sector entities**	2,748	2,909
19	**Multilateral development banks**	440	429
20	**International organisations**	309	295
21	**Institutions**	6,235	7,704
22	**Corporates**	45,315	45,476
23	*Of which: SMEs*	6,804	9,421
24	**Retail**	20,176	18,897
25	*Of which: SMEs*	3,263	3,409
26	**Secured by mortgages on immovable property**	4,481	4,682
27	*Of which: SMEs*	1,011	1,086
28	**Exposures in default**	1,604	1,782
29	**Items associated with particularly high risk**	1,349	1,149
30	**Covered bonds**	1,959	1,510
31	**Claims on institutions and corporates with a short-term credit rating**	-	-
32	**Collective investments undertakings**	3,070	2,738
33	**Equity exposures**	2,189	2,315
34	**Other exposures**	19,587	18,459
35	**Total standardised approach**	225,669	238,705
36	**TOTAL**	733,513	744,630

The table respectively shows the value as at 31 December 2019 and the average value for 2019 of the on- and off-balance sheet exposures, with details of the calculation method and the breakdown by exposure class. With regard to the changes in the aggregates compared to the previous year 2018, there was a slight increase in the value of exposures at the end of the year (+0.8%): this was the result of the negative effect, from the reduction in the “Central governments or central banks" portfolio (-11.3 billion euro), mainly due to the reduction in the Reserve Requirement held at the Bank of Italy, and the positive effect, from the slight increase in “Retail” loans (+5.3 billion euro) and “Corporate” loans (+3.2 billion euro), driven by foreign markets, while growth on the domestic market remained weak and was slowed down by securitisations with underlying performing loans (-8.1 billion euro). The "Equity" portfolio also contributed to the increase in the aggregate during the year (+4.0 billion euro), due to the effects of the authorisation of the "Danish Compromise" – set out in Article 49 of Regulation (EU) 575/2013 – which, as already mentioned, allows holdings classified as significant investments in an insurance company to be weighted in the calculation of the RWAs instead of deducting them from Regulatory Capital. In terms of allocation, the

weight of the various portfolios compared to the overall aggregate remained substantially stable with respect to 2018, while the comparison of the average values for the period shows a slight reduction compared to the year-end figures for the "Central governments or central banks" and "Institutions" portfolios, but within normal fluctuations.

Geographical breakdown of on-balance sheet and off-balance sheet exposures (EU CRB-C EBA GL 2016/11)

(Table 1 of 2)

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2019, with a breakdown by exposure classes and by geographical areas, for the IRB and Standardised approaches.

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2019										
		EUROPE	*of which: France*	*of which: United Kingdom*	*of which: the Netherlands*	*of which: Spain*	*of which: Hungary*	*of which: Italy*	*of which: Luxembourg*	*of which: Germany*	*of which: Croatia*	*of which: Slovakia*
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	42,249	*3,878*	*2,665*	*942*	*930*	*14*	*24,170*	*198*	*1,858*	*17*	*16*
3	Corporates	254,403	*7,738*	*6,159*	*6,208*	*4,806*	*124*	*189,930*	*6,610*	*6,537*	*296*	*5,039*
4	Retail	139,585	*22*	*108*	*16*	*8*	*1*	*131,419*	*11*	*29*	-	*7,720*
5	Equity	8,193	-	-	-	-	-	*8,140*	*44*	-	-	-
6	**Total IRB Approach**	**444,430**	***11,638***	***8,932***	***7,166***	***5,744***	***139***	***353,659***	***6,863***	***8,424***	***313***	***12,775***
7	Central governments or central banks	94,991	*3,286*	*782*	*572*	*14,980*	*1,750*	*59,459*	*991*	*1,715*	*2,097*	*1,288*
8	Regional governments or local authorities	875	*50*	-	-	*15*	*8*	*30*	-	*75*	*190*	*137*
9	Public sector entities	1,601	*74*	-	-	*33*	-	*526*	-	-	*621*	*7*
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
11	International organisations	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	5,258	*561*	*528*	*179*	*248*	*57*	*827*	*822*	*752*	*41*	*1*
13	Corporates	41,223	*582*	*1,907*	*350*	*428*	*2,363*	*22,702*	*1,840*	*888*	*2,725*	*691*
14	Retail	18,434	*3*	*21*	-	*2*	*656*	*8,200*	*16*	*3*	*3,808*	*2,011*
15	Secured by mortgages on immovable property	4,481	-	*3*	-	-	*693*	*1,607*	-	*2*	*1,024*	-
16	Exposures in default	1,554	-	-	-	-	*54*	*992*	*1*	-	*216*	*135*
17	Items associated with particularly high risk	1,341	-	-	-	-	*21*	*1,264*	-	*1*	*19*	-
18	Covered bonds	1,739	*394*	*147*	*70*	*35*	*147*	*455*	*37*	*42*	-	*119*
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	2,717	*4*	*81*	-	-	*9*	*1,526*	*1,015*	-	-	-
21	Equity exposures	1,960	-	*16*	-	-	*3*	*1,820*	*104*	-	*2*	-
22	Other exposures	18,865	-	*1*	-	-	*139*	*14,812*	*213*	*112*	*2,481*	*338*
23	**Total Standardised Approach**	**195,039**	***4,954***	***3,486***	***1,171***	***15,741***	***5,900***	***114,220***	***5,039***	***3,590***	***13,224***	***4,727***
24	**TOTAL**	**639,469**	***16,592***	***12,418***	***8,337***	***21,485***	***6,039***	***467,879***	***11,902***	***12,014***	***13,537***	***17,502***

Geographical breakdown of on-balance sheet and off-balance sheet exposures (EU CRB-C EBA GL 2016/11) *(Table 2 of 2)*

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2019							
		of which: Serbia	*of which: Russia*	AMERICA	*of which: United States*	A S I A	REST OF THE WORLD	*of which: Egypt*	Total
1	Central governments or central banks	-	-	-	-	-	-	-	-
2	Institutions	*10*	*642*	8,582	*2,139*	11,445	2,454	*761*	64,730
3	Corporates	*194*	*7,894*	27,866	*21,881*	10,238	2,134	*131*	294,641
4	Retail	*20*	*12*	52	*38*	49	15	*1*	139,701
5	Equity	-	-	143	*141*	436	-	-	8,772
6	**Total IRB Approach**	***224***	***8,548***	**36,643**	***24,199***	**22,168**	**4,603**	***893***	**507,844**
7	Central governments or central banks	*1,635*	*236*	9,294	*7,971*	6,768	4,279	*2,795*	115,332
8	Regional governments or local authorities	*93*	-	-	-	-	-	-	875
9	Public sector entities	*3*	-	4	*4*	887	256	*256*	2,748
10	Multilateral development banks	-	-	-	-	-	440	-	440
11	International organisations	-	-	-	-	-	309	-	309
12	Institutions	*49*	*58*	672	*556*	156	149	*91*	6,235
13	Corporates	*1,788*	*826*	1,590	*704*	412	2,090	*1,991*	45,315
14	Retail	*1,832*	*75*	36	*4*	13	1,693	*1,691*	20,176
15	Secured by mortgages on immovable property	*773*	*6*	-	-	-	-	-	4,481
16	Exposures in default	*58*	*29*	-	-	-	50	*49*	1,604
17	Items associated with particularly high risk	*15*	-	8	*8*	-	-	-	1,349
18	Covered bonds	-	-	196	-	-	24	-	1,959
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	350	*145*	-	3	*3*	3,070
21	Equity exposures	*2*	-	25	*24*	166	38	*38*	2,189
22	Other exposures	*242*	*49*	16	*14*	4	702	*702*	19,587
23	**Total Standardised Approach**	***6,490***	***1,279***	**12,191**	***9,430***	**8,406**	**10,033**	***7,616***	**225,669**
24	**TOTAL**	***6,714***	***9,827***	**48,834**	***33,629***	**30,574**	**14,636**	***8,509***	**733,513**

This table shows the value as at 31 December 2019 of the on- and off-balance sheet exposures, with details of the calculation method and the breakdown by exposure class and geographical area. With regard to the breakdown by geographical area, in addition to the aggregate value of exposures by macro-area, the table identifies the countries to which the exposure is greater than 6 billion euro, which together represent more than 88% of the total portfolio, with the domestic market accounting for 63.8%. The most significant countries that are not specifically identified are, for (i) Europe: Turkey, Switzerland, Belgium, Ireland and Slovenia; (ii) for America: Brazil, Mexico; (iii) and for Asia: China, Qatar, Japan, United Arab Emirates and India. The aggregate exposure to all these countries, amounting to around 47 billion euro, represented 6.4% of the portfolio.

Concentration of on-balance sheet and off-balance sheet exposures by industry or counterparty types (EU CRB-D EBA GL 2016/11) *(Table 1 of 2)*

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2019, with a breakdown by exposure classes and by industry, for the IRB and Standardised approaches.

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2019										
		Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply; sewage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of vehicles and motorcycles	Transport and storage	Accommodation and food service activities	Information and communications	Financial Institutions
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	643	1	-	-	213	-	2	49,650
3	Corporates	3,194	12,584	78,399	18,821	2,243	21,978	36,705	11,002	3,414	12,640	9,247
4	Retail	3,119	47	5,077	65	114	3,658	7,007	901	2,087	565	-
5	Equity	1	-	174	18	-	247	1	34	1	11	7,685
6	**Total IRB Approach**	**6,314**	**12,631**	**83,650**	**19,547**	**2,358**	**25,883**	**43,713**	**12,150**	**5,502**	**13,218**	**66,582**
7	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
9	Public sector entities	1	6	135	41	10	573	-	16	-	64	-
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	440
11	International organisations	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	-	-	-	-	-	-	-	-	-	-	6,235
13	Corporates	617	496	4,312	941	195	1,683	2,717	706	668	618	22,909
14	Retail	234	6	772	34	27	446	1,167	259	190	69	-
15	Secured by mortgages on immovable property	115	-	258	8	4	83	231	36	98	27	-
16	Exposures in default	15	1	292	1	5	157	221	51	68	14	17
17	Items associated with particularly high risk	-	-	-	-	-	51	2	-	8	-	1,257
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	1,959
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	2,882
21	Equity exposures	-	-	-	-	-	-	28	1	-	26	274
22	Other exposures	-	-	131	-	-	1	-	-	1	2	-
23	**Total Standardised Approach (*)**	**982**	**509**	**5,900**	**1,025**	**241**	**2,994**	**4,366**	**1,069**	**1,033**	**820**	**35,973**
24	**TOTAL**	**7,296**	**13,140**	**89,550**	**20,572**	**2,599**	**28,877**	**48,079**	**13,219**	**6,535**	**14,038**	**102,555**

(*) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 12,245 million euro.

Concentration of on-balance sheet and off-balance sheet exposures by industry or counterparty types (EU CRB-D EBA GL 2016/11) *(Table 2 of 2)*

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2019										
		Governments and Central Banks	Households	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Total
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	32	-	12,521	-	1,658	10	-	64,730
3	Corporates	-	-	13,444	23,791	4,825	-	249	2,486	1,109	38,510	294,641
4	Retail	-	108,804	1,216	3,175	659	3	253	1,499	388	1,064	139,701
5	Equity	-	-	170	379	30	-	-	21	-	-	8,772
6	**Total IRB Approach**	**-**	**108,804**	**14,830**	**27,377**	**5,514**	**12,524**	**502**	**5,664**	**1,507**	**39,574**	**507,844**
7	Central governments or central banks	115,332	-	-	-	-	-	-	-	-	-	115,332
8	Regional governments or local authorities	875	-	-	-	-	-	-	-	-	-	875
9	Public sector entities	-	-	1	53	65	1,600	110	46	25	2	2,748
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	440
11	International organisations	-	-	-	-	-	-	-	-	-	309	309
12	Institutions	-	-	-	-	-	-	-	-	-	-	6,235
13	Corporates	-	4,205	1,592	1,134	317	1	57	126	81	1,940	45,315
14	Retail	-	15,935	432	232	96	1	22	111	29	114	20,176
15	Secured by mortgages on immovable property	-	3,279	103	106	27	1	16	27	8	54	4,481
16	Exposures in default	-	225	256	26	23	-	4	6	6	216	1,604
17	Items associated with particularly high risk	-	-	27	2	-	-	-	-	-	2	1,349
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	1,959
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	188	3,070
21	Equity exposures	1,706	-	5	137	11	1	-	-	-	-	2,189
22	Other exposures	-	-	1	1	-	3	-	-	-	7,202	7,342
23	**Total Standardised Approach (*)**	**117,913**	**23,644**	**2,417**	**1,691**	**539**	**1,607**	**209**	**316**	**149**	**10,027**	**213,424**
24	**TOTAL**	**117,913**	**132,448**	**17,247**	**29,068**	**6,053**	**14,131**	**711**	**5,980**	**1,656**	**49,601**	**721,268**

(*) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 12,245 million euro.

Within a marginal increase in the overall aggregate (+0.7%) in 2019, the distribution of exposures by industry remained substantially stable, with very small absolute and relative changes. There was a small shift between the exposures to "Financial Institutions" (+1.7%) and "Public Administration" (-1.7%), in contrast to the previous year, with time fluctuations that did not alter the substantial stability of the aggregate. This performance reflected the continued adoption of a selective approach to the development of credit, aimed at limiting the overall risk profile, in particular towards the more marginal classes of borrowers in certain sectors traditionally more sensitive to impairment risk, such as "Real Estate Activities", "Construction”, and "Manufacturing Activities". This approach, which has been consistently pursued, has resulted in a steady improvement in the quality of the portfolio.

Breakdown of on-balance sheet exposures by residual maturity (EU CRB-E EBA GL 2016/11)

This table reports the net amount of the on-balance sheet exposures as at 31 December 2019, with a breakdown by exposure classes and by residual maturity, for the IRB and Standardised approaches.

(millions of euro)

		NET EXPOSURE VALUE AS AT 31 DECEMBER 2019					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	-	-	-	-	-	-
2	Institutions	1,626	8,816	4,710	11,162	15	26,329
3	Corporates	7,305	40,884	56,892	38,087	-	143,168
4	Retail	3,906	4,358	12,189	108,722	-	129,175
5	Equity	-	-	1,282	-	7,461	8,743
6	**Total IRB approach**	**12,837**	**54,058**	**75,073**	**157,971**	**7,476**	**307,415**
7	Central governments or central banks	3,883	13,630	33,408	40,682	20,532	112,135
8	Regional governments or local authorities	1	45	197	462	1	706
9	Public sector entities	39	669	531	880	-	2,119
10	Multilateral development banks	-	15	209	126	-	350
11	International organisations	-	15	94	200	-	309
12	Institutions	1,707	1,285	1,283	345	47	4,667
13	Corporates	3,679	8,630	12,441	4,577	54	29,381
14	Retail	3,921	2,199	3,522	4,876	166	14,684
15	Secured by mortgages on immovable property	4	66	510	3,861	-	4,441
16	Exposures in default	137	417	421	452	73	1,500
17	Items associated with particularly high risk	10	57	710	241	13	1,031
18	Covered bonds	-	130	825	1,004	-	1,959
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-
20	Collective investments undertakings	520	99	849	-	385	1,853
21	Equity exposures	-	-	-	-	2,146	2,146
22	Other exposures	486	3,131	5,239	317	10,414	19,587
23	**Total standardised approach**	**14,387**	**30,388**	**60,239**	**58,023**	**33,831**	**196,868**
24	**TOTAL**	**27,224**	**84,446**	**135,312**	**215,994**	**41,307**	**504,283**

This table shows the value of the on-balance sheet exposures as at 31 December 2019, with details of the calculation method and the breakdown by residual maturity. Within a situation of substantial stability (+0.3%) of the total aggregate compared to the end of 2018, the breakdown of exposures by residual maturity shows a sharp reduction both in exposures with no stated maturity (-16 billion euro) and exposures that can be called up on demand (-2.8 billion euro), against an increase in loans with a stated maturity, attributable to the time bands “more than five years" (+15.8 billion euro) and "less than one year" (+3.1 billion euro). This shift resulted in a slight lengthening of the average maturity of the overall aggregate.

Section 7 - Credit risk: credit quality

Qualitative disclosure

Definitions of "non-performing" loans

Non-performing financial assets include loans classified as bad loans, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and the EU Supervisory Regulations.
The definition of non-performing loans as established by the Bank of Italy in Circular 272 of 2008 (and subsequent amendments) also coincides with the definition of "impaired" financial assets contained in IFRS 9, with the consequent recognition of all non-performing loans within Stage 3.

Based on the regulatory framework, supplemented by internal implementing rules, non-performing financial assets are classified into three categories, based on their level of severity: "bad loans", "unlikely to pay" and "non-performing past due exposures":

- bad loans: on- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Bank. This is irrespective, therefore, of whether any collateral or guarantees have been established to cover the exposures. Exposures whose anomalous situation may be attributed to Country risk are excluded from this category;
- unlikely-to-pay loans: exposures for which - according to the judgement of the creditor bank - full repayment is unlikely (in terms of capital or interest, and without considering recourse to actions such as enforcement of collateral arrangements). This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid. As the assessment of unlikelihood of repayment is at the discretion of the Bank, it is not necessary to await an explicit symptom of anomaly (non-repayment), when there are elements that imply a risk of non-compliance by the borrower (for example, a crisis in the industrial sector in which the borrower operates). The set of on- and off-balance sheet exposures toward the same borrower in said situation is therefore classified under the category "unlikely to pay" (unless the conditions for classification of the borrower among bad loans exist). Loans classified as "unlikely to pay" should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to listed debt securities, unless they meet the conditions for classification as bad loans. To this end the "grace period" established by the contract is recognised or, in its absence, the period recognised by the market listing the security.
  The Intesa Sanpaolo Group's policy - in addition to what is expressly and specifically indicated by Circular 272 - envisages that exposures classified as unlikely-to-pay also include non-performing past due or overdrawn loans subject to restructuring and which, following restructuring, no longer have past due days[9]. As envisaged by the reference regulations, classification in the non-performing category is maintained for twelve months following completion of restructuring;
- past-due exposures: on- and off-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis. This is irrespective of whether any collateral or guarantees have been established to cover the exposures.

The Intesa Sanpaolo Group adopts a "per borrower" approach in identifying non-performing exposures. Accordingly, the entire counterparty in the credit relationship is assessed and subsequently classified, rather than the individual credit lines granted to that counterparty.

The type "exposures subject to concessions - forbearance" has also been established. These are exposures subject to renegotiation and/or refinancing due to financial difficulties (evident or in the process of becoming evident) of the debtor, which effectively constitute a subgroup of both non-performing exposures (non-performing exposures with forbearance measures) and performing exposures (other forborne exposures).
Non-performing exposures with forbearance measures do not represent a separate category of non-performing assets, rather, they are a sub-set of the above categories of non-performing assets.

In addition, from November 2019, the Group has early adopted the New Definition of Default. The new regulations – while still confirming the concepts of late payment and unlikely-to-pay status of the debtor – have also made several significant changes mainly relating to:

- "relative" and "absolute" materiality thresholds for the identification of past due for the verification of default, which is automatically calculated if two thresholds (relative and absolute) are exceeded jointly for 90 continuous days; specifically: the relative threshold is equal to 1% of the exposure (previously 5%), to be compared against the ratio of the total amount past due to the total amount of all the exposures recorded in the financial statements with the same debtor; and the absolute threshold is set at 100 euro for Retail exposures and 500 euro for Non-Retail exposures, to be compared against the total amount past due of the debtor;

[9] Maintenance of the restructured exposures in the categories of non-performing loans follows the provisions of the EBA's ITS, according to which a loan that is granted "forbearance measures" must be included under "non-performing" exposures for at least twelve months from the restructuring. This provision is valid solely for restructuring with borrowers having "non-performing" status upon restructuring or that become non-performing directly following restructuring.

- the inability of the Bank to offset past-due exposures existing on some of the debtor's credit lines against available margins existing on other credit lines granted by the same debtor;
- the introduction of a 3-month probation period (starting from the time when the positions no longer meet the conditions to be classified as non-performing past-due exposures or unlikely-to-pay exposures, as applicable) before returning the loan to non-default status;
- specific thresholds as triggers for classification as non-performing loans relating to:
  - distressed restructuring (default is assumed if the loss from renegotiation is more than 1%);
  - sale with loss (default is assumed if the loss associated with the deterioration of the counterparty's credit risk is greater than 5%).

Compared to the rules previously established by the Bank of Italy, the transition to stricter materiality thresholds and the elimination of the offsetting effect of past-due credit lines with margins available on other credit lines of the same debtor are more rigorous features that have led to increases in positions classified as non-performing loans, particularly during the initial phase of the new definition of default. Based on the observation of the rates of return to performing status of new past-due exposures under the new rules, the LGD applicable to this portfolio has been recalibrated for analytical/statistical purposes.
Specifically, following the early adoption of the New Definition of Default, the Group recorded an increase of 623 million euro (gross amounts) in non-performing exposures, compared to the time of transition to the new definition, of which 566 million euro relating to past-due exposures and 57 million euro to other non-performing loans. The past-due loans aggregate as at 31 December 2019 also includes 100 million euro of loans that are subject to the new 3-month probation period. With regard to the income statement effects associated with first-time application of the New Definition of Default, there has been an overall impact of around 60 million euro in higher adjustments.

Non-performing assets are subject to a measurement process resulting in the calculation of the expected loss for uniform categories (identified based on the risk status, duration of risk status and significance of the exposure represented) and the allocation of the value adjustment for each position.
Non-performing loans are measured using two methods:
- analytical-statistical measurement: for exposures equal to or lower than given thresholds, and for all past due and/or overdrawn exposures, based on the use of specific LGD grids;
- specific analytical measurement: for exposures above certain thresholds based on write-down estimates allocated by the relationship manager, following analyses and valuations based on pre-established criteria.

In addition to the valuation component determined through statistical valuation models or through individual expert evaluation, a component is calculated to take into account the evolution of the current operational variables, the future macroeconomic scenarios, and the incremental risk of the counterparty as long as it remains in the specific risk status for unlikely-to-pay exposures (vintage), as well as the sales prospects if present.

The measurements are carried out upon classification of the exposures as non-performing loans and are reviewed periodically.
The measurement of the loans is reviewed whenever a new event occurs that could affect the prospects for recovery (e.g. change in the value of assets on which collateral has been acquired, developments in ongoing litigation, etc.).
In order to identify such events rapidly, the information set relative to borrowers and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.

With reference to non-performing past-due loans and unlikely to pay loans, the local organisational units (at regional level) that perform specialist activities, or the Head Office Department structures which are responsible for the overall management and coordination of these matters, are identified as the structures responsible for their management, based on pre-determined thresholds of increasing materiality.

With regard to loans classified as unlikely-to-pay (UTP), since December 2019 the Group has adopted a new organisational arrangement, under which the recovery of a portfolio of UTP loans in the Corporate and SME segment of the Intesa Sanpaolo Group has been assigned to a specialist external servicer (Prelios), a market leader in UTP loans, with which a partnership has been established aimed at maximising the return of loans to performing status.
This partnership adds to the strategic partnership concerning bad loans entered into with Intrum in 2018 and will enable the Intesa Sanpaolo Group to focus on the proactive management of loans in the initial stages of impairment, through the use of the best external platforms for the management of subsequent stages, and to further speed up the achievement of the target set in the 2018-2021 Business Plan for the reduction of non-performing loans.
Within the CLO area, the NPE Head Office Department has the task of liaising with the Servicer in the operational management.
The activity performed by the external servicers is monitored by the designated internal units of the Group.

The classification of positions within non-performing financial assets is undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of the monitoring and recovery of non-performing loans. Classification also involves the use of automatic mechanisms when given objective default conditions arise. This refers, for example, to past-due loans continuously above certain thresholds for certain periods, and to forborne performing positions that have not yet completed their 12-month probation period, if the conditions are identified for the reallocation of those exposures to non-performing loans through the verification of objective parameters.
Furthermore, automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group's various intermediaries are subject to the required uniform convergence of management decisions. Materiality is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.

Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.

The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.

Exposures classified amongst "past-due loans" automatically become performing when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as unlikely to pay when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.

In any event, all the non-performing exposures, not subject to forbearance measures must continue to be classified as such for at least 3 months after they cease to meet the requirements for being classified as non-performing past-due exposures or unlikely-to-pay exposures, as applicable.

The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area performs the level two control on the individual counterparties with non-performing loans, to verify their correct classification and/or adequate provisioning.

Forborne exposures

Forbearance measures are concessions made to a borrower that is facing, or could face, situations of difficulty in meeting their contractual commitments that would prevent them from meeting their original payment obligations (troubled debt).
The term "forbearance measures" indicates contractual modifications granted to the borrower undergoing financial difficulties (modification), as well as the disbursement of a new loan in order to satisfy the pre-existing obligation (refinancing). "Forbearance measures" include contractual modifications, which may be freely requested by a borrower with regard to a contract already signed, but only if the lender believes that there are circumstances indicating that the borrower is in financial difficulty (the so-called "embedded forbearance clauses"). The concept of "forborne" therefore does not include renegotiations carried out due to commercial reasons/practices, which do not take into account the financial difficulties of the borrower.

In many cases, a situation of financial difficulty is accompanied by a situation of economic instability of the borrower, consisting of the inability of the core business to remunerate all the production factors that the company needs, through the usual sources of cash and at normal market conditions.

The identification of "forborne assets" or "forborne exposures", in line with the provisions of the EBA regulations and unlike the "per borrower" approach used by the Intesa Sanpaolo Group for the classification of non-performing exposures, necessarily takes place on a "per transaction" basis. The term "exposure" in this context refers to the renegotiated individual contract, rather than all the exposures to the same borrower.

More generally, the Intesa Sanpaolo Group's policy, based on the instructions provided by the Supervisory Authorities, contains components for the identification of the financial difficulty (of the performing borrower) which, in the event of renegotiation/refinancing, entails the classification of one (or more) credit line(s) among those being granted, if at least one of the following conditions applies:
- a significant deterioration in the debtor's rating identified in the previous three months;
- the presence of exposures past due by thirty days or more at the date of the measure;
- Early Warning System (EWS) traffic light at "red", associated with a rating in the highest risk band.

The definition of forborne exposure applies transversally to the loan classification macro-categories (performing and non-performing). Forborne assets can therefore be included in both the stage 3 exposures (non-performing forborne loans or non-performing transactions subject to forbearance measures) and the stage 2 exposures.
When a forbearance measure is extended to a performing counterparty, for the purposes of allocation to stage 2 (classification by line) or stage 3 (classification by counterparty), reference is made to the quantitative (lower financial requirement indicator set at 1%) and/or qualitative assessments envisaged in the EBA Guidelines on the application of the definition of default pursuant to Article 178 of Regulation (EU) 575/2013.

According to the Intesa Sanpaolo Group's interpretations, the identification of an exposure as forborne necessarily implies the existence of a "significant increase" in risk since the origination of the loan (and, therefore, a classification in stages 2 or 3, at the time of assignment of the forborne status).

Unlike the forbearance measures, which relate to loans to borrowers in financial difficulty, renegotiations for commercial reasons involve borrowers that are not in financial difficulty and include all transactions aimed at adjusting the cost of the debt to market conditions.
Transactions involving commercial renegotiations result in a change in the original conditions of the contract, usually requested by the borrower, which normally relate to aspects concerning the cost of the debt (or its duration), with a consequent economic benefit for the borrower. In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer would borrow from another intermediary and the bank would incur a decrease in *expected future revenues*.
These operations, under certain conditions, are treated for accounting purposes as an early repayment of the original debt and the opening of a new loan

Description of the methods adopted to calculate the adjustments

At each reporting date, pursuant to IFRS 9, financial assets other than those measured at fair value through profit or loss are subject to an assessment aimed at verifying whether there is any evidence that the carrying value of the assets may not be fully recoverable. A similar analysis is also performed for loan commitments and for guarantees given that must be tested for impairment under IFRS 9.
In preparation for the determination of the impairment losses, at each reporting date the financial instruments must be assigned to the following categories (Stage Assignment or Staging):

- Stage 1: comprising financial instruments for which, from their initial recognition up to the reporting date, there is no evidence of a significant increase in credit risk;
- Stage 2: which comprises financial assets that have had a significant increase in credit risk since initial recognition;
- Stage 3: if there is evidence of impairment, these financial assets – in line with any other assets pertaining to the same counterparty – are considered impaired and are therefore included in Stage 3.
  The impaired exposures consist of financial assets classified in the categories of bad loans, unlikely-to-pay (UTP) loans and exposures past due by more than ninety days, defined in Bank of Italy Circular 272/2008.
  For details of the significance of the above for the classification of non-performing exposures, see Part A – Accounting Policies (General criteria) regarding the early adoption of the New Definition of Default, and Part E – Section 3 - Non-performing credit exposures in the 2019 Consolidated financial statements.

Impairment of performing financial assets

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

- where these indicators exist, the financial asset is included in stage 2. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of value adjustments equal to the lifetime expected credit losses of the financial instrument. These adjustments are subject to revision at each subsequent reporting date, both to periodically check their consistency with the continuously updated loss estimates and to take account – if the indicators of "significantly increased" credit risk are no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, in compliance with international accounting standards and despite the absence of an actual impairment, the measurement consists of the recognition of the 12-month expected credit losses for the specific financial instrument. These adjustments are subject to revision at each subsequent reporting date both to periodically check their consistency with the continuously updated loss estimates and to take into account – if there are indicators that the credit risk has "significantly increased" – the change in the forecast period for the calculation of the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being measured as stage 2), the following factors constitute the key elements to be taken into account, in accordance with the standard and its operational implementation by the Intesa Sanpaolo Group:

- the variation (beyond set thresholds) of the lifetime probabilities of default compared to the time of initial recognition of the financial instrument. This is therefore an assessment made on a "relative" basis, which constitutes the main driver;
- the presence of a past due position that – subject to the materiality thresholds identified by the regulations – has been in that status for at least 30 days. If these circumstances apply, the credit risk of the exposure is considered to have "significantly increased" and the exposure is therefore transferred to stage 2 (when the exposure was previously included in stage 1);
- the presence of forbearance measures, which – again on a presumption basis – result in the classification of the exposures under those whose credit risk has "significantly increased" since initial recognition;
- lastly, for banks belonging to the international scope, some of the indicators from the credit monitoring systems specifically used by each bank are also considered for the purposes of the transfer between "stages" where appropriate. This refers in particular to the watch lists, i.e. the credit monitoring systems that – based on the current credit quality of the borrower – place performing exposures above a certain level of risk within a particular range.

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk ("SICR") is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a Lifetime PD to the individual relationships is carried out by allocating the ratings for each segment according to the masterscale at both the initial recognition date and the observation date. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the Benchmark PDs are assigned to the type of counterparty being assessed.
The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.
The above-mentioned "relative" change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.

The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:
- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

Some specific considerations apply for the "staging" of the debt securities. Unlike loans, for this type of exposure, sales and purchases after initial recognition (made using the same ISIN) may form part of the ordinary management of the positions (with the consequent need to identify methods to be adopted for identifying the sales and repayments in order to determine the remaining quantities of the individual transactions that need to be allocated a credit quality/rating upon origination to be compared with that parameter at the reporting date). In this regard, the use of the "first-in-first-out" or "FIFO" method (for the recognition of the recorded ECL in the income statement, in the event of sales or repayments) was considered to help in providing a more transparent management of the portfolio, also for the front office operators, while also enabling the continued updating of the credit rating based on new purchases.

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.
The following definitions apply for PD, LGD and EAD:
- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In the Intesa Sanpaolo Group, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

As mentioned above, in order to comply with IFRS 9, specific adjustments had to be made to these factors, including in particular:
- adoption of a Point in Time (PIT) PD compared to the Through the Cycle (TTC) PD used for Basel purposes;
- removal of some additional components from the TTC LGD, such as indirect costs (non-recurring costs) and an additional margin of conservatism specifically introduced for the regulatory models, as well as the component linked to the economic downturn;
- the use of PDs and, where necessary, multi-period LGDs, to determine the lifetime expected loss of the financial instrument (stages 2 and 3);
- the use of the effective interest rate of the individual transaction in the discounting of the expected future cash flows, unlike in the regulatory models, where the individual cash flows are discounted using the discounting rates determined in compliance with the prudential regulations.

In relation to the multi-period EAD, in line with IFRS 9 the Intesa Sanpaolo Group refers to the plans at amortised cost for both loans and debt securities, regardless of the measurement method used (amortised cost or fair value through other comprehensive income). For loan commitments (margins), on the other hand, the EAD is assumed to be equal to the nominal amount weighted according to a specific Credit Conversion Factor (CCF).

The measurement of the financial assets also reflects the best estimate of the effects of current and future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the "risk" of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the "Most likely scenario+Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely", in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank's Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.
In particular, the most likely scenario and alternative scenarios are determined using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:
- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- stock market indices (DJ Eurostoxx 50 and S&P 500);
- some specific data for the Italian economy (industrial production, real estate prices, employment, public finance balances).

These forecasts are then processed using the Oxford Economics multi-country structural Global Economic Model, where they replace the forecast paths of the baseline scenario provided by the company with the periodic updating of the database. The model is then solved to derive a consistent global forecasting framework, including variables for which no specific models have been developed, and to obtain a simulation environment that can be used to generate alternative scenarios. This step may require some iterations, particularly if the forecasting framework generated internally is significantly different from the one

provided by Oxford Economics. If this is the case, further fine-tuning may be needed for specific secondary variables that the analysts consider to be inconsistent with the forecast scenario or that have an unexplainable quarterly volatility.
The alternative paths are selected using external information. In particular:

- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P 500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

The percentile value identified is used, for the most likely scenario, to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.
In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.
The following is assessed for these events/scenarios:

- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.
Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.
The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.
Where there is considerable uncertainty in the national and international macroeconomic forecasts, as well as significant deviations in terms of best-case forecasts with respect to the TTC scenario, prudential factors may be introduced in relation to the deviations in the minimum and maximum values of the variables based on the above-mentioned consensus or historical figures.
The above macroeconomic scenarios (most likely and alternative scenarios) are used in internal models to determine the point-in-time (PIT) parameters.
Specifically, the time series of decay rates acquired from the Bank of Italy are differentiated over the main economic macro-sectors (e.g. consumer households, family businesses, construction) and, for each of these, specific satellite models establish the relationships with the macroeconomic variables in order to obtain the forecast decay rates. In turn, these impact the TTC transition matrices between rating classes and thus provide the PIT transition matrices for each scenario (most likely and alternative scenarios). These give rise to the lifetime conditional PD. A similar process is used to determine the PIT LGD grids.

To capture the uncertainty in the estimation models and to prudently compensate for any potential lower explanatory power of some macroeconomic variables, when there are significant (best-case) deviations in the forecasts with respect to the TTC situation, a management overlay is applied, determined based on a process involving the Credit Risk and Pillar 2 Models Committee.
Taking account of the repayment plans of the individual loans, their conditional PD and LGD, residual maturity and staging, the impairment of performing financial assets is determined.

Impairment of non-performing financial assets
Non-performing loans are represented by bad loans, unlikely to pay and past due positions by more than 90 days.

Non-performing loans classified as bad loans are subject to the following measurement methods:

- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of information linked to the evolution of the current conditions related to management variables highly correlated with the loss performance and forward-looking information relating to the impact of expected future macroeconomic scenarios (as described in the previous paragraphs);
- analytical-specific measurement, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, also based on the evolution of the current conditions, plus an Add-On to take account of forward-looking information, and in particular information relating to the impact of future macroeconomic scenarios (except for bad loans backed by mortgage collateral or relating to property leases for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral).

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:

- analytical-statistical measurement, for exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to take account of the already mentioned information linked to the current conditions and the impacts of future

macroeconomic scenarios, as well as continuation in the risk status, in order to penalise positions with greater vintage or which have no movements and/or recoveries for a particular period of time;
- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, following specific analyses and assessments also based on the evolution of the current conditions, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios and of continuation in the risk status.

For Group companies, the threshold value for analytical-statistical measurement is set by the competent bodies of the individual companies, in coordination with the structures of Intesa Sanpaolo, at a level that is not, in any event, higher than that set by the Parent Company.

Regardless of the division of these exposures between those subject to analytical-statistical measurement and those subject to analytical-specific measurement (as identified above), the add-ons envisaged include the sales scenarios for the disposable non-performing loans if the business plan and the NPL reduction plan envisage sales and those sales have not yet been carried out. The valuation of the disposable non-performing loans therefore considers the possibility of also realising these loans through their sale.

Non-performing loans classified in the past-due loans category, on the other hand, are subject to analytical measurement based on statistics, regardless of the amount of the exposure. However, also in this case, the adjustment determined based on the LGD statistical grids is supplemented to take account of the Add-On attributable to the effect of the evolution of the current conditions and the future macroeconomic scenarios.

Credit exposures must continue to be carried as non-performing for at least three months after they cease to meet the requirements for being classified as such (the “probation period”). Until the conditions are met for reclassification out of the non-performing category, such exposures are retained in their respective risk classes and measured according to an analytical-statistical or an analytical-specific approach taking account of their lower risk level.

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:
- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, the targets and strategies for reduction of the non-performing loans set out in the “NPL Plan”, and any mitigating factors (collateral), taking into account the financial impact of the estimated recovery time.

  For bad loans in particular, a series of elements are relevant, which differ according to the characteristics of the positions, and must be thoroughly and prudently assessed, including the following, listed merely as examples:
  - nature of the credit, whether preferential or unsecured;
  - net asset value of the borrowers/third party collateral providers;
  - complexity of existing or potential litigation and/or the underlying legal issues;
  - exposure of the borrowers to the banking system and other creditors;
  - last available financial statements;
  - legal status of the borrowers and any pending insolvency and/or individual proceedings.

  In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the time series of recoveries and the forward-looking information in accordance with IFRS 9, an approach is applied focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid duplications, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.
  For real-estate bad loans arising from lease contracts, in view of the particular nature of the product (lack of auctions), the haircut is estimated as the depreciation of the asset with respect to the appraised value observed at the time of classification as non-performing and the actual price of sale.

  In addition, for unlikely-to-pay loans, the measurement is based on a qualitative and quantitative analysis of the borrower’s financial position and on precise assessment of the risk situation.
  The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:
  - the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions. Similarly to the case of bad loans, haircuts are also used in measuring real-estate collateral for unlikely-to-pay positions. For going-concern positions, these haircuts are determined on the basis of the haircuts applied in the liquidation process (gone-concern bad loan or UTP position), while applying a calibration factor equal to the probability of migration of the UTP positions to the bad loan category;
  - the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's

credit claim, net of the application of a haircut (determined as for bad loans) and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;

- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.

  With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status ("vintage") and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).

  For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans. The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.
  In addition, for the two subclasses of the "Unlikely-to-Pay Loans" risk status ("Non-Forborne Unlikely-to-Pay Loans" and "Forborne Unlikely-to-Pay Loans"), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.

  For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.

  Also in the LGD estimation models used in the analytical-statistical measurement of non-performing exposures, several additional components specifically included for regulatory models were removed, similar to that illustrated for performing exposures.

With regard to the inclusion of current and forward looking information, it should be noted that, also in relation to non-performing exposures, in addition to a component linked to management variables applied by the manager for the specific analytical measurements and based on a specific Add-On for statistical analytical measurements, a component linked to the most-likely and downside scenarios expected over the period of the next three years has been considered, according to the criteria already described.
In fact, as required by IFRS 9, the effects of the forward-looking scenario on LGD estimates must also be considered using the above-mentioned component. As already stated, the forward-looking scenario component is aimed at capturing the non-linearity of the relationship between the macroeconomic variables and ECL measurement, by analysing the forecast uncertainty of the variables used for the preparation of the most-likely scenario. It is based on the methodological framework that is used for performing loans, but ignores the upside scenario from a prudential perspective and only considers the average downside and most-likely scenarios over the period of the next three years.

Also in terms of future scenarios, with regard to the unlikely to pay category, which includes positions that are still performing but show signs of difficulty, both for positions with analytical-specific measurement and those with analytical-statistical measurement, when there are no effective forbearance measures, an additional component shall be applied (in addition to the aforementioned add on from the macroeconomic scenario) to reduce the recoverable amount of the positions based on their vintage in the risk status and the absence of movements and/or recoveries in a specific period of time.

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.
In particular, in its "NPL Guidance" published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors, identified significant de-risking as one of its key priorities, also by selling a portfolio of bad loans.

Consequently, the "ordinary" scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy.

In compliance with the "NPL Guidance" the business strategies regarding NPL reduction are illustrated in the "NPL plan", a document approved by the Board of Directors to be sent to the Supervisory Authority and updated annually.
Where said document identifies disposal objectives and strategies and, as a result, a portfolio of non-performing loans that may be disposed of, until the disposal objectives are reached, the loans and receivables included in that portfolio shall be measured taking account of both the amount recoverable through operating activities and market valuations (based on external appraisals) and/or sales prices, if already defined.
Where the "NPL plan" specifically identifies the positions to be sold, those positions shall be measured exclusively taking account of the market values established by external experts, based on a specific fairness opinion or, if already defined through a binding agreement with the buyer, the sales price.
Where the "NPL plan" identifies a larger loan portfolio that may be sold represented by loans that are disposable (thus, for example, positions that are not involved in disputes, are not securitised or are not a portion of syndicated loans), in relation to the sales objectives, the book value of said portfolio is determined by weighting the amount recoverable through operating activities with the amount recoverable through sale.

In particular, the recoverable amount of disposable non-performing loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that the Group expects to sell and the percentage that management expects to keep in the portfolio. The "collection amount" was determined according to the ordinary methods adopted by the Group for the impairment of non-performing loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the "below-threshold" exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale is carried out by an external expert.

As already mentioned, the purchased or originated credit-impaired (POCI) financial assets have specific features in terms of impairment. As a result, value adjustments equal to the lifetime ECL must be recognised on these instruments from their initial recognition date and for their entire lifetime. At each subsequent reporting date, the amount of the lifetime ECL must therefore be adjusted, with the recognition through profit or loss of the amount of any change in lifetime expected credit losses as a gain or an impairment loss. In view of the above, POCI financial assets are initially recognised in stage 3, subject to the possibility of being subsequently transferred to the performing loans stage, even if an expected loss equal to the lifetime ECL will continue to be recognised.

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the – full or partial – write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:

a) uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
b) disposal of the loan;
c) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
d) no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.
   Therefore, on a periodic basis, the Group identifies the bad loan portfolios to be subject to total or partial write-offs:
   - when they jointly have a percentage cover of >95% and a vintage (understood as the period of time in "bad loan" status) of >5 years or >8 years, respectively, for non-mortgage and mortgage loans;
   - they have similar characteristics that are different from those indicated above, but that relate to exposures that have a marginal possibility of recovering the amount of the provision, where the minimum amount of the provision is at least equal to the amount needed to bring the value of the exposures up to their fair value estimated based on the prices recorded in the latest sales of non-performing loans made by the Group.

Non-Performing Exposures (NPE) disclosure

This section contains quantitative information on credit quality, supplemented to reflect the new disclosure requirements for non-performing exposures and forborne exposures established by the EBA guidelines (EBA/GL2018/10) published in December 2018.

Quantitative disclosure

The quantitative information on the credit quality of the exposures is provided below. For additional information see Part E of the Notes to the Consolidated Financial Statements.

Credit quality of on-balance sheet and off-balance sheet credit risk exposures by exposure class and instrument as at 31 December 2019 (EU CR1-A EBA GL 2016/11)

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Write-offs on NPE during the reporting period (**)	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD (***)				NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)					TOTAL	on non-performing exposures	on performing exposures	of which due to write-offs	(a+ b -c-d)
1	**Central governments or central banks**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2	**Institutions**	491	64,455	216	-	14	-	11	6	5	-	64,730
3	**Corporates**	21,206	284,881	11,446	-	6,729	1,038	1,075	1,153	-78	-18	294,641
4	*- Of which: Specialised lending*	*1,412*	*17,244*	*841*	-	*73*	*2*	*107*	*95*	*12*	-	*17,815*
5	*- Of which: SMEs*	*12,196*	*61,288*	*6,997*	-	*4,516*	*813*	*504*	*555*	*-51*	*-6*	*66,487*
6	**Retail**	**8,872**	**135,942**	**5,113**	**-**	**1,241**	**410**	**334**	**371**	**-37**	**4**	**139,701**
7	Secured by real estate property	3,613	99,243	1,294	-	106	-	39	123	-84	1	101,562
8	*- SMEs*	*957*	*4,675*	*407*	-	*72*	-	*43*	*53*	*-10*	-	*5,225*
9	*- Non-SMEs*	*2,656*	*94,568*	*887*	-	*34*	-	*-4*	*70*	*-74*	*1*	*96,337*
10	Qualifying revolving	-	-	-	-	-	-	-	-	-	-	-
11	Other retail	5,259	36,699	3,819	-	1,135	410	295	248	47	3	38,139
12	*- SMEs*	*3,361*	*16,211*	*2,435*	-	*809*	*331*	*136*	*150*	*-14*	*2*	*17,137*
13	*- Non-SMEs*	*1,898*	*20,488*	*1,384*	-	*326*	*79*	*159*	*98*	*61*	*1*	*21,002*
14	**Equity**	**88**	**8,684**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,772**
15	**Total IRB approach**	**30,657**	**493,962**	**16,775**	**-**	**7,984**	**1,448**	**1,420**	**1,530**	**-110**	**-14**	**507,844**
16	Central governments or central banks	-	115,408	76	-	-	-	38	-	38	-	115,332
17	Regional governments or local authorities	-	879	4	-	-	-	2	-	2	-	875
18	Public sector entities	-	2,765	17	-	-	-	4	-	4	-	2,748
19	Multilateral development banks	-	440	-	-	-	-	-	-	-	-	440
20	International organisations	-	309	-	-	-	-	-	-	-	-	309
21	Institutions	-	6,337	102	-	-	1	-1	-1	-	-	6,235
22	Corporates	-	45,502	187	-	-	31	-2	-1	-1	1	45,315
23	*- Of which: SMEs*	-	*6,869*	*65*	-	-	-	*6*	*2*	*4*	-	*6,804*
24	Retail	-	20,346	170	-	-	18	13	28	-15	4	20,176
25	*- Of which: SMEs*	-	*3,300*	*37*	-	-	-	*24*	*29*	*-5*	-	*3,263*
26	Secured by mortgages on immovable property	-	4,521	40	-	-	-	-1	-1	-	-	4,481
27	*- Of which: SMEs*	-	*1,031*	*20*	-	-	-	*2*	*6*	*-4*	-	*1,011*
28	Exposures in default (****)	3,418	-	1,814	-	150	26	89	86	3	25	1,604
29	Items associated with particularly high risk	-	1,674	325	-	-	4	3	13	-10	-	1,349
30	Covered bonds	-	1,959	-	-	-	-	-	-	-	-	1,959
31	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
32	Collective investments undertakings	-	3,070	-	-	-	-	-23	-	-23	-	3,070
33	Equity exposures	-	2,189	-	-	-	-	-	-	-	-	2,189
34	Other exposures	-	19,710	123	-	-	-	25	-	25	-	19,587
35	**Total standardised approach**	**3,418**	**225,109**	**2,858**	**-**	**150**	**80**	**147**	**124**	**23**	**30**	**225,669**
36	**Total**	**34,075**	**719,071**	**19,633**	**-**	**8,134**	**1,528**	**1,567**	**1,654**	**-87**	**16**	**733,513**
37	Of which: Loans (*****)	31,599	387,702	18,732	-	8,134	1,528	1,553	1,629	-76	16	400,569
38	Of which: Debt securities	47	93,194	416	-	-	-	14	-	14	-	92,825
39	Of which: Off-balance-sheet exposures	2,341	227,374	485	-	-	-	-	25	-25	-	229,230

(*) Includes the specific credit risk adjustments on non-performing assets and portfolio adjustments on performing assets.

(**) The reference period is the second half of 2019. The amounts refer to existing positions at the end of the reporting period.

(***) Net adjustments (+) or recoveries (-) referring to the second half of 2019 The amounts refer to existing positions at the end of the reporting period.

(****) With regard to the standardised approach, the gross value of defaulted exposures may be broken down as follows by original portfolio (prior to classification as defaulted): 1 million euro attributable to the Central governments and central banks portfolio, 16 million euro attributable to the Public sector entities portfolio, 625 million euro attributable to the Exposures secured by real estate property portfolio, 1,531 million euro attributable to the Corporates portfolio, 1,242 million euro attributable to the Retail portfolio, 1 million euro attributable to the Other exposures portfolio and 2 million euro attributable to the Institutions portfolio.

(*****) In addition to Loans, the caption includes other items that have been included in credit risk from a prudential standpoint.

Please note that the values shown in the table include revocable margins.

At the end of 2019, the performing portfolio showed a slight decline compared to June 2019 (-0.4% in gross values and -0.7% in net values), attributable to changes in the Loans component (-14.5 billion euro), partially offset by the Securities component (+10.1 billion euro), which continued the trend already seen in the first half, resulting in a shift of 19 billion euro from one segment to the other during the year. The contribution from the commercial development of the loans to customers, based on a selective approach, remained limited in a situation of continued weak economic performance in the domestic market, with no change in retail loans and a slight decline in loans to companies, which were also considerably affected by several synthetic securitisations with underlying performing loans on exposures in the Corporate (-4.1 billion euro), Corporate SME (-3.2 billion euro) and Mortgage segments (-0.8 billion euro), totalling around -8.1 billion euro. The increase in loans to customers was generally stronger in the Group's international markets, especially in Croatia, Russia and the United States. Loans to Companies showed a shift towards larger amounts, with a reduction in short-term domestic loans and an increase in more complex forms of lending (Structured Finance), also to non-resident customers and extending to the subscription of debt instruments. The favourable change in the Securities segment mainly reflects the expansion of short-term transactions, assuming financial positions characterised by investment grade profiles (Eurozone), as well as, to a lesser extent, forms of customer lending with the subscription of debt instruments. The significant reduction (-10.9 billion euro) in the “Central governments or central banks" portfolio was mainly due to the reduction in the Reserve Requirement held at the Bank of Italy. The credit quality of the portfolio benefited from the gradual reduction on defaulting exposures (-3.6% billion euro for the half-year and -5.9 billion euro for the year), with recovery of the financial stability of counterparties that were in difficulty, together with a widespread improvement in the risk profile of the borrower customers, which was reflected in a reduction in the level and flow of adjustments. This reduction was also attributable to the sale and securitisation, as part of the Group’s de-risking strategy, of a portfolio of unlikely-to-pay exposures in the Corporate and Corporate SME segments (-2.7 billion euro gross book value). The increase recorded in "Equity" (+3.9 billion euro) was mainly due to the approval of the application for authorisation to adopt the "Danish Compromise" – set out in Article 49 of Regulation (EU) 575/2013 – which, as already mentioned, allows holdings classified as significant investments in an insurance company to be weighted in the calculation of the RWAs instead of deducting them from Regulatory Capital. With regard to the valuation methods used for the exposures shown in the table, the level of use of advanced approaches (68.7% of the aggregate) increased slightly during the half-year.

Quality of non-performing exposures by geography as at 31 December 2019 (Template 5 EBA GL 2018/10)

(millions of euro)

		GROSS CARRYING VALUE				ACCUMULATED IMPAIRMENT	PROVISIONS ON OFF-BALANCE-SHEET COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK ON NON-PERFORMING EXPOSURES
		Total	Of which non-performing		Of which subject to impairment			
				Of which defaulted				
1	**ON-BALANCE-SHEET EXPOSURES**	**533,063**	**31,752**	**31,752**	**530,963**	**19,092**		**19**
2	Italy	352,535	29,659	29,659	350,900	17,311		19
3	United States	22,048	42	42	22,041	37		-
4	United Kingdom	21,454	2	2	21,379	14		-
5	Spain	17,841	3	3	17,841	10		-
6	France	10,548	57	57	10,354	12		-
7	Slovakia	13,469	442	442	13,469	340		-
8	Germany	7,979	89	89	7,978	69		-
9	Croatia	8,593	478	478	8,593	397		-
10	Luxembourg	5,633	2	2	5,620	13		-
11	Russia	7,505	73	73	7,505	63		-
12	Ireland	2,617	-	-	2,617	24		-
13	Netherlands	3,395	-	-	3,381	4		-
14	Egypt	5,189	122	122	5,189	125		-
15	Serbia	4,950	94	94	4,950	111		-
16	Hungary	4,226	140	140	4,147	115		-
17	Turkey	2,519	-	-	2,519	25		-
18	Other Countries	42,562	549	549	42,480	422		-
19	**OFF-BALANCE-SHEET EXPOSURES**	**238,747**	**2,345**	**2,345**			**450**	
20	Italy	126,777	2,214	2,214			340	
21	United States	18,688	30	30			5	
22	United Kingdom	8,305	-	-			3	
23	Spain	3,617	-	-			1	
24	France	8,995	-	-			-	
25	Slovakia	3,262	23	23			9	
26	Germany	5,827	5	5			2	
27	Croatia	2,007	36	36			31	
28	Luxembourg	4,534	-	-			3	
29	Russia	2,557	-	-			2	
30	Ireland	7,291	-	-			15	
31	Netherlands	4,974	-	-			-	
32	Egypt	1,473	8	8			8	
33	Serbia	1,205	9	9			3	
34	Hungary	1,082	1	1			4	
35	Turkey	2,046	-	-			1	
36	Other Countries	36,107	19	19			23	
37	**TOTAL**	**771,810**	**34,097**	**34,097**	**530,963**	**19,092**	**450**	**19**

This table only includes countries towards which the Group has on- and off-balance sheet exposures that exceed the threshold of 4.5 billion euro shown in descending order of overall exposure (which represents around 90% of the total exposure).
The total on-balance sheet exposures amounting to 533,063 million euro include 2,100 million euro of exposures not subject to impairment. This geographical breakdown is in line with 2018.

Credit quality of non-performing and performing exposures by past due days as at 31 December 2019 (Template 3 EBA GL 2018/10)

This table reports the gross values of on- and off-balance sheet exposures by risk status. For the on-balance sheet exposures, the table shows the breakdown by past-due band.

(millions of euro)

		GROSS CARRYING VALUES											
		PERFORMING EXPOSURES			NON-PERFORMING EXPOSURES								
		Total	Not past due or Past due ≤ 30 days	Past due > 30 days ≤ 90 days	**Total**	Unlikely to pay that are not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	*Of which defaulted / impaired*
1	**Loans and advances**	**398,736**	**396,980**	**1,756**	**31,617**	**5,746**	**593**	**1,910**	**2,973**	**8,006**	**4,648**	**7,741**	***31,617***
2	Central banks	2,067	2,067	-	-	-	-	-	-	-	-	-	-
3	General governments	16,104	15,717	387	336	103	-	-	-	84	33	116	*336*
4	Credit institutions	18,679	18,679	-	100	96	-	-	-	4	-	-	*100*
5	Other financial corporations	58,701	58,055	646	698	252	25	27	63	131	41	159	*698*
6	Non-financial corporations	164,163	163,810	353	23,660	4,115	354	1,513	2,221	6,037	3,656	5,764	*23,660*
7	*Of which SMEs*	*61,826*	*61,597*	*229*	*16,852*	*2,149*	*229*	*647*	*1,179*	*4,478*	*3,015*	*5,155*	*16,852*
8	Households	139,022	138,652	370	6,823	1,180	214	370	689	1,750	918	1,702	*6,823*
9	**Debt securities**	**102,575**	**102,571**	**4**	**135**	**30**	**-**	**-**	**2**	**80**	**-**	**23**	***135***
10	Central banks	113	113	-	-	-	-	-	-	-	-	-	-
11	General governments	73,971	73,967	4	29	18	-	-	2	7	-	2	*29*
12	Credit institutions	7,953	7,953	-	-	-	-	-	-	-	-	-	-
13	Other financial corporations	16,025	16,025	-	70	9	-	-	-	61	-	-	*70*
14	Non-financial corporations	4,513	4,513	-	36	3	-	-	-	12	-	21	*36*
15	**Off-balance-sheet exposures**	**236,402**			**2,345**								***2,345***
16	Central banks	1,573			-								-
17	General governments	8,193			5								*5*
18	Credit institutions	34,157			10								*10*
19	Other financial corporations	25,280			94								*94*
20	Non-financial corporations	156,014			2,190								*2,190*
21	Households	11,185			46								*46*
22	**TOTAL**	**737,713**	**499,551**	**1,760**	**34,097**	**5,776**	**593**	**1,910**	**2,975**	**8,086**	**4,648**	**7,764**	***34,097***

The above table shows that the gross NPE ratio as at 31 December 2019 was 7.35%, calculated as per EBA LG 2018/10, i.e. the ratio of the gross value of non-performing loans and advances to the gross value of total loans and advances.
The breakdown by past-due band non-performing and performing exposures was essentially in line with the previous period.

Performing and non-performing exposures and related provisions as at 31 December 2019 (Template 4 EBA GL 2018/10) *(Table 1 of 2)*

(millions of euro)

		GROSS CARRYING VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES					
		Performing exposures			Non-performing exposures		
		Total	*Of which stage 1*	*Of which stage 2*	**Total**	*Of which stage 2*	*Of which stage 3*
1	**Loans and advances**	**398,736**	***356,475***	***41,445***	**31,617**	**-**	***31,550***
2	Central banks	2,067	*1,982*	*85*	-	-	-
3	General governments	16,104	*10,181*	*5,923*	336	-	*336*
4	Credit institutions	18,679	*18,458*	*214*	100	-	*100*
5	Other financial corporations	58,701	*55,103*	*3,416*	698	-	*672*
6	Non-financial corporations	164,163	*142,206*	*21,413*	23,660	-	*23,619*
7	*Of which SMEs*	*61,826*	*51,008*	*10,801*	*16,852*	-	*16,852*
8	Households	139,022	*128,545*	*10,394*	6,823	-	*6,823*
9	**Debt securities**	**102,575**	***91,349***	***10,008***	**135**	**-**	***135***
10	Central banks	113	*72*	*40*	-	-	-
11	General governments	73,971	*65,423*	*8,548*	29	-	*29*
12	Credit institutions	7,953	*7,225*	*533*	-	-	-
13	Other financial corporations	16,025	*14,433*	*622*	70	-	*70*
14	Non-financial corporations	4,513	*4,196*	*265*	36	-	*36*
15	**Off-balance-sheet exposures**	**236,402**	***212,204***	***24,198***	**2,345**	**-**	***2,345***
16	Central banks	*1,573*	*1,573*	-	-	-	-
17	General governments	8,193	*4,467*	*3,726*	5	-	*5*
18	Credit institutions	34,157	*31,199*	*2,958*	10	-	*10*
19	Other financial corporations	25,280	*22,312*	*2,968*	94	-	*94*
20	Non-financial corporations	156,014	*142,320*	*13,694*	2,190	-	*2,190*
21	Households	11,185	*10,333*	*852*	46	-	*46*
22	**TOTAL**	**737,713**	***660,028***	***75,651***	**34,097**	**-**	***34,030***

Performing and non-performing exposures and related provisions as at 31 December 2019 (Template 4 EBA GL 2018/10) *(Table 2 of 2)*

(millions of euro)

		ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS							COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
		Performing exposures			Non-performing exposures			ACCUMULATED PARTIAL WRITE-OFF	On performing exposures	On non-performing exposures
		Total	*Of which stage 1*	*Of which stage 2*	Total	*Of which stage 2*	*Of which stage 3*			
1	**Loans and advances**	**1,737**	***668***	***1,069***	**17,120**	**-**	***17,101***	**8,134**	**236,636**	**10,906**
2	Central banks	4	*4*	-	-	-	-	-	-	-
3	General governments	60	*18*	*42*	98	-	*98*	1	3,193	1
4	Credit institutions	18	*17*	*1*	18	-	*18*	4	7,275	-
5	Other financial corporations	108	*66*	*42*	369	-	*358*	180	35,841	236
6	Non-financial corporations	1,005	*359*	*646*	13,262	-	*13,254*	7,302	76,175	8,007
7	*Of which SMEs*	*549*	*165*	*384*	*9,709*	-	*9,709*	*5,356*	*42,102*	*6,145*
8	Households	542	*204*	*338*	3,373	-	*3,373*	647	114,152	2,662
9	**Debt securities**	**160**	***63***	***97***	**94**	**-**	***94***	**-**	**230**	**-**
10	Central banks	4	-	*4*	-	-	-	-	-	-
11	General governments	125	*48*	*77*	2	-	*2*	-	-	-
12	Credit institutions	6	*3*	*3*	-	-	-	-	-	-
13	Other financial corporations	16	*7*	*9*	70	-	*70*	-	230	-
14	Non-financial corporations	9	*5*	*4*	22	-	*22*	-	-	-
15	**Off-balance-sheet exposures**	**153**	***80***	***73***	**297**	**-**	***297***	**-**	**35,207**	**490**
16	Central banks	-	-	-	-	-	-	-	-	-
17	General governments	8	*1*	*7*	5	-	*5*	-	1,230	-
18	Credit institutions	8	*4*	*4*	-	-	-	-	2,046	-
19	Other financial corporations	25	*19*	*6*	21	-	*21*	-	5,953	3
20	Non-financial corporations	93	*45*	*48*	262	-	*262*	-	22,404	475
21	Households	19	*11*	*8*	9	-	*9*	-	3,574	12
22	**TOTAL**	**2,050**	***811***	***1,239***	**17,511**	**-**	***17,492***	**8,134**	**272,073**	**11,396**

The exposures relating to loans and advances and debt securities also include exposures not subject to impairment.
The gross values for debt securities were increased compared with the previous year. The increase was essentially due to government debt securities and other debt securities. With regard to loans and advances, the main decrease, both in gross values and in adjustment provisions for non-performing exposures, was primarily attributable to a loan portfolio sold within the partnership with Prelios.

Credit quality of loans and advances by industry as at 31 December 2019 (Template 6 EBA GL 2018/10)

The table below shows the gross exposures and related accumulated impairment on loans and advances to non-financial companies by industry.

(millions of euro)

		GROSS CARRYING VALUE				ACCUMULATED IMPAIRMENT	ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK ON NON-PERFORMING EXPOSURES
		Total	*Of which non-performing*		*Of which subject to impairment*		
				Of which defaulted			
1	Agriculture, forestry and fishing	3,641	*478*	*478*	*3,620*	301	-
2	Mining and quarrying	5,540	*187*	*187*	*5,540*	162	-
3	Manufacturing	47,417	*5,971*	*5,971*	*47,243*	3,658	-
4	Electricity, gas, steam and air conditioning supply	7,163	*245*	*245*	*7,140*	206	-
5	Water supply; sewerage, waste management and remediation activities	1,687	*174*	*174*	*1,687*	129	-
6	Construction	16,181	*5,547*	*5,547*	*16,134*	3,280	1
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	28,656	*3,211*	*3,211*	*28,628*	2,087	1
8	Transport and storage	10,654	*1,081*	*1,081*	*10,654*	716	-
9	Accommodation and food service activities	5,292	*792*	*792*	*5,287*	452	2
10	Information and communication	5,909	*304*	*304*	*5,909*	172	-
11	Financial and Insurance activities	3,512	*149*	*149*	*3,512*	71	-
12	Real estate activities	16,628	*3,672*	*3,672*	*16,404*	1,789	4
13	Administrative and support service activities	11,427	*806*	*806*	*11,377*	509	-
14	Rental and lease activities, travel agencies and business support activities	3,988	*465*	*465*	*3,988*	307	-
15	Public administration and defence, compulsory social security	-	-	-	-	-	-
16	Education	194	*28*	*28*	*194*	19	-
17	Human health services and social work activities	1,731	*110*	*110*	*1,731*	74	-
18	Arts, entertainment and recreation	900	*200*	*200*	*900*	95	-
19	Other services	17,303	*240*	*240*	*17,290*	232	-
20	**TOTAL**	**187,823**	***23,660***	***23,660***	***187,238***	**14,259**	**8**

The total exposures of 187,823 million euro include 585 million euro of exposures not subject to impairment. The breakdown by industry of loans and advances to non-financial companies remained substantially stable.

Changes in gross non-performing on-balance sheet exposures as at 31 December 2019 (EU CR2-B EBA GL 2016/11)

(millions of euro)

		Gross carrying value defaulted exposures
1	**Opening balance as at 31 December 2018**	**37,991**
2	Transfers from performing exposures categories	4,839
3	Return to non-defaulted status	-1,179
4	Amounts written off	-3,583
5	Other changes	-5,947
6	**Closing balance as at 31 December 2019**	**32,121**

Changes in adjustments to non-performing on-balance sheet exposures as at 31 December 2019 (EU CR2-A EBA GL 2016/11)

(millions of euro)

		Accumulated specific credit risk adjustments	Accumulated general credit risk adjustments
1	**Opening balance as at 31 December 2018**	**20,253**	**-**
2	Increases due to credit risk adjustments	3,487	-
3	Decreases due to recoveries on valuation/collection	-1,110	-
4	Decreases due to sale/write-off	-3,597	-
5	Transfers between credit risks adjustments	-	-
6	Impact of exchange rate differences	16	-
7	Business combinations	-	-
8	Other adjustments	-1,741	-
9	**Closing balance as at 31 December 2019**	**17,308**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	75	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-148	-

The “Other changes” mainly include the effects of the sale carried out within the partnership with Prelios. The following are also allocated to this caption:

- in the table EU CR2-B, the increases in the amounts for charges;
- in the table EU CR2-A, the collections of overdue interest applied in previous years and the losses on disposal not covered by the allowance.

Changes in the stock of non-performing loans and advances (Template 8 EBA GL 2018/10)

(millions of euro)

		Gross carrying value	Related net accumulated recoveries
1	**Initial stock of non-performing loans and advances**	**36,679**	
2	Inflows to non-performing portfolios	6,099	
3	Outflows from non-performing portfolios	-11,161	
4	*Outflow to performing portfolio*	*-1,187*	
5	*Outflow due to loan repayment, partial or total*	*-2,134*	
6	*Outflow due to collateral liquidations*	*-197*	*-196*
7	*Outflow due to taking possession of collateral*	*-97*	*-56*
8	*Outflow due to sale of instruments*	*-3,076*	*-1,671*
9	*Outflow due to risk transfers*	*-*	*-*
10	*Outflows due to write-off*	*-3,524*	
11	*Outflow due to other situations*	*-577*	
12	*Outflow due to reclassification as held for sale*	*-369*	
13	**Final stock of non-performing loans and advances**	**31,617**	

The table above relates solely to loans and advances and does not include assets held for sale and debt securities which had a final stock of 369 million euro and 135 million euro respectively. Inflows to non-performing portfolios also include other increases.

Credit quality of forborne exposures as at 31 December 2019 (Template 1 EBA GL 2018/10)

(millions of euro)

		GROSS CARRYING VALUE OF FORBORNE EXPOSURES				ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS		COLLATERALS RECEIVED AND FINANCIAL GUARANTEES RECEIVED ON FORBORNE EXPOSURES	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	*Of which collateral and financial guarantees received on non-performing exposures with forbearance measures*
			Total	*Of which defaulted*	*Of which impaired*				
1	**Loans and advances**	**5,852**	**7,489**	***7,489***	***7,489***	**254**	**3,156**	**7,439**	***3,362***
2	Central banks	-	-	*-*	*-*	-	-	-	*-*
3	General governments	268	68	*68*	*68*	5	39	-	*-*
4	Credit institutions	-	96	*96*	*96*	-	14	-	*-*
5	Other financial corporations	178	231	*231*	*231*	3	173	125	*40*
6	Non-financial corporations	4,230	6,002	*6,002*	*6,002*	205	2,596	5,638	*2,658*
7	Households	1,176	1,092	*1,092*	*1,092*	41	334	1,676	*664*
8	**Debt Securities**	**75**	**-**	***-***	***-***	**1**	**-**	**-**	***-***
9	**Loan commitments given**	**418**	**198**	***198***	***198***	**2**	**6**	**159**	***-***
10	**Total**	**6,345**	**7,687**	**7,687**	**7,687**	**257**	**3,162**	**7,598**	**3,362**

The gross values and the accumulated impairment for forborne exposures decreased compared with the previous year. For the forborne non-performing loans and advances, the decrease was mainly due to a loan portfolio sold within the partnership with Prelios.

Quality of forbearance as at 31 December 2019 (Template 2 EBA GL 2018/10)

This table shows the loans and advances included in financial assets measured at amortised cost and subject to more than two forbearance measures, as well as the amount of the forborne loans and advances that do not meet the criteria to leave the “non-performing” category.

(millions of euro)

		GROSS CARRYING VALUE OF FORBORNE EXPOSURES
1	Having been forborne more than twice	1,420
2	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	1,514

The gross value of the exposures that have been subject to more than two forbearance measures decreased by -35.8% compared to December 2018, showing an improvement in the quality of the loan portfolio.
In 2019 an amendment was made to the forbearance rules, which provides for a strengthening of the approval for all positions subject to repeated forbearance measures, resulting in greater control over this aggregate.

Collateral valuation – loans and advances as at 31 December 2019 (Template 7 EBA GL EBA 2018/10)

The information provided below refers to the loans and advances included under financial assets, except those held for sale.

(millions of euro)

		LOANS AND ADVANCES											
		TOTAL	PERFORMING EXPOSURES		NON-PERFORMING EXPOSURES								
			Total Performing	*Of which past due > 30 days ≤ 90 days*	Total Non-performing	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days						
							Total	*Of which past due > 90 days ≤ 180 days*	*Of which: past due > 180 days ≤ 1 year*	*Of which: past due > 1 years ≤ 2 years*	*Of which: past due > 2 years ≤ 5 years*	*Of which: past due > 5 years ≤ 7 years*	*Of which: past due > 7 years*
1	**GROSS CARRYING VALUE**	**430,353**	**398,736**	***1,756***	**31,617**	**5,746**	**25,871**	***593***	***1,910***	***2,973***	***8,006***	***4,648***	***7,741***
2	**Of which secured**	**279,534**	**257,732**	***494***	**21,802**	**3,820**	**17,982**	***383***	***1,001***	***970***	***5,648***	***3,710***	***6,270***
3	Of which secured with immovable property	153,545	139,342	*250*	14,203	2,683	11,520	*200*	*683*	*747*	*3,855*	*2,303*	*3,732*
4	*Of which instruments with LTV higher than 60% and lower or equal to 80%*	*51,125*	*48,683*		*2,442*	*633*	*1,809*						
5	*Of which instruments with LTV higher than 80% and lower or equal to 100%*	*14,376*	*12,504*		*1,872*	*443*	*1,429*						
6	*Of which instruments with LTV higher than 100%*	*14,859*	*9,007*		*5,852*	*603*	*5,249*						
7	**ACCUMULATED IMPAIRMENT FOR SECURED ASSETS**	**11,686**	**1,069**	***17***	**10,617**	**971**	**9,646**	***99***	***277***	***264***	***2,699***	***2,097***	***4,210***
8	**COLLATERAL**												
9	**Of which value capped at the value of exposure**	**198,717**	**190,020**	***335***	**8,697**	**2,257**	**6,440**	***169***	***552***	***589***	***2,447***	***1,263***	***1,420***
10	Of which immovable property	143,895	135,732	*229*	8,163	1,974	6,189	*146*	*503*	*570*	*2,359*	*1,219*	*1,392*
11	**Of which value above the cap**	**211,514**	**195,214**	***353***	**16,300**	**3,555**	**12,745**	***341***	***1,040***	***1,116***	***4,426***	***2,767***	***3,055***
12	Of which immovable property	206,146	190,145	*348*	16,001	3,427	12,574	*334*	*1,029*	*1,100*	*4,390*	*2,737*	*2,984*
13	**FINANCIAL GUARANTEES RECEIVED**	**48,825**	**46,616**	***104***	**2,209**	**512**	**1,697**	***94***	***151***	***102***	***455***	***320***	***575***
14	**ACCUMULATED PARTIAL WRITE-OFF**	**8,134**	**-**	***-***	**8,134**	**291**	**7,843**	***14***	***39***	***2,290***	***477***	***1,038***	***3,985***

The decrease in non-performing exposures is primarily attributable to a loan portfolio sold within the partnership with Prelios. The incidence of secured positions on total non-performing exposures and the incidence of positions secured by collateral on total secured positions are essentially in line with the previous year.

Collateral obtained by taking possession and execution processes – vintage breakdown as at 31 December 2019 (Template 10 EBA GL 2018/10)[10]

(millions of euro)

		DEBT BALANCE REDUCTION		TOTAL COLLATERAL OBTAINED BY TAKING POSSESSION									
		Gross carrying value	**Accumulated negative changes**	**Value at initial recognition**	**Accumulated negative changes**	**Foreclosed ≤ 2 years**		**Foreclosed >2 years ≤ 5 years**		**Foreclosed >5 years**		***Of which non-current assets held-for-sale***	
						Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	*Value at initial recognition*	*Accumulated negative changes*
1	Collateral obtained by taking possession classified as Property, plant and equipment (PP&E)	5	2	6	1								
2	Collateral obtained by taking possession other than that classified as Property, plant and equipment (PP&E)	1,754	1,102	691	124	154	11	176	-19	361	132	*29*	*5*
3	*Residential immovable property*	*19*	*10*	*17*	*-*	*9*	*-1*	*4*	*-*	*4*	*1*	*1*	*-*
4	*Commercial immovable property*	*411*	*146*	*294*	*48*	*128*	*7*	*139*	*29*	*27*	*12*	*27*	*5*
5	*Movable property (auto, shipping, etc.)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
6	*Equity and debt instruments*	*1,301*	*945*	*356*	*69*	*-*	*-*	*26*	*-50*	*330*	*119*	*1*	*-*
7	*Other*	*23*	*1*	*24*	*7*	*17*	*5*	*7*	*2*	*-*	*-*	*-*	*-*
8	**TOTAL**	**1,759**	**1,104**	**697**	**125**	**154**	**11**	**176**	**-19**	**361**	**132**	***29***	***5***

The equity and debt instruments include financial assets not previously provided by the borrower as security for pre-existing loans, but acquired under bilateral agreements with the borrower, following which the Group has derecognised the credit exposure. The inclusion – from 31 December 2019 – of this case in the above table is also referred to in the recent clarifications in the ECB instructions on the NPE Stocktake and in the update of the FINREP rules that will come into force in 2020.

[10] In the annual document this table also includes the information required by Template 9 GL EBA 2018/10. Therefore, the disclosure obligation is to be considered fulfilled.

Section 8 - Credit risk: disclosures on portfolios subject to the standardised approach

Qualitative disclosure

External agencies used

For the determination of the risk weightings under the standardised approach, the Intesa Sanpaolo Group uses the ratings of the following external agencies (ECAI) for all of its portfolios subject to the reporting: Standard & Poor's ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Morningstar. The ratings provided by these agencies are valid and used for all Group banks.
In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used to determine its capital requirements; when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

List of the external Rating Agencies

Portfolio	ECA/ECAI			
Exposures to or secured by governments and central banks (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar
Exposures to or secured by international organisations(*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar
Exposures to or secured by multilateral development banks (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar
Exposures to or secured by corporates and other entities (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar
Exposures to UCI (*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	DBRS Morningstar
Position on securitisations with short-term rating	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	
Position on securitisations different from those with short-term rating	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services	

(*) Ratings characteristics: solicited/unsolicited.

Process of transfer of the issuer or issue credit ratings to comparable assets not included in the regulatory trading book

In compliance with Regulation (EU) 575/2013 (CRR), the criteria have been defined, as described below, for the use of issue and issuer credit ratings for the assessment of exposure risks and guarantee mitigation. The risk weighting assigned to the exposures has been determined, in general for all the regulatory portfolios, using the issue rating as the primary measure and then, when this is not available and the conditions established by the Regulation are met, through the use of the issuer rating. The same priority has been used in general for all the regulatory portfolios to determine the eligibility of the guarantees and the regulatory volatility corrections to be allocated. For the unrated issues of supervised issuers, the extension of the eligibility is strictly subject to the conditions established by the regulations (listing in regulated markets, non-subordinated securities, and issues of the same rank associated with classes 1 to 3 of the credit quality rating scale).

Quantitative disclosure

In this Section, each regulatory portfolio provided for by regulations under the standardised approach is broken down as follows:

- amount of on-balance sheet and off-balance sheet exposures, “without” the Credit Risk Mitigation (CRM) effect, which does not take into account the decrease in exposure or portfolio transfer arising from application of collateral and personal guarantees and before the application of the Credit Conversion Factors (CCF) to off-balance sheet exposures;
- amount of the same exposures “with” the Credit Risk Mitigation effect and after the application of the Credit Conversion Factors. The portfolio transfer resulting from the application of risk mitigation in the case of personal guarantees may also take place from portfolios subject to IRB approaches due to the presence of guarantors subject to the Standardised Approach.

The above information is listed in the “with” and “without” credit risk mitigation tables and associated with the risk weightings defined by the current Prudential Supervisory regulations.

The column “Deducted” of the following tables EU CR5 and EU CR5bis reports all the exposures not considered for the purposes of determining the weighted assets, as they are directly deducted from the regulatory capital (see Own Funds).

Standardised approach - Credit risk exposure and CRM effects as at 31 December 2019 (EU CR4 EBA GL 2016/11)

(millions of euro)

	EXPOSURE CLASSES	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWAS AND RWA DENSITY	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central government or central banks	112,135	3,197	126,724	2,939	18,598	14%
2	Regional government or local authorities	706	169	869	163	304	29%
3	Public sector entities	2,119	629	1,451	243	1,144	68%
4	Multilateral development banks	350	90	472	1	-	0%
5	International organisations	309	-	309	-	-	0%
6	Institutions	4,667	1,568	4,742	176	2,262	46%
7	Corporates	29,381	15,934	20,298	3,501	22,662	95%
8	Retail	14,684	5,492	11,028	777	8,380	71%
9	Secured by mortgages on immovable property	4,441	40	4,437	20	1,617	36%
10	Exposures in default	1,500	104	1,446	83	1,613	105%
11	Exposures associated with particularly high risk	1,031	318	1,013	162	1,762	150%
12	Covered bonds	1,959	-	1,959	-	245	13%
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	0%
14	Collective investment undertaking	1,853	1,217	1,628	424	1,803	88%
15	Equity	2,146	43	2,146	43	2,460	112%
16	Other items	19,587	-	19,587	-	12,061	62%
17	**TOTAL**	**196,868**	**28,801**	**198,109**	**8,532**	**74,911**	**36%**
	TOTAL ON- AND OFF-BALANCE SHEET AMOUNTS	**225,669**		**206,641**			

In the second half of 2019 there was a significant reduction in the overall aggregate (around -9.2 billion euro), which was mainly caused by the decrease in the “Central Governments and Central Banks” (-10.9 billion euro), primarily attributable to the reduction in the Reserve Requirement held at the Bank of Italy and, to a lesser extent, the classes “Institutions” (-1.5 billion euro) and “Corporates” (-1.3 billion euro), offset by the increase in the “Retail” class (+2.1 billion euro) and the “Other items” portfolio (+1.4 billion euro), which incorporates the book value of the exposure of leased assets according to IFRS 16, as well as the effects of macro hedging on core deposits. These changes result in a slight increase in the density of RWAs (+1.3%), which came to 36.3% of the portfolio of exposures valued using the standardised approach.

Standardised approach - Exposures post CCF and CRM as at 31 December 2019 (EU CR5 EBA GL 2016/11)
(Table 1 of 2)

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	111,007	-	-	18	876	-	2,479	-	-
2	Regional government or local authorities	-	-	-	-	910	-	1	-	-
3	Public sector entities	32	-	-	-	129	-	829	-	-
4	Multilateral development banks	473	-	-	-	-	-	-	-	-
5	International organisations	309	-	-	-	-	-	-	-	-
6	Institutions	-	39	-	-	2,283	-	1,556	-	-
7	Corporates	-	-	-	-	570	-	1,003	61	-
8	Retail	-	-	-	-	-	-	-	-	11,805
9	Secured by mortgages on immovable property	-	-	-	-	-	3,393	1,064	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	1,471	488	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	174	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	6,318	-	-	-	1,510	-	-	-	-
17	**TOTAL**	**118,139**	**39**	**-**	**1,489**	**6,766**	**3,393**	**7,106**	**61**	**11,805**

Standardised approach - Exposures post CCF and CRM as at 31 December 2019 (EU CR5 EBA GL 2016/11)
(Table 2 of 2)

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL	OF WHICH UNRATED
		100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	12,925	8	1,626	-	-	724	1,308	**129,663**	*15,830*
2	Regional government or local authorities	121	-	-	-	-	-	-	**1,032**	*698*
3	Public sector entities	704	-	-	-	-	-	-	**1,694**	*79*
4	Multilateral development banks	-	-	-	-	-	-	-	**473**	*261*
5	International organisations	-	-	-	-	-	-	-	**309**	*309*
6	Institutions	1,040	-	-	-	-	-	-	**4,918**	*1,076*
7	Corporates	21,907	258	-	-	-	-	187	**23,799**	*19,390*
8	Retail	-	-	-	-	-	-	-	**11,805**	*11,805*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**4,457**	*4,457*
10	Exposures in default	1,329	200	-	-	-	-	-	**1,529**	*1,529*
11	Exposures associated with particularly high risk	-	1,175	-	-	-	-	-	**1,175**	*1,175*
12	Covered bonds	-	-	-	-	-	-	-	**1,959**	*147*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	*-*
14	Collective investment undertakings	1,354	50	28	-	-	446	-	**2,052**	*2,039*
15	Equity	2,008	-	181	-	-	-	-	**2,189**	*2,189*
16	Other items	11,759	-	-	-	-	-	-	**19,587**	*19,587*
17	**TOTAL**	**53,147**	**1,691**	**1,835**	**-**	**-**	**1,170**	**1,495**	**206,641**	**80,571**

In the second half of 2019, the distribution of exposure classes by weight shows a slight worsening of the RWA density (+1.3%), amounting to 36.3%, mainly due to the significant decrease (-10.1 billion euro) in the exposures relating to the class with nil weighting, which is essentially attributed to "Central Governments and Central Banks" (-11.3 billion euro) and "Public Sector Entities" (-1.3 billion euro), only partially offset by the increase in "Other Items" (+2.4 billion euro), which incorporates the effects of macro hedging on core deposits. The changes on other weight classes were marginal.

Standardised approach - Exposures before CCF and CRM as at 31 December 2019 (EU CR5 bis) *(Table 1 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	94,652	-	-	18	834	-	1,915	-	-
2	Regional government or local authorities	-	-	-	-	752	-	1	-	-
3	Public sector entities	43	-	-	-	130	-	1,004	-	-
4	Multilateral development banks	440	-	-	-	-	-	-	-	-
5	International organisations	309	-	-	-	-	-	-	-	-
6	Institutions	-	43	-	-	3,305	-	1,854	-	-
7	Corporates	-	-	-	-	365	-	1,373	-	-
8	Retail	-	-	-	-	-	-	-	-	20,176
9	Secured by mortgages on immovable property	-	-	-	-	-	3,398	1,083	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	1,471	488	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	174	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	6,318	-	-	-	1,510	-	-	-	-
17	**TOTAL**	**101,762**	**43**	**-**	**1,489**	**7,384**	**3,398**	**7,404**	**-**	**20,176**

Standardised approach - Exposures before CCF and CRM as at 31 December 2019 (EU CR5 bis) *(Table 2 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL	OF WHICH UNRATED
		100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	15,518	93	1,626	-	-	676	1,308	**115,332**	*15,023*
2	Regional government or local authorities	122	-	-	-	-	-	-	**875**	*705*
3	Public sector entities	1,571	-	-	-	-	-	-	**2,748**	*792*
4	Multilateral development banks	-	-	-	-	-	-	-	**440**	*310*
5	International organisations	-	-	-	-	-	-	-	**309**	*309*
6	Institutions	1,018	15	-	-	-	-	-	**6,235**	*1,647*
7	Corporates	43,255	322	-	-	-	-	187	**45,315**	*39,843*
8	Retail	-	-	-	-	-	-	-	**20,176**	*20,176*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**4,481**	*4,480*
10	Exposures in default	1,389	215	-	-	-	-	-	**1,604**	*1,595*
11	Exposures associated with particularly high risk	-	1,349	-	-	-	-	-	**1,349**	*1,349*
12	Covered bonds	-	-	-	-	-	-	-	**1,959**	*147*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	-
14	Collective investment undertakings	2,372	50	28	-	-	446	-	**3,070**	*3,056*
15	Equity	2,008	-	181	-	-	-	-	**2,189**	*2,189*
16	Other items	11,759	-	-	-	-	-	-	**19,587**	*19,318*
17	**TOTAL**	**79,012**	**2,044**	**1,835**	**-**	**-**	**1,122**	**1,495**	**225,669**	**110,939**

Section 9 - Credit risk: disclosures on portfolios subject to IRB approaches

Qualitative disclosure

Credit risk – disclosures on portfolios subject to IRB approaches

The rollout plan for the internal models

The supervisory regulations provide for two approaches for the calculation of the capital requirement: the Standardised approach and the Internal Rating Based (IRB) approach, in which the risk weightings are a function of the banks' internal assessments of their borrowers. The IRB approach is in turn divided into a Foundation Internal Rating Based (FIRB) approach and an Advanced Internal Rating Based (AIRB) approach that differ in the risk parameters that banks are required to estimate. Under the foundation approach, banks use their own PD estimates and regulatory values for the other risk parameters, whereas under the advanced approach the latter are also estimated internally. Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the foundation and the advanced approach.

As already set out in the first Section of this document (paragraph “Basel 3 regulations”), following the authorization requests submitted to the supervisory authority in late 2019, coverage of the portfolios of the banks within the Italian scope with internal models is now complete. Within the international subsidiaries scope, work is continuing in accordance with the Group roll-out plan agreed with the supervisory authorities.

However, the rollout plan does not include certain exposures, which are the subject of a request for authorisation for the permanent partial use of the standardised approach. These relate to the following in particular:

– exposures to central governments and central banks;
– exposures to the Banking Group;
– exposures to minor operational units;
– non-significant exposure classes in terms of size and level of risk (this category includes loans to non-banking financial institutions).

Description of the structure, use, management processes and control mechanisms of the internal rating systems of the Corporate, Retail and Institutions segment

Structure of the internal rating systems (PD)

The main features of the rating systems used are as follows:

– the rating is determined at counterparty level;
– the rating is based at Group level, and is the same for each counterparty, even when it is shared by several entities of the Group;
– the definition of default used corresponds to past due, unlikely-to-pay, and bad loans (see Section 7);
– the data used for the estimate relate as far as possible to the entire Group; where this is not possible, stratification criteria have been used, to render the sample as representative of the Group as possible;
– the length of the time series used for the development and calibration of the models has been determined on the basis of a compromise between the need to cover a broad timescale and the need to represent the structure of the Group for the future;
– the segmentation of the rating models has been determined in accordance with both legislation and process and regulatory criteria;
– within the segmentation identified, uniform models have been used as much as possible, although a differentiation has been made where appropriate on the basis of analytical criteria considered to be relevant (e.g. revenue, geographical area, etc.); this differentiation can occur at the development or the calibration phase;
– the models incorporate financial, performance and qualitative components. With regard to the models for the Corporate, Banks and Public Sector Entities segments, the manager must also provide an independent assessment of the counterparty’s creditworthiness and, if the assessment differs from the rating, the manager must implement the override procedure. This procedure provides for the immediate confirmation of the proposed rating in the event of a conservative override and the validation by an independent unit in the case of an improving override. The choice of giving a significant role to the human component enables the rating models to take account of all the information available, including the latest updates or data that would be difficult to incorporate into an automated model;
– the rating is reviewed at least once a year, in conjunction with the review of the loan; Intesa Sanpaolo has established procedures that increase the frequency of update when there are signs of deterioration of credit quality.

The output PD of the models is mapped on the internal Master Scale, which is broken down into a different number of classes depending on the model type.

The table below illustrates the correspondence between the (n) internal rating classes and the ratings by the major agencies: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Morningstar. As indicated in the table, compared to the counterparties rated with Large Corporate, Regions, Banks and Retail models where there is complete correspondence with the classes of Rating Agencies, the counterparties rated with other models have a cap on the Rating and, therefore, on their reported PD.

Correspondence between internal rating classes and ratings by the major agencies

<table>
<tr><th colspan="2">External ratings of the main agencies</th><th colspan="8">Internal class</th></tr>
<tr><th rowspan="2">S&P's
Fitch
DBRS Morningstar</th><th rowspan="2">Moody's</th><th rowspan="2">Large Corporate</th><th rowspan="2">Corporate</th><th rowspan="2">Specialized Lending</th><th colspan="2">Public Entities</th><th rowspan="2">Banks</th><th rowspan="2">Sme Retail</th><th rowspan="2">Mortgage</th></tr>
<tr><th>Regions</th><th>Provinces / Municipalities</th></tr>
<tr><td>AAA</td><td>Aaa</td><td>LC_I1a</td><td>-</td><td>-</td><td>I1a</td><td>-</td><td>I1a</td><td>-</td><td>RT01</td></tr>
<tr><td rowspan="2">AA+</td><td rowspan="2">Aa1</td><td rowspan="2">LC_I1b</td><td rowspan="2">-</td><td rowspan="2">I1</td><td rowspan="2">I1b</td><td rowspan="2">-</td><td>I1b</td><td rowspan="2">-</td><td rowspan="2">RT02</td></tr>
<tr><td>I1c</td></tr>
<tr><td>AA</td><td>Aa2</td><td>LC_I1c</td><td>-</td><td>I2</td><td>I1c</td><td>-</td><td>I1d</td><td>I3</td><td>RT03</td></tr>
<tr><td>AA-</td><td>Aa3</td><td>LC_I1d</td><td>CO_I1</td><td>I3</td><td>I1d</td><td>-</td><td>I1e</td><td>I4</td><td>-</td></tr>
<tr><td>A+</td><td>A1</td><td>LC_I2</td><td>-</td><td>-</td><td>I1e</td><td>-</td><td>I1f</td><td>-</td><td>RT04</td></tr>
<tr><td>A</td><td>A2</td><td>LC_I3</td><td>CO_I2</td><td>I4</td><td>I1f</td><td>I1</td><td>I2</td><td>I5</td><td>-</td></tr>
<tr><td>A-</td><td>A3</td><td>LC_I4</td><td>CO_I3</td><td>I5</td><td>I2</td><td>I2</td><td>I3</td><td>I6</td><td>RT05</td></tr>
<tr><td rowspan="2">BBB+</td><td rowspan="2">Baa1</td><td rowspan="2">LC_I5</td><td rowspan="2">CO_I4</td><td rowspan="2">I6</td><td>I3</td><td>I3</td><td rowspan="2">I4</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>I4</td><td>I4</td></tr>
<tr><td>BBB</td><td>Baa2</td><td>-</td><td>CO_I5</td><td>M1</td><td>I5</td><td>I5</td><td>I5</td><td>M1</td><td>RT06</td></tr>
<tr><td>BBB-</td><td>Baa3</td><td>LC_I6</td><td>CO_I6</td><td>M2</td><td>I6</td><td>I6</td><td>I6</td><td>M2</td><td>RT07</td></tr>
<tr><td rowspan="2">BB+</td><td rowspan="2">Ba1</td><td>LC_M1</td><td>CO_M1</td><td rowspan="2">M3</td><td>M1</td><td>M1</td><td rowspan="2">M1</td><td rowspan="2">M3</td><td rowspan="2">RT08</td></tr>
<tr><td>LC_M2</td><td>CO_M2</td><td>M2</td><td>M2</td></tr>
<tr><td>BB</td><td>Ba2</td><td>LC_M3</td><td>CO_M3</td><td>M4</td><td>M3</td><td>M3</td><td>M2</td><td>M4</td><td>RT09</td></tr>
<tr><td>BB-</td><td>Ba3</td><td>LC_M4</td><td>CO_M4</td><td>R1</td><td>M4</td><td>M4</td><td>M3</td><td>R1</td><td>RT10</td></tr>
<tr><td rowspan="2">B+</td><td rowspan="2">B1</td><td>LC_R1</td><td rowspan="2">CO_R1</td><td rowspan="2">R2</td><td>R1</td><td>R1</td><td rowspan="2">R1</td><td rowspan="2">R2</td><td rowspan="2">RT11</td></tr>
<tr><td>LC_R2</td><td>R2</td><td>R2</td></tr>
<tr><td rowspan="2">B</td><td rowspan="2">B2</td><td rowspan="2">LC_R3</td><td>CO_R2</td><td>R3</td><td rowspan="2">R3</td><td rowspan="2">R3</td><td rowspan="2">R2</td><td rowspan="2">R3</td><td rowspan="2">RT12</td></tr>
<tr><td>CO_R3</td><td>R4</td></tr>
<tr><td rowspan="2">B-</td><td rowspan="2">B3</td><td rowspan="2">LC_R4</td><td rowspan="2">CO_R4</td><td rowspan="2">-</td><td rowspan="2">R4</td><td rowspan="2">R4</td><td>R3</td><td rowspan="2">-</td><td rowspan="2">RT13</td></tr>
<tr><td>R4</td></tr>
<tr><td rowspan="2">CCC</td><td rowspan="2">Caa1</td><td rowspan="2">LC_R5</td><td rowspan="2">CO_R5</td><td rowspan="2">R5</td><td rowspan="2">R5</td><td rowspan="2">R5</td><td rowspan="2">R5</td><td>R4</td><td rowspan="2">RT14</td></tr>
<tr><td>R5</td></tr>
</table>

Structure of the internal rating systems (LGD)
The LGD models are based on the concept of “Economic LGD”, namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:
- estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio, namely “Workout LGD”, determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of the Danger Rate, a multiplying correction factor, used to recalibrate the Bad Loan LGD with the information available on the other default statuses, in order to calculate an LGD representative of all the possible default statuses and their evolution;
- application of an additional correction factor, known as “Final Settlement Component”: this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Banks and Public Entities).
The models are updated annually in compliance with internal and external regulations.

Use of the rating systems (PD, LGD, and EAD)
Expected Loss and Risk Weighted Assets are fundamental elements for the management, measurement and control of credit risk. These measures incorporate the effects of the exposure size (Exposure at Default - EAD), the relative riskiness of the customer (Probability of Default - PD), the presumption of loss where insolvency conditions exist - taking into account the guarantees that mitigate the assumption of risk related to the loan (Loss Given Default - LGD) - and the duration of the exposure (maturity).
The components that contribute to the determination of the Risk Weighted Assets are the key elements for the determination of the levels of the Credit Granting and Management Powers, the limits of the Credit Risk Appetite (CRA), the credit pricing, the calculation of the adjustments on performing exposures and the analytical-statistical adjustments on non-performing exposures, as well as the calculation of the economic and regulatory capital.

Credit Granting and Management Powers
The levels of Powers set on terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group’s subsidiaries exceeds certain thresholds, a request for a “Compliance Opinion” is made to the competent bodies of the Parent Company.

Credit Risk Appetite
The Credit Risk Appetite (CRA) Framework, a specific RAF for credit risk introduced in 2015, identifies areas of growth for loans and areas to be monitored, using an approach based on ratings and other useful predictive statistical indicators, to guide lending growth by optimising the management of risk and expected loss.
The CRA limits are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office Department.

Credit monitoring and management
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting and Management Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.
The credit risk management processes also envisage the periodic review of all the credit positions by the relevant head office or local structures and the assessment of customers not only at the initial lending stage, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME (from the fourth quarter 2018), Retail (from the third quarter 2018) and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.

Pricing
The objective of the calculation of the pricing of transactions is to define the suitability of the economic conditions based on the value generation with respect to the expressed riskiness and all the components that contribute to the calculation of the value, also including the costs allocated to the structures.

Financial Reporting Processes and assessment of performing and non-performing exposures
As described in detail in “Section 7 – Credit Risk: credit quality”, the internally estimated parameters are the basis for the method of collective assessment of performing exposures and the analytical-statistical valuation of non-performing exposures in accordance with IFRS 9.

Ratings are used in the preparation of the tables required by the Financial Reporting regulations relating to the breakdown by rating class

Calculation of economic capital and value governance
The capital at risk consists of the maximum “unexpected” loss the Group could incur over a year. This is a key measure for determining the Group’s financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario.

Reporting
The rating and the LGD form the basis of the management reporting and are spread across the risks of the loan portfolio.
For management reporting, the Enterprise Risk Management Department produces the Risks Tableau de Bord on a quarterly basis. This provides an overall view of the Group’s risk position at the end of the respective quarter with reference to the combination of all the risk factors, according to the layout established by Basel 3 (Pillar 1 and Pillar 2). The main items that are analysed in the Risks Tableau de Bord are absorbed capital (regulatory vs. economic) and specific measurement criteria for each individual risk (e.g. sensitivity and expected loss) and the monitoring of limits defined within the scope of the Risk Appetite Framework.

Development of internal rating models
The structured and documented set of risk quantification methodologies, organisational management and control processes, and database organisation methods that enable the collection and processing of information relevant to risk measurement is defined as an “Internal System”.
Two types of Internal Risk Measurement Systems are identified:
- Internal systems used to determine the capital requirements of the Intesa Sanpaolo Group and to control credit, operational, market and counterparty risks (“Pillar 1” risks);
- Internal systems used for management purposes, mainly to monitor “Pillar 2” risks. They are used to determine the capital adequacy and liquidity ratios of the Intesa Sanpaolo Group. This category also includes the Internal Systems related to Pillar 1 risks that will not be adopted for regulatory purposes, but contribute to ICAAP and stress testing assessments and models adopted for IFRS 9 purposes.

The adoption, extension, management and control of the Internal Systems for Pillar 1 risks involves a series of structured phases shared within the Group and arranged as follows:
- definition of the Internal System and activation of the strategic management;
- development and adoption. This step includes the following sub-phases: (i) development of the organisational/measurement model; and (ii) implementation, validation and internal auditing of the model and submission of the application for authorisation to the European Central Bank;
- monitoring and modification of the Internal System adopted.

Specifically, once the decision by the Board of Directors to adopt the Internal Systems and develop processes and methodologies subject to validation and internal audit has been made, the development and adoption of the models is implemented. In particular, this phase involves the following activities:
- development of the methodological framework of the model by the competent model development function; the development of this framework must ensure compliance with the Data Governance and Data Quality principles, set out in the “Data Governance Guidelines”;
- development of the organisational choices aimed at incorporating the models into company processes. The Transformation Center coordinates with the competent model development function and with the other functions involved to define the appropriate process solutions and support the owners of the process in drawing up the necessary internal regulations; the Head Office Department is involved in the assessment of the organisational impacts and roles and responsibilities;
- development and configuration, by the ICT Head Office Department, in coordination with the competent model development function, of the technological solutions supporting the models and processes subject to approval (the Financial and Market Risks Head Office Department is directly responsible for the development and configuration of the models and processes for Counterparty and Market Risks, with the support of the ICT Head Office Department for the systemic aspects and for the integration with the rest of the company ICT system);
- performance, by the internal validation function, of its preliminary checks based on the design and development documentation for the Internal System. The results of the analyses are discussed with the competent model development function, the other functions involved and the competent internal auditing function;
- presentation of the structure of the Internal System, accompanied by the results of the analysis by the internal validation function, to the Credit Risk and Pillar 2 Internal Models Committee for preliminary assessment and subsequent submission to the Board of Directors. The competent model development function, with the support of the validation function and, where necessary, of the other development functions, is responsible for the presentation and submission;
- submission of the proposal for adoption of the Internal System to the Risk Committee and for approval by the Board of Directors. The submission is made by the competent model development function.

The implementation and validation phase consists of the following steps:

- the competent model development function, in coordination with the other development functions concerned, implements the model, processes and ICT systems that make up the Internal System as a whole;
- the internal validation function performs a validation aimed at assessing: (i) the adequacy of the system with respect to the regulatory requirements and company operating requirements and (ii) the overall performance of the system, its effectiveness and its actual use in the various areas of the company management. The analyses carried out can lead to the identification of any critical points and areas for improvement;
- the competent internal auditing function carries out an audit aimed at verifying: (i) the development activities and the performance of the model, (ii) its actual use in the relevant company management processes, and (iii) the activities carried out by the validation function;
- the competent model development function, in coordination with the other development and control functions, provides periodic reporting on the activities implemented and on the progress of the validation and internal auditing activities to the competent Management Committee and, where appropriate, to the Risk Committee and the Board of Directors.

The application for authorisation is sent to the European Central Bank according to the procedure indicated by that Authority, which requires (i) the confirmation by the Bank, by e-mail from the Corporate Affairs and Advisory Head Office Department to the JST of the official application date, at least 4 months before that date and (ii) the sending of the pre-application package at least 2 months before the official application date.
The positive outcome of the checks in terms of completeness and compliance of the document set requested by the Supervisory Authority results in the confirmation of the official application date and the consequent start of the inspection process at the end of which the ECB sends the final decision, which has immediate effect, is legally binding and may require the satisfaction of corrective measures.
The Internal Systems are subject to verification at least once a year. In particular situations (e.g. due to the general economic environment, the occurrence of tensions in a particular customer segment or the existence of particularities in the development method), the verification may be more frequent.
Changes in the applicable regulatory framework, in the company's operations or in the context in which the Group operates, management opportunities, recommendations by the internal auditing and validation functions or remarks/observations made by the Supervisory Authority following inspections, may result in the need to make changes to the Internal System.
In order to implement an integrated and coherent risk management policy, the decisions regarding the Internal Risk Measurement Systems at Group level are assigned to the Parent Company's Corporate Bodies. Consequently, these bodies carry out their functions not only with reference to the Parent Company, but also to the overall operations of the entire Group.

Control and auditing of the rating systems

A prerequisite for the adoption of internal risk measurement systems for the calculation of the regulatory capital is an internal validation and auditing process for the rating systems, both during their establishment, aimed at obtaining the authorisation from the Supervisory Authorities, and during their ongoing operation/maintenance once the authorisation has been given.

The function responsible for the internal validation process for the Intesa Sanpaolo Group is the Internal Validation and Controls Head Office Department, which operates independently from the functions that manage the development activities and from the internal auditing function. Specifically, this department is responsible for continuously and interactively validating risk measurement and management systems in order to assess their compliance with regulatory provisions, operational company demands and the reference market.
With regard to the macro processes of development, adoption, monitoring and modification of the internal measurement systems for credit risk, the following activities are therefore assigned exclusively to the Internal Validation and Controls Head Office Department:

- preparation of the annual validation report to be presented to the Board of Directors to accompany the resolution for the certification of ongoing compliance of the internal system with the regulatory requirements, detailing any issues/areas for improvement;
- preparation of the validation report in the event of substantial or ex ante changes to internal systems to be submitted to the competent bodies for their approval, with details of any issues/areas for improvement;
- periodical analyses of the consistency of the corrective measures in case of critical issues/areas of improvement of the system highlighted by the same Internal Validation function, the Internal Auditing function and the Supervisory Authority, based on the progress report provided by the Credit Risk Management Head Office Department;
- initial and ongoing validation of the internal models of the Italian and international subsidiaries that do not have a local validation function;
- supervision and coordination of the local validation activities carried out by the corresponding functions of the Group companies;
- calculation of the default rate for the purposes, among others, of the development/recalibration of the models;
- monitoring of the performance of the IRB (Static Pool) system;
- contribution to the disclosure process pursuant to Pillar 3.

The Internal Auditing Function for the Intesa Sanpaolo Group is assigned to the Chief Audit Officer. This department conducts assessments of the entire process of adoption, extension, management and control of the internal measurement systems for credit risk in accordance with the procedures and the areas of responsibility established by the company regulations and on the basis of a specific work plan.
Specifically, this department is responsible for assessing the effectiveness of the control system overseeing the process of measurement, management and control of the Group's exposure to credit risk also through the regular audit of the internal validation process for the related models developed in accordance with Basel 3 and the Prudential Supervisory regulations.

The Chief Audit Officer is therefore responsible for the:
- internal auditing aimed at verifying the compliance of the risk measurement systems with the requirements established by the internal/external regulations;
- assessment of the effectiveness of the overall structure of internal controls:
  - auditing of the internal validation process (verification of the completeness, adequacy, effectiveness and reliability of the analyses conducted and the consistency of the results);
  - audit of the first and second level controls;
- assessments of the effective operational use of the internal risk measurement systems;
- assessments of the adequacy, overall reliability and security of the information system;
- drafting of the relevant report accompanying the application for authorisation to the Supervisor;
- self-assessment of the Group's ICAAP process;
- periodic review of the disclosure process pursuant to Pillar 3;
- drafting of the annual internal auditing report with presentation to the competent Corporate Bodies, also in relation to the corrective action plan in case of critical points/areas of improvement identified by the Internal Auditing function, the Internal Validation function and the Supervisory Authority, based on the progress report periodically provided by the Credit Risk Management Head Office Department;
- steering and practical coordination of Internal Auditing functions in the subsidiaries, to guarantee control consistency with the actions of the Parent Company.

Description of the regulatory Corporate segment internal rating systems (PD)

The regulatory Corporate segment consists of companies or groups of companies with exposure of the Banking Group of over 1 million euro or with consolidated revenues of over 2.5 million euro.
Two groups of models and associated credit processes have been developed in the segment. The first of these involves Italian and foreign non-financial companies. The second refers to "specialised lending" and in particular to project finance, asset finance and, more generally, real estate development initiatives.
Specific models for the Slovak and Slovenian market are in use at the subsidiaries VUB and Banka Intesa Sanpaolo d.d.

The Corporate model

The Corporate rating model applies to the Italian Corporate customers, from the manufacturing, commercial, services, long-term production and real estate sectors, and can be used for both stand-alone and consolidated financial statements with a turnover of less than 500 million euro.
The definition of default (impairment) used for the estimation of the model comprises Past Due, Unlikely to pay and Bad loans.
The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to the rules established in the override process.

The calculation of the quantitative rating of each customer uses statistical integration to combine the financial module – which is optimised by business sector and takes account of the differences in terms of balance sheet structure – and the performance module which, through the Central Credit Register data, serves to monitor behaviour with respect to the counterparty's system.
The qualitative module of the rating is divided into two components: an automatic module (which considers success factors and competitive positioning) and a qualitative questionnaire whose result is assessed by weighting. The integration of the qualitative module also takes place in two phases: the components are statistically integrated and the result of the integration is combined with the quantitative rating; in the second step, the notch from the quality questionnaire is added, which also considers the "external influence", i.e. membership of a certified segment, membership or not of a group, and the presence of financial activities.

The Large Corporate model

The Large Corporate rating model applies to the Italian Corporate customers with a turnover of more than 500 million euro and International Corporate customers with any level of turnover. It uses both stand-alone and consolidated financial statements.
The definition of default (impairment) used comprises Past Due, Unlikely to pay and Bad loans.
The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to the rules established in the override process.
The calculation of the quantitative rating of each customer uses a matrix integration to combine the financial module, calculated based on the financial statements, and the performance module, calculated based on market data.
The integration of the qualitative module takes place in two phases: the financial/performance rating is first statistically integrated with part of the qualitative questionnaire; in the second step, the notch from the quality questionnaire is added, which also considers the "external influence", i.e. membership or not of a group.
Finally, the rating calculated up to that point is integrated by matrix with the rating for the country of residence to take account of possible country risk.

The Banks model

The key decision in determining the PD for the Banks model was differentiating the models for banks in mature economies and banks in emerging countries. In short, the model consists of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component representing systemic risk, a component relating to specific country risk for banks most closely correlated with country risk, and finally, a module (the "relationship manager's judgement") that allows the rating to be modified in certain conditions.

Public Entities model
For the estimate of the PD for the Public Entities segment, the models of reference have been differentiated according to the type of counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An approach to extend the rating of the regulatory Entity (e.g.: Region) has been adopted for local healthcare authorities and other sector entities, with possible changes on the basis of the assessment financial statement data (notching).

The Specialised Lending models
The Specialised Lending segment is covered by various models for the different exposure categories, in particular Project Finance, Real Estate and Asset Finance.

a) The Project Finance model
The model is used to assess the exposures of vehicle companies whose sole purpose is to implement and manage a specific project (large infrastructures, systems, etc.). The model consists of a quantitative model, which unlike the standard econometric models, is based on a Monte Carlo simulation of the future cash flows, using the project's prospective economic and financial information. The model includes a qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

b) Commercial Real Estate
This model assesses the medium and large-sized real estate projects designated for sale and/or letting, carried out by special purpose vehicles as well as by real estate funds. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from rent and/or sales are impacted by the trends in historical market data. The model includes a qualitative questionnaire used to complete the analysis of the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

c) The Real Estate Development (RED) model
This model is used to assess smaller real estate development transactions, aimed exclusively at the sale by special purpose vehicles. The model is the result of a series of statistical developments of the instrument, originally created by experts and supported by the available quantitative data.
It consists of a quantitative module containing the figures of the initiative and a qualitative module used to complete the analysis of the main project risks.

d) Asset Finance
This model is used to assess transactions involving the purchase of ships, with a mortgage-type interest over the asset financed, to be leased to a third party that does not belong to the Borrower's group. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from leases are impacted by the trends in market data. The model includes a qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

e) Leveraged & Acquisition Finance
This model is used to assess extraordinary finance transactions aimed at corporate acquisitions carried out predominantly with debt capital (high financial leverage); although it does not fall under the regulatory categories of Specialised Lending, it shares the key characteristics of these models. The model consists of a quantitative module based on a Monte Carlo simulation of the future cash flows using the prospective economic and financial information following the acquisition. The model includes a qualitative questionnaire deriving from the corporate models, in which the analyst adds additional information in a structured manner. The model's outputs are the PD and LGD parameters, used for reporting purposes.

The Corporate models used by Intesa Sanpaolo Bank Ireland and Intesa Sanpaolo Luxembourg
The banks use the Parent Company's Large Corporate model, validated in March 2017, which applies to the international counterparties and resident counterparties with a turnover of more than 500 million euro, according to the type of exposures held.

The Corporate models used by VUB

a) The Internationally Active Large Corporate (IALC) model
The Internationally Active Large Corporate model coincides with the Large Corporate Model used by the Parent Company, except for a different calibration adopted to the scope of application of the model, which refers to counterparties with turnover under 40 million euro.
The model consists of a quantitative section and a qualitative section, both of which are statistically estimated and integrated with one another according to a matrix-based approach. The relationship manager may override the integrated rating.

b) The Small and Medium Enterprises (SME) model
VUB's SME model, internally estimated by the Slovak subsidiary, is divided into two modules. The first module is statistical in nature and consists of a component relating to the characteristics of the counterparty, such as geographical location, number of employees, age and legal nature, as well as a financial component, differentiated according to the accounting structure (ordinary or simplified accounting schemes). The second model, which considers performance variables, is statistically integrated with the first.

c) The Specialised Lending models
The models adopted for Specialised Lending are partly derived from the Parent Company, adapting them to the local situation, and produce a slotting class as the output (with the exception of real estate initiatives designated for sale).

The Corporate model used by Banka Intesa Sanpaolo d.d.
Banka Intesa Sanpaolo d.d.'s Corporate model, which is estimated internally by the Slovenian subsidiary, consists of 3 modules. The first two, statistical, modules are composed of a financial component, based on the financial statement data published by the counterparties, and a behavioural component, consisting of internal and external data on the performance of the exposures. The third, qualitative, module is determined on an experiential basis and considers the geographical location, qualitative and prospective data of the reference business, ageing and socio-environmental risk data. The rating, determined by means of an ad hoc calibration on a Master Scale specific to the model, may still be subject to a penalty as a result of past-due unpaid amounts in the last 6 months.

Description of the regulatory Retail segment internal rating systems (PD)
In Q3-2018, authorisation was received for the use of a new rating system (PD, LGD, and EAD) for the Retail portfolio, consisting of the Mortgage segment (Model Change of the model already authorised) and the Other Retail segment (First Adoption).
The new Retail internal rating system, divided into the Mortgage and Other Retail sub-segments, adopts a counterparty approach and covers the entire private individuals portfolio.
The rating system differs according to the type of customer (new customers, borrower customers, non-borrower customers) and has been designed to use the most extensive set of information available, both internal and external, for each customer type.
The structure of the model is based on the integration of different modules that differ according to the customer type and that generate an integrated score on which the calibration is performed to obtain a rating.
The rating can be changed subsequently on the basis of two further modules (household budget and prejudicial information) that act through the improvement or worsening notching matrices.

VUB Retail Mortgage PD Model
The PD and LGD models for the Slovak residential mortgage market have been developed by the company VUB, in collaboration with the Parent Company, as part of a specific project.
The model basically consists of two statistical modules. The acceptance module processes the socio-demographic characteristics of customers, such as educational qualification, marital status and home address. The behavioural module integrates, for each of the four retail products (mortgages, personal loans, credit cards and credit facilities), behavioural information including operations, non-payment, use of credit lines and duration of the relationship with the Bank.
These modules are subsequently integrated statistically with additional information on the customer's risk status.

Description of the regulatory Retail SME segment internal rating systems (PD)
The Retail SME rating models are applied to the entire Small Business Retail population, identified on the basis of two criteria defined at the regulatory level (exposure of the banking group under 1 million euro) and at the Intesa Sanpaolo Group level (with individual or economic group revenue of under 2.5 million euro).
The counterparties are subdivided into Micro Business and Core Business, based on objective criteria envisaged by the process; the definition of default (impairment) used comprises Past Due, Unlikely to pay and Bad loans, net of technical defaults.
Both models comprise a quantitative module and a qualitative module.
The former is differentiated based on the variables "existing customer/new customer" (according to the presence of the internal performance indicator on counterparty risk) and legal form (firm or partnership/joint-stock company). In fact, the information used to assess creditworthiness varies depending on the type of customer. A combination of the different basic calculation modules provides the quantitative score.
These basic modules consider personal details, financial statement data for joint-stock companies, the tax return for sole proprietorships and partnerships, risks to the Group and to the credit system and, finally, data on the financial assets of the customer and of joint and related parties, which allow significant refinement in the treatment of new customers and borrowers.
The qualitative module, on the other hand, is based on a qualitative questionnaire. The weights of questions and answers have been statistically estimated. It differs in terms of number of questions and weight between the Micro and Core rating model, in order to more accurately grasp the segments specificities.
Furthermore, a specific set of questions has been drawn up for new customers and newly-formed counterparties, with the objective of enhancing the specific soft information known by the relationship manager and their contribution, in terms of experience, to the assessment for this type of counterparty.
A statistically estimated matrix combines and integrates the quantitative rating and the qualitative score.
The process for assignment of the Small Business Core rating envisages that, after calculation of the integrated rating, the relationship manager expresses an overall assessment of the customer risk under the override procedure, determining the final rating.
The rating assignment process for Micro counterparties, on the other hand, ends by answering an additional question of the Qualitative Questionnaire regarding the presence of any negative information identified at the granting process level, which applies a cap to the final rating in the event of higher risk.

Description of the LGD model for the Corporate, Retail SME, Retail, Banks and Public Entities segments

Loss Given Default (LGD) is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Public Entities and Banks). As in the case of the PD, the models that have been adopted for the LGD of the International Subsidiary Banks are partly derived from the Parent Company, with adaptations to the local situation.
For the determination of the Leasing and Factoring LGD - in addition to the Corporate or Corporate SME regulatory segment - specific elements are used such as the type of product (real estate, business use, railway, aircraft, registered motor vehicles), for Leasing, and the type of contract (with or without recourse) and the geographical area (Italy, Overseas) for Factoring.
The calculation of the LGD for the Banks segment partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models.

With regard to IFRS 9, the models have the same development framework, but are subject to adjustments that are necessary to make them consistent with the financial reporting standard.

The LGD model for the Corporate segment of Intesa Sanpaolo Bank Ireland and Intesa Sanpaolo Luxembourg

In the same way as for the PD model, the Parent Company's LGD grid has been extended to the two banks.

LGD model for the VUB mortgage segment

The LGD model was developed based on a "workout" approach, analysing the losses sustained by the Bank on the historical defaults. LGD is therefore determined based on the recovery rates achieved during the default period, taking into consideration direct and indirect costs and recovery times. Assessment of the loss rates was carried out for each individual transaction. The model classifies the data into two groups, according to two risk factors: LTV (residual debt at default over the value of the guarantee provided) and PPI (purchasing power index of the geographical area in which the collateral is situated).

Description of the EAD models

The calculation of the Exposure at Default (EAD) uses differentiated models, specialised by operating segment (Corporate and Retail).
The methodology used for the EAD estimate is based on data from the 12 months prior to the default event and differs according to whether or not there is a margin available at the observation date: if there is a margin the CCF analysis is used, otherwise the K factor analysis is used. In both cases, corrective factors are applied in compliance with the regulatory requirements and to introduce a margin of conservatism on the estimates.

Quantitative disclosure

The table below shows the scope of companies for which the Group, as at 31 December 2019, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the Institutions, Corporate and Retail portfolios and for the Banking Book equity exposures (IRB).

Scope of companies for application of the IRB approaches

Portfolio	PD - Model Type	LGD - Model Type	EAD - Model Type	Status
Institutions	Default model (Banks) (4)	Market model (Banks)	Regulatory parameters (Banks)	AIRB authorised since June 2017
Institutions	Default model (Municipalities and Provinces) Shadow model (Regions) (4)	Workout model (Municipalities, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Corporate; Leases and Factoring)	CCF/K factor model (Corporate)	FIRB authorised since December 2008, AIRB LGD authorised since December 2010, EAD authorised since September 2017 (1)
Corporate	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory parameters (Specialised Lending)	AIRB authorised since June 2012
Retail	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	AIRB Retail since September 2018 (2)
Retail	Default model (Retail SME)	Workout model (Retail SME)	Regulatory parameters (Retail SME)	AIRB authorised since December 2012 (3)

1) ISP authorised for FIRB from December 2008, for LGD AIRB from December 2010 and for EAD from 2017, Banca IMI (2012), ISP Ireland (2010), VUB (2010), Intesa Sanpaolo Bank (2017), and ISP Luxembourg (2017). From 2017, the Corporate model has also been used to calculate the risk on the Banking book equity portfolio with LGD 65%/90%.
2) VUB authorised from June 2012 for PD and LGD of Retail Mortgage models.
3) VUB authorised from June 2014.
4) ISP and Banca IMI authorised from 2017.

As at 31 December 2019, the Group EAD value attributable to the components relating to credit risk and subject to calculation of the capital requirement using IRB models was 63.15% (61.37% Advanced IRB and 1.78% Foundation IRB), whereas the aggregate subject to calculation using the standardised models amounted to around 36.85%, of which 5.33% already included in the roll-out plan[11].
The breakdown of the percentages by exposure class is shown below.

Advanced IRB approach (61.37%)	
5.02%	Supervised intermediaries, public sector and local authorities and other entities
2.25%	Specialised lending
9.03%	SMEs
20.88%	Other corporates
17.17%	Exposures secured by properties: individuals
0.97%	Exposures secured by properties: SMEs
3.74%	Other retail exposures: Individuals
2.31%	Other retail exposures: SMEs

Basic IRB approach (1.78%)	
0.09%	SMEs
0.13%	Other corporates
1.56%	Equity

[11] The percentages shown in the table relating to the exposure classes involved in a roll-out plan include both the Credit Risk component and the Counterparty Risk component.

	Standardised Approach (36.85%)
23.13%	Central governments or central banks
0.18%	Regional governments or local authorities
0.30%	Public sector entities
0.08%	Multilateral development banks
0.06%	International organisations
4.24%	Corporates
0.88%	Institutions
2.11%	Retail
0.79%	Secured by mortgages on immovable property
0.27%	Exposures in default
0.21%	Exposures associated with particularly high risk
0.35%	Covered bonds
0.39%	Equity instruments
0.37%	Units or shares of collective investment undertakings
3.49%	Other exposures

	Exposure classes involved in a roll-out plan (5.33%)
1.48%	Institutions
0.04%	Regional governments or local authorities
0.96%	Corporates
1.37%	Retail
0.17%	Units or shares of collective investment undertakings
0.55%	Secured by mortgages on immovable property
0.22%	Covered bonds
0.15%	Exposures associated with particularly high risk
0.12%	Public sector entities
0.21%	Exposures in default
0.00%	Equity instruments
0.06%	Other exposures

The EAD values of exposures as at 31 December 2019 for the various IRB approaches (IRB, Foundation IRB and Advanced IRB) are shown in the tables below.

Exposure values by regulatory portfolio (Foundation IRB Approach)

(millions of euro)

Regulatory portfolio	**Exposure value**	
	31.12.2019	**31.12.2018**
Exposures to or secured by corporates:		
- Specialised lending	-	-
- SMEs (Small and Medium Enterprises)	524	451
- Other corporates	706	664
Total credit risk (IRB)	**1,230**	**1,115**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2019	31.12.2018
Exposures to or secured by corporates:		
- Specialised lending	12,378	11,339
- SMEs (Small and Medium Enterprises)	51,058	56,865
- Other corporates	119,624	116,770
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities:	35,967	32,805
Total credit risk (Advanced IRB approach)	**219,027**	**217,779**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2019	31.12.2018
Retail exposures:		
- Exposures secured by residential property: SMEs	5,464	5,639
- Exposures secured by residential property: private individuals	96,263	91,307
- Other retail exposures: SMEs	12,979	13,989
- Other retail exposures: private individuals	20,987	20,503
Total credit risk (IRB)	**135,693**	**131,438**

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2019	31.12.2018
Exposures in equity instruments subject to the PD/LGD approach	1,283	967
Total credit risk (IRB)	**1,283**	**967**

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitizations	Exposure value	
	31.12.2019	31.12.2018
Exposures to securitisations (RBA - SFA - SEC-IRBA)	18,249	12,976
Total credit risk (IRB)	**18,249**	**12,976**

For detailed information on exposures to securitisations, see the specific section.
The exposure value shown in the tables set forth in this Section is expressed gross of adjustments and takes into account (for guarantees given and commitments to disburse funds) credit conversion factors. Conversely, the exposure value does not consider the risk mitigation techniques which – for exposures assessed using internal models – are directly incorporated in the weightings applied to said exposure.

Below is a breakdown by geographical area of the exposures subject to IRB approaches, broken down by major countries for which the exposures cumulated on all portfolios exceed the 2-billion-euro threshold (identified in accordance with the provisions of the EBA Guidelines GL/2016/11 and GL/2014/14) and which represent, overall, approximately 94% of the Group’s total IRB exposures.

Exposure values: PD and LGD by geographical area (IRB Approaches)

(millions of euro)

Regulatory portfolio	31.12.2019			31.12.2018
	Exposure value	Weighted average PD (*) (%)	Weighted average LGD (%)	Exposure value
- Retail exposures	**135,693**			**131,438**
1. Italy	127,380	8.13	22.3	123,947
2. United States of America	39	2.85	16.3	32
3. Slovakia	7,755	1.87	22.8	7,025
4. France	22	5.71	17.7	18
5. Netherlands	15	2.67	15.2	14
6. United Kingdom	108	3.96	17.1	94
7. Germany	29	5.46	17.1	22
8. Spain	8	7.27	20.3	7
9. Turkey	1	0.47	24.6	1
10. Brazil	3	9.84	22.5	-
11. Luxembourg	11	2.66	16.9	8
12. Russia	13	7.67	17.8	14
13. Other countries	309	x	x	256
- Exposures to or secured by corporates	**184,290**			**186,089**
1. Italy	127,505	16.64	36.6	139,327
2. United States of America	8,952	1.27	34.1	6,837
3. Slovakia	3,368	3.92	39.4	3,344
4. France	2,818	2.54	32.5	3,229
5. Netherlands	2,442	1.01	31.9	2,444
6. United Kingdom	4,289	0.74	32.6	3,764
7. Germany	3,123	3.71	34.6	2,428
8. Spain	2,437	0.76	32.2	3,457
9. Turkey	649	4.10	34.3	1,009
10. Brazil	733	16.39	32.6	-
11. Luxembourg	4,410	0.88	32.4	2,519
12. Russia	5,851	0.63	24.6	2,052
13. Other countries	17,713	x	x	15,679
- Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities	**35,967**			**32,805**
1. Italy	18,274	3.10	21.8	18,849
2. United States of America	880	0.07	61.9	690
3. Slovakia	8	0.04	24.7	-
4. France	3,396	0.09	24.2	1,807
5. Netherlands	322	0.17	34.2	228
6. United Kingdom	2,491	0.08	28.5	3,288
7. Germany	1,236	0.12	27.7	560
8. Spain	570	0.20	32.5	107
9. Turkey	2,049	2.07	47.7	2,022
10. Brazil	2,499	1.61	44.9	-
11. Luxembourg	140	0.04	33.6	138
12. Russia	77	0.49	50.1	82
13. Other countries	4,025	x	x	5,034
- Equity exposures	**1,283**			**967**
1. Italy	1,227	11.31	90.0	967
2. United States of America	56	2.02	90.0	-
3. Slovakia	-	-	-	-
4. France	-	-	-	-
5. Netherlands	-	-	-	-
6. United Kingdom	-	-	-	-
7. Germany	-	-	-	-
8. Spain	-	-	-	-
9. Turkey	-	-	-	-
10. Brazil	-	-	-	-
11. Luxembourg	-	-	-	-
12. Russia	-	-	-	-
13. Other countries	-	x	x	-

(*) The PD values presented refer to both performing and defaulted exposures.

IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques as at 31 December 2019 (EU CR7 EBA GL 2016/11)

(millions of euro)

		PRE-CREDIT DERIVATIVES RWAs	ACTUAL RWAs
1	**Exposures under FIRB**	**955**	**955**
2	Central governments and central banks	-	-
3	Institutions	-	-
4	Corporates – SMEs	372	372
5	Corporates – Specialised lending	-	-
6	Corporates – Other	583	583
7	**Exposures under AIRB**	**166,372**	**166,372**
8	Central governments and central banks	-	-
9	Institutions	14,599	14,599
10	Corporates – SMEs	30,367	30,367
11	Corporates – Specialised lending	7,672	7,672
12	Corporates – Other	56,799	56,799
13	Retail – Secured by real estate SMEs	1,277	1,277
14	Retail – Secured by real estate non-SMEs	15,881	15,881
15	Retail – Qualifying revolving	-	-
16	Retail – Other SMEs	2,905	2,905
17	Retail – Other non-SMEs	5,953	5,953
18	Equity IRB	30,919	30,919
19	Other non credit obligation assets	-	-
20	**TOTAL**	**167,327**	**167,327**

The RWA values shown in the table before the potential effect deriving from the application of risk mitigation techniques through the use of credit derivatives correspond to the actual RWA values in view of the immateriality of these effects for the Group.

IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2019 (EU CR6 EBA GL 2016/11) *(Table 1 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)	EL	Value adjust-ments and provisions
Exposures to or secured by Supervised Intermediaries, Public sector and local authorities and Other entities												
0.00 to <0.15	6,048	17,157	3%	6,612	0.07	774	42.6	927	1,924	29%	2	
0.15 to <0.25	4,102	4,438	6%	4,385	0.19	444	30.5	801	1,397	32%	2	
0.25 to <0.50	4,592	5,130	8%	5,020	0.32	733	23.5	1,444	2,115	42%	4	
0.50 to <0.75	2,430	1,625	6%	2,538	0.69	384	19.1	1,554	1,114	44%	3	
0.75 to <1.25	790	1,539	1%	808	1.04	340	13.2	1,357	266	33%	1	
1.25 to <2.50	6,943	5,715	2%	7,049	1.80	644	35.9	776	6,570	93%	44	
2.50 to <5.00	661	2,134	6%	777	3.54	309	25.5	1,133	651	84%	7	
5.00 to <10.00	312	529	2%	289	6.45	159	14.0	1,656	174	60%	3	
10.00 to <20.00	165	114	9%	179	13.74	73	26.9	1,180	256	143%	7	
20.00 to <100.00	17	14	0%	16	41.99	26	12.4	1,589	12	72%	1	
100.00 (default)	478	13	6%	479	100.00	164	45.7	590	120	25%	209	
Subtotal	26,538	38,408	4%	28,152	2.62	4,050	31.9	1,040	14,599	52%	283	216
Exposures to or secured by corporates:												
- Specialised lending												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	0%	-	
0.15 to <0.25	174	23	20%	178	0.23	39	38.4	1,283	92	51%	-	
0.25 to <0.50	450	451	15%	409	0.35	92	20.2	1,190	131	32%	-	
0.50 to <0.75	1,632	645	18%	1,728	0.54	220	19.1	1,472	694	40%	2	
0.75 to <1.25	3,841	1,194	19%	1,736	0.82	323	18.0	1,562	776	45%	7	
1.25 to <2.50	3,509	997	14%	3,635	1.52	745	21.1	1,479	2,224	61%	11	
2.50 to <5.00	1,525	484	14%	1,546	3.53	633	21.0	1,307	1,101	71%	12	
5.00 to <10.00	267	61	24%	268	8.55	92	20.2	1,469	260	97%	5	
10.00 to <20.00	567	113	14%	566	16.62	199	24.9	1,211	792	140%	25	
20.00 to <100.00	194	106	15%	209	35.77	167	24.1	1,421	261	125%	18	
100.00 (default)	1,317	80	99%	1,373	100.00	653	41.0	1,155	415	30%	536	
Subtotal	13,476	4,154	18%	11,648	14.59	3,163	23.1	1,402	6,746	58%	616	800
- SMEs (small and medium enterprises)												
0.00 to <0.15	887	1,654	20%	1,206	0.13	4,173	39.9	792	262	22%	1	
0.15 to <0.25	1,743	2,137	23%	2,184	0.21	8,392	40.8	824	657	30%	2	
0.25 to <0.50	6,415	6,662	22%	7,324	0.40	26,852	41.6	783	3,090	42%	12	
0.50 to <0.75	4,637	3,473	23%	4,923	0.64	16,558	42.4	740	2,678	54%	13	
0.75 to <1.25	4,846	2,804	22%	4,948	1.12	15,619	41.9	769	3,289	67%	23	
1.25 to <2.50	8,447	3,955	24%	8,463	1.78	25,260	40.9	845	6,476	77%	61	
2.50 to <5.00	3,823	1,297	23%	3,770	3.31	12,259	40.3	887	3,307	88%	50	
5.00 to <10.00	5,046	1,266	23%	4,792	7.13	14,412	39.1	960	5,221	109%	133	
10.00 to <20.00	1,327	221	28%	1,304	14.83	3,708	36.6	1,106	1,800	138%	71	
20.00 to <100.00	548	100	27%	673	29.82	1,945	36.5	1,193	1,119	166%	73	
100.00 (default)	11,724	472	83%	11,560	100.00	20,957	53.3	827	2,840	25%	5,931	
Subtotal	49,443	24,041	24%	51,147	24.82	150,135	43.6	838	30,739	60%	6,370	6,997
- Other corporates												
0.00 to <0.15	10,802	32,528	21%	17,479	0.10	1,718	33.5	779	3,535	20%	6	
0.15 to <0.25	15,710	28,013	19%	21,086	0.22	2,189	33.9	753	7,014	33%	16	
0.25 to <0.50	19,453	28,397	21%	25,105	0.35	5,096	33.3	836	11,044	44%	30	
0.50 to <0.75	12,225	14,123	27%	15,190	0.57	3,014	32.3	825	8,052	53%	28	
0.75 to <1.25	6,871	6,078	22%	10,509	0.94	2,585	29.3	797	6,157	59%	29	
1.25 to <2.50	11,468	8,949	26%	13,525	1.68	3,737	32.6	803	10,691	79%	74	
2.50 to <5.00	3,499	1,890	26%	3,810	3.42	1,183	31.2	857	3,609	95%	41	
5.00 to <10.00	2,769	1,383	33%	2,824	6.96	898	31.4	857	3,256	115%	62	
10.00 to <20.00	682	185	42%	631	15.07	208	29.6	919	888	141%	28	
20.00 to <100.00	991	333	14%	1,107	24.05	296	28.6	727	1,568	142%	76	
100.00 (default)	6,048	1,550	46%	6,452	100.00	2,252	41.7	657	1,568	24%	2,564	
Subtotal	90,518	123,429	22%	117,718	6.55	23,176	33.1	795	57,382	49%	2,954	3,608

IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2019 (EU CR6 EBA GL 2016/11) *(Table 2 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity	RWAs	RWA density (**)	EL	Value adjust-ments and provisions
Retail exposures: (*)												
- Exposures secured by residential properties: SMEs												
0.00 to <0.15	475	17	58%	483	0.12	2,846	22.2	-	24	5%	-	
0.15 to <0.25	554	15	52%	553	0.16	4,482	22.2	-	33	6%	-	
0.25 to <0.50	1,119	32	53%	1,121	0.32	9,195	22.2	-	112	10%	1	
0.50 to <0.75	421	12	55%	420	0.68	3,505	22.3	-	73	17%	1	
0.75 to <1.25	463	8	46%	459	1.12	3,923	22.3	-	111	24%	1	
1.25 to <2.50	543	9	45%	535	1.87	5,188	22.5	-	182	34%	2	
2.50 to <5.00	458	10	48%	450	3.12	4,346	22.8	-	212	47%	3	
5.00 to <10.00	256	5	57%	248	5.39	2,625	22.4	-	153	62%	3	
10.00 to <20.00	197	4	47%	188	14.58	1,939	22.6	-	174	93%	6	
20.00 to <100.00	75	2	38%	73	41.92	872	22.8	-	71	98%	7	
100.00 (default)	950	7	54%	934	100.00	7,320	36.7	-	132	14%	333	
Subtotal	5,511	121	52%	5,464	19.08	46,241	24.8	-	1,277	23%	357	407
- Exposures secured by residential properties: individuals												
0.00 to <0.15	28,092	526	81%	28,500	0.08	366,870	15.6	-	962	3%	4	
0.15 to <0.25	11,416	45	13%	11,401	0.17	129,273	15.2	-	654	6%	3	
0.25 to <0.50	14,529	128	71%	14,572	0.29	168,168	16.1	-	1,314	9%	7	
0.50 to <0.75	8,708	76	68%	8,723	0.50	97,255	16.2	-	1,173	13%	7	
0.75 to <1.25	12,016	59	50%	11,954	0.77	142,125	16.1	-	2,142	18%	15	
1.25 to <2.50	9,479	47	74%	9,421	1.83	119,471	15.7	-	2,894	31%	27	
2.50 to <5.00	3,516	29	78%	3,477	3.78	42,427	16.3	-	1,698	49%	21	
5.00 to <10.00	3,736	17	71%	3,621	6.33	46,337	16.0	-	2,254	62%	37	
10.00 to <20.00	994	1	16%	935	14.67	12,007	15.3	-	792	85%	21	
20.00 to <100.00	1,153	2	52%	1,069	26.37	13,929	15.5	-	1,011	95%	44	
100.00 (default)	2,653	2	100%	2,590	100.00	31,494	38.7	-	987	38%	924	
Subtotal	96,292	932	73%	96,263	3.91	1,169,356	16.4	-	15,881	17%	1,110	887
- Other retail exposures: SMEs												
0.00 to <0.15	1,322	1,260	7%	1,274	0.12	39,013	32.2	-	94	7%	-	
0.15 to <0.25	1,342	1,065	6%	1,289	0.15	71,694	33.6	-	119	9%	1	
0.25 to <0.50	2,536	1,726	4%	2,394	0.32	122,396	34.2	-	357	15%	3	
0.50 to <0.75	877	428	6%	835	0.68	44,591	35.4	-	202	24%	2	
0.75 to <1.25	980	398	5%	922	1.11	44,933	35.9	-	284	31%	4	
1.25 to <2.50	1,166	404	7%	1,103	1.86	65,316	37.2	-	420	38%	8	
2.50 to <5.00	1,103	304	7%	1,033	3.14	55,761	37.8	-	445	43%	12	
5.00 to <10.00	531	124	7%	480	5.52	40,383	38.2	-	222	46%	10	
10.00 to <20.00	410	91	7%	360	13.72	28,545	38.2	-	211	59%	19	
20.00 to <100.00	108	36	9%	95	41.64	20,667	40.1	-	78	83%	16	
100.00 (default)	3,307	54	18%	3,168	100.00	103,971	65.8	-	473	15%	2,047	
Subtotal	13,682	5,890	6%	12,953	25.97	637,270	42.7	-	2,905	22%	2,122	2,435
- Other retail exposures: individuals												
0.00 to <0.15	2,213	1,567	59%	3,126	0.08	994,576	30.8	-	199	6%	1	
0.15 to <0.25	1,507	419	62%	1,762	0.17	396,076	31.5	-	213	12%	1	
0.25 to <0.50	2,134	394	67%	2,391	0.29	441,045	32.0	-	420	18%	2	
0.50 to <0.75	1,757	242	69%	1,919	0.50	314,415	33.0	-	483	25%	3	
0.75 to <1.25	2,929	373	73%	3,193	0.77	478,197	33.5	-	1,024	32%	8	
1.25 to <2.50	2,481	307	74%	2,696	1.84	440,025	30.8	-	1,109	41%	15	
2.50 to <5.00	1,457	125	75%	1,539	3.82	255,806	32.9	-	773	50%	19	
5.00 to <10.00	1,658	135	73%	1,737	6.38	356,662	32.9	-	923	53%	36	
10.00 to <20.00	352	19	80%	361	14.67	70,062	31.9	-	238	66%	17	
20.00 to <100.00	401	18	75%	400	25.65	77,571	32.2	-	330	83%	33	
100.00 (default)	1,885	13	85%	1,863	100.00	208,675	71.9	-	241	13%	1,315	
Subtotal	18,774	3,612	65%	20,987	10.88	4,033,110	35.6	-	5,953	28%	1,450	1,384

IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2019 (EU CR6 EBA GL 2016/11) *(Table 3 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity	RWAs	RWA density (**)	EL	Value adjust-ments and provisions
Exposures in equity instruments subject to the PD/LGD approach												
0.00 to <0.15	-	-	0%	-	-	-	-	-	-	0%	-	
0.15 to <0.25	-	-	0%	-	-	-	-	-	-	0%	-	
0.25 to <0.50	-	-	0%	-	-	-	-	-	-	0%	-	
0.50 to <0.75	-	-	0%	-	-	-	-	-	-	0%	-	
0.75 to <1.25	11	-	100%	11	0.85	-	90.0	1,825	27	251%	-	
1.25 to <2.50	809	-	100%	809	1.49	-	90.0	1,825	2,315	286%	11	
2.50 to <5.00	63	1	100%	64	3.34	-	90.0	1,825	222	346%	2	
5.00 to <10.00	56	-	100%	56	9.03	-	90.0	1,825	248	441%	5	
10.00 to <20.00	5	-	100%	5	17.87	-	90.0	1,825	23	458%	1	
20.00 to <100.00	250	-	100%	250	24.60	-	90.0	1,825	1,169	468%	55	
100.00 (default)	88	-	100%	88	100.00	-	90.0	1,825	-	0%	79	
Subtotal	1,282	1	100%	1,283	13.20	-	90.0	1,825	4,004	312%	153	-

(*) The average maturity is not shown for retail portfolios since this parameter is not used when calculating risk-weighted assets in accordance with regulations.

(**) The percentage values of RWA density were calculated on amounts not rounded up or down to the nearest million.

At the end of 2019, the aggregate of the exposures subject to credit risk, measured using advanced approaches, rose slightly (+1%, or around +3.3 billion euro), with RWAs essentially unchanged (+0.2 billion euro), which were mainly positively affected by the increase for “Other Companies” (+1.7%, or +5.7 billion euro), “Exposures secured by residential property: private individuals” (+0.5%, or +1.7 billion euro) and “Institutions” (+0.4%, or +1.5 billion euro), partly offset by the decline in the “SMEs (small and medium enterprises)” portfolio (-1.4%, or -4.8 billion euro). Prudential margins were added to the calculation of the RWAs for structured finance exposures (RWAs +0.6 billion euro), lease and factoring performing exposures (RWAs +1.4 billion euro) and defaulted assets (RWAs +0.6 billion euro). The changes that occurred left the total capital requirement essentially unchanged, at RWAs of 139 billion euro against total exposures of 346 billion euro. The average risk level (PD) of performing exposures was significantly more favourable, at 156 bps, down -16 bps on June 2019.

IRB Approach – Specialised lending and equities as at 31 December 2019 (EU CR10 EBA GL 2016/11)

(millions of euro)

SPECIALISED LENDING								
Regulatory categories	**Remaining maturity**	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Expected losses**
Category 1	Less than 2.5 years	-	-	50%	-	-	-
	Equal to or more than 2.5 years	280	13	70%	290	203	1
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	Equal to or more than 2.5 years	353	97	90%	425	383	3
Category 3	Less than 2.5 years	193	44	115%	226	260	6
	Equal to or more than 2.5 years	-	-	115%	-	-	-
Category 4	Less than 2.5 years	32	-	250%	32	80	3
	Equal to or more than 2.5 years	-	-	250%	-	-	-
Category 5	Less than 2.5 years	15	-	-	15	-	7
	Equal to or more than 2.5 years	-	-	-	-	-	-
Total	**Less than 2.5 years**	**240**	**44**		**273**	**340**	**16**
	Equal to or more than 2.5 years	**633**	**110**		**715**	**586**	**4**

EQUITIES UNDER THE SIMPLE RISK-WEIGHTED APPROACH						
Categories	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Capital requirements**
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	89	-	290%	89	259	21
Other equity exposures	6,769	28	370%	6,797	25,150	2,012
TOTAL	**6,858**	**28**		**6,886**	**25,409**	**2,033**

There was also an amount of 602 million euro (EAD) relating to the equity exposures subject to fixed weighting factors.

The table above shows the exposures related to specialised lending according to their respective regulatory categories and contractual maturities, as well as the disclosure of the equities calculated based on the simple risk-weight approach. The Specialised Lending segment is covered by various models for the different exposure categories, as detailed in the section “Specialised Lending Models”.

Actual losses and comparison with expected losses

The table below shows the actual losses recognised in the income statement during the last three years on the counterparties in default belonging to the regulatory portfolios for which the Group applies internal methods to calculate the capital requirements for credit risk.

Actual losses by regulatory portfolio

(millions of euro)

Regulatory portfolio	**Actual losses**		
	2019	**2018**	**2017**
Exposures to or secured by corporates (Corporate)	-1,414	-1,389	-2,135
Exposures secured by residential property (Retail mortgages)	-90	-107	-118
Exposures to SMEs (SME retail)	-266	-311	-255

During the 2017-2019 period, expected losses for performing Corporate counterparties (determined based on prior year-end data) amounted to a total of 3,480 million euro.

The actual losses recorded during the same period, shown in the table above, were in excess of the expected losses, due to the deterioration of the economic environment starting from the end of 2011, showing a slight gradual improvement.

It should be noted that, in recent years, there has been an increase in negative movements within the non-performing loan category: in particular, over the entire period of observation - compared to the previous periods - there were increases towards the bad loans category (albeit with a slowdown in more recent years) and decreases in returns to performing status. It was also necessary to make significant adjustments to existing non-performing positions that worsened following the crisis in the financial markets and in the real estate sector and, then, the recession that hit most of the countries where the Group operates, primarily Italy. The total amount of actual losses over the last three years, therefore, was significantly impacted by the losses sustained on non-performing loans in prior periods, not included in the expected losses calculated for the performing portfolio at the beginning of the year.

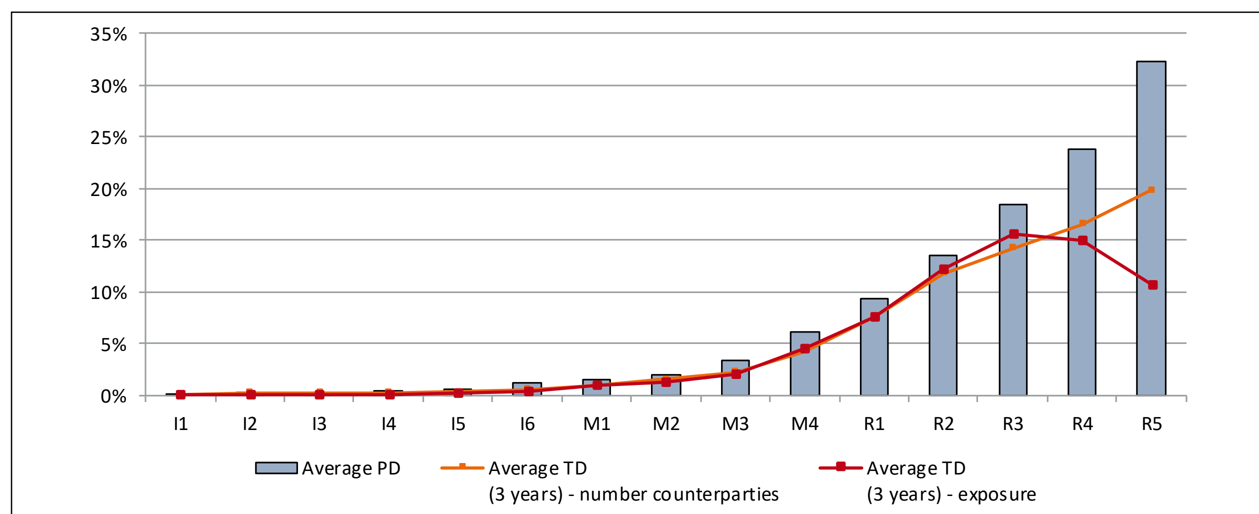
The Retail SME asset class also showed similar performance, with an expected loss of 361 million euro, which was lower than the actual losses recorded in the same period.

In contrast, the Retail portfolio showed the opposite trend with expected losses for the three-year period 2017-2019 totalling 466 million euro for the portion secured by residential properties (retail mortgages), while for the portion relating to other retail exposures, the expected losses for 2019 totalled 141 million euro, above the figure for the actual losses.

Comparison of PD and DR figures by rating class for the Corporate regulatory segment

As part of its ongoing validation work, the Internal Validation Function - Credit Risk Internal Systems Unit periodically (on a half-yearly basis) compares the default rates[12] recorded on the models validated for IRB purposes with the average PDs by individual rating class. The default events, recorded from November 2019, were those identified based on the early adoption of the new Definition of Default (DoD).

For the Corporate Domestic regulatory segment (Italian Corporate counterparties with a turnover of less than 500 million euro), the chart below shows the comparison by individual rating class between PD and default rates (calculated in terms of number of counterparties and exposure). The values were obtained from rating calculation simulations for the first reference date (December 2016) and production data for the two most recent dates considered (December 2017 and December 2018): the model was authorised by the Regulator in April 2017 and used, for regulatory purposes, from June 2017.



The default rate curves, calculated as the simple average on the performing reference dates of December 2016 – 2017 – 2018 (2017, 2018 and 2019 default windows[13]), showed a generally monotonic increase as the rating class worsens, however with values that are never higher than the respective PD values for each rating class.

In the period under observation, the default rates by exposure decreased in the final part of the curve in the worse rating classes.

The performance of the model in terms of discriminatory power is satisfactory, with an accuracy ratio for the last year of just over 68%.

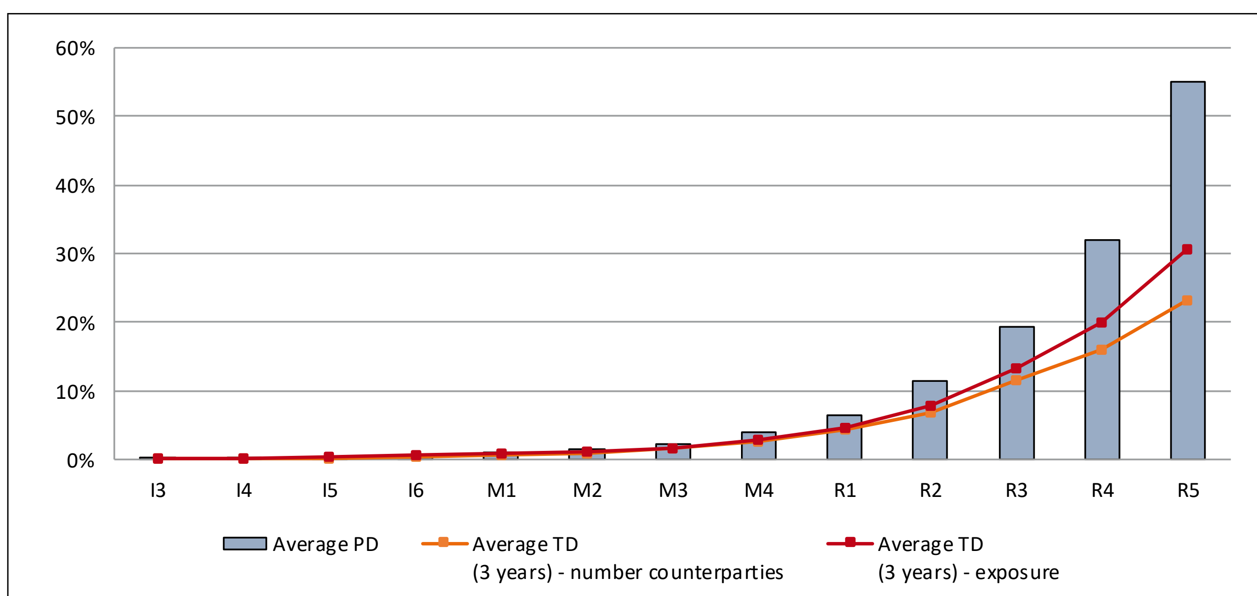
[12] The definition of default, considered for the population of the charts and the EU CR9 table below for the Corporate segment, is the regulatory definition that includes all the default statuses envisaged: doubtful – UTPs – past due 180 days and 90 days.

[13] The performing reference date is the date on which the perimeter for comparison between PD and DR is defined; the observation window for the default event, for the definition, is one year (i.e. January 2019 - December 2019 for the reference date December 2018).

Comparison of PD and DR figures by rating class for the Retail SME regulatory segment

As part of its ongoing validation work, the Internal Validation Function - Credit Risk Internal Systems Unit periodically (on a half-yearly basis) compares the default rates[14] recorded on the models validated for IRB purposes with the average PDs by individual rating class. The default events, recorded from November 2019, were those identified based on the early adoption of the new Definition of Default (DoD).

For the assessment of the counterparties in the Retail SME segment, the distribution of PD and DR by rating class referring to the IRB validated portfolio is reported. The perimeter considered (three years of default observations: from 2017 to 2019) consists of the Small Business and Micro Business counterparties, which have had different regulatory PDs since 31 December 2018. Consequently, the average class PDs used for the chart below have been obtained by means of the weighted average of the individual average class PDs of the two sub-portfolios, with weightings based on the respective number of counterparties in the last three years.



The default rates are slightly lower than the average PDs obtained in the I and M rating macro classes[15], and much lower in the R rating macro class; they also show a monotonic trend that increases along the rating scale. The two default rate curves have very similar values in the I and M macro classes (the two curves in the chart practically overlap each other), whereas in the R macro class the default rates by exposure are several percentage points higher than the default rates by number of counterparties. The performance of the models in terms of discriminatory power is overall satisfactory, both for Small Business (Accuracy Ratio = 69.12%) and for Micro Business (AR = 68.93%).

Comparison of PD and DR figures by rating class for the Retail – Mortgage regulatory segment

As part of its ongoing validation work, the Internal Validation Function - Credit Risk Internal Systems Unit periodically (on a half-yearly basis) compares the default rates[16] recorded on the models validated for IRB purposes with the average PDs by individual rating class. The default events, recorded from November 2019, were those identified based on the early adoption of the new Definition of Default (DoD).

The new Retail internal rating system, for which authorisation for its use was received in Q3 2018, is divided into the Mortgage and Retail - Other sub-segments[17] and adopts a counterparty approach[18]. The chart below shows the breakdown by rating class for Retail Mortgage, using the same time periods as those described above for Corporate and Retail SME: performance reference dates December 2016 - 2017 - 2018 (default windows 2017, 2018 and 2019). The values were obtained from rating calculation simulations using the new model for the first two reference dates (December 2016 and December 2017) and production data for the most recent date considered (December 2018).

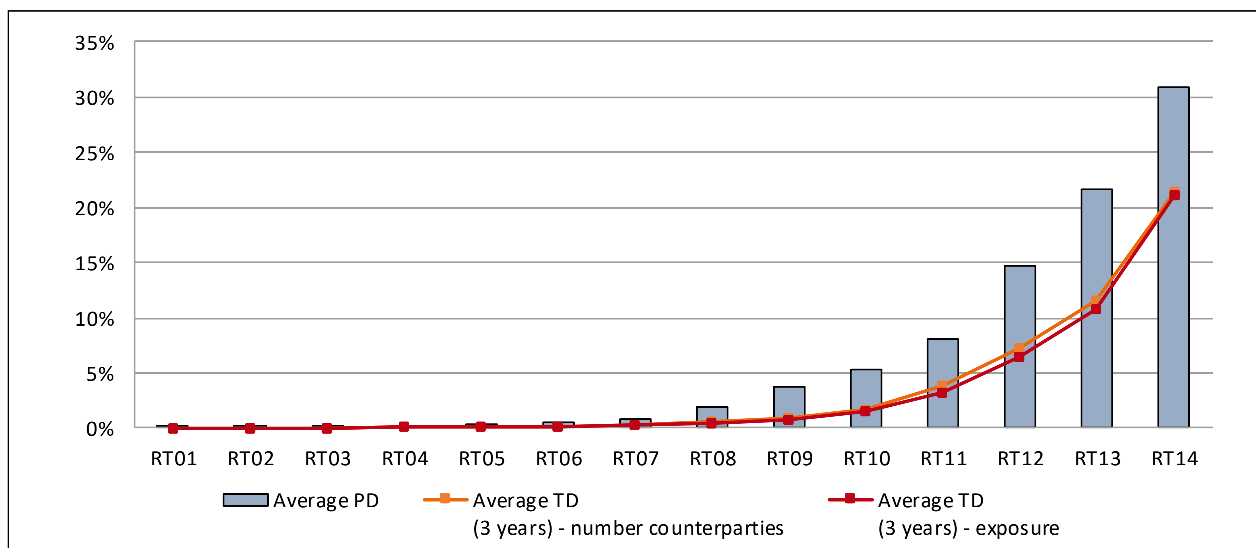
[14] The definition of default, considered for the population of the charts and the EU CR9 table below for the Retail SME segment, includes only the worst statuses of doubtful and UTPs, in line with the definition of default used in the model estimation/recalibration phase. The new Retail SME model, for which a model change application was sent to the ECB during Q4-2019, also includes past due 180 days and 90 days.

[15] I, M and R rating macro classes means the aggregation, respectively, of the rating classes from I3 to I6, from M1 to M4, and from R1 to R5.

[16] The definition of default, considered for the population of the charts and the EU CR9 table below for the Retail segment (both Mortgage and Other), is the regulatory definition that includes all the default statuses envisaged: doubtful – UTPs – past due 180 days and 90 days.

[17] For Retail Mortgage this is a model change of the model already authorised and for Retail - Other this is a first adoption.

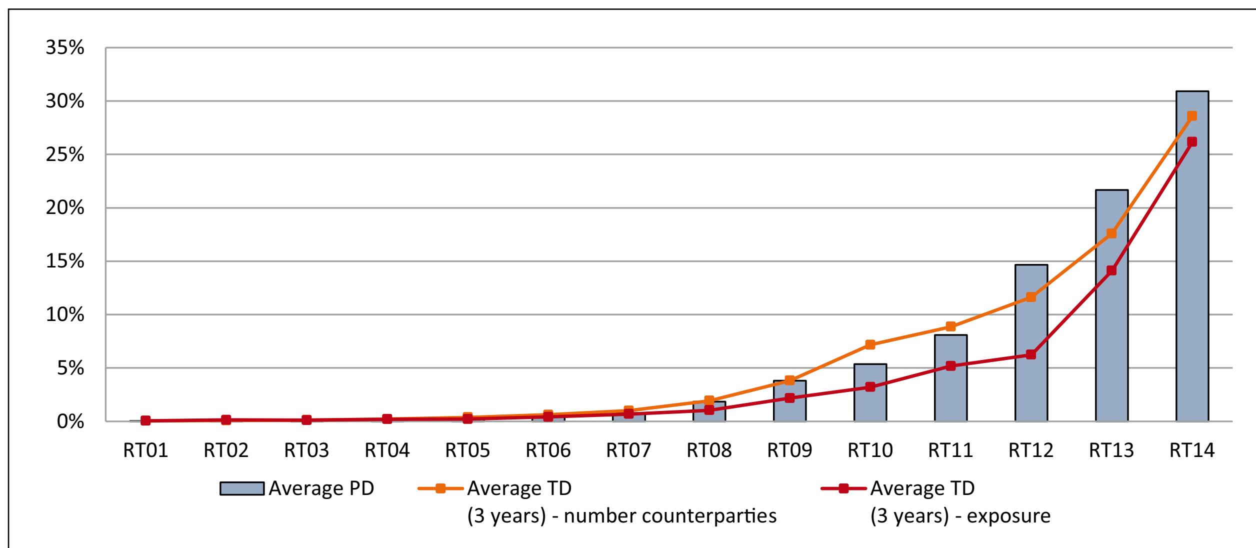
[18] The Retail Mortgage sub-segment therefore concerns all counterparties with at least one mortgage product in their relationships. The Retail - Other sub-segment, on the other hand, groups together all the other retail counterparties.



There is a monotonic increase in the default rate as the rating class worsens, with similar values among the two default rate curves. The class PDs are higher, for all the classes, than the respective default rates: in particular, from RT09 to RT14, the PD value is at least around three percentage points higher than the two default rate values.
The performance of the model in terms of discriminatory power is satisfactory, for Customers with Credit line, with an accuracy ratio for the last year of just over 82%. Their small number does not enable robust performances for the Customers without Credit line and New Customers sub-perimeters.

Comparison of PD and DR figures by rating class for the Retail – Other regulatory segment

As part of its ongoing validation work, the Internal Validation - Credit Risk Internal Systems Unit periodically (on a half-yearly basis) compares the default rates recorded on the models validated for IRB purposes with the average PDs by individual rating class. The default events, recorded from November 2019, were those identified based on the early adoption of the new Definition of Default (DoD).
The chart below compares PDs and default rates for the Retail - Other perimeter, using the same time periods as those described above: performance reference dates December 2016 - 2017 - 2018 (default windows 2017, 2018 and 2019). The values were obtained from rating calculation simulations using the new model for the first two reference dates (December 2016 and December 2017) and production data for the most recent date considered (December 2018).



There is a monotonic increase in the default rate as the rating class worsens, with PD values in line with the default rates for the first part of the distribution (up to RT07). In the second part of the distribution (RT08 to RT14) the PD is higher than the default rate per exposure (for all rating classes) and than the default rate per number of counterparties (all rating classes except RT08 - RT10 - RT11[19]).

[19] The biggest difference is for the RT10 rating class: PD = 5.36% vs. Default rate per number of counterparties = 7.17%.

The performance of the model in terms of discriminatory power is satisfactory for all three types of customers with an accuracy ratio for the last year in all cases above 67%: Customers with Credit line (78.90%) – Customers without Credit line (67.16%) – New Customers (75.51%).

Comparison of PD and DR figures by exposure class

The table below "EU CR9 – IRB approach – Backtesting of PD per exposure class" compares the PD and default rates, breaking down the portfolio by exposure class and PD scale as at the reporting date considered (31 December 2018).
The breakdown by exposure class was considered for the following portfolio models:

- Corporate (in this case, also including Large counterparties[20]);
- Retail SME (Small Business + Micro Business);
- Retail – Mortgage;
- Retail – Other.

The following authorised AIRB portfolio models, however, have not been considered for the analysis:

- Banks and Public Sector Entities, subject to a recent internal re-estimate and consequent model change (pre-application package sent to ECB in Q1 2019);
- Specialised Lending and RED, because their small number would not have provided significant data for the PD and default rate comparison.

The analysis therefore considered the most significant exposure classes or those that have not been recently re-estimated, for which consistent historical average default rates are available.
The table below shows the breakdown, in terms of RWAs as at 31 December 2019[21], of the exposure classes considered in the analysis:

Exposure class	RWA
Corporate (including Large Corporate)	57.35%
Sme Retail (Small Business + Micro Business)	2.52%
Retail - Exposures secured by real estate assets	10.63%
Retail - Other	4.29%
Other (including defaulted exposures)	25.21%

Although it is numerically less significant, the Corporate exposure class is the most impacted class in terms of RWAs. The exposure classes Retail SME, Retail Mortgage (i.e. exposures secured by real estate) and Retail - Other account for approximately 17.45% of RWAs (2.52% for Retail SME and 14.92% for the two Retail perimeters).
For the PD scale for the table "EU CR9 – IRB approach – Backtesting of PD per exposure class", on the other hand, the PD range classes obtained from the allocation of the counterparties to the specific rating classes of each regulatory segment have been aggregated in accordance with the EBA guidelines[22]. The classes of the PD scale shown in the table, which are therefore unique for each exposure class, include seven classes for performing counterparties and one class for non-performing counterparties as at the reporting date.
Only counterparties with available ratings have been considered for the comparison between PD and DR: as a result, the subdivision dedicated to non-performing counterparties has not been populated in this table (or in the above charts comparing PD and DR) because model ratings and PDs have not been assigned to these counterparties[23].
As already noted above, the samples considered for the Corporate and Retail exposure classes were obtained from calculation simulations or from partial extractions of development samples used in the estimation of the respective models.
The external rating equivalent column is not populated because these exposure classes do not refer to shadow rating models and therefore do not allow an unequivocal association between the rating classes of the "original" master scales and the agency external rating.
The comparison between the PD and DR for each exposure class therefore considers the average PDs (weighted with EAD or simple arithmetic weighting, respectively per exposure and per heading) as at the reporting date of 31 December 2018 and the average historical default rate (in terms of number of counterparties), obtained as an average over the last five years (2015, 2016, 2017, 2018 and 2019).

[20] Given their small number and uniform PD range across all portfolios, the Large Corporate counterparties have been considered together with the Corporate Domestic model previously also considered for the comparison between PD and default rates. It was not possible to measure them together with the Corporate Domestic counterparties in the previous comparison, concerning the historical average DR over the last three years, due to the different master scales adopted by the two models.

[21] Figures taken from the reporting source at the reporting date 31/12/2019.

[22] Reference to "EBA/GL/2016/11, version 2".

[23] Measured instead using PD = 100% to calculate the capital requirements.

Looking at the comparison per individual exposure class, we can see that:

- for Corporate, the PD values (both simple and weighted) per the first two PD classes and at total level are in line with the historical average DR, whereas the level of the PDs is generally higher than the average historical DR for all the other PD classes;
- for Retail SME, both at total level and for the individual rating classes, the arithmetic and weighted average PDs are higher than the historical average DR, due to the lower risk level in recent years[24] and a re-distribution of the portfolio for the new PD values adopted for the Micro Business sub-portfolio;
- for Retail Mortgage, the PD values (both simple and weighted) per individual PD class and the total PD values are higher than the historical average DR, as a result of the lower risk level in recent years;
- for Retail - Other, the PD values (both simple and weighted) per individual PD class and total PD values are in line with the historical average DR (the PD values were significantly higher solely for the last class of performing counterparties, which represent a less significant part of the portfolio).

[24] The PDs are obtained through long-term averages of default rates, including years in which the risk level was significantly higher than in the last three to five years taken into account for these analyses.

IRB approach – Backtesting of PD per exposure class (EU CR9 EBA GL 2016/11)

(millions of euro)

Exposure class	PD range (%)	External rating equivalent (*)	Weighted average PD (%)	Arithmetic average PD by obligors (%)	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Corporate (including Large Corporate)	0,00 to <0,15	-	0.09	0.13	3,530	3,709	4	-	0.12
	0,15 to <0,25	-	0.20	0.21	6,074	6,287	20	3	0.24
	0,25 to <0,50	-	0.38	0.40	18,851	19,337	42	6	0.26
	0,50 to <0,75	-	0.65	0.65	10,540	10,524	43	4	0.45
	0,75 to <2,50	-	1.44	1.53	25,694	25,698	319	32	1.08
	2,50 to <10,00	-	5.29	5.39	15,978	15,229	801	45	4.28
	10,00 to <100,00	-	20.41	18.31	2,863	2,538	495	36	14.61
	100,00 (default) (**)	-	-	-	-	-	-	-	-
	Total	**-**	**1.64**	**2.32**	**83,530**	**83,322**	**1,724**	**126**	**2.24**
Sme Retail (Small Business + Micro Business)	0,00 to <0,15	-	0.12	0.12	25,755	26,624	16	1	0.04
	0,15 to <0,25	-	0.15	0.17	48,516	48,185	45	2	0.08
	0,25 to <0,50	-	0.32	0.35	75,800	76,995	253	13	0.28
	0,50 to <0,75	-	0.68	0.68	27,180	27,298	199	18	0.59
	0,75 to <2,50	-	1.53	1.60	67,813	66,240	885	71	1.16
	2,50 to <10,00	-	3.93	4.47	61,570	57,299	2,036	183	2.98
	10,00 to <100,00	-	19.61	19.61	20,417	15,830	2,527	226	10.55
	100,00 (default) (**)	-	-	-	-	-	-	-	-
	Total	**-**	**2.11**	**2.57**	**327,051**	**318,471**	**5,961**	**514**	**1.80**
Retail - Mortgage	0,00 to <0,15	-	0.09	0.09	238,441	263,208	79	16	0.04
	0,15 to <0,25	-	0.17	0.17	125,943	128,887	85	14	0.09
	0,25 to <0,50	-	0.29	0.29	156,172	155,393	167	27	0.13
	0,50 to <0,75	-	0.50	0.50	87,510	90,415	204	46	0.22
	0,75 to <2,50	-	1.24	1.26	247,512	253,612	1,284	288	0.54
	2,50 to <10,00	-	5.20	5.21	80,114	82,354	2,106	423	2.31
	10,00 to <100,00	-	19.74	19.64	24,578	24,711	4,210	915	12.24
	100,00 (default) (**)	-	-	-	-	-	-	-	-
	Total	**-**	**1.42**	**1.40**	**960,270**	**998,580**	**8,135**	**1,729**	**0.82**
Retail - Other	0,00 to <0,15	-	0.06	0.06	695,680	749,345	610	145	0.07
	0,15 to <0,25	-	0.17	0.17	272,970	284,732	655	117	0.19
	0,25 to <0,50	-	0.29	0.29	303,928	312,784	1,224	149	0.32
	0,50 to <0,75	-	0.50	0.50	216,743	226,411	1,613	196	0.52
	0,75 to <2,50	-	1.29	1.30	600,590	629,917	10,296	963	1.21
	2,50 to <10,00	-	5.18	5.28	417,707	418,641	30,832	3,738	5.20
	10,00 to <100,00	-	19.75	19.90	109,099	106,994	19,652	2,607	14.65
	100,00 (default) (**)	-	-	-	-	-	-	-	-
	Total	**-**	**2.28**	**2.08**	**2,616,717**	**2,728,824**	**64,882**	**7,915**	**2.03**

(*) The column regarding the external rating equivalent has not been populated since these exposure classes are not subject to shadow rating approaches, and an unambiguous association between the "original" master scale rating class and external agency rating is therefore not possible.

(**) PD scale concerning the non performing counterparties has not been populated since the comparison between TD and PD is available only for performing counterparties at the selected reference dates.

Section 10 - Credit risk mitigation techniques

Qualitative disclosure

Policies and processes for, and indication of the extent to which the Bank makes use of, on- and off-balance sheet netting.

The Group entered into (bilateral) netting arrangements that, in the event of default of the counterparty, enable the netting off of mutual claims and obligations in relation to transactions in financial instruments and credit derivatives, as well as securities financing transactions (SFTs).
For derivative contracts, this takes place through the signature of ISDA agreements, which enable the management and mitigation of credit risk. In compliance with the conditions laid down by the Supervisory regulations, these agreements permit the reduction of the absorption of regulatory capital.

For OTC derivatives, the Group also uses netting services provided by central counterparties or clearing brokers, also for the purpose of complying with the clearing requirements established by the EMIR. This is a clearing service for the more standardised OTC derivative contracts (e.g. plain vanilla interest rate derivatives and CDS Indexes). The individual transactions, previously concluded between the subscribers to the service, are subsequently transferred to the clearing house or clearing broker, which, in the same way as for listed derivatives, becomes the counterparty for the original contracting parties. The central counterparty or the broker provide for the settlement of the daily variation margin on the individual transactions, so that the mutual claims and obligations are automatically netted off against each other.

The Group establishes margin agreements to mitigate the risk relating to transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Master Repurchase Agreement/OSLA/GMSLA) with bilateral counterparties.
In particular, for non-centrally cleared OTC derivatives, from 1 March 2017, the EMIR regulations require daily margining with Financial counterparties and above threshold Non-Financial counterparties (so-called NFCs+).
In addition, for transactions in non-centrally cleared OTC derivatives concluded from 1 September 2019, the Group entities that are obligated are subject to bilateral exchange of initial margins, which will further mitigate counterparty risk.
Approximately 48% of the OTC derivatives deals are covered by margin agreements. Of these, 49% are centrally cleared.

For Forex transactions, the Group's subscription to the CLS – Continuous Linked Settlement circuit, and to the corresponding settlement services on a payment-versus-payment basis has enabled the mitigation of the settlement risk at the time of mutual payments with counterparties.

With regard to the SFTs, almost all the deals (98%) were margined daily, via Global Master Repurchase Agreements/OSLAs/GMSLAs, through cash or securities, with central or bilateral counterparties.

For more detailed information, reference should be made to the quantitative disclosure indicated in the Section on Counterparty risk of this document.

Policies and processes for collateral evaluation and management

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value – differentiated according to pledged and mortgage collateral. The enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery.
In any case, the presence of collateral does not grant exemption from a complete assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee. Under certain conditions (type of counterparty, rating assigned, type of contract), the collateral has an impact, as a mitigating factor, on the determination of the approval limits. Mitigating factors are defined based on elements that contribute to reducing the potential losses for the Bank in the case of default of the counterparty. For operational purposes, the extent of the mitigating factors is determined based on a series of factors. Among these, the Loss Given Default (LGD) is of major importance. This is expressed by a percentage, which is higher in the case of non-guaranteed interventions and lower, on the contrary, in the presence of credit risk mitigation elements.
Guarantees received are included in the calculation of the Loss Given Default, based on (i) the initial value; (ii) the strength of said value over time; and (iii) the ease of realisation.

The guarantees received with the highest impact include:
- pledges on financial assets, differentiated based on the underlying (cash, OECD government bonds, financial instruments issued by the Bank, shares and bonds quoted on regulated markets, mutual funds, etc.);
- mortgages on real estate, separated based on the use of the asset (residential, industrial property, agricultural funds/properties, commercial, industrial properties, etc.);

provided that:
- they are provided without any time limits or, if the collateral has an expiry date, this is not before the expiry of the loan guaranteed;
- they are acquired in a form that is enforceable against third parties and in accordance with the procedures established by the regulations prevailing at the time.

During the credit granting phase, the assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments or set of financial instruments accepted as collateral.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of the collateral in the presence of a reduction of the initial value of the assets and the extension of the pledge to include sums from the redemption of the financial instruments.
With regard to real estate collateral, separate processes and methods are aimed at ensuring the proper assessment and monitoring of the value of the properties accepted as collateral.
Assets are evaluated, prior to the decision to grant the credit, using both internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities and experience and the characteristics of absolute professional independence. The valuation of residential properties used as collateral for mortgage loans to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts' duties are scaled on the basis of both the amount of the transaction and the property types. A system is also in place for the review by the central functions of the expert surveys for large-scale transactions.
The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the building category of the asset offered as collateral.
In order to ensure that the valuation criteria and approaches are consistent, a property valuation code ("Property Valuation rules for credit purposes") is in force, which ensures the comparability of the estimates, and guarantees that the value of the property is calculated clearly and transparently on a prudential basis. The content of the internal Code is consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association and with the "European Valuation Standards".
Property valuations are managed through a specific integrated platform (the "Appraisals Portal") covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.
During the credit granting phase, the valuation of the properties is based on the prudential market value or, for properties under construction, on the construction cost. The resulting value is multiplied by the haircut percentages, differentiated on the basis of the property's designated use.
The value of the real estate collateral is updated on a monthly basis by using the prices/coefficients acquired from an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real estate assets.
The revaluation takes place by adopting four main methods:
- Survey value index method:
  the method uses real estate price revaluation indexes to be applied to the survey value of the property in question. It is the main revaluation method, adopted when the survey value is considered reliable through specific tests.
- Comparables method:
  the method assumes market values per square metre and applies them on the basis of the size (in square meters) of the property. The method is used when the survey value is not considered to be reliable. It is also used as "backtesting" implied in the survey value.
- Financing value index method:
  the method applies the price revaluation indexes to 125% of the original value of the financing (thus it is prudentially assumed that the financing was originally disbursed with the maximum LtV of 80%). The method is applied in the presence of subdivisions or if the survey value is not reliable and it is impossible to apply the comparables.
- Cost method:
  in case of properties under construction, market practices suggest a valuation based on the estimate of the overall costs incurred in correspondence with the work progress made on the property in question.

The value of properties under construction is monitored on an ongoing basis by experts who perform inspections, verify the progress of the works and prepare technical reports for loan disbursement.
The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, according to the maturities established for the most significant exposures, or when there are real estate guarantees securing non-performing loans.
To cover the residual risks, the borrower is required to provide an insurance policy against damage. The insurable value is determined by a survey, on the basis of the property's reconstruction cost.

Main types of guarantor and credit derivative counterparty and their creditworthiness

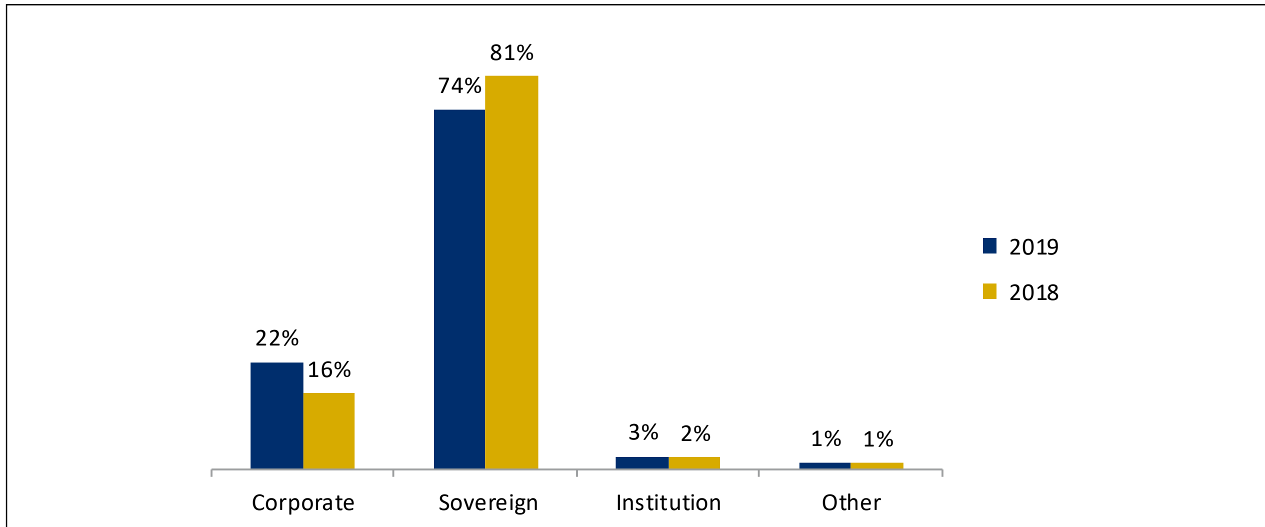
There were no contracts on credit derivatives for hedging purposes at December 2019.

Information about market or credit risk concentrations under the credit risk mitigation instruments used

Personal guarantees

Personal guarantees, as noted in the quantitative disclosure, are a tool for mitigating a limited amount of the overall credit exposure. As compared to the previous year, there was a limited remodulation of the relative impact of guarantors for the portfolio, with an increase in the Corporate segment (+6%), mirrored by a decrease in the amount in the Sovereign segment (mainly represented by the Italian government). The change attributed to the Corporate segment is mainly correlated with the guarantees given by leading international groups in favour of exposures of companies in the scope of consolidation. The amounts relating to Banks/Public Entities were marginal.

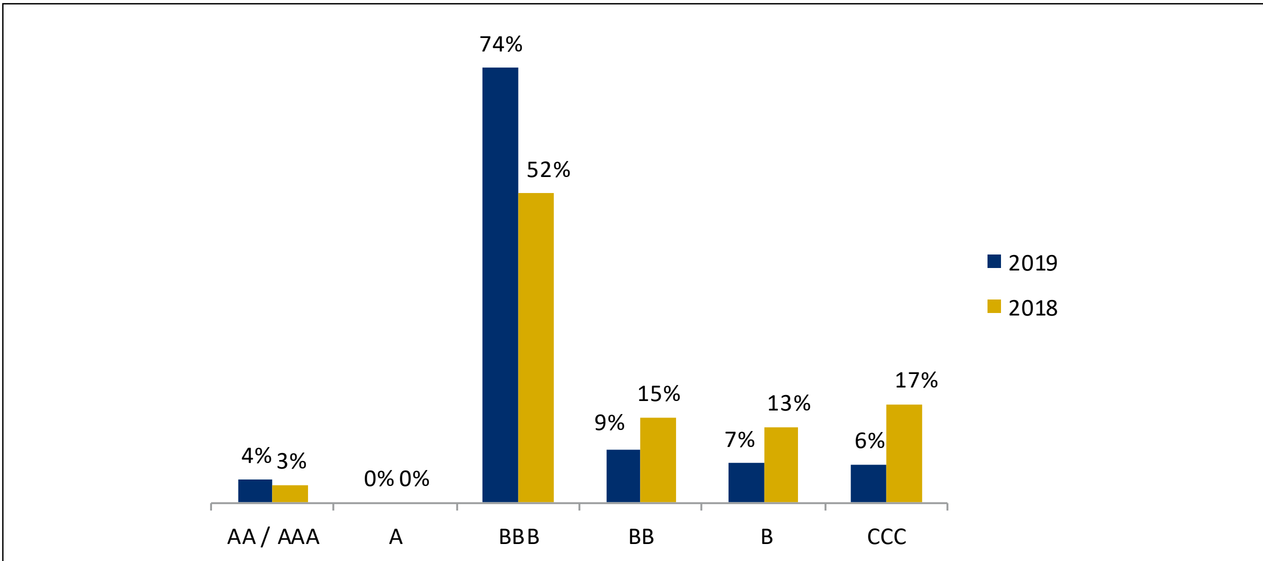
Personal guarantees by type of guarantor



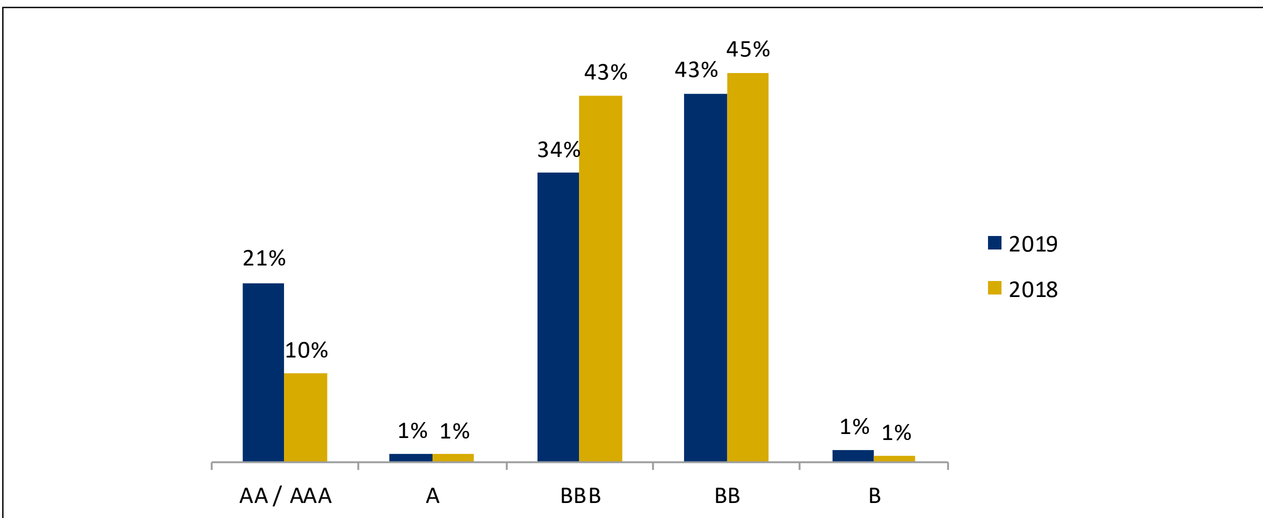
Personal guarantees by guarantor rating classes

The guarantors that back credit exposures by providing personal guarantees have a high credit standing, with a portion polarized at the investment grade rating (91%) and a positive trend compared to the previous year. Note that Corporate and Bank/Public Entity guarantors are assigned ratings from the internal model, while guarantors of other segments are assigned agency ratings.

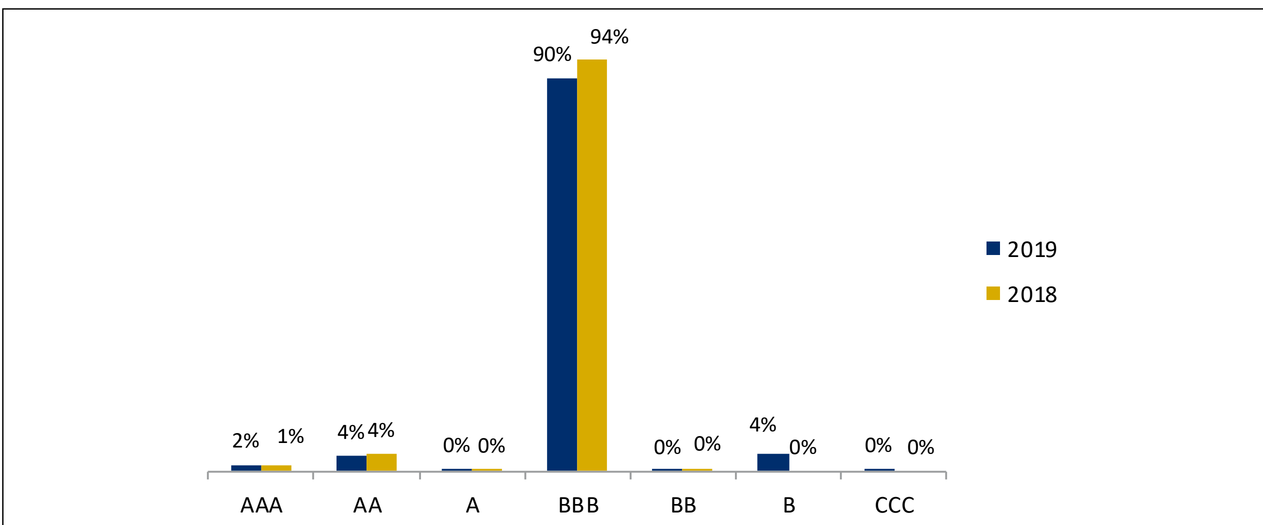
Corporate personal guarantees by guarantor rating classes



Bank/Public Entity personal guarantees by guarantor rating classes



Other segment personal guarantees by guarantor rating classes



Financial collateral

The majority of the financial collateral eligible for risk mitigation is comprised of cash transactions and repurchase agreements. For the repurchase agreements, the main issuers have ratings in the investment-grade area and all of the securities used as collateral have a short maturity, of up to 5 years.
Other financial collateral relates to pledges on cash deposits, bonds and funds.

Other collateral

Other collateral consists almost entirely of mortgages on real estate assets. Although there are no particular concentrations, for example in individual assets or particular geographical areas, the major amount of mortgage lending is in the Bank's exposure to a systematic risk factor represented by the prices of the real estate assets. This exposure, which is naturally inherent to lending operations, is considered using appropriate analyses within the ICAAP process.

Quantitative disclosure

As required by the applicable regulations, this Section reports the amounts of the exposures, split between secured and unsecured. The secured exposures are also broken down by type of guarantee. In addition, the secured exposures are broken down by calculation method for the capital requirements: standardised and foundation IRB.

CRM techniques – Overview (EU CR3 LG EBA 2016/11)

The table shows the exposure classes - Loans and Debt Securities - based on the degree of protection provided by the contractual profile, distinguishing between "Unsecured exposures" and "Secured exposures", with a breakdown by type of guarantee: collateral, personal guarantees, and exposures secured by credit derivatives (a type that is immaterial for the Group).

(millions of euro)

		Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by personal guarantees	Exposures secured by credit derivatives
1	Total loans (*)	244,305	156,264	133,201	23,063	-
2	Total debt securities	92,763	62	-	62	-
3	**Total exposures as at 31 December 2019 (**)**	**567,974**	**165,539**	**136,697**	**28,842**	**-**
4	*Of which defaulted*	*7,842*	*9,247*	*8,057*	*1,190*	-

(*) In addition to loans, the caption includes other items that have been included in credit risk from a prudential standpoint.

(**) In addition to loans and debt securities, the amount of "Total exposures" includes equity instruments, property and equipment, cash and cash equivalents and off-balance sheet exposures.

The table shows the exposure classes - Loans and Debt Securities - based on the degree of protection provided by the contractual profile, distinguishing between "Unsecured exposures" and "Secured exposures", with a breakdown by type of guarantee: collateral, personal guarantees, and exposures secured by credit derivatives (a type that is immaterial for the Group). Considering a slight decrease in the overall aggregate (-0.7% at net values compared to the end of the first half), the level of secured exposures confirms the favourable trend already seen in the previous year: the gradual shift of the portfolio towards higher levels of protection and risk mitigation (+1.6% on the half and +2.5% annually), together with the sharp reduction in the net book value of the exposures in default (around -1.9 billion euro in the half and -3.2 billion euro annually), confirmed the significant improvement in the portfolio's risk profile.

Breakdown of collateral, personal guarantees or credit derivatives by exposure class

Value of the guarantees subject to the standardised approach

(millions of euro)

Regulatory portfolio	31.12.2019		31.12.2018	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by governments and central banks	-	21,461	-	19,232
Exposures to or secured by regional or local authorities	-	193	-	137
Exposures to or secured by public sector organisations	10	154	34	12
Exposures to or secured by multilateral development banks	165	128	-	74
Exposures to or secured by international organisations	-	-	-	-
Exposures to or secured by supervised institutions	1,107	207	1,251	286
Exposures to or secured by corporates and other entities	3,418	488	3,257	254
Retail exposures	3,705	13	2,280	-
Exposures secured by real estate	3	-	-	-
Defaulted exposures	24	-	9	-
High-risk exposures	32	-	5	-
Exposures in the form of covered bonds	-	-	-	-
Short-term exposures to corporates and other entities or supervised institutions	-	-	-	-
Exposures to UCI	225	-	128	-
Other exposures	-	-	-	-
Securitisations	-	-	-	-
Total	**8,689**	**22,644**	**6,964**	**19,995**

Under the current regulations, when the comprehensive method is adopted (as Intesa Sanpaolo does in the majority of cases), collateral (e.g. cash collateral or securities received as pledges) reduces risk exposure, whereas personal guarantees (and the remaining collateral - simplified method) transfer the related risk to the guarantor’s regulatory portfolio; consequently, the representation of personal guarantees included in the table above is the guarantor’s responsibility.
As regards the increase in the value of collateral compared to 2018, during 2019 the activities which began in 2018 continued, making it possible to value and specifically contribute the underlying assets (financial and collateral instruments) acquired as collateral from portfolio management schemes, with consequent benefits on the prudential requirements, which were more marked for Fideuram – Intesa Sanpaolo Private Banking. In addition, the methodologies for recognising the eligibility of collateral were refined at several foreign subsidiaries (specifically, in Egypt). In order to optimise capital absorption, a transaction with the counterparty SACE to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Albania, Bosnia, Serbia, Egypt and Moldova was also maintained.
It is also noted that the column “Personal guarantees or credit derivatives” consists almost exclusively of guarantees received in the form of personal guarantees, as credit derivatives represent an insignificant proportion of the total guarantees of the Intesa Sanpaolo Group.
With regard to the exposures secured by properties, the value of the mortgage collateral is not shown, because – in accordance with the applicable regulations – these exposures are subject to preferential weighting factors. If there is any other collateral, this is shown in the above table.

Value of the guarantees subject to the Foundation IRB approach

(millions of euro)

Regulatory portfolio	31.12.2019		31.12.2018	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by corporates				
Specialised lending	-	-	-	-
SMEs	2	-	6	-
Other corporates	3	-	-	-
Specialised lending - slotting criteria	-	-	-	-
Total	**5**	**-**	**6**	**-**

The secured exposures subject to the Foundation IRB approach relate to VUB Banka and Banka Intesa Sanpaolo D.D. (former Banka Koper), which are the only Group companies that still use the Foundation IRB approach after migration by the Group's other companies to the Advanced approaches (AIRB).
Exposures secured by mortgage collateral for private individuals or retail customers, for which the Group applies the IRB approach (other than the Foundation IRB approach), are not included in this Section inasmuch as they are specifically indicated in the Section on the use of the IRB approaches.

Section 11 - Counterparty risk

Qualitative disclosure

Counterparty risk, in accordance with the Regulatory provisions, is a specific type of credit risk and represents the risk of a counterparty in a transaction defaulting before the final settlement of the cash flows involved in the transaction. The regulations lay down specific rules for the quantification of the amount of the exposures while referring to those governing credit risk for the determination of risk weightings.
In accordance with these regulations, counterparty risk is calculated for the following categories of transactions:
- over-the-counter (OTC) financial and credit derivatives;
- SFTs – Securities Financial Transactions (repurchase agreements and securities lending);
- transactions with medium to long-term settlement.

The framework provides for the uniform treatment of counterparty risk regardless of the book in which the exposures have been classified (the banking and regulatory trading books are both subject to capital requirements for counterparty risk). For the purposes of reducing the amount of the exposures, recognition of various types of contractual netting arrangements ("Master netting agreements") is permitted, subject to compliance with statutory requirements.

Following the authorisation by the Supervisory Authority, the Parent Company and Banca IMI have adopted the Internal Models approach for regulatory reporting purposes for the counterparty requirement for OTC - Over the Counter contracts, ETD - Exchange Traded Derivative contracts and SFTs - Securities Financing Transactions.
The internal model is applied in accordance with the Basel 3 instructions, so that the requirement for counterparty risk is calculated as the sum of the default risk and the CVA - Credit Value Adjustment risk. The risk of default is determined starting from an EAD that is the maximum between the EAD calculated according to the current risk parameters and that calculated according to risk parameters based on a stress period.
The CVA Capital Charge is calculated as the sum between the CVA VaR calculated on the movements in credit spreads of counterparties registered in the last year and that calculated on the movements during a stress period that has currently been identified as the 2011-2012 period.
Potential exposure (estimated with the actual average PFE – Potential Future Exposure) has been adopted by Banca IMI and the Parent Company for the purposes of operational measurement of uses of credit lines for replacement risk, for OTC derivatives and SFTs.
For the rest of the Group, the definition of the use of credit lines for transactions in OTC derivatives involves the application of the greater of the mark-to-market and the add-on to determine the credit exposure, taking into account any existing netting and collateral agreements.
Add-ons indicate the maximum potential future exposure (95th percentile), regularly estimated by the Financial and Market Risks Head Office Department, by product type and maturity. The loan facility for OTC transactions is defined on the same basis as the on-balance sheet exposures, in consideration of the specific elements of the OTC derivative transactions, and transactions for which the exposure may change over time as the underlying risk factors change. PFE measurements are calculated daily by the Financial and Market Risks Head Office Department, analysed and sent to the monitoring systems for the credit lines for OTC derivatives and SFTs. The Financial and Market Risks Head Office Department also provides a daily report on the positions with a use above 70%, to support the facility monitoring activities, with indication of the financial analysis underlying the change of the PFE measurement over time. For entities or instruments outside the scope of application of PFE, the grid for the operational add-ons forms part of the monitoring systems for the credit lines for OTC derivatives and SFTs that apply the calculation algorithm on a daily basis to quantify the credit exposure to a particular counterparty.
The Group makes extensive use of netting and cash collateral agreements to substantially mitigate the exposure to counterparties, particularly towards banks and financial institutions.

In order for risk to be managed effectively within the Bank, the risk measurement system must be integrated into decision-making processes and the management of company operations. To that end, in accordance with the "use test" requirement of Basel 3, the Group has adopted an operating model aimed at obtaining the estimate, also for regulatory purposes, of the statistical measures that enable the analysis of the evolution of the risk of the derivatives over time. Particular attention was dedicated to the update of the management regulatory framework with regard to the eligibility of collateral for trading in Security Financing Transactions.

The organisational functions involved, as described in the Bank's internal regulations, are:
- the Financial and Market Risks Head Office Department, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
- the Level I and Level II control functions that use the measurements produced to monitor the assumed positions;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of the credit lines.

The following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above, for the Parent Company and Banca IMI:
- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits at the portfolio level authorised by the Group Financial Risk Committee for OTC derivatives transactions;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivative transactions with collateral agreements (CSA);
- backtesting: Basel 3 requires to produce backtesting analyses in order to test the appropriateness of the model. Tests are carried out on risk factors, financial instrument and netting set;
- reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk.

The backtesting programme, defined on the basis of Basel 3 requirements, provides for the maintenance of time series of forecasts obtained from the calculation model and its results on:
- risk factors;
- financial instruments;
- netting set.

Through statistical analysis, supported by qualitative analyses for the forecasting horizons for which it is not possible to accumulate sufficient observations, the predictive ability of the model is measured. An internal policy was defined to enable corrective procedures in case the model shows significant limitations in the representation of the underlying risks or the changed market conditions require and adjustment thereof.
The backtesting results are reported in the quarterly disclosure to the Supervisory Authority.

The Parent Company Intesa Sanpaolo and Banca IMI have adopted a programme of stress tests on the counterparty risk with the objective of assessing the effects connected with the occurrence of extreme scenarios relating to market and credit factors that influence counterparty risk exposures for OTC derivatives and SFTs alike.
The stress tests allow the estimate of potential sudden liquidity needs of the Bank with regard to the collateralised exposures, due to extreme movements of the risk factors underlying transactions in OTC derivatives and SFTs.
The stress test programme allows the identification of the market scenarios the Bank is mostly exposed to and represents a risk analysis tool that complements the management and regulatory metrics.
The stress test programme is based on the application of mono-factor and multi-factor scenarios to the "reference set", which is the set of market data used for the pricing of the financial instruments included within the scope of the internal model. Analysed in addition to the stress on the market risk factors is the effect of the deterioration of the creditworthiness of the counterparty through the joint stress on market and credit variables (PD, LGD).

The generic Wrong-Way Risk (WWR) arises when there is positive correlation between the probability of default of a counterparty and the exposure to the same counterparty.
A methodology is followed to identify the generic WWR, which uses the results from the stress tests conducted as part of the stress testing programme for the counterparty risk, focusing on the counterparties whose credit spread is more historically correlated to the risk factors identified by the stress tests.
The reports and the analysis of the results are aimed at highlighting the most significant effects at portfolio level, of segments of counterparties or individual counterparties.
The specific WWR arises in case of positive correlation between the future exposure towards a counterparty and the probability of its default due to the nature of the transactions with this counterparty, or in case of a legal connection between the counterparty and the issuer of the derivative's underlying.
A methodology is followed to identify the specific WWR without legal connection, which is based on the analysis of the relation between the Mark-To-Market forecasts of the portfolio of a counterparty and the credit spread forecasts of the same counterparty, in the various scenarios of the EPE model, at a certain future moment.
As part of the specific WWR with legal connection, an organisation process has been defined in order to identify, report, authorise and monitor in a specific manner the transactions involving such risk, also for the purposes of the depreciative treatment established by the regulations in terms of capital requirement.
In order to consistently represent and monitor the overall risk profile in terms of counterparty risk generated by transactions in OTC derivative instruments, the Group Financial Risk Committee has approved a structure of specific limits, monitored by the Financial and Market Risks Head Office Department, for the Parent Company Intesa Sanpaolo, Banca IMI and the Banca dei Territori Division, comprising:
- a regulatory capital limit, calculated with the internal model on the counterparty risk, with the formulas set by the Basel 3 requirements;
- a Credit Portfolio VaR limit that measures the exposure to the default risk of the counterparties of OTC derivative transactions, calculated with internal metrics in terms of unexpected loss over a time period of one year;
- a CVA VaR limit that measures the exposure to the risk of increase in the credit spreads of the counterparties of the OTC derivative transactions, calculated in terms of daily VaR;
- a limit to the additional liquidity linked to derivatives business, which measures the possible greater liquidity requested because of the change in collateralised exposures;
- the limits of unfavourable correlation (generic and specific WWR), which signals a possible higher risk deriving from the correlation between the exposures to replacement risk and the creditworthiness of the counterparty.

These limits (set according to the Bank's risk appetite in terms of counterparty risk and based on the maximum use calculated in stress conditions) enable synthetic and uniform control of the risk exposure levels for the OTC derivative transactions of the portfolios of Intesa Sanpaolo and Banca IMI. Adopting such indicators also results in the consolidation, through a process of subsequent aggregations, of the exposure to different types of risk in the individual activity segments (for both collateralised and non-collateralised counterparties) to obtain the measurement of the overall exposure at Legal Entity, Region, Industry and counterparty level.

The internal counterparty risk model allows the estimate of the liquidity requirement deriving from collateralised OTC derivative instruments (in terms of inflow and outflow of collateral), by predicting the expected variation of the Mark-To-Market. These measures are aimed at feeding the system of the Financial and Market Risks Head Office Department that measures the liquidity risk (Liquidity Risk System), while guaranteeing the information details needed to develop the various measurement metrics currently set for internal purposes (Liquidity Policy) and for the weekly liquidity report to the Supervisory Authority, and are also the subject of the programme of stress tests on the counterparty risk.

The determination of fair value considers not only market factors and the nature of the contract (maturity, type of contract, etc.), but also own credit quality and that of the counterparty in relation to the current and potential exposure. Compared to the adjustment of the Mark-To-Market through the calculation of the Credit Risk Adjustment (CRA), as required by IFRS 13 this measurement includes the calculation of own credit risk in valuing the Fair Value, to include the non-performance risk inclusive of the issuer's risk in the valuation of OTC derivatives.
In order to comply with the new standard, a new calculation model was developed – the Bilateral Credit Value Adjustment (bCVA) – which, in addition to the effects of changes in the counterparty credit rating (previously subject to the credit risk adjustment methodology, CRA), also takes fully into account the changes in own credit rating (Debt Value Adjustment - DVA) and identifies a series of refinements to the previous methodology. The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA):
- the CVA (negative) takes into account scenarios whereby the Counterparty defaults before the Bank and the Bank has a positive exposure to the Counterparty. In these scenarios the Bank suffers a loss equal to the cost of replacing the derivative;
- the DVA (positive) takes into account scenarios whereby the Bank defaults before the Counterparty and has a negative exposure to the Counterparty. In these scenarios the Bank achieves a gain equal to the cost of replacing the derivative.

Compared to the calculation of the CRA, the bCVA model identifies a series of refinements of the pre-existing CRA methodology, including the calculation of the risk exposure valued by incorporating the average of the future exposures (positive/negative Expected Positive/Negative Exposure).
The prior Credit Risk Adjustment (CRA) calculation model is still valid for a number of products for which the bCVA model is still under development.

Scope of application and characteristics of the risk measurement and reporting system

Counterparty risk is a particular kind of credit risk associated with OTC derivative contracts that refers to the possibility that a counterparty may default before the contract expires. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, in the case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).
With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3, in order to equip the Banking Group with an internal model for the measurement of both operational and regulatory risk. The organisational functions involved, as described in the Bank's internal regulations, are:
- the Chief Risk Officer Governance Area, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
- the Level I and Level II control functions that use the measurements produced to monitor the assumed positions;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of the credit lines.

The project yielded the following results:
- the Banking Group set up a suitably robust IT, methodological and regulatory infrastructure, in accordance with the use test requirement set out by regulations on internal models;
- the Banking Group integrated the risk measurement system into decision-making processes and the management of company operations;
- cutting-edge methods were adopted for calculating drawdowns on credit lines;
- the Supervisory Authority validated the Parent Company's and Banca IMI's use of the internal model for calculating the counterparty requirement in the first quarter of 2014. The first report using the internal model (with a view to Basel 3) was made on 31 March 2014, relating to the scope of Parent Company and Banca IMI OTC derivatives;
- the Group obtained authorisation to use the internal model for the capital requirement for SFT – Securities Financing Transactions instruments with effect from the report as at 31 December 2016.

Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the purposes of operational measurement of uses of credit lines for derivatives. The Financial and Market Risks Head Office Department produces daily risk measurement estimates for counterparty risk, for the measurement of the uses of credit lines for OTC derivatives for the Parent Company, Banca IMI and Fideuram. The other Group Banks use the PFE method, in simplified form.
In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:
- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty

risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivative transactions with collateral agreements (CSA);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk.

Policies for hedging and mitigating risk

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into ISDA and ISMA/PSA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Group has collateral agreements in place, mainly with daily margining, to hedge OTC derivatives transactions (Credit Support Annexes), also due to the margin requirements for non-centrally cleared derivatives, established by the EMIR; for SFTs, the bank implements daily margining agreements (GMRAs and GMSLAs).

With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

Quantitative disclosure

Analysis of CCR exposure by approach as at 31 December 2019 (EU CCR1 EBA GL 2016/11)

(millions of euro)

		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		580	202			402	245
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				15,281	1.47	22,463	4,338
5	*Of which securities financing transactions*				*3,623*	*1.47*	*5,325*	*425*
6	*Of which derivatives and long settlement transactions*				*11,658*	*1.47*	*17,138*	*3,913*
7	*Of which from contractual cross-product netting*				-	-	-	-
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						4,248	1,302
10	VaR for SFTs						-	-
11	**TOTAL**							**5,885**

The table includes the transactions with central counterparties, the values of which are shown in table CCR8 below.

As already illustrated, the Parent Company and Banca IMI were authorised to use EPE (Expected Positive Exposure) internal models to determine the capital requirement for counterparty risk.

This approach is applicable to almost the entire derivative portfolio (as shown in the table, as at 31 December 2019 approximately 98% of the total EAD of financial and credit derivatives is measured using EPE models). At consolidated level, derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2019 accounting for approximately 2% of overall EAD) and refer to:
- residual contracts not measured using the EPE model (in compliance with the immateriality of the EBA thresholds);
- EAD generated by all other banks and companies in the Group which report using the mark-to-market approach.

The EPE internal model considers the collateral collected to mitigate credit exposure and any excess collateral paid. The value of the guarantees received and included in the calculation of the EAD amounts to more than 4 billion euro for Banca IMI and the Parent Company, while the collateral paid equals around 18 billion euro (including the collateral connected to transactions with central counterparties).

As part of the stress test programme on counterparty risks, it was estimated that a downgrade of Intesa Sanpaolo by the rating agencies would generate additional liquidity outflows (in terms of collateral paid) of 8 million euro for Banca IMI (to vehicles) and 2.6 billion euro for the Parent Company (all to vehicles of the Group), linked to contractual clauses that would be activated following this event.

Starting from the reporting as at 31 December 2016, also SFTs were reported with the EPE internal models' approach. The existing contracts are all accompanied by margin agreements – GMRA (for repurchase agreements) and GMSLA (for securities lending).

CVA capital charge as at 31 December 2019 (EU CCR2 EBA GL 2016/11)

(millions of euro)

		Exposure value	RWAs
1	**Total portfolios subject to the advanced method**	**1,556**	**956**
2	VaR component (including the 3× multiplier)		126
3	SVaR component (including the 3× multiplier)		830
4	**All portfolios subject to the standardised method**	**188**	**57**
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**1,744**	**1,013**

The requirement in terms of RWA fell slightly compared to the previous half year.

Standardised approach – CCR exposures by regulatory portfolio and risk weighting as at 31 December 2019 (EU CCR3 EBA GL 2016/11)

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL	*OF WHICH UNRATED*
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1	Central governments or central banks	5,907	-	-	-	-	3	-	-	265	-	-	**6,175**	*5,895*
2	Regional government or local authorities	-	-	-	-	12	-	-	-	-	-	-	**12**	*12*
3	Public sector entities	-	-	-	-	-	-	-	-	10	-	-	**10**	-
4	Multilateral development banks	1,858	-	-	-	-	-	-	-	-	-	-	**1,858**	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions	-	6,877	-	-	72	25	-	-	5	-	-	**6,979**	*6,943*
7	Corporates	-	-	-	-	1	119	-	-	289	-	-	**409**	*212*
8	Retail	-	-	-	-	-	-	-	5	-	-	-	**5**	*5*
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	**-**	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	**-**	-
11	**TOTAL**	**7,765**	**6,877**	**-**	**-**	**85**	**147**	**-**	**5**	**569**	**-**	**-**	**15,448**	***13,067***

Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation as at 31 December 2019 (EU CCR3 bis)

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL	*OF WHICH UNRATED*
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1	Central governments or central banks	5,907	-	-	-	-	3	-	-	265	-	-	**6,175**	*5,895*
2	Regional government or local authorities	-	-	-	-	12	-	-	-	-	-	-	**12**	*12*
3	Public sector entities	-	-	-	-	-	-	-	-	10	-	-	**10**	-
4	Multilateral development banks	2,023	-	-	-	-	-	-	-	-	-	-	**2,023**	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions	235	7,091	-	-	101	477	-	-	82	-	-	**7,986**	*7,259*
7	Corporates	-	-	-	-	1	126	-	-	322	-	-	**449**	*252*
8	Retail	-	-	-	-	-	-	-	14	-	-	-	**14**	*14*
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	**-**	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	**-**	-
11	**TOTAL**	**8,165**	**7,091**	**-**	**-**	**114**	**606**	**-**	**14**	**679**	**-**	**-**	**16,669**	***13,432***

IRB approach – CCR exposures by portfolio and PD scale as at 31 December 2019 (EU CCR4 EBA GL 2016/11) *(Table 1 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities							
da 0,00 a <0,15	4,872	0.06	155	20.6	345	580	12%
da 0,15 a <0,25	510	0.19	32	35.5	574	195	38%
da 0,25 a <0,50	661	0.32	41	23.9	919	230	35%
da 0,50 a <0,75	134	0.69	19	21.2	1,585	66	49%
da 0,75 a <1,25	9	1.04	4	14.8	1,010	3	35%
da 1,25 a <2,50	1,141	1.68	41	23.7	950	785	69%
da 2,50 a <5,00	274	3.59	14	28.4	792	236	86%
da 5,00 a <10,00	200	5.71	10	29.5	322	189	94%
da 10,00 a <20,00	1	12.17	2	25.6	614	1	119%
da 20,00 a <100,00	-	0.00	-	0.0	-	-	0%
100,00 (default)	13	100.00	2	24.6	1,046	3	25%
Subtotal	7,815	0.78	320	22.8	535	2,288	29%
Exposures to or secured by corporates:							
- Specialised lending							
0.00 to <0.15	-	0.00	-	0.0	-	-	0%
0.15 to <0.25	98	0.23	2	32.2	1,825	54	55%
0.25 to <0.50	24	0.35	5	18.8	1,368	8	32%
0.50 to <0.75	149	0.54	20	17.8	1,521	57	38%
0.75 to <1.25	137	0.82	25	16.0	1,516	54	39%
1.25 to <2.50	209	1.33	42	16.7	1,484	101	48%
2.50 to <5.00	77	4.34	15	24.2	1,579	76	99%
5.00 to <10.00	5	8.54	2	22.2	1,627	5	101%
10.00 to <20.00	29	19.89	5	53.3	1,351	93	318%
20.00 to <100.00	1	35.79	1	15.0	621	1	111%
100.00 (default)	1	100.00	5	47.2	446	-	25%
Subtotal	730	2.19	122	21.3	1,543	449	61%
- SMEs (small and medium enterprises)							
0.00 to <0.15	8	0.13	163	51.3	809	2	31%
0.15 to <0.25	14	0.21	381	51.6	803	6	41%
0.25 to <0.50	54	0.39	1,508	51.6	948	34	63%
0.50 to <0.75	32	0.65	938	51.9	866	24	76%
0.75 to <1.25	39	1.14	947	51.6	904	37	93%
1.25 to <2.50	105	1.84	1,564	51.7	1,054	123	117%
2.50 to <5.00	46	3.29	667	51.7	1,008	57	124%
5.00 to <10.00	75	7.39	717	51.7	953	126	167%
10.00 to <20.00	20	15.61	178	51.9	1,127	44	215%
20.00 to <100.00	10	28.34	62	51.7	1,044	23	243%
100.00 (default)	32	100.00	275	49.9	963	8	24%
Subtotal	435	11.02	7,400	51.6	975	484	111%
- Other corporates							
0.00 to <0.15	257	0.09	78	38.2	1,393	79	31%
0.15 to <0.25	311	0.22	134	38.1	1,099	143	46%
0.25 to <0.50	852	0.35	463	38.1	1,259	521	61%
0.50 to <0.75	645	0.55	293	38.1	1,408	509	79%
0.75 to <1.25	119	0.95	278	38.0	860	94	79%
1.25 to <2.50	247	1.72	377	37.9	794	228	92%
2.50 to <5.00	48	3.27	93	36.8	818	50	106%
5.00 to <10.00	101	7.44	61	38.1	994	154	152%
10.00 to <20.00	7	15.96	13	37.7	1,074	12	175%
20.00 to <100.00	5	24.65	11	37.7	984	10	197%
100.00 (default)	20	100.00	43	41.5	783	5	24%
Subtotal	2,612	1.67	1,844	38.1	1,205	1,805	69%

IRB approach – CCR exposures by portfolio and PD scale as at 31 December 2019 (EU CCR4 EBA GL 2016/11) *(Table 2 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)
Retail exposures: (*)							
- Other retail exposures: SMEs							
0.00 to <0.15	3	0.12	362	48.6	-	-	11%
0.15 to <0.25	2	0.15	307	48.8	-	-	13%
0.25 to <0.50	7	0.30	594	48.2	-	1	21%
0.50 to <0.75	2	0.68	181	48.0	-	1	33%
0.75 to <1.25	4	1.12	223	47.8	-	1	41%
1.25 to <2.50	2	1.86	189	48.2	-	1	49%
2.50 to <5.00	2	3.08	192	48.7	-	1	55%
5.00 to <10.00	1	5.12	65	48.1	-	-	57%
10.00 to <20.00	1	15.42	68	47.9	-	1	77%
20.00 to <100.00	-	0.00	-	0.0	-	-	0%
100.00 (default)	2	100.00	101	46.8	-	-	14%
Subtotal	26	10.58	2,282	48.2	-	6	31%

(*) The average maturity is not shown for retail portfolios since this parameter is not used when calculating risk-weighted assets according to regulations.
In addition, "Other retail exposures: private individuals" present immaterial amounts as at 31 December 2019.

(**) The percentage values of RWA density were calculated on amounts not rounded up or down to the nearest million.

At the end of 2019, the aggregate of CCR exposures, measured using advanced approaches, was down slightly on June 2019 (-1.2 billion euro), with a small reduction in the capital requirement (RWAs -0.5 billion euro). The reduction in the exposure was mainly attributable (-0.6 billion euro) to the Institutions portfolio (Supervised Intermediaries, Public and territorial Entities and other Counterparties) as a result of the decrease in short-term transaction volumes, as part of the ordinary volatility that characterises movements in the segment, which remained at levels essentially unchanged from the previous year. With regard to the risk profile, the benefit from the reduction in LGD on the Institutions portfolio, which accounts for the largest part of the aggregate (EAD approximately 7.8 billion euro), was significant: the value of this parameter was 22.8% compared to 24.6% in June and 29.9% in the previous year, with a positive effect on the overall aggregate as a result of which LGD stood at 27.2% compared to 32% in the previous year. PD also showed an improvement compared to June (-8 bps) with a further benefit compared to the significant reduction in the first half (-60 bps).

Credit derivatives exposures as at 31 December 2019 (EU CCR6 EBA GL 2016/11)

(millions of euro)

	CREDIT DERIVATIVE HEDGES		OTHER CREDIT DERIVATIVES
	Protection bought	Protection sold	
Notionals			
Credit default products - On single counterparty	-	-	19,578
Credit spread products - On single counterparty	-	-	-
Total rate of return swap - On single counterparty	-	-	-
Other - On single counterparty	-	-	-
Credit default products - On more counterparties (basket)	-	-	96,966
Credit spread products - On more counterparties (basket)	-	-	-
Total rate of return swap - On more counterparties (basket)	-	-	-
Other - On more counterparties (basket)	-	-	-
Total notionals	**-**	**-**	**116,544**
Fair values			
Positive fair value (asset)	-	-	*1,770*
Negative fair value (liability)	-	-	*1,942*

The transactions in credit derivatives related to the own credit portfolio with a notional value of 80 billion euro (of which 39 billion euro relating to protection sales), whereas the dealing on behalf of customers had a notional value of 36.5 billion euro (of which 18 billion euro relating to protection sales).

Impact of netting and collateral held on exposure values as at 31 December 2019 (EU CCR5-A EBA GL 2016/11)

This table provides an overview of the impact of the netting and collateral held on exposures whose value is measured in accordance with part three, title II, chapter six, of the CRR, including the exposures resulting from transactions netted through a CCP. For more comprehensive information on the netting arrangements in accordance with IAS 32, see the disclosure provided in the Notes to the consolidated financial statements - Part B - Information on the consolidated balance sheet - Liabilities - Other information.

(millions of euro)

		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	21,544	7,524	14,020	4,270	9,750
2	SFTs	37,125	-15,175	52,300	29,660	22,640
3	Cross-product netting	-	-	-	-	-
4	**TOTAL**	**58,669**	**-7,651**	**66,320**	**33,930**	**32,390**

Composition of collateral for exposures to CCR as at 31 December 2019 (EU CCR5-B EBA GL 2016/11)

(millions of euro)

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS		COLLATERAL USED IN SFTS	
	Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received	Fair value of posted collateral
Cash	3,996	16,717	493	495
Debt Securities	922	1,624	71	69
TOTAL	**4,918**	**18,341**	**564**	**564**

For Banca IMI and the Parent Company, the collateral paid for OTC derivatives was in line with the previous half year. Collateral received for SFTs, both in the form of cash and securities, decreased.

Exposures to CCPs as at 31 December 2019 (EU CCR8 EBA GL 2016/11)

(millions of euro)

		EAD POST CRM	RWAs
1	**Exposures to QCCPs (total)**		**376**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	772	15
3	i) OTC derivatives	120	2
4	ii) Exchange-traded derivatives	309	6
5	iii) SFTs	343	7
6	iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	6,129	123
9	Prefunded default fund contributions	1,896	238
10	Alternative calculation of own funds requirements for exposures		-
11	**Exposures to non-QCCPs (total)**		**-**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	i) OTC derivatives	-	-
14	ii) Exchange-traded derivatives	-	-
15	iii) SFTs	-	-
16	iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

The EAD towards central counterparties was mainly generated by initial margins paid by Banca IMI respectively to LCH (SFTs and OTC), Cassa di Compensazione e Garanzia (SFT and ETD) and Eurex (ETD).
Intesa Sanpaolo had a direct position with CCPs solely for SFT operations. For OTC derivatives, the Parent Company operates with CCPs through Banca IMI, which acts as a clearing broker.
The RWA values of exposures to QCCPs are in line with the previous half year.

Section 12 – Securitisations

Qualitative disclosure

Securitisations: objectives and roles undertaken

Originated securitisations

The originated securitisations of the Intesa Sanpaolo Group may be differentiated into:

– Securitisations (not discussed in this Section) that, through the conversion of the loans sold into refinanceable securities, form part of the overall general policy of strengthening of the Group's liquidity position and are not standard securitisations as they do not transfer the risk outside the Group (self-securitisations);
– standard securitisations, structured with the objective of achieving economic benefits from the optimisation of the loan portfolio, the diversification of funding sources and the reduction of their cost ("standard originated securitisations" and "Asset Backed Commercial Paper programmes") or in order to provide services to customers (" securitisations in which the Group acts as sponsor").

The Group conducts these transactions using Special Purpose Entities (SPEs), namely vehicles that enable an entity to raise resources through the securitisation of part of its assets. In general, this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle that, to finance the purchase, issues securities, which are later placed in the market or through a private placement. Funds raised in this way are reversed to the seller, whereas the commitments to the subscribers are met using the cash flows generated by the loans sold.

Standard originated securitisations

The securitisations in this category are as follows:

– ***Intesa Sec 3***

Transaction structured in 2006 by Banca Intesa on a portfolio consisting of 72,570 performing residential mortgages, issued predominantly in Northern Italy, to private individuals, and secured by first lien mortgages, for an original book value of 3,644 million euro. This transaction, essentially aimed at reducing the liquidity gap between medium-term loans and short-term deposits, was carried out through the sale of the abovementioned portfolio to the vehicle Intesa Sec 3 S.r.l., which issued mortgage-backed securities placed with institutional investors. The rating agencies used were S&P and Moody's.
The securitisation transaction was closed in 2019.

– ***Gas Securitisation***

The Gas transaction, involving securitisation of trade receivables in the gas sector for 77 million euro, was completed in 2011 and entered repayment in May 2014. The vehicles used for the transaction were Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc.
The securitisation transaction was closed in 2019.

– ***Telefonia 2 Securitisation***

This transaction was conducted in 2017 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group for a programme amount of 100 million euro. The risks of the portfolio of receivables were subsequently securitised. In relation to the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles used for the transaction were Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc.
In 2018, the assets relating to the Telefonia transaction, conducted in 2014 (and subsequently entered into repayment in 2018) on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group, for a total programme amount of 300 million euro, were also transferred to the Telefonia 2 transaction.
In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles Trade Receivables Investment Vehicle S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc. were used for this transaction.
In 2019, the senior and mezzanine positions in the capital structure of the transaction were fully repaid. One junior position for an immaterial amount placed with third-party investors is still outstanding.

- ***Telefonia 3 Securitisation***

  This transaction was conducted in 2017 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group for a programme amount of 500 million euro. The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles Trade Receivables Investment Vehicle S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc. were used for this transaction.
  In 2019, the transaction was transferred to the Bayon securitisation.

- ***Fuel Securitisation***

  This transaction has been carried out in several tranches starting from 2015, on portfolios of trade receivables in the oil & refined products sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group.
  The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2018, the nominal value of the securitised loans was 159 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.
  In 2019, the senior and mezzanine positions in the capital structure of the transaction were fully repaid. One junior position for an immaterial amount placed with third-party investors is still outstanding.

- ***Fuel 2 Securitisation***

  This transaction has been carried out in several tranches starting from 2018, on portfolios of trade receivables in the oil & gas sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2018, the nominal value of the securitised loans was 60 million euro. To close the transactions, the Group used the vehicles Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.
  In 2019, this transaction was restructured and transferred to the Electricity securitisation for which the Intesa Sanpaolo Group acts as sponsor.

- ***Towers Securitisation***

  In 2016, Intesa Sanpaolo completed a securitisation via the sale without recourse of two portfolios of performing consumer loans for around 2.6 billion euro, through Accedo, a wholly-owned consumer credit company dedicated to consumer credit distribution channels outside the Group. The two portfolios – one relating to loans against one-fifth salary assignments and the other to car and special-purpose loans – were sold to two specially created vehicle companies (Towers CQ S.r.l. and Towers Consumer S.r.l.), independent of the Intesa Sanpaolo Group and managed by a third-party servicer, which funded the purchase price by issuing asset-backed securities. The senior and mezzanine securities of the portfolio consisting of loans against one-fifth salary assignments have a Moody's rating of Aa2 and A2 respectively.
  The junior tranches were subscribed by the leading investment company Christofferson Robb & Company, whereas the senior and mezzanine tranches were subscribed by a pool of international banks, led by Banca IMI and also made up of Citigroup, Goldman Sachs International and JP Morgan. Accedo, now merged into Intesa Sanpaolo, subscribed for 5% of each of the tranches issued, in accordance with the CRR Directive.

- ***Securitisations of the former Banca Popolare di Vicenza***

  As at 31 December 2017, there were nine multi-originator securitisations outstanding that had been carried out in accordance with Law 130/1999 (involving Banca Nuova and the former Banca Popolare di Vicenza) named Berica 5 Residential MBS, Berica 6 Residential MBS, Berica 8 Residential MBS, Berica 9 Residential MBS, Berica 10 Residential MBS, Berica ABS, Berica ABS 2, Berica ABS 3, and Berica ABS 4.
  For all of these securitisations, the conditions for derecognition envisaged by the accounting standards did not apply and, therefore, these loans were recognised in the financial statements. The underlying assets of these securitisations all consist of mortgage loans on residential properties.
  In 2018, the transactions named Berica 5 Residential MBS, Berica 6 Residential MBS, Berica 8 Residential MBS, Berica 9 Residential MBS, Berica 10 Residential MBS, Berica ABS, and Berica ABS 2 were closed.

- ***Securitisations of the former Veneto Banca***

  As at 31 December 2017, there were ten securitisations outstanding that had been carried out in accordance with Law 130/1999 (involving the former Veneto Banca and Banca Apulia) named Claris ABS 2011, Claris Finance 2005, Claris Finance 2007, Claris Finance 2008, Claris RMBS 2011, Claris RMBS 2014, Claris Sme 2015, Claris SME 2016 and Apulia Finance n.4, First and Second issue.
  For all of these securitisations, the conditions for derecognition envisaged by the accounting standards did not apply and, therefore, these loans were recognised in the financial statements. The underlying assets of these securitisations all consist of mortgage loans on residential properties.
  The securitisation Claris Finance 2007 is not derecognised for financial statement purposes, but it is derecognised for prudential purposes.
  The following occurred with respect to these transactions in 2018:
  - the Claris ABS 2011 and Claris RMBS 2011 transactions were closed;
  - the Claris Finance 2008 and Claris Sme 2015 transactions were classed as self-securitisations, because the securities are fully subscribed by the sellers.

The following occurred with respect to these transactions in 2019:
- the Claris Finance 2007 and Claris SME 2016 transactions were closed;
- the Claris RMBS 2014 transaction was classed as a self-securitisation, because the securities are fully subscribed by the sellers.

– ***K-Equity Securitisation***

Between 2015 and 2017, the Intesa Sanpaolo Group sold non-performing exposures to several debtor companies through two different securitisations. Other Italian banks also participated in the securitisations.
The securitisations consisted of the transfer of their credit exposures with several industrial companies to specifically established third-party entities, in order to enable their value enhancement through financial and industrial restructuring.
That transfer specifically fulfils the purpose of ensuring the management of said exposures by entities established and managed by specialised third parties to optimise the recovery of the overall exposure by using the know-how and experience of the parties involved in the financial and industrial restructuring processes and, possibly, the granting of new financing to benefit the transferred debtors.
Among other things, the transaction involved the use of securitisation companies established pursuant to Law 130/99 (Pillarstone Italy SPV S.r.l and Norma SPV S.r.l), which purchase and securitise the credit exposures and, where necessary, provide new lending to the transferred borrowers.
The Group holds no investments in the abovementioned company, which is therefore a third party that is independent from Intesa Sanpaolo.
The SPV shall execute the securitisations by issuing senior, mezzanine and junior notes, fully subscribed by each bank. Therefore, each securitisation already regards the loans due to the selling banks from a single debtor.
The exposures sold have not currently been derecognised either from the financial statements or for prudential purposes. Against said sales, in addition to the notes mentioned above, Super Senior notes subscribed by third parties were also issued. All the securities issued have no external rating.

– ***Savoy Securitisation***

With a view to the reduction of the Group's risk profile envisaged in the Business Plan, in 2018, a traditional securitisation was structured through the sale to the vehicle company Penelope SPV S.r.l. of a loan portfolio originated by Intesa Sanpaolo and by eight Banks of the Banca dei Territori Division (Banco di Napoli, Cassa di Risparmio in Bologna, Cassa dei Risparmi di Forlì e della Romagna, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio di Firenze, Cassa di Risparmio di Pistoia e della Lucchesia, Cassa di Risparmio del Veneto, and Mediocredito Italiano, which were merged into Intesa Sanpaolo). The underlying consisted of loans classified as bad loans for a gross total value, at the cut-off date of 1 January 2018, of 10.8 billion euro (gross of adjustments) at a price of 3.1 billion euro, in line with the carrying amount already determined for the portion of the Group's saleable bad loans, taking into account the sale scenario. The securitised assets mainly related to loans to businesses (including SMEs) with the following geographical distribution: 30% North West, 26% North East, 23% Central Italy and 21% South and Islands. The transaction enabled the derecognition of the loans for each Selling Bank. The accounting and administrative management of the Vehicle is entrusted to Securitisation Services S.p.A.

The consideration for the sale of the portfolio was settled, also considering the net collections since the cut-off date of 1 January 2018, with the issue on 3 December 2018, by the SPV, of three tranches of unlisted securities that are currently unrated: a senior tranche, a mezzanine tranche and a junior tranche. At the closing of the transaction, the securities were issued and subscribed as follows:
- Senior tranche of 1,635.4 million euro, of which 364.5 million euro (22.3%) was subscribed by Banca IMI and the remainder by third-party investors;
- Mezzanine Tranche of 490.6 million euro, of which 240.4 million euro (49%) was subscribed by Intesa Sanpaolo and 51% by a third-party investor;
- Junior tranche of 599.6 million euro, of which 293.8 million euro was subscribed by Intesa Sanpaolo (49%) and 51% by a third-party investor.

– ***GARC Securitisation***

In 2014 Intesa Sanpaolo launched the "GARC" (Active Credit Risk Management) project to create a platform to monitor credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to SMEs. This type of transactions provides synthetic hedging of default risk (failure-to-pay, bankruptcy and restructuring) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (Regulation (EU) 575/2013, as amended).

As part of this operation, the following transactions were carried out through the sale to specialist investors of the junior risk relating to:
- in 2014, a total (initial) portfolio of 1.8 billion euro in loans to approximately 5,400 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-125 and GARC SME-2 transactions);
- in 2015, a total (initial) portfolio of 1.1 billion euro in loans to approximately 2,500 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-3 transaction);
- in 2016, a total (initial) portfolio of 3.7 billion euro in loans to approximately 8,200 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-4 and GARC SME-5 transactions);

[25] During the last quarter of 2019 the GARC SME-1 transaction was subject to early termination, through the exercise by Intesa Sanpaolo of the clean up call provided for by contract.

- in 2017, an (initial) portfolio of around 2.5 billion euro in loans to approximately 5,300 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-6 transaction);
- in 2018:
  - a portfolio of around 4 billion euro in loans to approximately 8,400 businesses in the Corporate and Corporate SME regulatory segments (GARC SME-7 transaction);
  - a portfolio of around 4 billion euro in loans to approximately 215 businesses in the Corporate regulatory segment (GARC CORP-1 transaction).

For these transactions, Intesa Sanpaolo holds 100% of the senior tranches and 5% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

For a description of the 2019 transactions, related to this project, reference should be made to "Securitisations carried out during the period".

- ***Tranched Cover Piemonte Securitisation***
  A tranched cover synthetic securitisation was initiated in 2016 – also under the "GARC" Project – on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2007/2013 Regional Operational Programme funded by the European Regional Development Fund, for the objective "Regional competitiveness and employment" – Axis 1 – Activity I.4.1 Measure to support access to credit for piedmontese SMEs through the establishment of the Tranched Cover Piemonte Fund. The transaction provided for the granting of a total (initial) portfolio of new loans of 60 million euro to around 350 enterprises in Piedmont.
  For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

- ***SME Initiative Italy Securitisation***
  In 2017, the synthetic securitisation "SME Initiative Italy" (SMEI), part of the "GARC" Project, was completed on a portfolio of performing loans granted by Banco di Napoli S.p.A. to SMEs and Small Mid-Caps located in Southern Italy. This initiative was jointly financed by the Ministry of Economic Development and the European Commission and the EIB Group - European Investment Bank and European Investment Fund. The transaction involves the issue of a personal guarantee by the European Investment Fund on the investments in the Junior, Lower Mezzanine, Middle Mezzanine and Upper Mezzanine tranches, which covers the credit risk relating to a portfolio of around 500 million euro of loans to around 1,400 businesses in the Corporate and Corporate SME regulatory segments. In exchange for that guarantee, the bank has a commitment to provide new funds to support lending to SMEs in Southern Italy.
  For this transaction, Intesa Sanpaolo holds 100% of the senior tranches, 5% of the mezzanine tranches and 50% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

- ***Tranched Cover Fondo Centrale di Garanzia Securitisation***
  In 2018, a tranched cover synthetic securitisation, supported by the Central Guarantee Fund, was initiated, which allows businesses to access the benefits provided for by Law no. 662/96, aimed at facilitating access to new credit for Italian SMEs. This initiative is financed by the Ministry of Economic Development and provides for the issue of a personal guarantee by the Central Guarantee Fund through which the risk of first losses is covered in relation to four portfolios of newly disbursed loans, each amounting to around 300 million euro, whose disbursements were started in 2018 and were completed by the second half of 2019.
  For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the junior tranches in compliance with the retention rule laid down by the supervisory regulations.

- ***"Tranched Cover Piemonte 2017 – Linea B" Securitisation***
  For details of the transactions carried out in 2019, see the description in the "Securitisations carried out during the period", presented at the end of this section.

- ***Kerma Securitisation***
  For details of the transactions carried out in 2019, see the description in the "Securitisations carried out during the period", presented at the end of this section.

Securitisations for which the Group acts a sponsor

- ***Muttley and Setafia Securitisations***
  In 2015, Banca IMI sponsored two securitisations of trade receivables, respectively in the furniture and furnishing sector for 55 million euro (later reduced to 48 million euro) and in the pharmaceutical sector for 80 million euro (later reduced to 40 million euro). Receivables generated by primary customers of the Group were purchased by special purpose vehicles established pursuant to Law 130/99 (Muttley and Setafia respectively) which proceeded to securitise the risk by issuing securities. The vehicles Muttley S.r.l., Setafia SPV S.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l and Duomo Funding Plc were used for these transactions. All the securities issued are unrated.

- ***Bayon Securitisation***
  In 2018, Banca IMI and Intesa Sanpaolo sponsored two securitisations of trade receivables, respectively in the food & beverage sector for 583 million euro and in the telephony sector for 200 million euro. Receivables generated by primary customers of the Group were purchased by special purpose vehicles established pursuant to Law 130/99 (Massi S.r.l. and Bayon S.r.l. respectively) which proceeded to securitise the risk by issuing securities. The vehicles

used for the transactions were Lana Trade Receivables S.a.r.l., CRC CF (Lux) S.a r.l. and Duomo Funding Plc, in addition the vehicles mentioned above. All the securities issued are unrated. Subsequently, the assets relating to trade receivables from the food & beverage sector were moved to the Food & Beverage programme.
In 2019, the Telefonia 3 transaction was restructured and transferred to the Bayon programme, whose securitised portfolio increased to 663 million euro.

– ***Food & Beverages Securitisation***
The transaction was initially carried out in several tranches starting from 2012, on portfolios of trade receivables in the food & beverages sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed with different levels of subordination. At the end of 2017, the nominal value of the securitised loans was 626 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.
In 2018, this transaction was restructured so that the Intesa Sanpaolo Group could act as Sponsor. The new structure involves the sale without recourse pursuant to Law 52/91 on factoring of loan portfolios from the sellers to Intesa Sanpaolo and the sale of the loans by Intesa Sanpaolo to a vehicle company pursuant to Law 130/99 (Massi S.r.l), which is financed through the issue of asset-backed securities subscribed by Duomo Funding Plc and by Lana Trade Receivables S.à.r.l..
In 2019, a number of sellers left the platform. As a result, the amount the transaction totalled 547 million euro.

– ***Electricity Securitisation***
This transaction was conducted in 2011 on a portfolio of trade receivables in the electricity sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group.
The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination.
In March 2018, the programme was increased from 900 million euro to around 1,500 million euro. To close the transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l. and Duomo Funding Plc.
In 2019, this transaction was restructured so that the Intesa Sanpaolo Group could act as Sponsor and was further increased to 1,620 million euro. In the second half of 2019, the seller of the Fuel 2 transaction, which operates in the gas sector, both for retail and large customers, was added.
The new structure involves the sale without recourse pursuant to Law 52/91 on factoring of loan portfolios from the sellers to Intesa Sanpaolo, which in turn sells the loans to a vehicle company pursuant to Law 130/99 (Mawala S.r.l.), which is financed through the issue of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI and Luxembourg-registered vehicle companies.

– ***Automotive, Electronics and Mechanics Securitisation***
The transaction has been carried out in several tranches starting from 2012, on portfolios of trade receivables in the automotive, electronics & mechanics sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. In relation to the sale of the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2018, the nominal value of the securitised loans was 457 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.
In 2019, this transaction was restructured so that the Intesa Sanpaolo Group could act as Sponsor.
The new structure involves the sale without recourse pursuant to Law 52/91 on factoring of loan portfolios from the sellers to Intesa Sanpaolo, which in turn sells the loans to a vehicle company pursuant to Law 130/99 (Manno SPV S.r.l.), which is financed through the issue of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI and Luxembourg-registered vehicle companies. As at 31 December 2019, the securitised portfolio had increased to 527 million euro.

– ***Transport Solution Securitisation***
In 2019, a new transaction was structured for the revolving disposal of trade receivables arising from the provision of integrated payment services for the transport sector (i.e. refuelling and motorway tolls) to SME and Corporate customers, carried out with a foreign seller based in the Czech Republic. The maximum amount that can be financed is 45 million euro. The transaction was conducted using a Luxembourg-registered securitisation vehicle (Flekar Spv S.à.r.l.). The Luxembourg-registered vehicle company finances the purchase of the receivables through the issue of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI (as sponsor) and Luxembourg-registered vehicle companies.

– ***Digital Credit Delivery Platform Securitisation***
In 2019, a new transaction was structured in partnership with the Italian leader in the field of commercial information providers and credit management and recovery. This is a Multioriginator programme, which has a maximum amount of 30 million euro and involves the sale of trade receivables from SME customers, selected based on particular eligibility criteria.
The structure of the transaction involves the sale of trade receivables to a vehicle company set up pursuant to the Securitisation Law 130/99 (Massi S.r.l.), which finances the purchase of the receivables through the issue of tranches of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI (as sponsor) and Luxembourg-registered vehicle companies.

– ***Steel Securitisation***
In 2019, a new transaction was structured for the revolving disposal of trade receivables from Italian industrial customers and arising from the transformation of steel into processed products. The maximum amount of the programme is 100 million euro, and the seller is a company belonging to a leading group in the steel sector in Italy. The structure involves the sale without recourse of receivables to a securitisation vehicle established pursuant to Law 130/99 (Massi S.r.l.). In relation to these receivables, tranches of securities without ratings were issued with different levels of subordination subscribed by Duomo Funding Plc, Banca IMI (as sponsor) and Luxembourg-registered vehicle companies.

– ***Electricity 2 Securitisation***
In 2019, a new transaction was structured for the revolving disposal of trade receivables originating from the Italian leader in the distribution of electricity in Italy.
There are two types of receivables: receivables arising from the electricity transmission service invoiced monthly to selected debtors and receivables that the seller accrues annually as a result of investments made to improve the distribution network. The initial amount of the transaction was around 295 million euro and was increased in December to around 453 million euro.
The structure of the transaction involves the sale of trade receivables to a vehicle company set up pursuant to the Securitisation Law 130/99 (Mawala I S.r.l.), which finances the purchase of the receivables through the issue of tranches of asset-backed securities subscribed by Duomo Funding Plc, Banca IMI (as sponsor) and Luxembourg-registered vehicle companies.

Asset-Backed Commercial Paper (ABCP) programmes
In accordance with the IAS/IFRS, Intesa Sanpaolo controls and fully consolidates:

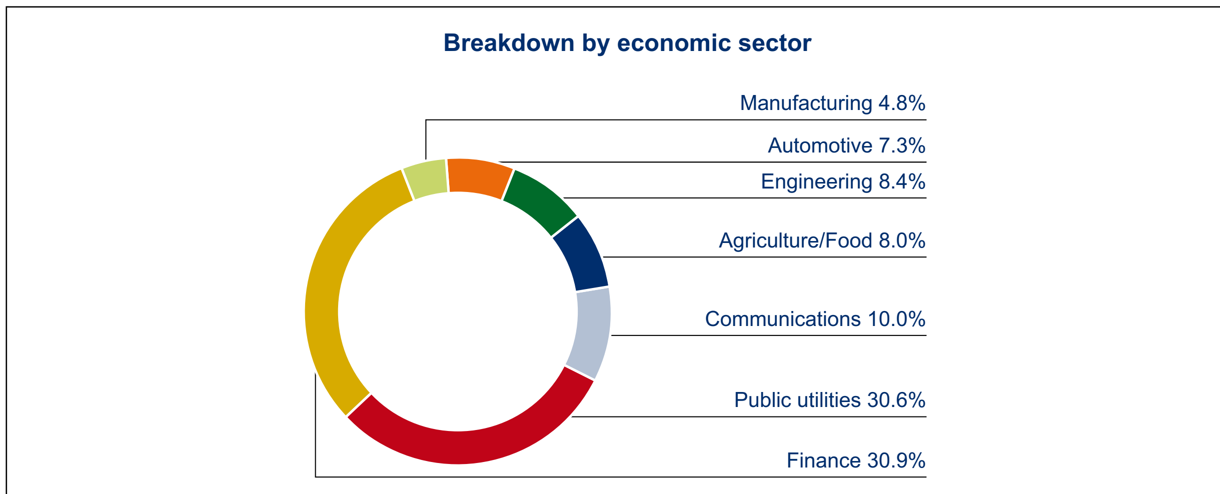
– ***Romulus Funding Corporation***
a company based in the USA with the mission of purchasing financial assets, consisting of loans or securities with predefined eligibility criteria originating from Group customers, and financing purchases by issuing Asset-Backed Commercial Papers;

– ***Duomo Funding PLC***
an entity that operates in a similar manner to Romulus Funding Corporation, but is limited to the European market, and is financed through funding agreements with Romulus.

Romulus Funding Corporation and Duomo Funding Plc are the Intesa Sanpaolo Group's asset-backed commercial paper conduits, originally established to support Intesa Sanpaolo’s strategy of offering customers an alternative financing channel via access to the international asset-backed commercial paper market. The assets originated by European customers are purchased by Duomo, whereas Romulus is responsible for U.S. assets and fund-raising on the U.S. market through the issuance of asset-backed commercial paper. Nonetheless, due to the subsequent downgrading of Intesa Sanpaolo at the end of 2014, U.S. investors gradually divested without the vehicle being able to find new third-party investors with which to place the asset-backed commercial papers.

As at 31 December 2019, approximately 5.9 billion euro of the securities issued by Romulus, amounting to 6 billion euro, had been subscribed by the Parent Company Intesa Sanpaolo. The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks. As already indicated for Banking Group risks, risk management performs dynamic hedging on the OTC derivatives market to manage both volatility and interest rate risk, as well as listed derivatives to optimise interest rate strategies. Companies are not generally permitted to take foreign-exchange positions.
As at 31 December 2019, the investment portfolio of Romulus included 6 billion euro in loans to the vehicle Duomo.
Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 6 billion euro, almost all of which has been subscribed by the Parent Company, Intesa Sanpaolo.
With regard to the portfolio of the vehicle Duomo, at the end of 2019 – in addition to loans to customers of 6 billion euro – this portfolio mainly consisted of amounts due from banks in the Intesa Sanpaolo Group of 0.1 billion euro.
The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 0.7% of the total consolidated assets.
The portfolio risk of the two vehicles is approximately 62% accounted for by trade receivables and the remainder by consumer loans (12%), loans deriving from lease contracts (8%), inventory-backed loans (7%), factoring contracts (5%), mortgage loans (2%) and loans/lease contracts to pharmaceutical companies (4%). The eligible assets held by the vehicles are expressed in euro (98.4% of the total portfolio). The remainder is denominated primarily in British pounds (1.27%) and US dollars (0.26%).

The following information is provided concerning the portfolio of eligible assets.



With regard to the rating breakdown of the loan portfolio, 100% does not have a rating.

With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 97.11% of the debtors are located in Italy.

List of stakes in special purpose vehicles held by the Banking Group

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (b)			LIABILITIES (b)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(e)	2,789	-	184	1,550	-	1,351
Apulia Finance n. 4 S.r.l. (h)	Conegliano Veneto (TV)	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Augusto S.r.l. (d)	Milano	(e)	1	-	2	13	-	-
Berica ABS 3 S.r.l. (h)	Vicenza	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 4 S.r.l. (h)	Vicenza	Not consolidated	(f)	(f)	(f)	(f)	(f)	(f)
Berica ABS 5 S.r.l. (c) (h)	Vicenza	Not consolidated	441	-	35	325	60	52
BRERA SEC S.r.l. (c)	Conegliano Veneto (TV)	(e)	16,079	-	1,100	13,312	-	3,457
Claris Finance 2005 S.r.l (h)	Roma	(e)	(f)	(f)	(f)	(f)	(f)	(f)
Claris RMBS 2014 S.r.l (c) (h)	Conegliano Veneto (TV)	Not consolidated	333	-	16	135	-	176
Claris RMBS 2016 S.r.l. (c) (h)	Conegliano Veneto (TV)	Not consolidated	770	-	48	522	116	144
Colombo S.r.l. (d)	Milano	(e)	1	-	6	-	-	15
Diocleziano S.r.l. (d)	Milano	(e)	7	-	1	51	-	-
ISP CB Ipotecario S.r.l. (g)	Milano	Consolidated	18,873	-	4,824		22,298	
ISP CB Pubblico S.r.l. (g)	Milano	Consolidated	2,708	1,726	1,745		5,961	
ISP OBG S.r.l. (g)	Milano	Consolidated	39,476	-	6,191		45,463	
Trade Receivables Investment Vehicle S.a.r.l.	Lussemburgo	Not consolidated	(f)	(f)	(f)	(f)	(f)	(f)

(a) Consolidation method referring to the "prudential" scope.

(b) Figures gross of any intercompany relations.

(c) Self-securitisation vehicle described in Section 1.4 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2, of the Notes to the consolidated financial statements.

(d) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2018).

(e) Vehicle consolidated using the equity method

(f) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of the Notes to the consolidated financial statements.

(g) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section D.4 in Part E of the Notes to the consolidated financial statements.

(h) Vehicle deriving from the acquisition of certain assets and liabilities of the former Venetian Banks

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers, K-Equity, Savoy and Kerma, or – as sponsor – on third-party assets, in addition to those shown in the table above, other special purpose vehicles (mentioned in the paragraphs describing the individual transactions) were also used that are third-party and independent entities with respect to Intesa Sanpaolo and in which the Group does not hold any investments.

"Third-party" securitisations

The Intesa Sanpaolo Group also operates in the securitisations market as an investor, although the volume of the existing investments, in both banking and trading books, represents a very small part of the Bank's assets. These operations relate, on the one hand, to the diversification of the risk profile of the managed portfolio and the maximisation of the risk-return target, and on the other hand to the activities involving securities representing public loans, carried out by Group structures specialised in Public Finance.

Nature of the risks, including liquidity risk, relating to the securitised assets

In addition to credit risk, the securitised assets are subject to other types of risk. These include:

- liquidity risk;
- interest rate risk;
- foreign exchange risk.

The nature and scope of the different risks vary based on the type of transaction executed. Generally, in any case, the interest rate and exchange rate risks are subject to hedging transactions or are factored in the credit enhancement of the transaction. All securitised assets are also subject to different degrees of operational risk associated with the documentation and the collection of cash flows. In particular, the representation of third-party securitisations held in the Group securities portfolio for the purposes of liquidity risk considers the classifications and assessments made based on the fair value policy (see Section on Market risks), as well as their eligibility as high-quality liquid assets (HQLA) in accordance with the rules established by the Delegated Regulation 2015/61 and their eligibility for refinancing with Central Banks and liquidability, in the absence of which the securities are classified by residual maturity, based on their repayment plans and weighted average life.

Exposures to originated and third-party re-securitisations: type of risk

The Group's re-securitisations portfolio shows, in general, immaterial amounts in terms of value of the exposures (See Quantitative Disclosure of this Section).

Procedures for monitoring changes in credit and market risk of the securitisations

With regard to market risk, the ABS risk factor is not included in the Internal Model, as the product is securitised; therefore, neither the regulatory VaR nor the IRC are included. In relation to the monitoring of the management market risk, the ABS risk factor is fully included in the ordinary process laid down by the Market Risk Charter, an internal Group document that sets out the principles, instruments and purposes adopted to measure, control and manage market and counterparty risk.
In particular, for the positions in ABS securities issued by third parties belonging to the trading book and the HTCS book, the Financial and Market Risks Head Office Department carries out the calculation of the VaR to monitor the market risks with the "illiquid parameters" method, given the specific characteristics of the risk factor considered, and monitors their absorption according to the set VaR limits. In addition, the exposure to ABS is within the monitoring scope of the issuer risk (credit ceiling and concentration limits), as well as in other possible second level limits.
Furthermore, the Financial and Market Risks Head Office Department carries out the monthly calculation of fair value for accounting purposes for the positions in securitisations held in the trading books and those classified as HTCS. For the positions classified as HTC, this calculation is carried out for disclosure purposes on a half-yearly basis.
Finally, the Financial and Market Risks Head Office Department carries out the monthly analytical impairment analysis for the banking book securitisations in order to identify any losses realised and determine a consequent adjustment of the book value. This activity, described in detail below, is based on the analysis of the performance and of any deterioration in the credit standing of the collateral underlying the securitisations.

Risk hedging policies for exposures to securitisations and re-securitisations

No protection purchase strategies are currently in place. In the past, hedging strategies relied on listed indices (such as LCDX) or Credit Default Swaps.

External rating agencies used

The external rating agencies (ECAIs) used by the Intesa Sanpaolo Group for the purposes of calculating the risk-weighted exposures of securitisation positions (as already reported in Section 8 of this document) are the following (with regard both to positions with a short-term rating and positions with a rating other than short-term):

- Moody's investors Service;
- Standard & Poor's Rating Services;
- Fitch Ratings.

Securitisations: methods for calculating the risk-weighted exposures

Intesa Sanpaolo, solely for securitisations originated or purchased from 1 January 2019, uses the SEC-IRBA (Securitisation – Internal Rating Based Approach), SEC-SA (Securitisation – Standard Approach) and SEC-ERBA (Securitisation – External Rating Based Approach) to calculate the capital requirement for credit risk from securitisations with underlying assets for which there is an internal model validated in the corresponding credit risk (the regulatory segments currently validated are: Large Corporate, Corporate, Specialized Lending, Public Sector Entities, Banks, Retail SME and Retail). For securitisations prior to 2019, the methods in force in previous years have been adopted throughout the year: IRB (Rating Based Approach - RBA and Supervisory Formula Approach - SFA) and Standardised Approach. From 1 January 2020, regardless of the date on which they were structured, securitisations will be subject to the SEC-IRBA, SEC-ERBA and SEC-SA Approaches.

Securitisations: accounting policies

The securitisation transactions, whose accounting treatment is governed by IFRS 9 (in particular in the paragraphs relating to derecognition), are divided into two types depending on whether the underlying assets must be derecognised from the seller's financial statements or not.

In the event of derecognition

When all the risks and rewards associated with the ownership of the securitised assets are effectively transferred, the transferor (originator) shall derecognise the transferred assets from its financial statements and record offsetting entries for the consideration received and any profit or loss from the sale.
If the total consideration received is not formed by an on-balance sheet sum, but partly by financial assets, the latter are initially recognised at fair value and this fair value is also used for the purpose of calculating the profit or loss on disposal.
If the transferred asset is part of a "greater" financial asset (for example, if only part of the cash flows that derive from a receivable is subject to disposal) and the transferred part meets the requirements for derecognition, the book value of the "greater" financial asset must be divided between the part that continues to be recognised and the part subject to derecognition based on the corresponding fair values at the transfer date.
Moreover, in case of derecognition, any arrangement costs incurred by the originator are recorded in the income statement when incurred as they are not attributable to any financial assets appearing in the financial statements.
Therefore, in light of the above, the assets sold are derecognised from the balance sheet, and the consideration from the sale, as well as the connected profit or loss, are normally recorded in the financial statements at the date of completion of the sale. More generally, the entry date for the transfer in the financial statements depends on the contractual clauses. For example, if the cash flows from the assets sold are transferred after the execution of the agreement, the assets are derecognised and the proceeds of the sale are recognised at the time of the transfer of the cash flows. Instead, in the case a sale is subject to conditions precedent, the assets are derecognised and the profit or loss from the sale is recognised when the condition precedent clause ceases.
The profit or loss, recognised in the income statement, is classified, in principle and net of any other components, as the difference between the consideration received and the book value of the assets sold.

In the event of no derecognition

If a transfer does not require derecognition because the seller essentially maintains all the risks and benefits associated with the ownership of the transferred assets, the seller continues to recognise in its financial statements the assets transferred in total and recognises a financial liability against the consideration received.
A common example of transfer which does not result in derecognition is when the originator sells a loan portfolio to a special purpose vehicle, but subscribes in full for the junior class of securities issued by the latter (therefore retaining the majority of the risks and rewards of the underlying assets) and/or provides a collateral for the transaction.
Therefore, in the event of no derecognition, the loans subject to securitisation continue to be entered in the balance sheet of the seller; furthermore, after the sale, the seller is obliged to record any income from the transferred asset and any charge incurred on the liability entered without any netting of the costs and revenues.
The transferred loan portfolio continues to be classified in the loan category that it originally formed part of and, consequently, if it meets the adequate requirements, it continues to be measured at amortised cost and valued (individually or on a collective basis) as if the transaction had never taken place.
In this case too, considering the provisions of IFRS 9 on the matter, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained.

Provisions for guarantees given and commitments

Provisions made on an individual and collective basis, related to estimated possible disbursements connected to credit risk relative to guarantees and commitments, possibly included in the securitisation transactions, determined applying the same criteria set out with respect to other types of loans and receivables, are recorded under Other liabilities, as set out by Bank of Italy instructions.

Assessment of exposures to securitisations - banking book

For securitisations, the need to recognise impairment is assessed if the fair value is lower than the carrying amount by a percentage set a priori (30%), or if there is potential evidence of impairment. This process has not changed compared to the previous year.
If one of these conditions is in place, the securitisation is analysed to check whether the decrease in fair value is due to a generic increase of the spreads on the secondary market or an impairment of the collateral. In the former case the conditions are not met to proceed to the impairment; instead, in the latter the analysis focuses on the performance of the underlying elements, which constitute the vehicle's assets, and the methods with which such performance is reflected on the payment waterfall for the securities analysed.
Specifically, the procedure involves the following steps:

- monitoring the parameters/triggers/covenants envisaged at issue, which is the basis of the regulation of the payment waterfall or, as an extreme measure, the advance termination of the deal. This analysis is based on the set of information consisting of the periodic reports from the vehicle administrators and rating agencies, together with the issuance documents (prospectus, master receivables agreement etc.);
- specifically for securitisations originated by Intesa Sanpaolo, which have reliable business plans, the analysis is conducted on available cash flows. For non-performing products, reference is made to adjustments to the underlying loans, the recovery plan prepared and updated by the servicer, and the features of the payment waterfall.

If, as a result of said analysis, there is no evidence of breaches which could compromise payments of principal and interest, it is not necessary to record impairment of the security in the portfolio. Otherwise, if there is the possibility of (full or partial) non-payment of the principal or interest, due to a change in the payment priority and/or impairment of the collateral, the security must be impaired.

Impairment is assessed:

- by comparing the residual market value of the collateral and the outstanding amounts of the notes based on the attachment and detachment points, in the event of credit events that result in advance termination of the transaction;
- if a trigger or a covenant is activated, the fair value is recalculated based on the new rules and the new available cash flows are allocated to the tranches in the portfolio, in accordance with the new payment priorities.

In summary, for all the securitisations classified in the banking book, the impairment analysis is carried out based on the valuation of the collateral to determine the overall flows deriving from the primitive assets. These flows are allocated to the tranches of the securitisation based on all the structuring and performance characteristics of the collateral (waterfall, trigger, CDR, CPR, etc.). The Intex and Bloomberg software is used for the allocation of the cash flows to the individual tranches, except for a small number of private securitisations only, where cash flow models are used. They are developed internally during the structuring of the deal and duly updated with the performance of the collateral.

Assessment of exposures to securitisations - trading book

Exposures included in the trading book are measured at fair value. For an illustration of the valuation techniques used to determine fair value, see the relevant chapter (see Section 13 - Market risk).

Synthetic securitisations

Synthetic securitisations are usually recognised on the basis of the following rules.
The loans subject to synthetic securitisation continue to be recorded among the assets of the bank (protection buyer) that has retained their full ownership. The premium paid by the bank to the protection seller for the purchase of the protection contract is recorded under commission expense in the income statement, where the premiums relating to the guarantees received are recorded. The financial guarantee received from the protection seller also contributes to the determination of the adjustments made to the loans subject to the guarantee (overall and, where applicable, specific).

Any deposit liabilities received by the bank, also as a result of the issue of notes by vehicles that sell portions of the risk acquired from the protection seller in the market, are recorded under payables in the balance sheet liabilities.

Securitisations: recognition criteria for prudential purposes

The prudential regulations on securitisations are regulated by the CRR, as amended by Regulation (EU) 2017/2401 in particular in Part 3, Title II, Chapter 5 and Part 5 – Securitisations and Part 5 – Exposures to transferred credit risk.
The following additional provisions complete the above regulatory framework:

- Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) 1060/2009 and (EU) 648/2012;
- Commission Delegated Regulation (EU) 2019/885 of 5 February 2019 supplementing the above-mentioned Regulation (EU) 2017/2402 of the European Parliament and of the Council with regard to regulatory technical standards specifying information to be provided to a competent authority in an application for authorisation of a third party assessing STS compliance;
- Commission Delegated Regulation (EU) 2019/1851 of 28 May 2019 supplementing Regulation (EU) 2017/2402 of the European Parliament and of the Council with regard to regulatory technical standards on the homogeneity of the underlying exposures in securitisation;
- Delegated Regulation (EU) 625/2014 of 13 March 2014 which concerns the regulatory technical standards specifying the requirements for investor, sponsor, original lender and originator institutions relating to exposures to transferred credit risk, and is in force solely for specific provisions applicable to securitisations whose securities were issued before 1 January 2019;
- Implementing regulation (EU) 602/2014 of 4 June 2014 laying down implementing technical standards for facilitating the convergence of supervisory practices with regard to the implementation of additional risk weights relating to securitisation transactions.
- Implementing regulation (EU) 2016/1801 of 11 October 2016 on laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for securitisation in accordance with the CRR.
- EBA Guidelines on implicit support for securitisation transactions (GL/2016/08) aimed at providing guidance on arm's length conditions and when a transaction is not structured to provide implicit support, according to Article 250 of Regulation 2017/2401 (former Article 248 CRR); a subject that is also referred to in the ECB's letter of July 2017, which provides guidance on the additional requirements relating to the notification and the documentation referred to in that article;
- EBA Guidelines on significant credit risk transfer (GL/2014/05) pursuant to Articles 244 and 245 of Regulation 2017/2401 (former Articles 243 and 244 CRR); a subject that is also referred to in the ECB's letter of 24 March 2016, which provides additional guidance to the industry regarding the recognition of the significant credit risk transfer.

Although the prudential regulations indicated clearly have similarities with the IAS/IFRS measurement criteria, the accounting treatment of securitisations is not relevant for the purposes of recognition for prudential purposes. As a result, the accounting and prudential treatment applied by intermediaries may differ.

Exposures to originated and third-party re-securitisations – exposures covered by credit risk mitigation techniques

It is specified that the exposures referring to re-securitisations did not benefit from credit risk mitigation techniques.

Securitisations carried out during the period

– ***GARC Securitisations***

In 2019, the Parent Company continued its activities relating to the "GARC" (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to Italian companies, in particular SMEs.
As part of these operations, during the year three synthetic securitisations, GARC SME-8, GARC Corp-2 and GARC Residential Mortgages-1, were completed through which the junior risk was sold to specialist investors relating respectively to:

i) a total portfolio of 4.3 billion euro in loans to approximately 9,600 businesses in the Corporate and Corporate SME regulatory segments, valued using internal models (Advanced IRB);
ii) a total portfolio of around 4 billion euro in loans to approximately 190 businesses in the Corporate regulatory segment, valued using internal models (Advanced IRB);
iii) a portfolio of around 900 million euro of mortgage loans issued by Barclays to around 10,800 retail customers and purchased by Intesa Sanpaolo during 2019, valued using the standardised approach.

The portfolios of the three transactions mainly consist of customers operating in Northern Italy.
For these transactions, Intesa Sanpaolo holds 5% of the securitised portfolio in compliance with the retention rule laid down by the supervisory regulations.

– ***"Tranched Cover Piemonte 2017 – Linea B" Securitisation***

During the year – again as part of the "GARC" Project – a "Line B" portfolio was completed relating to a tranched cover synthetic securitisation on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2014-2020 Regional Operational Programme of the European Regional Development Fund – Axis III "Competitiveness of production systems" – Thematic Objective III.3 "Promoting competitiveness of SMEs" – "Measure to support access to credit for piedmontese SMEs through the establishment of the 2017 Tranched Cover Piemonte Fund". This transaction involves the issue of collateral on the junior tranche by Finpiemonte S.p.A. and on the mezzanine tranche by Ascomfidi Nord-Ovest Società Cooperativa, to cover the credit risk relating to a portfolio of around 7.5 million euro of loans to around 150 companies in Piedmont, for which the disbursements were completed in 2019.
For this transaction, Intesa Sanpaolo holds 100% of the senior tranches and 20% of the mezzanine and junior tranches in compliance with the retention rule laid down by the supervisory regulations.

– ***Kerma Securitisation***

As part of the strategy to reduce the risk profile envisaged in the 2018-2021 Business Plan, on 31 July 2019 Intesa Sanpaolo and Prelios signed a binding agreement to form a strategic partnership for loans classified as unlikely-to-pay (UTP), which provides – among other things (see the "UTP Partnership Project" section of the Consolidated financial statements for more details) – for the sale to a securitisation vehicle (below KERMA SPV s.r.l. or the SPV) of a portfolio of loans classified as UTP of the Corporate and SME segment of the Intesa Sanpaolo Group, with a Gross Book Value (GBV) of around 3 billion euro as at 31 March 2019 (cut-off date), at a price of around 2 billion euro, which – net of immaterial transaction costs and income effects – was substantially in line with the Net Book Value (NBV) of the portfolio.

The sale was completed through a transaction that involved:

i) the transfer to KERMA SPV s.r.l. of a portfolio of medium/long-term and short-term loans and a portfolio of lease receivables;
ii) the transfer to a financial intermediary, belonging to the Prelios Group, of all the asset and liability legal relationships;
iii) the transfer of the asset and liability legal relationships arising from the lease contracts to a LeaseCo; and
iv) the transfer of the risks and rewards relating to all the existing and future exposures arising from short-term/revolving loan agreements, through a limited-recourse loan granted by KERMA SPV s.r.l. to Intesa Sanpaolo and secured by the assignment of the revolving exposures to the SPV as collateral.

With regard to the short-term/revolving portfolio, the risks and rewards have been transferred to the SPV by means of a limited recourse loan in accordance with Article 7(1)(a) of Law 130/99.

The securitised assets were broken down as follows by geographical area: 32.1% North-West; 27.9% Centre; 22.6% North-East; 15.2% South and Islands; and 2.2% Outside Italy.

The breakdown of the assigned debtors by economic sector was mainly concentrated in the following sectors:

- "Real estate business" at 26.8%;
- "Construction companies" at 21%;
- "Services" at 15.5%;
- and a residual amount in other business sectors (Distribution, Transport, Agriculture, Fashion Industry, Finance and Insurance, Utilities, and others).

The SPV financed the acquisition of the portfolio by issuing 4 classes of securities:
- senior notes of 1,258 million euro;
- mezzanine notes, divided into class B1 notes (15% of the nominal value) subscribed by Intesa Sanpaolo for 13 million euro and the remainder by a third party investor and class B2 notes (7.5% of the nominal value) subscribed by Intesa Sanpaolo for 7 million euro and the remainder by a third party investor;
- junior notes, subscribed by Intesa Sanpaolo for 7 million euro and the remainder by a third party investor.

The senior tranches were subscribed entirely by Intesa Sanpaolo, while the mezzanine and junior tranches were subscribed 95% by a third party investor and 5% by Intesa Sanpaolo in compliance with the retention rule laid down in the supervisory regulations.

Taking into account the retention of 100% of the Senior notes and 5% of the Junior and Mezzanine notes, the variability connected to the cash flows of the underlying portfolio retained by the Group enabled it to establish that the Group has substantially transferred all the risks and rewards of the financial assets transferred, meeting the conditions under point a) of IFRS 9.3.2.6, as a result of which it has derecognised the financial asset and recognised separately as assets or liabilities any rights and obligations originated from or maintained with the transfer.

In this regard, the notes subscribed by Intesa Sanpaolo, due to the business model used and the look-through test carried out, have been classified as follows:
- senior tranches under securities at amortised cost;
- mezzanine and junior tranches under securities measured at FVTPL.

The sale of the lease portfolio will be completed in 2020 and, accordingly, the related receivables were recognised under Discontinued operations as at 31 December 2019.

Total amount of assets awaiting securitisation

In 2011, Mediocredito Italiano entered into two agreements with the Ministry of Economic Development, which provide subsidies in the form of cash collateral provided as pledge to the bank for two portfolios of credit exposures to be disbursed to SMEs for purposes envisaged by the Italian National Innovation Fund (FNI).
For each of the agreements signed, the loan portfolio will be divided into two separate tranches: a junior tranche, exposed to initial losses, and a senior tranche, with a rating equivalent to A-. As a guarantee for the two portfolios, the Bank has received a total cash collateral amount of 16.4 million euro, into an interest-bearing deposit account, provisionally calculated based on the estimate of available portfolios.
The construction of portfolios regarding the first and second agreement was developed starting from 2011 and from 2012 and it was completed, as contractually agreed, on 31 October 2014.

Given the specific investment objectives indicated by the aforementioned agreements and the ongoing difficult economic conditions, applications for special-purpose loans were limited and a limited number of transactions could be carried out (overall, a total of 23 transactions were finalised - including 12 redeemed in advance and 2 in default and 1 sold - with a residual value at 31 December 2019 of 1.9 million euro. There is also a transaction involving an arrangement with creditors which is past due for an amount of 1.6 million euro).
This cash collateral, due to the pledge agreements entered into on 18 April 2016 between the Ministry of Economic Development and MCI and to ministerial decrees no. 3555 and 3556 of 16 June 2016, was decreased in 2016 and 2017, to be replaced by two pledges guaranteeing the residual portfolios, originally totalling 1.6 million euro.

Quantitative disclosure

The tables below detail the net exposures and adjustments for the securitisations. The figures in the tables represent the exposures shown in the financial statements, and include both the positions relating to the banking book and the regulatory trading book.

Securitisations: breakdown of on-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/ Exposure	On-balance sheet exposures (*)					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised for prudential and financial statement purposes	**1,551**	**-5**	**256**	**2**	**319**	**11**
A.1 Savoy (**)						
- Loans to businesses including SMEs	*291*	*-2*	*231*	*2*	*304*	*11*
A.2 Towers S.r.l.						
- Consumer credit	*5*	-	*4*	-	*8*	-
A.3 Kerma (**)						
- Loans to businesses including SMEs	*1,255*	*-3*	*21*	-	*7*	-
B. Partly derecognised for prudential and financial statement purposes	-	-	-	-	-	-
C. Not derecognised for prudential and financial statement purposes	**15,812**	**-27**	**402**	**-40**	**462**	**-14**
C.1 GARC (***)						
- Loans to businesses including SMEs	*13,762*	*-23*	-	-	*64*	-
- Residential mortgage loans	*797*	-	-	-	*2*	-
C.2 Tranched Cover Piemonte (***)						
- Loans to businesses including SMEs	*7*	*-1*	-	-	-	-
C.3 Sme Initiative Italy (***)						
- Loans to businesses including SMEs	*184*	*-1*	*1*	-	*9*	-
C.4 Tranched Cover Fondo Centrale di Garanzia (***)						
- Loans to businesses including SMEs	*982*	*-1*	-	-	*19*	-
C.5 Tranched Cover Piemonte 2017 – Linea B (***)						
- Loans to businesses including SMEs	*6*	-	-	-	-	-
C.6 K Equity (**)						
- Loans to businesses including SMEs	*29*	*-1*	*196*	*-38*	*75*	*-7*
C.7 Berica ABS 3						
- Residential mortgage loans	*2*	-	*51*	-	*115*	*-2*
C.8 Berica ABS 4						
- Residential mortgage loans	*18*	-	*123*	*-1*	*95*	*-1*
C.9 Claris Finance 2005						
- Residential mortgage loans	*22*	-	-	-	*10*	-
C.10 Apulia Finance n. 4						
- Residential mortgage loans	*3*	-	*31*	*-1*	*73*	*-4*
TOTAL 31.12.2019	**17,363**	**-32**	**658**	**-38**	**781**	**-3**
TOTAL 31.12.2018	**11,456**	**-12**	**702**	**59**	**1,329**	**-8**

(*) Originated securitisations are included in the banking book, with the exception of exposures of 25 million euro relating to traditional securitisations included in the trading book. By way of addition to the information presented in the table, it should be noted that losses on disposal recognised by the Group on the senior exposures amounted to approximately 1 million euro and on mezzanine and junior exposures amounted to less than 1 million euro overall.

(**) The amount refers to non-performing financial assets.

(***) The transactions included in the abovementioned "GARC" project (and referred to as "GARC", "Tranched Cover Piemonte", "SME Initiative Italy", "Tranched Cover Fondo Centrale di Garanzia" and Tranched Cover Piemonte 2017 - Linea B) are synthetic securitisations.

Securitisations: breakdown of off-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A. Fully derecognised for accounting and prudential purposes												
A.1 Duomo funding PLC.	-	-	-	-	-	-	-	-	-	-	-	-
- Consumer credit	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised for accounting and prudential purposes	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised for accounting and prudential purposes												
C.1 Duomo Funding Plc.	-	-	-	-	-	-	-	-	-	-	-	-
- trade receivables (*)	-	-	-	-		-	-	-	-	-	-	-
TOTAL 31.12.2019	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL 31.12.2018	-	-	-	-	-	-	2,547	-5	-	-	-	-

(*) Amount referring to credit lines granted to cover loans which did not meet the criteria for derecognition pursuant to IFRS 9.

As at 31 December 2019 this case was not present.

Securitisations: breakdown of on-balance sheet exposures deriving from main third-party securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES (*)					
	Senior (**)		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Other assets (***)	6,154	-	94	-	1	-
- Banking book	6,039	-	-	-	-	-
- Trading book	115	-	94	-	1	-
Securitisations	165	-4	-	-	-	-
- Banking book	165	-4	-	-	-	-
- Trading book	-	-	-	-	-	-
Consumer credit	595	1	29	5	-	-
- Banking book	325	-	-	-	-	-
- Trading book	270	1	29	5	-	-
Trade receivables	430	-4	-	-	-	-
- Banking book	381	-5	-	-	-	-
- Trading book	49	1	-	-	-	-
Leasing	6	-	23	-	-	-
- Banking book	-	-	23	-	-	-
- Trading book	6	-	-	-	-	-
Commercial mortgage loans	128	-	21	-	-	-
- Banking book	49	-	-	-	-	-
- Trading book	79	-	21	-	-	-
Residential mortgage loans	1,024	3	117	1	-	-
- Banking book	621	1	36	-	-	-
- Trading book	403	2	81	1	-	-
Loans to businesses (including SME) (****)	1,131	-	321	-12	78	-9
- Banking book	898	-	142	-10	74	-8
- Trading book	233	-	179	-2	4	-1
TOTAL 31.12.2019	**9,633**	**-4**	**605**	**-6**	**79**	**-9**
- Banking book	**8,478**	**-8**	**201**	**-10**	**74**	**-8**
- Trading book	**1,155**	**4**	**404**	**4**	**5**	**-1**
TOTAL 31.12.2018	**7,224**	**6**	**464**	**2**	**69**	**-1**
of which: Banking book	**6,482**	**12**	**163**	**6**	**56**	**-1**
of which: Trading book	**742**	**-6**	**301**	**-4**	**13**	**-**

(*) By way of addition to the information presented in the table, it should be noted that, with regard to banking book positions, the losses on disposal recognised by the Group amounted to less than 1 million euro for Senior, Mezzanine and Junior exposures.

(**) It should be noted that, by convention, senior exposures have also been considered to include 426 million euro of mono-tranche securities, which for prudential supervision purposes are not regarded as securitisation positions.

(***) The amount also includes the Romulus securities for 5,886 million euro held in the banking group's portfolio and generally presented among third-party securitisations. These securities are included in the portfolio, but are not weighted for supervisory purposes, because the off-balance sheet positions included among third-party underlying assets have already been subject to weighting.

(****) The exposures include non-performing financial assets amounting to 5 million euro in Senior exposures, 116 million euro in Mezzanine exposures and 73 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Group participates in. The related Junior Notes were fully written down.

Securitisations: breakdown of off-balance sheet exposures deriving from main third-party securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions	-	-	-	-	-	-	6,211	-21	-	-	-	-
Total 31.12.2019	**-**	**-**	**-**	**-**	**-**	**-**	**6,211**	**-21**	**-**	**-**	**-**	**-**
Total 31.12.2018	**-**	**-**	**-**	**-**	**-**	**-**	**3,061**	**-6**	**-**	**-**	**-**	**-**

Breakdown of net exposures to securitisations by financial assets portfolio and by type of exposure

(millions of euro)

	On-balance sheet exposures (*)			Off-balance sheet exposures (*)		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	1,154	404	6	-	-	-
Financial assets measured at fair value through profit or loss	45	252	319	-	-	-
Financial assets measured at fair value through other comprehensive income	1,407	75	-	-	-	-
Financial assets measured at amortised cost (**)	8,578	130	73	6,211	-	-
TOTAL 31.12.2019	**11,184**	**861**	**398**	**6,211**	**-**	**-**
TOTAL 31.12.2018	**7,613**	**708**	**372**	**3,080**	**-**	**-**

(*) Not including on-balance sheet exposures arising from originated securitisations in which the assets transferred have not been fully derecognised, in the total amount of 16,675 million euro. As at 31 December 2019, there were no off-balance sheet exposures arising from originated securitisations in which the assets transferred have not been fully derecognised.

(**) Off-balance sheet exposures, composed of "Guarantees issued" and “Credit lines", have been included in this caption by convention.

Securitisations: weighted amount of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	31.12.2019		31.12.2018	
	Originated securitisations	**Third-party securitisations**	**Originated securitisations**	**Third-party securitisations**
Risk weight 20%	1	10	4	5
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	2	3	2	16
Risk weight 100%	3	-	3	2
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	7	-	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other (**)	19	2,851	173	2,554
SEC - ERBA (***)	-	448	-	-
SEC - SA (***)	123	1,418	-	-
Total	**148**	**4,737**	**182**	**2,577**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) The amounts also include the weighted amount determined by applying the securitisation cap test regulatory requirements as at 31 December 2018. There are no cases for which the cap test should be conducted as at 31 December 2019.

(***) In accordance with the transitional provisions, the new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, only apply to securitisations whose securities were issued in 2019.

Securitisations: weighted amount of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach - Supervisory Formula Approach and SEC – IRBA)

(millions of euro)

Risk weight bands	31.12.2019		31.12.2018	
	Originated securitisations	**Third-party securitisations**	**Originated securitisations**	**Third-party securitisations**
Risk weight 7 - 10%	-	100	4	79
Risk weight 12 - 18%	-	46	6	34
Risk weight 20 - 35%	-	56	-	124
Risk weight 40 - 75%	-	37	-	46
Risk weight 100%	-	5	-	34
Risk weight 150%	-	51	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	43	-	148
Risk weight 300%	-	784	-	766
Risk weight 350%	-	-	-	-
Risk weight 425%	-	83	-	119
Risk weight 500%	-	196	-	-
Risk weight 650%	-	35	-	31
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - other	-	-	-	-
SFA - Supervisory Formula Approach	2,203	18	2,263	24
SEC - IRBA (**)	1,503	-	-	-
Total	**3,706**	**1,454**	**2,273**	**1,405**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) In accordance with the transitional provisions, the new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, only apply to securitisations whose securities were issued in 2019.

The tables above detail the exposures to securitisations by weight band. Details of the exposures included in the banking book and the regulatory trading book are shown in the following tables, including information on the re-securitisations.

Additional information on market risks of the trading book, including the capital requirement in relation to the securitisations included in that book, is set out in the Section of this document on market risks, which also presents separately the requirements relating to exposures to securitisations in the trading book.

Banking Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 20%	1	-	9	-
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	2	-	-	-
Risk weight 100%	2	-	-	-
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	19	-	2,851	-
SEC - ERBA (**)	-	-	33	-
SEC - SA (**)	123	-	1,143	-
Total RWA Banking book as at 31.12.2019	**147**	**-**	**4,036**	**-**
Total RWA Banking book as at 31.12.2018	**182**	**-**	**2,566**	**-**
Capital requirements				
Risk weight 20%	-	-	1	-
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	-	-
Risk weight 100%	-	-	-	-
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	2	-	228	-
SEC - ERBA (**)	-	-	3	-
SEC - SA (**)	10	-	91	-
Total Requirements Banking book as at 31.12.2019	**12**	**-**	**323**	**-**
Total Requirements Banking book as at 31.12.2018	**15**	**-**	**205**	**-**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) In accordance with the transitional provisions, the new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, only apply to securitisations whose securities were issued in 2019.

Trading Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 20%	-	-	1	-
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	3	-
Risk weight 100%	1	-	-	-
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	7	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
SEC - ERBA (**)	-	-	415	-
SEC - SA (**)	-	-	275	-
Total RWA Trading book as at 31.12.2019	**1**	**-**	**701**	**-**
Total RWA Trading book as at 31.12.2018	**-**	**-**	**10**	**-**
Capital requirements				
Risk weight 20%	-	-	-	-
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	-	-
Risk weight 100%	-	-	-	-
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	1	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
SEC - ERBA (**)	-	-	33	-
SEC - SA (**)	-	-	22	-
Total Requirements Trading book as at 31.12.2019	**-**	**-**	**56**	**-**
Total Requirements Trading book as at 31.12.2018	**-**	**-**	**1**	**-**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) In accordance with the transitional provisions, the new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, only apply to securitisations whose securities were issued in 2019.

Banking Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach - Supervisory Formula Approach and SEC - IRBA)

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 7 - 10%	-	-	75	-
Risk weight 12 - 18%	-	-	6	-
Risk weight 20 - 35%	-	-	10	-
Risk weight 40 - 75%	-	-	6	3
Risk weight 100%	-	-	-	-
Risk weight 150%	-	-	51	51
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	16	-
Risk weight 300%	-	-	784	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	-	-
Risk weight 500%	-	-	196	196
Risk weight 650%	-	-	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - other	-	-	-	-
SFA - Supervisory Formula Approach	2,203	-	18	-
SEC - IRBA (**)	1,503	-	-	-
Total RWA Banking book as at 31.12.2019	**3,706**	**-**	**1,162**	***250***
Total RWA Banking book as at 31.12.2018	**2,271**	**-**	**942**	***47***
Capital requirements				
Risk weight 7 - 10%	-	-	6	-
Risk weight 12 - 18%	-	-	1	-
Risk weight 20 - 35%	-	-	1	-
Risk weight 40 - 75%	-	-	-	-
Risk weight 100%	-	-	-	-
Risk weight 150%	-	-	4	4
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	1	-
Risk weight 300%	-	-	63	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	-	-
Risk weight 500%	-	-	16	16
Risk weight 650%	-	-	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - other	-	-	-	-
SFA - Supervisory Formula Approach	176	-	1	-
SEC - IRBA (**)	120	-	-	-
Total Requirements Banking book as at 31.12.2019	**296**	**-**	**93**	***20***
Total Requirements Banking book as at 31.12.2018	**182**	**-**	**75**	***4***

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) In accordance with the transitional provisions, the new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, only apply to securitisations whose securities were issued in 2019.

Trading Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach - Supervisory Formula Approach and SEC - IRBA)

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 7 - 10%	-	-	25	-
Risk weight 12 - 18%	-	-	40	-
Risk weight 20 - 35%	-	-	46	-
Risk weight 40 - 75%	-	-	31	-
Risk weight 100%	-	-	5	-
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	27	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	83	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	35	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
SFA - Supervisory Formula Approach	-	-	-	-
SEC - IRBA (**)	-	-	-	-
Total RWA Trading book 31.12.2019	**-**	**-**	**292**	**-**
Total RWA Trading book 31.12.2018	**2**	**-**	**463**	**-**
Capital requirements				
Risk weight 7 - 10%	-	-	2	-
Risk weight 12 - 18%	-	-	3	-
Risk weight 20 - 35%	-	-	4	-
Risk weight 40 - 75%	-	-	2	-
Risk weight 100%	-	-	-	-
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	2	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	7	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	3	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
SFA - Supervisory Formula Approach	-	-	-	-
SEC - IRBA (**)	-	-	-	-
Total Requirements Trading book as at 31.12.2019	**-**	**-**	**23**	**-**
Total Requirements Trading book as at 31.12.2018	**-**	**-**	**37**	**-**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

(**) In accordance with the transitional provisions, the new methodologies introduced by Regulation (EU) 2401/2017, amending Regulation (EU) 575/2013, only apply to securitisations whose securities were issued in 2019.

Section 13 - Market risk

MARKET RISK/TRADING BOOK

Risk management strategies and processes

The allocation of capital for trading activities is set by the Parent Company's Board of Directors, through the attribution of operating limits in terms of VaR to the various Group units.
The overall limits of the Group and of Intesa Sanpaolo and Banca IMI are included in the Group's Risk Appetite Framework. At the same time, the Board of Directors of the Parent Company defines the operating limits in terms of VaR for other Group companies which hold smaller trading books whose risk is marginal.
The Group Financial Risk Committee monitors the risks of all the Group companies on a monthly basis, with particular reference to the absorption of the VaR limits, and recommends any corrective measures. The situation is also regularly examined by the Board of Directors and the Steering Committee in order to propose any changes to the strategies for trading activities to the Management Bodies.

Structure and organisation of the associated risk management function

The Chief Risk Officer is responsible, at Group level, for setting out the system of operating limits, the capital allocation system, and the system of binding policies and procedures. These activities are coordinated by the Group Financial Risk Committee, which discusses the guidelines for the management of market risks.
As part of its functions, the Financial and Market Risks Head Office Department is responsible for the:

- calculation, development and definition of the management risk indicators: Value at Risk, sensitivity and greeks, level measures, stress tests and scenario analyses;
- monitoring of operating limits;
- monitoring of regulatory risk;
- comparison of the P&L with the risk indicators and in particular with the VaR (so-called backtesting).
- establishment of the parameters and rules for the valuation of assets subject to mark-to-market and fair value at Group level, as well as their direct valuation when this cannot be obtained from instruments available to the business units;

The structure of the Financial and Market Risks Head Office Department is based on the following guidelines:

- structuring of the responsibilities according to the main risk-taking centres and to "Risk Type";
- focusing and specialisation of the resources on the "Risk Owners";
- compliance with the instructions and proposals of the Supervisory Authorities;
- sustainability of the operating processes, including:
  - the methodological development;
  - the collection, processing and production of data;
  - the maintenance and refinement of the instruments and application models;
  - the general consistency of the data produced.

Scope of application and characteristics of the risk measurement and reporting system

The quantification of trading risks (managerial calculation scope) is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

The monitoring scope for the managerial VaR regarding the above risk factors is calculated at the level of the banking group both on the trading book and on the HTCS book (areas consistent with the market risk rules, defined in the internal Market Risk Charter document, for the scope measured at fair value).

For the trading book, the regulatory requirements are established in Regulation (EU) 575/2013 (CRR - Part Three, Title I, Chapter 3, in Articles 102, 103, and 104 respectively). The combined provisions of those articles lay down the set of minimum requirements for the identification of the trading strategies and the measurement and control of the associated risks. This set of requirements consists of the need to:

- define, formalise and monitor the trading strategies, both quantitatively and qualitatively;
- ensure a clear reporting line along which powers, responsibilities and information are correctly transferred;
- ensure an effective system of control and limitation of the risks connected with the holding of the trading book;
- ensure that the positions meet the minimum requirements for recognition in the trading book.

Based on the requirements of the applicable regulations, Intesa Sanpaolo has established a policy (in the document “Rules on the identification and management of the prudential trading book”), which identifies the trading book based on the following:

- measurement at fair value through profit or loss of the instruments held for trading;
- the strategies defined;
- the risk-taking centres identified;
- the monitoring, limitation and management of the risks defined in accordance with the internal regulations on market risk.

In particular, the assets classified in the regulatory trading book coincide – apart from some specific exceptions – with the financial assets held for trading (Bank of Italy Circular 262). This association derives from the set of strategies, powers, limits and controls that feed and guarantee the adjacency and consistency between the accounting and prudential portfolios.
A metric of verification of consistency of the inclusion in the trading book has also been established, consisting of the indicator of average vintage, which is subject to a monitoring and escalation process, provided for in the above-mentioned internal policy.

The risk indicators used for the trading risks may be divided into six main types:

- Value at Risk (VaR), which represents the backbone of the whole risk management system due to its characteristics of uniformity, consistency and transparency in relation to both economic capital and the Group Finance operations;
- sensitivity and greeks, which are the essential accompaniment to the VaR indicators due to their ability to capture the sensitivity and the direction of the existing financial trading positions in relation to the various individual risk factors;
- level measures (such as notional and Mark-to-Market), which are a useful aid to the above indicators as an immediately applicable solution;
- stress tests and scenario analyses that enable the completion of the analysis of the overall risk profile, capturing changes in predetermined assumptions relating to the evolution of the underlying risk factors, also simulating anomalous market conditions (opening of the basis risks, worst case);
- Incremental Risk Charge (IRC), an additional measure to VaR (which contributes to the determination of the capital absorption) that enables the correct representation of the specific risk on debt securities and credit derivatives because it also captures event and default risk, in addition to idiosyncratic risk;
- Stressed VaR (from 31 December 2011 it contributes to the determination of capital absorption), which represents the VaR associated with a market stress period, identified on the basis of the indications presented in the Basel document “Revision to the Basel II market risk framework".

The reporting system is continuously updated in order to take into account the evolution of the operations, the organisational structures and the analytical methods and tools available.

Policies for hedging and mitigating risk

In Intesa Sanpaolo and Banca IMI, weekly risk meetings are held during which the main risk factors of the portfolios are discussed. The monitoring and discussions take place on the basis of a series of reports by the Financial and Market Risks Head Office Department based on standard quantitative indicators (VaR, greeks, and issuer risk) and stress indicators (what if analysis, stress tests on particular macroeconomic scenarios/risk factors, and marginal VaR).
This set of information represents an effective means for deciding policies for the hedging and mitigation of risk, as it enables the provision of detailed recommendations to the trading rooms on the risk profile of the books, and the identification of any idiosyncratic risks and concentrations, and the suggestion of methods for the hedging of exposures considered to be a potential source of future deteriorations in the value of the portfolios.
During the weekly meetings the Financial and Market Risks Head Office Department ensures the consistency of the positions with the decisions taken in the Group Financial Risk Committee.

Strategies and processes for the ongoing assessment of their effectiveness

At operational level, in addition to the daily reporting (VaR, sensitivities, level measures, control of assigned limits), information is exchanged between the heads of the Business Departments during the abovementioned Risk Meetings called by the heads of the Departments.
More specifically, during the Risk Meetings the risk profile is examined in detail, with the aim of ensuring that operations are conducted in an environment of controlled risk, and the appropriate use of the capital available.

MARKET RISKS/BANKING BOOK

Risk management strategies and processes

Market risk originated by the banking book arises primarily in the Parent Company and in the main other subsidiaries that carry out retail and corporate banking.
Specifically, in managing interest rate risk in the banking book (discussed below), the Intesa Sanpaolo Group seeks to maximise profitability, by adopting operating methods consistent with the general stability of the financial results over the long term. To this end, positions are adopted that are consistent with the strategic views produced during the regular meetings of the Group Financial Risk Committee, which is also responsible for the assessment of the overall risk profile of the Group and its main operational units.
Foreign exchange risk is the potential loss resulting from changes in the exchange rate that could have a negative impact on the valuation of the assets and liabilities in the financial statements and on earnings and capital ratios.
Two types of Foreign Exchange Risk are identified: *Structural* and *Transaction risk.*
Structural Foreign Exchange Risk is defined as the potential loss resulting from changes in the exchange rate that could have a negative impact on the foreign exchange reserves that are part of the Group's consolidated shareholders' equity, and also includes the foreign exchange risk associated with hybrid capital instruments. The key sources of structural foreign exchange risk are therefore the investments in associates and companies subject to joint control.
Transaction Foreign Exchange Risk is defined as the potential loss resulting from changes in the exchange rate that may have a negative impact both on the valuation of the assets and liabilities in the financial statements and on the earnings from funding and lending transactions in currencies other than the euro. The main sources of this foreign exchange risk consist of: non-euro loans and deposits held by corporate and/or retail customers; conversion into domestic currency of assets, liabilities and income of the international branches; trading of foreign currencies; collection and/or payment of interest, commissions, dividends and administrative expenses in foreign currencies; purchase and sale of securities and financial instruments for the purpose of resale in the short term; etc. Transaction foreign exchange risk also includes the risk related to transactions connected to operations that generate the type of structural foreign exchange risk represented, for example, by dividends, earnings in the process of being generated, and corporate events.

The banking book also includes the exposure to the price risk deriving from the equity investments in companies not consolidated on a line-by-line basis.

Structure and organisation of the associated risk management function

Within the Financial and Market Risks Head Office Department, the market risks of the Banking Book and the Liquidity risk (discussed in specific sections) are overseen by the Banking Book Financial Risks Sub-Department, which is responsible for:

- setting out the criteria and methods for the measurement and management of the financial risks of the banking book (interest rate, foreign exchange, minority equity investments and liquidity);
- proposing the system of operational limits and the guidelines for the management of financial risks for the operational units of the Group involving the operations of the banking book;
- measuring the financial risks of the banking book assumed by the Parent Company and the other Group Companies, both directly, through specific outsourcing contracts, and indirectly by consolidating the information originating from the local control units, and verifying compliance by the Group Companies with the limits set by the Corporate bodies, reporting on their progress to Top Management and the Parent Company's operating structures;
- analysing the overall financial risk profile of the Group's banking book, proposing any corrective measures, within the more general context of the guidelines set out at strategic planning level or by the Corporate Bodies;
- managing the assessment and measurement, for the Parent Company and all the other Group Companies governed by outsourcing contracts, of the effectiveness of the hedging relationships (hedge accounting) required by the IAS/IFRS regulations (for the main Group companies the structures of the Parent Company centralise these activities in order to achieve operational efficiencies and the most effective governance of the process. For the other subsidiaries, it provides direction and guidance);
- supporting the Strategic Asset & Liability Management function in relation to strategic ALM.

Scope of application and characteristics of the risk measurement and reporting system

The following metrics are used to measure the interest rate risk generated by the banking book:

1. shift sensitivity of economic value (∆EVE);
2. net interest income:
   - shift sensitivity of net interest income (∆NII);
   - dynamic simulation of net interest income (NII);
3. Value at Risk (VaR).

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet).

In measurements, capital items are represented based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

1. for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
2. for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise net interest income both in absolute terms and in terms of variability over time;
3. for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows.
4. The cash flows used for both the contractual and behavioural profile are calculated at the contractual rate or at the FTP.

To determine the present value, a multi-curve system is adopted which has different discounting and forwarding curves according to the type of instrument and the tenor of its indexing. For the determination of shift sensitivity, the standard shock applied to all the curves is defined as a parallel and uniform shifting of +100 basis points of the curves.
In addition to the standard +100 scenario, the measurement of the economic value (EVE) is also calculated based on the 6 scenarios prescribed by the BCBS document and based on historical stress simulations aimed at identifying worst- and best-case scenarios.

The shift sensitivity of net interest income quantifies the impact on short-term interest income of a parallel, instantaneous and permanent, shock to the interest rate curve.
Margin sensitivity is measured using a method that enables the estimation of the expected change in net interest income as a result of a shock to the curves produced by items subject to interest rate revision within a gapping period set at 12 months from the analysis date.
This measure highlights the effect of variations in market interest rates on the net interest income generated by the portfolio being measured, on a constant balance sheet basis, excluding potential effects resulting from the new operations and from assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.
To determine changes in net interest income (ΔNII), standard scenarios of parallel rate shocks of +/-50 basis points are applied, in reference to a time horizon of twelve months.
Dynamic margin simulation analyses are also conducted that combine shifts in yield curves with changes in base and liquidity differentials, as well as changes in customer behaviour in different market scenarios.

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR). Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

Policies for hedging and mitigating risk

Hedging of interest rate risk is aimed at (i) protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates concluded with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods.
A first method refers to the fair value hedge of specifically identified assets and liabilities (microhedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. On the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macrohedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of variable-rate loans and on a portion of fixed-rate loans. For this last type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable-rate funding, to the extent that the latter finances fixed-rate investments, and on variable-rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Head Office Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with international accounting standards.
During the year no hedging activities were performed to cover the price risk of the banking book.

Qualitative and quantitative disclosure regarding the trading book

The quantification of trading risks (managerial calculation scope) is based on daily and periodic vulnerability of the trading books of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the risk factors already listed above.

Other Group subsidiaries hold smaller trading portfolios with a marginal risk (approximately less than 1% of the Group's overall managerial risk). In particular, the risk factors of the international subsidiaries' trading books are local government bonds, positions in interest rates, and foreign exchange rates relating to linear pay-offs.

The table below shows the items of the consolidated Balance Sheet that are subject to market risks, showing the positions for which managerial VaR is the main risk measurement metrics and those for which the risks are monitored with other metrics. The latter mostly include the sensitivity analysis to the different risk factors (interest rate, credit spread, etc.).

(millions of euro)

	BOOK VALUE (supervisory scope)	MAIN RISK MEASUREMENT METRICS		
		VaR	Other	Risk factors measured using metrics included under Other
Assets subject to market risk	**601,727**	**116,108**	**485,619**	
Financial assets held for trading	45,234	44,668	566	Interest rate risk, credit spread, equity
Financial assets designated at fair value	195	195	-	Interest rate risk, credit spread
Other financial assets mandatorily measured at fair value	4,467	2,290	2,177	Interest rate risk, credit spread
Financial assets measured at fair value through other comprehensive income (ifrs 7 par. 8 lett. h))	72,438	68,847	3,591	Interest rate risk, equity
Due from banks	48,893	-	48,893	Interest rate risk
Loans to customers	419,866	-	419,866	Interest rate risk
Hedging derivatives	3,028	108	2,920	Interest rate risk
Investments in associates and companies subject to joint control	7,606	-	7,606	Equity risk
Liabilities subject to market risk	**575,078**	**46,112**	**528,966**	
Due to banks	102,861	-	102,861	Interest rate risk
Due to customers	332,218	-	332,218	Interest rate risk
Securities issued	85,536	-	85,536	Interest rate risk
Financial liabilities held for trading	45,320	45,280	40	Interest rate risk
Financial liabilities designated at fair value (ifrs 7 par. 8 lett. e))	4	4	-	-
Hedging derivatives	9,139	828	8,311	Interest rate risk

Internal model validation

For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital requirement of both Intesa Sanpaolo and Banca IMI.
More specifically, concerning market risk, the risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI and the hedge fund portfolios of the Parent Company (look through approach), (iii) position risk on dividend derivatives and (iv) commodity risk for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The VaR and the Stressed VaR used to determine the capital requirement use the same calculation engine and the same pricing libraries for the full evaluation of the managerial measures. With regard to the latter, however, there is no decay factor in the application of the scenarios.
The observation window for the VaR and SVaR is 1 year and the figure is updated on a daily basis.
The daily measures are turned into ten-day measures through the square root of time formula to obtain data that can be used to determine the requirement.

See the paragraph below, for more details on the Incremental Risk Charge.

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.
This measure applies to all financial products that are sensitive to credit spreads included in the trading books except for the securitisations.

The simulation is based on a Modified Merton Model. The probabilities of transition and default are those observed through the historical matrices of the main rating agencies. The asset correlation is inferred from the equity correlation of the issuers. The model is based on the assumption of a constant position with a holding period of one year.
A regular stress program is applied to the model's main parameters (correlation, and transition, default and credit spread matrices).

Market risk under the standardised approach (EU MR1 EBA GL 2016/11)

(millions of euro)

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	337	27
2	Equity risk (general and specific)	228	18
3	Foreign exchange risk	799	64
4	Commodity risk	8	1
	Options		
5	Simplified approach	-	-
6	Delta-plus method	1	-
7	Scenario approach	-	-
8	**Securitisation (specific risk)**	**993**	**79**
9	**Total**	**2,366**	**189**

The figure for foreign exchange risk was down slightly on the previous half year and was mainly linked to exposure to linear products in USD. The RWAs of the securitisations, calculated using the Standardised approaches (CRR 2013 and CRR 2017) was 993 million euro. The figure for the trading book amounted to about 79 million euro of requirement, in line with the previous half year.
Despite the stability in terms of capital, there was an increase in CLO exposures valued at SEC-ERBA and a decrease in Receivables valued at SEC-SA, which resulted in a netting in terms of final capital requirement.

Market risk under the IMA[26] (EU MR2-A EBA GL 2016/11)

(millions of euro)

			RWAs	Capital requirements
1		**VaR (higher of values a and b)**	**3,974**	**318**
	a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		79
	b)	Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		318
2		**SVaR (higher of values a and b)**	**8,921**	**714**
	a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		179
	b)	Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)		714
3		**IRC (higher of values a and b)**	**3,568**	**285**
	a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)		261
	b)	Average of the IRC number over the preceding 12 weeks		285
4		**Comprehensive risk measure (higher of values a, b and c)**	**-**	**-**
	a)	Most recent risk number for the correlation trading portfolio (Article 377 of the CRR)		-
	b)	Average of the risk number for the correlation trading portfolio over the preceding 12 weeks		-
	c)	8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338(4) of the CRR)		-
5		**Other**	**-**	**-**
6		**TOTAL**	**16,463**	**1,317**

The lower volatility of credit spreads and accompanying reduction in the exposure to sovereign debt significantly reduced the VaR and stressed VaR figures for Banca IMI and Intesa Sanpaolo.

[26] The VaR figure in the table includes illiquid parameters.

Stressed VaR

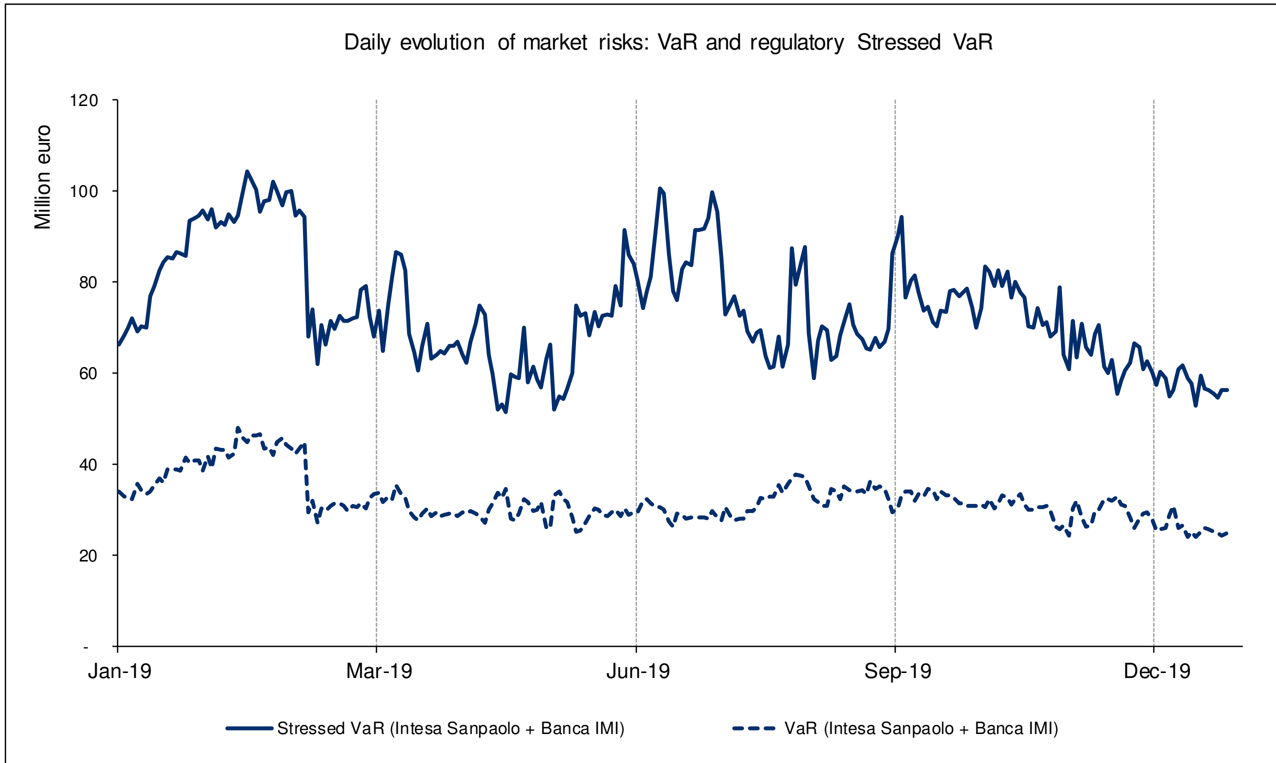
From 31 December 2011, the capital requirement for market risk includes stressed VaR. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":

- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real time series to be used for all portfolio risk factors.

While using the historical simulation approach for VaR calculation, the latter point is a discriminating condition in the selection of the holding period. Actually, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As at the date of preparation of this document, the period for the measurement of Stressed VaR was set as from 11 October 2011 to 28 September 2012 for both Intesa Sanpaolo and Banca IMI.

The graph below shows the trend of the measures.



The table below shows the breakdown of the capital requirements for current VaR and Stressed VaR measures

IMA values for trading portfolios (EU MR3 EBA GL 2016/11)

(millions of euro)

VaR (10 day 99%)		
1	Maximum value	111
2	Average value	91
3	Minimum value	74
4	Period end	79
SVaR (10 day 99%)		
5	Maximum value	277
6	Average value	210
7	Minimum value	165
8	Period end	179
IRC (99.9%)		
9	Maximum value	362
10	Average value	285
11	Minimum value	230
12	Period end	261
Comprehensive risk capital charge (99.9%)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-

The level of the capital requirements reflected the lower market volatility, the reduction in the exposure to sovereign debt and a partial repositioning in the credit market.

Managerial VaR

The analysis of market risk profiles relative to the trading book (managerial scope) uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.
Details are provided below of the estimates and evolution of managerial VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the portfolios of Intesa Sanpaolo and Banca IMI.
In line with what has been approved by the BoD, with regard to the VaR limits for legal entities, the managerial VaR of the held-for-trading component includes the HTCS portfolio for Banca IMI

Sensitivity and greeks

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

Level measures

Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

Stress tests

Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests for management purposes are applied periodically to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst-case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

Daily managerial VaR evolution

During the fourth quarter of 2019, the managerial market risks generated by the Group decreased compared to the average values of the third quarter, mainly due to the reduction of Banca IMI.
The average managerial VaR of the Group for the period was 120.2 million euro compared to 145.3 million euro (average figure) in the third quarter.

Daily managerial VaR of the trading book for Intesa Sanpaolo and Banca IMI[(a)]

(millions of euro)

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	13.1	10.7	16.3	16.8	15.0	16.9
Banca IMI	107.2	84.1	125.9	128.5	149.0	160.1
Total	**120.2**	**95.1**	**142.1**	**145.3**	**164.0**	**177.0**

(a) Each line in the table sets out the past estimates of daily operating VaR calculated on the quarterly historical time-series respectively of Intesa Sanpaolo and Banca IMI; total minimum and maximum values are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

For all of 2019, the Group's average managerial VaR was 151.5 million euro, up compared to 74.1 million euro in the same period of 2018. The performance of this indicator – mainly determined by Banca IMI – derives from an increase in the risk measures, mainly attributable to financial risk operations, consistently with the 2019 Risk Appetite Framework.

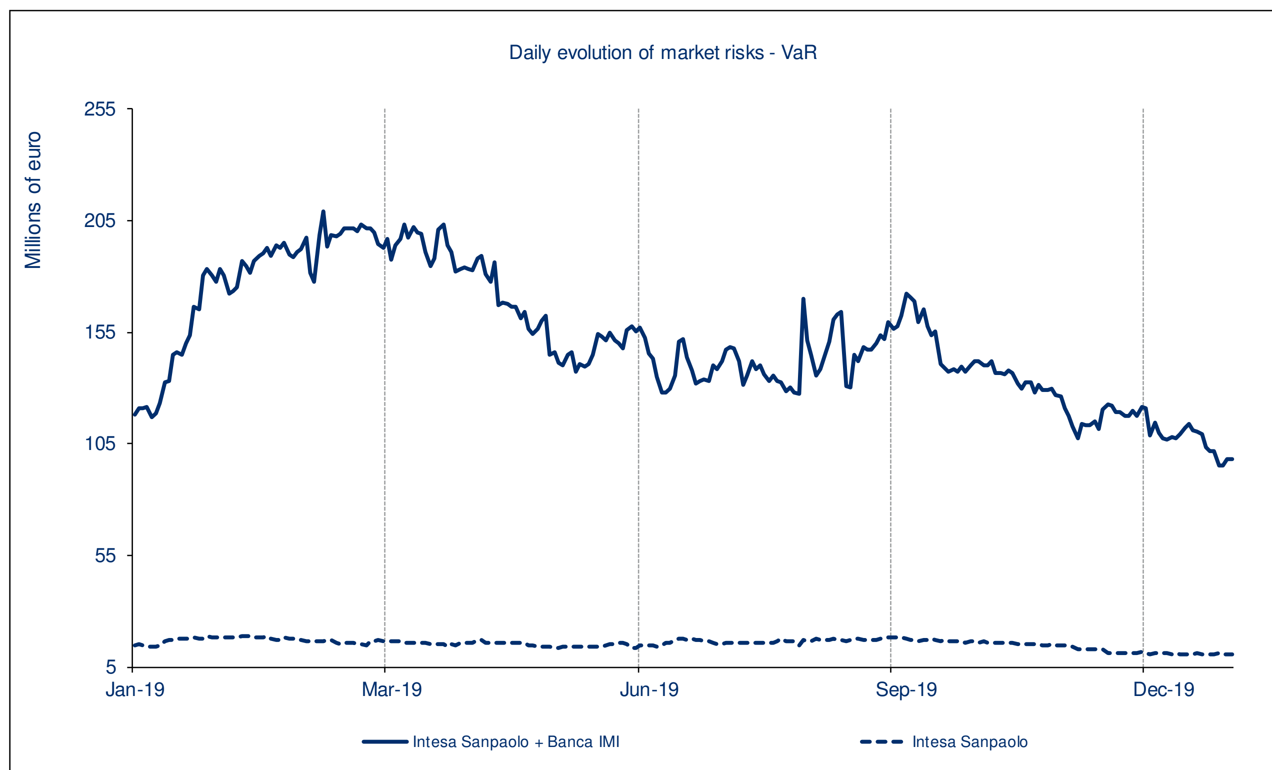
Daily managerial VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2019 and 2018[(a)]

(millions of euro)

	2019				2018		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	15.4	10.7	19.0	10.7	12.0	6.7	20.9
Banca IMI	136.0	84.1	192.3	87.4	62.0	24.7	106.3
Total	**151.5**	**95.1**	**208.8**	**98.1**	**74.1**	**33.7**	**124.9**

(a) Each line in the table sets out the past estimates of daily operating VaR calculated on the annual historical time-series respectively of Intesa Sanpaolo and Banca IMI; total minimum and maximum values are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

The trend in the Group’s managerial VaR, shown in the following chart, was mainly determined by Banca IMI.
In detail, in the first half of 2019 risk measures increased in accordance with the 2019 RAF, primarily due to dealings in government bonds, followed by a concurrent reduction attributable to the removal of volatile scenarios from the calculation of the historical simulation in the second quarter. In the second half of 2019, risks increased in August, substantially due to the volatility of the credit spread risk factor. The subsequent VaR performance, which declined on average, is due to both transactions and the scenario “rolling effect”.



The breakdown of risk profile in the fourth quarter of 2019 with regard to the various factors shows the prevalence of the risk generated by the credit spread, which accounted for 58% of the total managerial VaR for Intesa Sanpaolo and 65% for Banca IMI.

Contribution of risk factors to total managerial VaR [(a)]

4th quarter 2019	Shares	Hedge fund	Rates	Credit spread	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	1%	3%	26%	58%	11%	1%	0%
Banca IMI	2%	0%	30%	65%	0%	3%	0%
Total	**2%**	**0%**	**29%**	**65%**	**1%**	**2%**	**1%**

(a) Each line in the table sets out the contribution of risk factors considering the overall VaR 100%, calculated as the average of daily estimates in the fourth quarter of 2019, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices at the end of December is summarised in the following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITY	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-5%	+5%	Crash	Bullish
Total	14	64	-268	148	670	-646	5	-11	2	2

In particular:
- for stock market positions, there would be no losses in both crash and bullish stock market scenarios, given the portfolio non-linearity;
- for positions in interest rates, there would be a loss of 268 million euro in the event of an increase in rate curves of 40 bps;
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 646 million euro;
- for positions in exchange rates, there would be a loss of around 11 million euro in the event of a 5% appreciation in the Euro;
- finally, for positions on commodities, there would be no losses in both scenarios given the portfolio non-linearity.

Backtesting

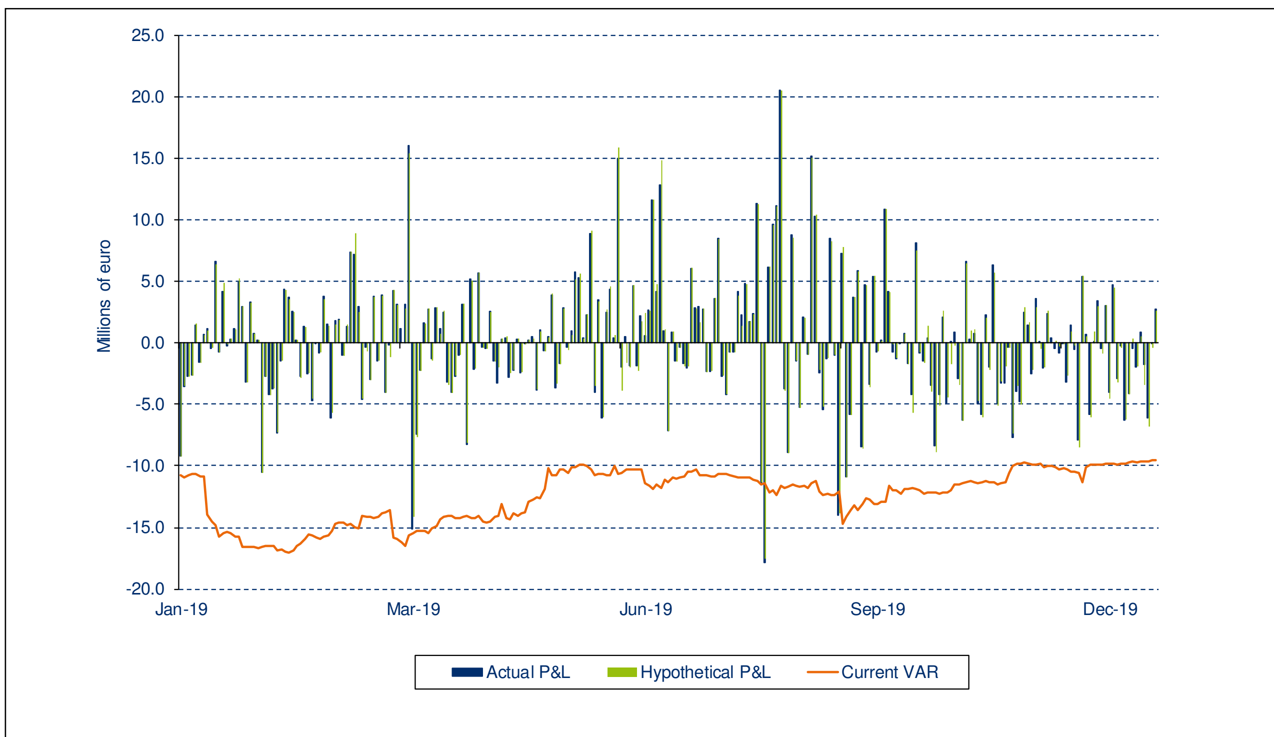
The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting: these include, for example, fees and financial costs of managing the positions that are regularly reported within the managerial area.

Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the internal model are represented by situations in which daily profits/losses based on backtesting highlight more than four occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual and hypothetical P&L series.

Comparison of VaR estimates with gains/losses (EU MR4 EBA GL 2016/11)

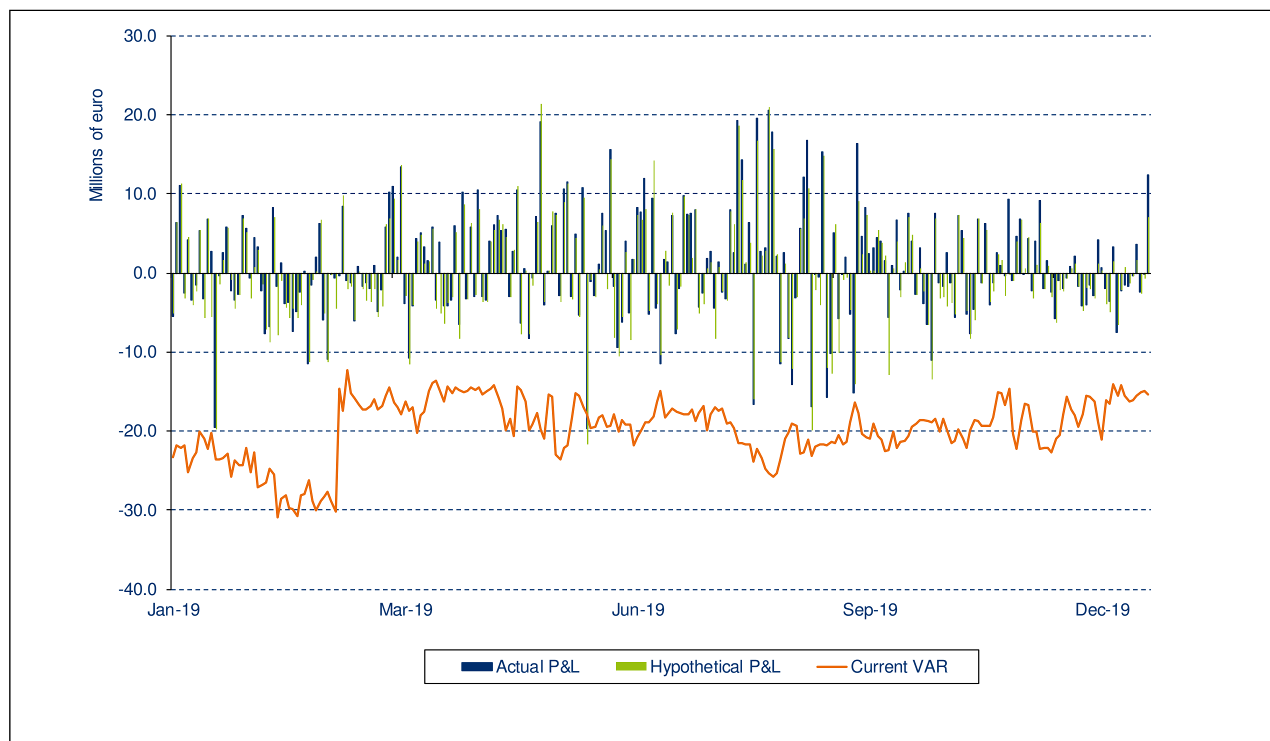
Backtesting in Intesa Sanpaolo

Two backtesting exceptions have been recorded during the last year. The breaches were caused by the volatility of the interest rate component in the trading book.



Backtesting in Banca IMI

Over the last twelve months, there was a single backtesting exception due to the interest rate volatility recorded in the second quarter of 2019.



Issuer risk

Issuer risk in the trading portfolio is analysed through level measures, i.e. in terms of mark to market, with exposures aggregated by rating class and sector, and is monitored through a system of operating limits based on both sector/rating classes and concentration indexes.

Breakdown of exposures by type of issuer for Intesa Sanpaolo and Banca IMI [(a)]

	TOTAL	OF WHICH					
		Corporate	Financial	Emerging	Covered	Government	Securitis.
Intesa Sanpaolo	39%	4%	1%	0%	7%	79%	9%
Banca IMI	61%	1%	36%	3%	6%	8%	46%
Total	**100%**	**2%**	**22%**	**2%**	**7%**	**36%**	**31%**

(a) In the Total column, the table reports the contribution to total exposure of Intesa Sanpaolo and Banca IMI to issuer risk, breaking down the contribution to exposure by type of issuer. The scope is the trading book subject to issuer credit limit (excluding Italian Government and AAA, own securities) , including cds (absolute value).

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for Intesa Sanpaolo and the securitisation and financial segment for Banca IMI.

Operating limits

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the following basic concepts of hierarchy and interaction.
The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

– first level limits (VaR): at the level of individual legal entities, these are approved by the Board of Directors, concurrently with approval of the RAF. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risk Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;

- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures;
- other significant limits: they have the objective of monitoring particular transactions (e.g. ceiling for transactions with issuer risk, Incremental Risk Charge limit).

Some of these limits may be covered by the RAF rules.

With regard to VaR limits, for the 2019 RAF, an overall limit was set for the trading component of 220 million euro, up 65 million euro compared to last year. This increase should be viewed against the backdrop of the reduction of 40 million euro in the Group's HTCS VaR limit (from 260 to 220 million euro) and is primarily aimed at concentrating market risks (financial portfolios) within Banca IMI.

With respect to the component sub-allocated to the organisational units, it may be noted that the use of the managerial VaR limit (held for trading component) for Intesa Sanpaolo averaged 63% in 2019, with a maximum use of 84%. For Banca IMI, the average VaR operating limit came to 74%, with a maximum use of 112% (this excess was managed in line with RAF Guidelines and the rules from the Market Risk Charter); it should be specified that, for Banca IMI, the managerial VaR limit also includes the HTCS component. By contrast, the use of VaR operating limits on the HTCS component (excluding Banca IMI) at year-end was 28%.

With regard to the use of the IRC limits, these amounted to 57.6% at year-end for Intesa Sanpaolo (limit of 230 million euro) and 30.7% for Banca IMI (limit of 430 million euro).

Incremental Risk Charge – Summary of 2019 performance

(millions of euro)

	average 4th quarter	4th quarter last one	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	130.8	128.6	119.7	136.5	140.7	128.0	158.8
Banca IMI	154.7	132.4	110.4	225.8	165.3	150.7	217.4
Total	**285.5**	**261.0**	**230.1**	**362.3**	**306.0**	**278.7**	**376.2**

FAIR VALUE, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUE OF FINANCIAL INSTRUMENTS

The framework of financial measurement at fair value is based on three pillars: fair value measurement according to the IFRS, independent price verification (IPV) and prudent value measurement. The latter are established by the CRR - Capital Requirement Regulation. The paragraphs below describe the methods applied by the Intesa Sanpaolo Group to implement and use those elements.

General fair value principles

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries, including the Insurance Companies.

The first part of the document, "General principles", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, is revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The second part, "Detailed methods", is reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.

The "Rules for the Measurement of Equity Investments", drawn up by the Group M&A and Equity Investments Head Office Department, govern the fair value measurement of unlisted equities and financial instruments with unlisted equities as their underlying.

In accordance with IFRS 9 regarding the rules for the classification and measurement of financial instruments, an instrument is measured at fair value based on the business model adopted or, if it does not pass the Solely Payment of Principal and Interest (SPPI) test, based on the contractual characteristics of its cash flows.

IFRS 13, which harmonises the measurement rules and the related disclosure, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.
The bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:
a. in the principal active market for the asset or liability;
b. in the absence of a major market, in the most advantageous active market for the asset or liability.
The entity is not required to conduct an exhaustive study of all possible markets to identify the major market or, in the absence of the major market, the most advantageous market, but must take into account all the reasonably available information. If there is no evidence to the contrary, the market that the entity normally operates in to sell the asset or transfer the liability is assumed to be the major market or the most advantageous market, if there is no major market. The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Intesa Sanpaolo Group generally operates.

The Group considers a market to be active when transactions in an asset or liability occur with sufficient frequency and volume to provide useful information for determining price on an ongoing basis. An instrument is considered listed on an active market if prices reflecting normal market transactions are promptly and regularly available from stock exchanges, brokers, intermediaries, principal-to-principal markets, listing services or authorised entities and such prices are representative of effective, regular market transactions.

In specific cases, regulated by the Fair Value Policy, and despite being quoted on regulated markets, relevant research is carried out to verify the significance of the official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, widening or increase of the bid-ask spread, reduction or total lack of market for new issuances, limited publicly-available information), analyses of the transactions or of the quoted prices must be carried out. A reduction in the volume or the level of activity alone may not indicate that the price of a transaction or the quoted price does not represent fair value or that the transaction in that market is not ordinary. If an entity determines that a transaction price or quoted price does not represent fair value (e.g., non-ordinary transactions) an adjustment to the transaction prices or listed prices is required if the entity uses those prices as the basis for fair value measurement and that adjustment may be significant with respect to the fair value as a whole.

General independent price verification principles

The Intesa Sanpaolo Group governs and defines the independent price verification process through the Group's Independent Price Verification Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries of the Banking Group.
The "Guidelines on Independent Price Verification", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The level I and II "Rules on Independent Price Verification" are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.
According to the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), Article 4, par. 1.70 and Article 105, par. 8, the Intesa Sanpaolo Group governs the Independent Price Verification (IPV) process, i.e. the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the managers of the business, at a frequency commensurate with the trading carried out and the nature of the market.
The Intesa Sanpaolo Group has set up an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013 (Supervisory regulations for banks), incorporated into the Integrated Internal Control System, which requires the risk management processes to be incorporated in the processes and methods for valuing the company activities, also for accounting purposes.
Within the IPV, the level I, II and III control functions have the following main responsibilities:

- the level I control function participates in the definition of the related methodological framework and carries out the level I implementations and controls, reporting the results to the business function and the level II control functions;
- the level II control function defines the methodological and control framework, ensures alignment with current regulations and consistency between the IPV controls, accounting valuations and additional valuation adjustments (AVA) (carried out, respectively, on the basis of the Fair Value Policy and the Prudent Valuation Policy); it supervises the level I controls and performs the level II controls;
- the level III control function carries out internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks.

The level I and II IPV controls are qualitative and quantitative controls and are distinguished according to the type of instruments subject to control. They are applied consistently to both the input data underlying the valuations and the valuations themselves, and ensure consistency between the management valuations and the accounting valuations carried out in the various systems. They are characterised by completeness and suitability of application, absence of overlaps, sequentiality and complementarity in execution. The IPV control instruments use, as far as possible, specific applications or IT procedures, which enable extensive data analysis on a daily basis. In particular:

- the level I controls are aimed at ensuring the validation of the market data entered into the systems and are based on an in-depth analysis of the data obtained from external providers. If the level I controls detect that certain thresholds have been exceeded for the data contained in the systems, or the data is not considered correct by the level I control functions, a comparison process (challenge) is activated with the involvement of the business function and the level II control functions, in line with the degree of complexity of the report.
- Level II controls are characterized by sequentiality and complementarity in execution with the level I controls and are designed to ensure alignment between management and accounting valuations, based on an in-depth analysis of consensus or counterparty data and, where these are not available, through the application of pricing models associated with the respective instruments.

The results of the IPV process are analysed, assessed and coordinated by the IPV Working Group, a technical body set up specifically for this purpose, with the aim of facilitating integration and comparison between the business functions and the control functions.

The fair value of financial instruments

The presence of official quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of the financial assets and liabilities measured at fair value.
If there is no active market, the fair value is determined using valuation techniques aimed, ultimately, at establishing the price the product would have had, at the measurement date, in an arm's length exchange motivated by normal business considerations. An entity must use valuation techniques that are appropriate for the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and reducing the use of unobservable inputs to a minimum. Such techniques include:

- reference to market values indirectly connected to the instrument to be valued and deduced from products with the same risk profile;
- valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the valuator.

The choice of the above methods is not optional, because they must be applied in hierarchical order: the availability of a price stated in an active market prevents the use of one of the other measurement approaches.

Inputs of the valuation techniques

The inputs are defined as the assumptions that market operators would have used to determine the price of the asset or the liability, including assumptions regarding risk, such as, for example, the risk relating to a particular valuation technique used to measure fair value or the risk relating to the inputs of the valuation technique. The inputs may be observable or unobservable.
Observable inputs are those produced using market data, such as publicly available information on operations or actual events, which reflect the assumptions that market operators would use in determining the price of the asset or the liability.

Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). In particular:

Fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date.

Fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs (the comparable approach).

Fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the valuation techniques rather than the valuation techniques themselves.

The attachment “Fair Value Hierarchy” of the Fair Value Policy defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.

For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.

The following are considered as level 1 financial instruments: contributed bonds (i.e. bonds for which the Composite Bloomberg Bond Trader is available from the Information Provider Bloomberg, or, alternatively, a price on the EuroMTS circuit, or at least three prices available from the Information Provider Bloomberg), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds (covered by EU directives), spot exchange rates, derivatives for which prices are available on an active market (for example, exchange traded futures and options) and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and in which assets classified as level 1 predominate among the assets invested in by the fund, as a percentage of the NAV, provided the level 3 instruments do not exceed a set threshold.

Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.

Such techniques include:

the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);

valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).

In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.

The following are measured using level 2 input models:

- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products (ABSs, HY CLOs, CDOs, etc.) for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters that can be gathered from the market;
- non-contributed equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, or using the "relative" valuation models based on multipliers;
- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed a set threshold.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

- some transactions in derivatives, bonds, or complex structured credit instruments measured using level 3 inputs;
- hedge funds in which the level 3 assets are above a set limit;
- private equity funds and real estate funds valued at NAV, with possible discounts;
- shareholdings and other equities measured using models based on discounted cash flows or using equity methods;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- loans with underlying equity risk, whose fair value is calculated based on the discounting of expected contractual flows.

With regard to the change in fair value level of financial assets and liabilities measured at fair value on a recurring basis, Intesa Sanpaolo adopts the following guidelines.

For debt securities, the transition from level 3 to level 2 occurs if the significant parameters used as inputs in the valuation technique are, as at the reporting date, observable on the market. The transition from level 3 to level 1 occurs when, as at the reporting date, it has been determined that an active market exists, as defined in IFRS 13. The transition from level 2 to level 3 occurs when, as at the reporting date, some of the significant parameters used in determining fair value are not directly observable on the market. The transition from level 2 to level 1 occurs when, as at the reporting date, the presence of an active market, as defined by IFRS 13, has been identified. The transition from level 1 to level 2 occurs when the presence of an active market, as defined by IFRS 13, has not been successfully identified and the significant parameters used as inputs for the measurement technique are not directly observable on the market, as at the reporting date.

For OTC derivatives, the initial choice of the level of fair value hierarchy depends on the degree of significance and observability of the parameters used to determine the risk-free component. Calculation of the component linked to the risk of insolvency of the counterparty/issuer, with unobservable parameters, may involve reclassification to level 3. In particular, this occurs when:

- the counterparty has a non-performing credit status and positive current exposure;
- with regard to the netting set, the ratio of the bilateral Credit Value Adjustment (bCVA) component and the total fair value is higher than a significant threshold and there is significant sensitivity to downgrading.

For non-contributed equity instruments, the change of the level occurs:

- when inputs observable on the market (e.g., prices defined based on comparable transactions on the same instrument between independent and informed counterparties) have become available during the period. In this case, Intesa Sanpaolo reclassifies from level 3 to level 2;
- when the directly or indirectly observable elements used as the basis for the valuation cease to exist, or when they are no longer up to date (e.g., comparable transactions that are no longer recent or multiples that are no longer applicable). In this case, Intesa Sanpaolo uses valuation techniques that use unobservable inputs.

Valuation of financial instruments

The valuation of financial instruments entails the following phases:

- identification of the measurement sources: for each asset class, the Fair Value Policy and Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- validation and processing of market data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.
- certification of valuation models (so-called “Model Validation”): this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement;
- periodic monitoring of the consistency of the valuation models over time (so-called “Model Risk Monitoring”): the monitoring consists of the ongoing checking of the adherence to the market of the valuation model and enables the timely discovery of any gaps, in order to initiate the necessary checks and measures.

Identification, certification and treatment of market data and the sources for measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Market Data Reference Guide, attached to the Fair Value Policy, has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. This market data may be both elementary and derived data. In particular, the Fair Value Policy establishes the cut-off procedures and the collection of the contribution sources deemed adequate for the measurement of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in measurements carried out for third parties under Service Level Agreements, entered into in advance. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources.

The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Financial and Market Risks Head Office Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Model Validation - Certification of valuation models

In general, all the valuation models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). More specifically, the internal certification process is activated when a new financial instrument that requires an adjustment to the existing valuation methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the valuation of existing contracts.

The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:
- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model's ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Financial and Market Risks Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official measurements. If the analysis identifies a significant Model Risk, which, however, is within the limits of the ability of the approach to correctly manage the related contracts, the Financial and Market Risks Head Office Department selects a supplementary approach to determine the appropriate adjustments to be made to the fair value, and validates the supplemented approach.

Model Risk Monitoring - Monitoring consistency of models over time

The performance of the valuation models that are validated and actually used is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:
- repricing of contributed elementary instruments: verifying the model's ability to replicate the market prices of all the quoted instruments considered to be relevant. An automatic repricing system for elementary financial instruments is used in the Bank's Front Office systems, which enables the systematic verification of any deviations between the model and the market;
- comparison with benchmarks: extensive use of data supplied by qualified external providers (e.g. Markit), which enables the contribution and obtainment of consensus valuations from leading market counterparties for interest rate instruments, equity instruments, credit instruments, and commodity instruments. This information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets, strikes, etc. The scope of available consensus data is constantly monitored and updated to cover the most significant exposures;
- comparison with market prices: verification based on prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

Where significant deviations are found, the impact on the respective portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified, as described in the paragraph below.

The Independent Price Verification (IPV) process supports and completes the process of identification, certification and treatment of market data.

Fair value adjustments
As governed by the Fair Value Policy, the valuation of a financial instrument may require the inclusion of additional valuation components, known as "fair value adjustments", which constitute an integral part of the fair value.
These are designed to take into account the valuation uncertainty or the difficulty in the disposal of specific financial positions, and may relate to a single financial instrument or to the net position for a particular risk factor. The adjustments may be calculated as add-ons to the valuation or included directly in the valuation. They are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.
In particular, fair value adjustments are envisaged for the following categories of valuation uncertainty.

- Uncertainty of input data: any valuation uncertainty related to the input data for the valuation (whether mid, bid or ask) is measured with respect to temporary or structural conditions on the markets or in relation to the size of the values held (in the case of concentration), and where necessary a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Illiquidity of the underlying positions or risk factors: similarly to the case above, the market bid-ask spread is measured and, where necessary, a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Model risk: this is based on the identification and use of variants of the same model or alternative models, with which to carry out comparison analyses aimed at quantifying the variability of the valuations (in particular any directionality of the price when the model changes) and the behaviour of the model in various market scenarios (stress tests). The quantification of the fair value adjustment is based, where possible, on easily comprehensible and measurable financial variables (e.g. vega, delta, correlation shift).
- Counterparty and funding risk: counterparty and funding risks, collectively referred to as XVA, include Bilateral Credit Value Adjustment (bCVA) and Funding Value Adjustment (FVA). The bCVA takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty), and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The bCVA depends on the probability of default and the Loss Given Default depends on the total exposure of the two counterparties. The latter must be calculated taking into account any counterparty risk mitigation agreements, particularly netting and collateralisation agreements. The Funding Value Adjustment (FVA), on the other hand, takes into consideration the funding risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

The management process for fair value adjustments is formalised in the Fair Value Policy with appropriate calculation methodologies on the basis of the different configurations of the points set out above, and is carried out in the most objective, consistent and systematic manner possible by the Risk Management function. The introduction and release of the fair value adjustments depends on the factors described above. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.
For new products, the decision to apply the adjustments is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.
The application of the adjustments is subject to an authorisation procedure that, above a certain warning threshold defined for specific cases, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

Fair value levels 2 and 3: valuation techniques and inputs used
The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds, and loans), on the valuation models used.

I. Valuation of non-contributed debt securities

The valuation of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:

- contributed and liquid debt securities of the same issuer;
- credit default swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case, the different seniority of the security to be priced is considered with regard to the issuer's debt structure.
In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.
When applying the spread for the pricing of the non-contributed instrument, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the "fair" credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.
Finally, if the instrument includes an optional component, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and any illiquidity of the underlying assets. This component is calculated based on the type of option, using the corresponding valuation models for derivatives mentioned below.

Similarly, Intesa Sanpaolo's credit spread for the Banking Group's financial liabilities designated at fair value is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market prices and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level.

Finally, measurement of the financial liabilities of the Insurance Companies designated at fair value (mainly liabilities associated with unit-linked investment contracts that do not present significant insurance risk) reflects the market value of the underlying assets, which are determined in application of the various methods described herein.

II. Valuation of loans

Loans are measured at fair value through contributions from info providers when available or by calculating the present value of expected future cash flows using an appropriate credit spread, identified starting from the following sources:

- contributed loans on the market;
- sector/rating-specific loan market curves;
- contributed securities of the same issuer;
- credit default swaps on the same reference entity;

In any case, the different seniority of the instrument to be priced is considered with regard to the issuer's debt structure.
When applying the spread for the pricing of the loan, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Moreover, where, in determining the credit spread of the loans, reference is made to the curves created through bonds, a Bond – Loan basis must be applied, to capture the different structure of the market, if any, and the different type of loan.
In order to consider the premium required by the market for illiquid and/or structured instruments, several adjustments are applied to the credit spread.
Loans with an underlying unlisted equity risk (which include financial instruments that, pursuant to IAS 32, cannot be classed as equity, e.g. loans convertible into shares) are usually measured by discounting the cash flows provided for by the contract. Since these are debt securities, the cash flows are normally discounted using a rate consisting of the sum of: a risk free rate, a spread deriving from the CDS or measured on listed securities or similar disbursements, and any additional risk premium.

III. Valuation of interest rate, foreign exchange, equity, inflation, commodity and credit derivatives

The fair value of an OTC derivative instrument is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether or not the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the counterparty and funding risk.

a. For CSA transactions with characteristics that reduce counterparty and funding risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and considering the rate of remuneration for the collateral as the discount rate for the future cash flows. Given that the rate of remuneration for the collateral is generally an overnight rate, and the corresponding discount curve is constructed based on the market prices of Overnight Indexed Swap (OIS) instruments, this approach is called "OIS discounting".
b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and funding risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument, and several additional valuation components related to the counterparty and funding risk premium, referred to jointly as XVA (see "Fair value adjustments").

For derivatives measurement, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.
Interest rate, foreign exchange, equity, inflation, commodity and credit derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific valuation models, fed by input parameters (such as, for example, yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.
The table below illustrates the main models used to measure OTC derivatives based on the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White, Bivariate lognormal, Rendistato, Hagan replication	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates,
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV), Local Volatility (LV)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Local Volatility, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Bifactorial Inflation	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward, Local Volatility, 2-Factors Jump Diffusion	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Loans	Net present Value, Black Model, Contingent CDS	Probability of default, Recovery rate.

As envisaged by IFRS 13, in determining fair value the Intesa Sanpaolo Group also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer's own credit risk.

IV. Valuation model for structured credit products

With regard to asset-backed securities (ABSs), if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs) or, where parameters cannot be observed, estimated parameters (level 3 inputs, where significant).
In this case, the cash flows are obtained from infoproviders or specialised platforms; the spreads are gathered from prices available on the market/market info provider, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures.
In the case of securitised high-yield loans to European corporate borrowers (CLO HY loans), valuation techniques call for calculation of the net present value of the expected cash flows, determined through specialised platforms, discounted using market spreads. When modelling expected future flows, account is taken of all contractual aspects of the HY CLO loans that may influence the waterfall, i.e. the distribution of cash flows from the collateral on the notes.
After this valuation, credit analyses on underlying assets are fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the HY CLO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point.

V. Valuation of non-contributed equities

Level 2 equities include:

- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions;
- equities measured using relative methods, based on multipliers: implied multiples in transactions in comparable listed or unlisted companies, within a time frame deemed sufficiently short with respect to the time of measurement and under constant market conditions (M&A multiples) or implicit multiples in the stock market prices of a sample of comparable companies (stock market multiples).

Level 3 equities for which the “relative” models described above are not applicable in significant terms, and, therefore, “absolute” valuation models are used, include:
- equities for which analytical models based on flows are used, which determine the value through estimates of the cash or income flows that the company is expected to generate over time, discounted using an appropriate rate based on the level of risk of the instrument;
- equities measured based on asset criteria such as NAV or Adjusted Net Asset Value (ANAV), which estimates the fair value of the various components of the assets of the investee.

Any values deemed representative of the fair value of the equity instrument deriving from contractual clauses (for example, options) are classified in level 2 or 3 of the fair value hierarchy, according to the observability of the inputs used in the valuation. Specifically, if the negotiation of the clause resulted in strike prices or pre-defined algorithms and multiples, the instrument is classified in level 2.
The cost criterion as estimate of fair value is used to a lesser extent, where none of the previous methods are applicable due to lack of sufficient information, and in the cases where there is a wide range of possible fair value measurements and it is not possible to identify the most appropriate value among these.
This case also includes Equity Instruments which, in accordance with IAS 32, have the characteristics to be considered as equities.

VI. The valuation of hedge funds

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to investments in funds made through the direct purchase of units and to funds managed through a Managed Account Platform (MAP), which ensures daily transparency of the instruments underlying the funds.
For the funds not managed via an MAP, the fair value corresponds to the Net Asset Value (NAV) provided by the fund administrator, to which an adjustment can be applied, deriving from a measurement process aimed at capturing the main risk factors that the management of the funds is subject to, which consist of the following two types:
- counterparty (broker) risk, i.e. the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, subject to the risk of default;
- illiquidity risk, i.e. the risk that the assets of the fund are illiquid due to the limited prices available or due to a lack of information on the assessment policies used by the fund.

These risks are assessed on the basis of the information contained in the documentation received periodically from the fund managers or administrators.
For the funds managed via an MAP, the Fair Value corresponds to the NAV provided by the fund administrator. For this type of fund, no adjustment is applied because it is considered that the infrastructure that guarantees the daily transparency enables sufficient control and monitoring of the underlying instruments to mitigate counterparty and illiquidity risk.
For both types of investment, the fair value hierarchy level is assigned based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

VII. The valuation of closed-end private equity and real estate funds

Closed-end private equity funds are usually valued using the latest Net Asset Value approved by the asset management company (published half yearly or quarterly), adjusted solely to take into account events that have not yet occurred at the reference date of the NAV, such as:
- a material transaction on a portfolio company;
- the bankruptcy or liquidation of a portfolio company;
- the alignment of any listed assets to current prices;
- call ups and distributions by the fund.

Closed-end real estate funds are valued using the last available Net Asset Value, adjusted for any subsequent call ups or distributions and, where considered necessary, applying a discount calculated using an internal model. Specifically, this model enables the calculation of a discount on the Net Asset Value based on five different variables (i) the size of the asset management company that manages the fund; (ii) the number of subscribers; (iii) the fund’s historical return; (iv) the fund’s return for the period; and (v) the level of debt. These variables are calibrated differently based on the business model and the fund’s resulting risk profile, distinguishing between core, value added and opportunistic funds.

Valuation of financial assets and liabilities not measured at fair value on a recurring basis

Finally, for asset and liability financial instruments measured at amortised cost, whose fair value is determined solely for the purposes of disclosure in the notes to the financial statements, the following is noted:
- the fair value of the bonds is calculated using the methods described above;
- the fair value measurement of the other medium- and long-term asset and liability financial instruments is performed by discounting future cash flows using the discount rate adjustment approach, which requires credit risk factors to be taken into account in the discount rate for future cash flows;
- for short-term assets and liabilities, the book value is assumed to be a reasonable approximation of fair value.

For more information see paragraph A.4.5.4 of Part A of the Notes to the Consolidated financial statements.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

(thousands of euro)

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	Favourable changes in FV	Unfavourable changes in FV
Securities and loans	Discounting Cash Flows	Credit Spread	-14	22	%	13,519	-9,329
Structured securities and loans	JD model	JD parameters	-26	7	%	1,349	-201
Structured securities and loans	Two-factor model	Correlation	-17	12	%	521	-400
ABSs	Discounting Cash Flows	Credit Spread	-10	48	%	4,425	-10,023
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-8,236	3,294
CLOs Cash	Discounting Cash Flows	Credit Spread	-1	60	%	416	-18,232
CLOs Cash	Discounting Cash Flows	Recovery rate	-25	10	%	-433	173
CLOs Cash	Discounting Cash Flows	CPR	-10	10	%	28	-28
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Loss Given Default Rate (LGD)	0	100	%	2,628	-2,901
OTC derivatives subject to FV adjustment for CVA/DVA	CVA	Probability of default (PD) based on counterparty's internal rating	B	BBB	Internal rating	104	-89
OTC Derivatives - Equity basket option	Black - Scholes model	Equity basket correlation	28.03	93.58	%	137	-137
OTC Derivatives - Equity Option	Black - Scholes model	Historical volatility	14.99	37.01	%	140	-124
OTC Derivatives - Equity Option	Marshall Olkin Model	Historical correlation	-4.10	73.37	%	535	-386
OTC Derivatives - Spread option on swap rates	Bivariate log-normal model	Correlation between swap rates	-79	97	%	1,240	-542

General prudent value principles

The framework of financial measurements is completed with the prudent valuation of financial instruments measured at fair value, which involves the calculation of additional valuation adjustments for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS.
The Intesa Sanpaolo Group governs and defines the prudent value measurement of financial instruments through the Group's Prudent Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all the consolidated subsidiaries of the Banking Group.
The "Guidelines on Prudent Valuation of Financial Instruments", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The "Rules on Prudent Valuation of Financial Instruments" are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates proposed by the Financial and Market Risks Head Office Department.
In accordance with the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), prudent valuation means the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed at capturing different sources of valuation uncertainty and ensuring the achievement of a suitable level of certainty in the measurement of the positions. The total value of the AVAs is deducted from the Common Equity Tier 1 capital, without impacts on accounting fair values.
The Intesa Sanpaolo Group, in line with criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions measured at fair value. In particular the following AVAs are considered:

- Market price uncertainty: this reflects the uncertainty of the market prices, calculated at valuation exposure level.
- Close-out costs: it reflects the uncertainty of the exit price calculated at valuation exposure level.
- Model risks: it considers the valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued.
- Unearned credit spreads: it reflects the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
- Investment and funding costs: it represents the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
- Concentrated positions: it reflects the uncertainty relating to the exit price of the positions defined as concentrated.
- Future administrative costs: it considers administrative costs and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied for the close-out costs AVAs for concentrated positions.
- Early termination: it considers the potential losses arising from non-contractual early terminations of customer trades.
- Operational risks: it considers the potential losses which may be incurred consequently to the operational risks connected to the valuation processes.

The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. Where possible, this value is determined on the basis of a distribution of exit prices observed on the market. In all the other cases, an expert-based approach is used, referring to the qualitative and quantitative information available.
The AVA value associated to the single position and to the single source of uncertainty in valuation thus corresponds to the difference between the prudent value and the fair value. The total AVA is obtained by aggregating the single AVAs, taking into account the corresponding weighting ratios.
The "Rules on Prudent Valuation of Financial Instruments" outline, for each AVA, the definition and interpretation, the scope of application, the input data and the detailed calculation method for each class of financial instrument.

Section 14 – Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

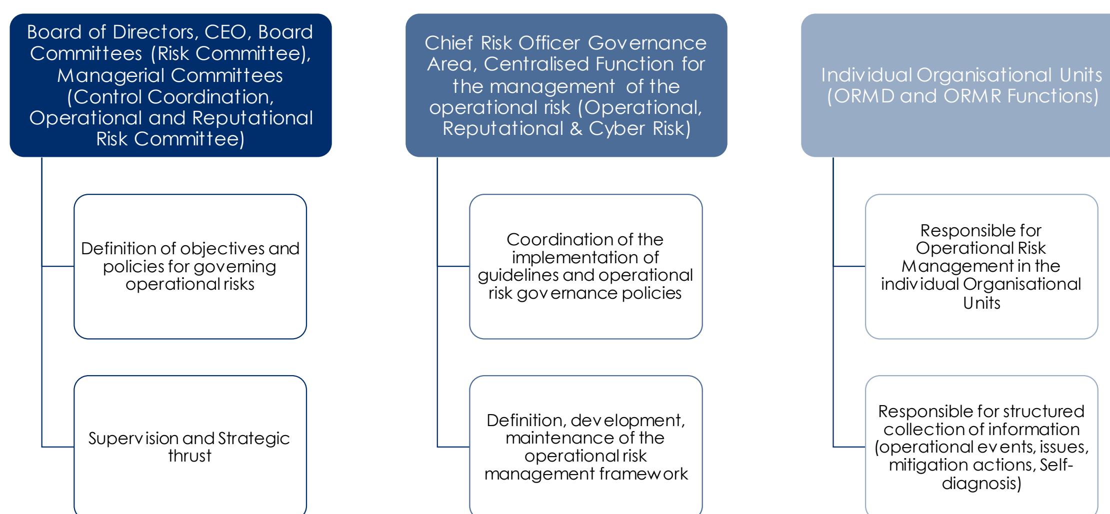
General operational risk management aspects

The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.

In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk management framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

Governance Model

The monitoring of the Intesa Sanpaolo Group's Operational Risk Management involves Bodies, Committees and structures that interact with different responsibilities and roles in order to create an effective operational risk management system that is closely integrated into the decision-making processes and the management of company operations.

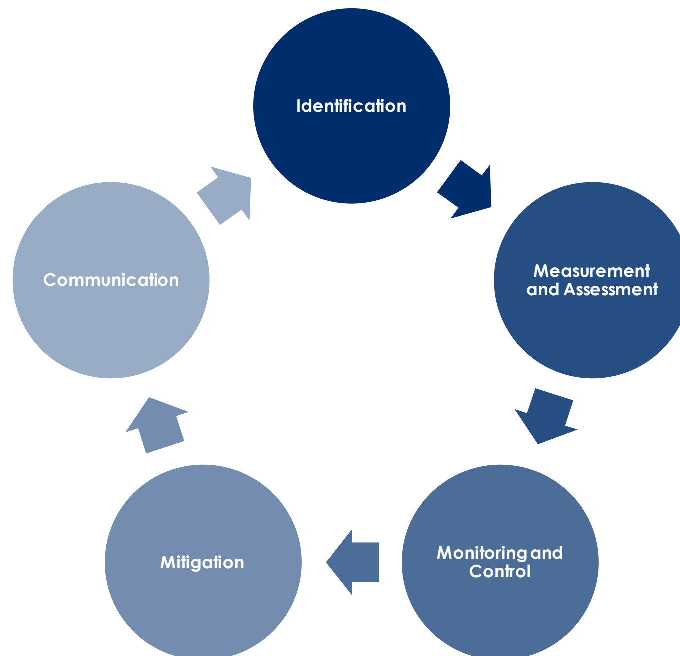


The Group has a centralised function within the Enterprise Risk Management Department for management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.

In compliance with current applicable regulations, the individual organisational units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these organisational units to be responsible for Operational Risk Management (structured collection of information relative to operational events, detection of issues and related mitigation actions, scenario analyses and evaluation of the business environment and internal control factors).
In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.

Group Operational Risk Management Process

The Intesa Sanpaolo Group's operational risk management process is divided into the following phases:



Identification

The identification phase involves:

- the structured collection and timely updating of the data on operational events, decentralised to the Organisational Units;
- the detection of issues;
- the performance of the annual Self-diagnosis process;
- the identification of potential operational risks arising from the introduction of new products and services, the launch of new activities and the entry in new markets, as well as risks associated with outsourcing;
- the analysis of operational events and indicators originating from external consortia (O.R.X. - Operational Riskdata eXchange Association);
- the identification of operational risk indicators (including ICT and cyber risks, compliance risks, etc.) by the individual Organisational Units.

Measurement and assessment

Measurement is the transformation, using a dedicated model, of the elementary information (internal and external operational loss data, Scenario Analyses and Business Environment Evaluations) into synthetic risk measures. These measures present an adequate detail to allow complete knowledge of the Group's overall risk profile and to allow the quantification of capital at risk for the Group's units.

Monitoring and control

The monitoring of operational risks consists of the analysis and structured organisation of the results obtained from the identification and/or measurement in order to verify and control the evolution over time of the exposure to operational risk (including ICT and cyber risk) and to prevent the occurrence of harmful events.

Mitigation

Mitigation actions, defined on the basis of the results of the identification, measurement and monitoring, consist of:

- the identification, definition and implementation of risk mitigation and transfer activities, in accordance with the established risk appetite;
- the analysis and acceptance of residual operational risks;
- the rationalisation and optimisation, from a cost/benefit perspective, of insurance coverage and any other forms of risk transfer adopted by the Group.

In this regard, in addition to benefiting from a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cyber crimes, fire and earthquake, and third-party liability), the Group has taken out an insurance coverage policy named Operational Risk Insurance Programme, in compliance with the requirements established by the regulations and to have access to the capital benefits provided for by the policy, which provides specific cover, significantly increasing the limits and transferring the risk of significant operational losses to the insurance market.
In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

Communication
Communication consists of setting up adequate information flows related to the management of operational risks between the various actors involved, in order to enable the monitoring of the process and provide adequate knowledge of the exposure to those risks.

The Self-diagnosis Process

The self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational risk by assessing the level of control of the elements characterising their business environment (Business Environment Evaluation, VCO) and estimating potential losses in the event of potentially harmful operational events (Scenario Analysis, SA). The assessment takes into account the critical issues identified and the operational events actually occurred. This assessment does not replace the specific risk assessments carried out by the specialist and control functions within the scope of their responsibilities (e.g. assessments carried out by the Chief Audit Officer, by the Manager responsible for preparing the Company's financial reports and by the Chief Compliance Officer), but allows the assessments that emerge during the process to be brought to the attention of the functions concerned and to be discussed with the Head of the Organisational Unit concerned.
The detection of critical issues enables the identification and definition of suitable mitigation actions, whose implementation is monitored over time to reduce the exposure to operational risk.

ICT and cyber risk

ICT risk means the risk of incurring economic, reputational and market share losses, in relation to the use of information and communication technology. In the integrated representation of business risks for prudential purposes, this type of risk is considered, according to the specific aspects, under the operational, reputational and strategic risks and includes the risk of violation of the confidentiality, integrity or availability of the information.
In line with the methodological framework established for the governance of corporate risks and, in particular, for operational risks, the Intesa Sanpaolo Group's ICT Risk management model has been developed with a view to integrating and coordinating the specific expertise of the structures involved.
Every year, the Technical Functions (e.g. ICT Head Office Department, IT functions of the main Italian and international subsidiaries) and the Cybersecurity Function identify the level of exposure to ICT risk (and to the Information Security risk included within it) of the information technology assets managed through the top-down assessment of the level of management of the relevant Risk Factors. In addition to this analysis, carried out for all the application areas and company processes, when there are situations that may modify the overall level of risk or in the case of innovation projects or changes to significant components of the ICT System, the Technical Functions and the Cybersecurity Function identify the level of exposure to ICT risk of the specific components of the ICT system.
This assessment is accompanied, as part of the Self-diagnosis process, by the bottom-up assessment carried out by the individual Group Organisational Units, which analyse their own exposure to ICT risk and provide an opinion on the level of management of the risk factors relevant for this purpose (e.g. relating to the adequacy of the software for the Unit's operations, etc.).
The information from the processes established to identify and assess the exposure to ICT risk (for procedures being implemented or related to changes to significant components of the IT system) together with the analysis and prevention carried out by the Cybersecurity function are also used to identify the main areas of exposure and determine the cyber risk scenarios.

Methods for calculating Operational Risk

For regulatory purposes, the Group adopts the Advanced Measurement Approach (below also AMA or internal model), in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement.
The capital requirement amount to 1,697 million euro as of 31 December 2019, up from 1,414 million euro of 31 December 2018. This increase was mainly due to the changes made to the AMA model in compliance with Delegated Regulation (EU) 2018/959.

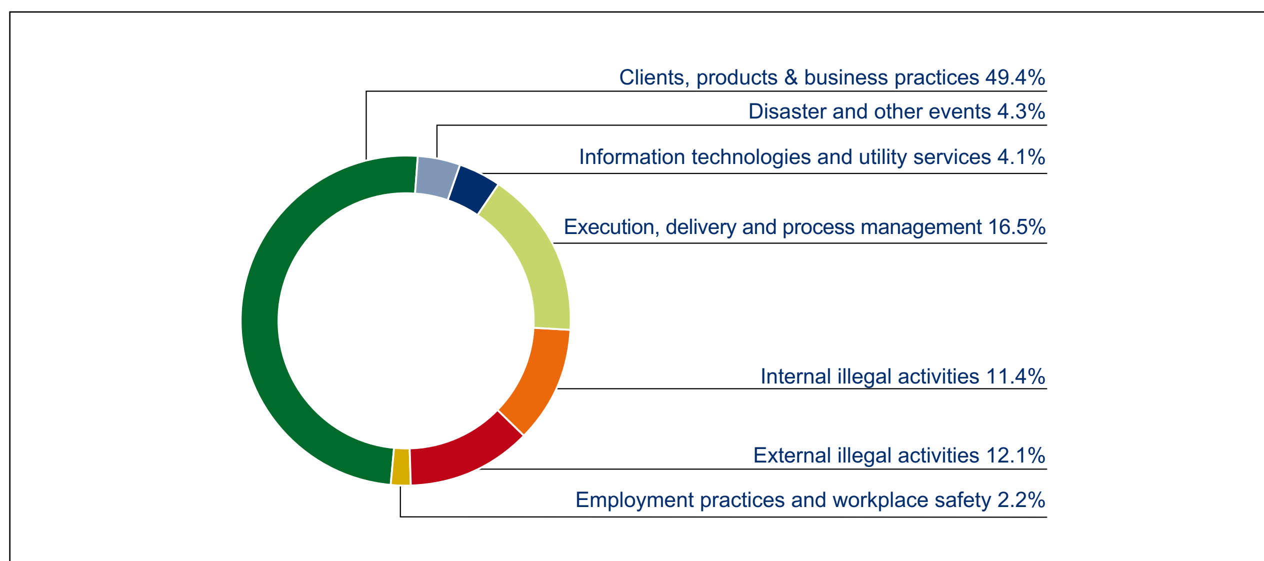
Breakdown of capital requirements by calculation approach

(millions of euro)

Approach	Capital requirement
Advanced Measurement Approach (AMA)	**1,491**
Traditional Standardised Approach (TSA)	**167**
Corporate Finance	20
Trading & Sales	36
Retail Banking	30
Commercial Banking	56
Payment & Settlement	14
Agency Services	2
Asset Management	7
Retail Brokerage	2
Basic Indicator Approach (BIA)	**39**
Total as at 31.12.2019	**1,697**
Total as at 31.12.2018	**1,414**

The AMA approach is adopted by Intesa Sanpaolo SpA and the main banks and companies in the Corporate and Investment Banking, Private Banking and Asset Management Divisions, as well as by VUB Banka, VUB Leasing and PBZ Banka.
The internal model is designed to combine all the main sources of quantitative information (operational losses: internal and external events) and qualitative information (Self-diagnosis: Scenario Analysis and Business Environment Evaluation).
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case). It is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%. The methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the operational environment (VCO), to take into account the effectiveness of internal controls in the various Organisational Units.
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.
The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by event type.

Breakdown of capital requirement (Advanced Measurement Approach - AMA) by type of operational event



Section 15 - Equity Exposures: disclosures for positions not included in the trading book

Qualitative disclosure

Exposure in equity instruments not included in the trading book: differentiation of exposures on the basis of the objectives pursued

Investments in equity instruments present in the Intesa Sanpaolo Group - except for those consolidated on a line-by-line basis - fall into a number of categories, summarised as follows:

- Banking and Financial;
- Investments in Non-Financial Companies:
  - Functional to the Group's core business: they contribute directly or indirectly to the implementation of banking, retail and corporate activities, also within and through the "new professional areas";
  - Venture Capital: investments in innovative start-ups and SMEs, with a focus on fintech, open banking, circular economy and insurance, and functional to the development of new technologies;
  - Debt to Equity: strictly linked to the loans from which they derive, managed with a view to recovering of the loan and then selling the investment (Equity investments in companies in temporary financial difficulty and for credit recovery);
  - Others: Material (mainly infrastructure, real estate and/or deriving from the previous merchant banking business) and Minor Investments (in amounts of less than 1 million euro, mainly of local interest or undergoing voluntary liquidation/bankruptcy proceedings);
- Funds: which differ in terms of strategy and product type (Private Equity, Venture Capital, Real Estate, Infrastructure and Institutional).

Recognition and valuation of the equity instruments not included in the trading book

The equity exposures not included in the trading book are classified under the balance sheet items Investments in associates and companies subject to joint control, Financial assets measured at fair value through profit or loss, and Financial assets measured at fair value through other comprehensive income in accordance with the IAS/IFRS.

For an explanation of the methods for the recognition and measurement of the equity instruments not included in the trading book, please refer to Part A of the Notes to the consolidated financial statements - Accounting Policies, which sets out, for each individual financial statement caption, the accounting criteria applied by the Intesa Sanpaolo Group (A.2 - Main financial statement captions). In particular, paragraphs 1, 2 and 5 set out the criteria for classification, recognition, measurement and derecognition for "Financial assets measured at fair value through profit or loss (FVTPL)", "Financial assets measured at fair value through other comprehensive income (FVOCI)" and "5. Investments in associates and companies subject to joint control" respectively; point 16 "Other information" shows the methods for determining impairment losses for investments. For details on the criteria for impairment testing of investments in associates and companies subject to joint control, reference should be made to Part B of the Notes to the consolidated financial statements (Section 7 - Investments in associates and companies subject to joint control). Lastly, for a description of the valuation techniques used to calculate fair value, see the discussion of this subject in the section on market risks of this document.

Quantitative disclosure

The tables below show the breakdown of the equity exposures according to their book classification. The figures represent the banking group exposures shown in the Group consolidated financial statements and exclude the values of all investments in fully consolidated companies.

Non-trading book: on-balance sheet equity exposures (*)

(millions of euro)

Exposure type/values	31.12.2019							
	Book value		Fair value		Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet	
	Level 1	Level 2/3	Level 1	Level 2/3	Gains	Losses	Plus (+)	Minus (-)
A. Investments in associates and companies subject to joint control (**)	-	1,240	-	X	81	-28	X	X
B. Financial assets measured at fair value through other comprehensive income	611	2,448	611	2,448	X	X	309	-134
C. Other financial assets mandatorily measured at fair value	2	274	2	274	18	-1	X	X
Exposure type/values	**31.12.2018**							
	Book value		**Fair value**		**Realised gains/losses and impairments**		**Unrealised gains/losses recognised in the balance sheet**	
	Level 1	Level 2/3	Level 1	Level 2/3	Gains	Losses	Plus (+)	Minus (-)
A. Investments in associates and companies subject to joint control (**)	-	943	-	X	198	-21	X	X
B. Financial assets measured at fair value through other comprehensive income	568	2,566	568	2,566	X	X	222	-24
C. Other financial assets mandatorily measured at fair value	2	274	2	274	278	-14	X	X

(*) This table provides figures pertaining exclusively to the Banking Group.

(**) For Investments, the fair value refers to listed investments only (level 1).

Price risk generated by minority stakes in listed companies, mostly held in the HTCS (former AFS) category and measured in terms of VaR, recorded an average level during 2019 of 60 million euro (52 million euro at the end of 2018), with maximum and minimum values of 75 million euro and 43 million euro respectively, with the latter coinciding with the value at the end of 2019.

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of ±10% for the abovementioned quoted assets recorded in the HTCS category.

Non-trading book: impact on shareholders' equity of price risk as at 31 December 2019

(millions of euro)

		1st quarter 2019 impact on shareholders' equity at 31.03.2019	2nd quarter 2019 impact on shareholders' equity at 30.06.2019	3rd quarter 2019 impact on shareholders' equity at 30.09.2019	4th quarter 2019 impact on shareholders' equity at 31.12.2019	Impact on shareholders' equity at 31.12.2018
Price shock	10%	59	56	52	50	39
Price shock	-10%	-59	-56	-52	-50	-39

Non-trading book: on-balance sheet equity exposures - weighted values

(millions of euro)

	Weighted exposure	
	31.12.2019	**31.12.2018**
IRB approach	**30,919**	**13,300**
Equity exposures (Simple risk weight approach)	25,409	1,649
- Private equity exposures in sufficiently diversified portfolios	-	-
- Exchange-traded equity exposures	259	62
- Other equity exposures	25,150	1,587
Equity exposures (PD/LGD approach)	4,004	3,862
Equity exposures (Exposures subject to fixed weighting factors)	1,506	7,789
Standardised approach	**2,460**	**2,719**

For further details regarding the geographical breakdown, and the concentration per sector or type of counterparty, of the equity exposures, see Section 6 of this document.

Section 16 - Interest rate risk on positions not included in the trading book

Qualitative disclosure

Interest rate risk

Market risk originated by the banking book arises primarily in the Parent Company and the main Group companies involved in retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mainly held by the Parent Company.
The internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:

- repricing risk: risk arising from maturity mismatches (for fixed-rate positions) and interest rate revision date mismatches (for floating-rate positions) of financial items due to parallel movements in the yield curve;
- yield curve risk: risk arising from maturity mismatches and interest rate revision date mismatches due to changes in the inclination and shape of the yield curve;
- basis risk: risk arising from imperfect correlation in the adjustment of lending and deposit rates of floating-rate instruments which may differ according to indexing parameters, rate revision method, indexing algorithm, etc. This risk arises as a result of non-parallel changes in market rates;
- option risk: risk due to the presence of automatic options or options that depend on the behaviour of the counterparty to the assets, liabilities and off-balance sheet instruments of the Group.

The following metrics are used to measure the interest rate risk generated by the banking book:

1) shift sensitivity of economic value (ΔEVE);
2) net interest income:
   - shift sensitivity of net interest income (ΔNII);
   - dynamic simulation of net interest income (NII);
3) *Value at Risk (VaR).*

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet).
In measurements, capital items are represented based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise net interest income both in absolute terms and in terms of variability over time;
- for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows.
- the cash flows used for both the contractual and behavioural profile are calculated at the contractual rate or at the FTP;

The models adopted for core deposits and for prepayment are subject to periodic backtesting. This backtesting is duly indicated in the Model Change documents and has been duly approved by the Group Financial Risk Committee.

To determine the present value, a multi-curve system is adopted which has different discounting and forwarding curves according to the type of instrument and the tenor of its indexing. For the determination of shift sensitivity, the standard shock applied to all the curves is defined as a parallel and uniform shifting of +100 basis points of the curves.
In addition to the standard +100 scenario, the measurement of the economic value (EVE) is also calculated based on the 6 scenarios prescribed by the BCBS document and based on historical stress simulations aimed at identifying worst- and best-case scenarios.

The shift sensitivity of net interest income quantifies the impact on short-term interest income of a parallel, instantaneous and permanent, shock to the interest rate curve.
Margin sensitivity is measured using a method that enables the estimation of the expected change in net interest income as a result of a shock to the curves produced by items subject to interest rate revision within a gapping period set at 12 months from the analysis date.

This measure highlights the effect of variations in market interest rates on the net interest income generated by the portfolio being measured, on a constant balance sheet basis, excluding potential effects resulting from the new operations and from assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.
To determine changes in net interest income (ΔNII), standard scenarios of parallel rate shocks of +/-50 basis points are applied, in reference to a time horizon of twelve months.
Dynamic margin simulation analyses are also conducted that combine shifts in yield curves with changes in base and liquidity differentials, as well as changes in customer behaviour in different market scenarios.

The changes in net interest income and economic value are subject, at consolidated level and at individual Group company level, to monthly monitoring of compliance with the limits and sub-limits approved by the Group Financial Risk Committee (GFRC).
To this end, the measurements are presented taking into account the structuring for the verification, in terms of ceilings and sub-ceilings, time buckets (short, medium and long term), company and currency.
The scenarios used for the verification of the limits are:

- for the control of the exposure in terms of ∆EVE: instantaneous and parallel shock of +100 bps;
- for the control of the exposure in terms of ∆NII: instantaneous and parallel shock of ±50 bps.

Value at Risk is calculated as the maximum potential loss in the portfolio’s market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR). Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

Quantitative disclosure

Interest rate risk

In 2019, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, averaged 594 million euro, with a minimum value of 233 million euro and a maximum value of 1,226 million euro, reaching a figure of 394 million euro at the end of 2019 (1,143 million euro at the end of 2018), almost entirely concentrated on the euro currency.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 939 million euro, -1,037 million euro and 1,837 million euro, respectively, at the end of 2019. The last of these figures was up on the 1,759 million euro recorded at the end of 2018.

Interest rate risk, measured in terms of VaR, averaged 172 million euro in 2019, with a maximum value of 282 million euro and a minimum value of 74 million euro, reaching a figure of 227 million euro at the end of 2019 (91 million euro at the end of 2018).

Foreign exchange risk expressed by equity investments in foreign currency (banking book) and measured in terms of VaR averaged 43 million euro in 2019, with a maximum value of 54 million euro and a minimum value of 35 million euro, with the latter coinciding with the value at the end of 2019 (42 million euro at the end of 2018).

Price risk generated by minority stakes in listed companies, mostly held in the HTCS (former AFS) category and measured in terms of VaR, recorded an average level during 2019 of 60 million euro (52 million euro at the end of 2018), with maximum and minimum values of 75 million euro and 43 million euro respectively, with the latter coinciding with the value at the end of 2019.

The table below shows the changes in the main risk measures.

(millions of euro)

Risk Measures	2019			31.12.2019	31.12.2018
	Average	Minimum	Maximum		
Shift Sensitivity of the Economic Value +100 bp	594	233	1,226	394	1,143
Shift Sensitivity of Net Interest Income -50bp	-1,017	-952	-1,072	-1,037	-928
Shift Sensitivity of Net Interest Income +50bp	967	914	1,009	939	886
Shift Sensitivity of Net Interest Income +100bp	1,887	1,786	1,964	1,837	1,759
Value at Risk - Interest Rate	172	74	282	227	91
Value at Risk Cambio	43	35	54	35	42
Value at Risk - Equity investments in listed companies	60	43	75	43	52

The reduction in the economic value in the event of a 200-bps change in interest rates stayed within the limits of the alert threshold set by the prevailing Supervisory provisions (20% of Own Funds).

Section 17 - Encumbered and unencumbered assets

Qualitative disclosure

The total book value of the "encumbered" assets and the reused guarantees received, compared to total assets and the collateral received, measures the "level of encumbrance" on the assets, i.e. the so-called "asset encumbrance ratio". The Supervisory Authorities, Rating Agencies and investors recently increased the attention to the risk of asset encumbrance, which may lead to greater subordination of unsecured creditors and, in the event of an increase in the asset encumbrance ratio, also to greater potential liquidity risks in case of stress.
In the course of its operations, the Intesa Sanpaolo Group carries out a number of transactions involving the encumbrance of own assets or assets received as collateral. Among the main transactions of this type are:

- repurchase agreements and securities lending;
- assets used against covered bond issues;
- underlying assets of securitisation structures, in which the financial assets have not been derecognised;
- collateralisation agreements such as, for example, collateral given in respect of the market value of derivatives;
- collateralised financial guarantees;
- collateral deposited with clearing systems, with central counterparties (CCPs) and other infrastructure institutions as a condition for access to the service (including incremental and initial margins);
- instruments given as collateral in several respects, for funding from central banks or multilateral development banks.

These types of activities are carried out either to allow the Group to access forms of funding considered favourable at the time a transaction is finalised or because the provision of collateral is the standard condition to access specific markets or types of activities (for example, in transactions with central counterparties). In particular, the guarantees provided in connection with the refinancing operations at the European Central Bank amount to approximately 67 billion euro for the owned assets recognised and to approximately 0.5 billion euro for the assets not recognised in the financial statements.

The transactions involving encumbered assets are carried out mainly by the Parent Company or by Banca IMI, also as regards the settlement and trading of derivative contracts carried out within the framework of the centralised services provided also to the other banks of the Group. Moreover, the Parent Company enters into repurchase agreements with Banca IMI, as per normal market practices.

For information on the issue of covered bonds, please see the Notes to the consolidated financial statements, under the specific point of Part E: "Covered bond transactions".

The Intesa Sanpaolo Group measures the level of encumbrance of its assets by adopting the rules set by the "Implementing Technical Standards" published by the European Banking Authority (EBA); starting from 31 December 2014 this information is subject to specific reporting to the Supervisory Authorities.
The scope of consolidation used to define the eligibility of the EHQLA and HQLA liabilities used for disclosure on encumbered assets and the application of liquidity requirements is the entire scope of consolidation of the companies belonging to the Banking Group, for both types of disclosure.
The share of encumbered assets is subject to periodic disclosure to the Board of the Parent Company, which has also established an alert threshold when defining the Risk Appetite Framework (RAF), with the aim of preventing any excessive increase in the risk connected to the share of encumbered assets.
At the same time, considering this measure, the Group monitors the unencumbered assets by assessing both the Reserves already promptly available, and the availability of new assets usable in the short-term, according to the Contingency Funding Plan and Recovery Plan.

Quantitative disclosure

Based on the regulations issued by the EBA as a result of the provisions of the CRR (Art. 443), the institutions must indicate the amount of encumbered or unencumbered assets by type of activity. "Encumbered" assets are on-balance sheet assets that have been provided as pledge or sold and not derecognised, or otherwise encumbered, as well as the guarantees received that meet the conditions for recognition in the financial statements of the transferee. The information published on the subject of encumbered and unencumbered assets is calculated based on median values of quarterly data on a rolling basis during the previous twelve months.

Encumbered and unencumbered assets as at 31 December 2019

(millions of euro)

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	Total	*of which notionally eligible EHQLA and HQLA*	**Total**	*of which notionally eligible EHQLA and HQLA*	**Total**	*of which EHQLA and HQLA*	**Total**	*of which EHQLA and HQLA*
Assets of the reporting institution	187,692	*40,528*	X	*X*	486,290	*48,730*	X	*X*
Equity instruments	150	*130*	X	*X*	6,480	*247*	X	*X*
Debt securities	48,900	*40,397*	50,175	*40,104*	67,843	*48,468*	66,302	*47,616*
of which: covered bonds	498	*441*	508	*441*	2,319	*1,904*	2,313	*1,906*
of which: asset-backed securities	1,449	-	1,714	-	2,774	*5*	2,455	*5*
of which: issued by general governments	42,057	*39,190*	43,144	*38,890*	45,991	*41,436*	44,802	*40,559*
of which: issued by financial corporations	4,847	*932*	5,122	*940*	18,500	*4,510*	18,268	*4,525*
of which: issued by non-financial corporations	1,198	*454*	1,187	*454*	2,981	*1,879*	3,160	*1,859*
Other assets	131,843	-	X	*X*	412,515	*38,676*	X	*X*
of which: loans on demand	10,295	-	X	*X*	40,359	*38,676*	X	*X*
of which: loans other than loans on demand	122,127	-	X	*X*	296,483	-	X	*X*
of which: other	132	-	X	*X*	78,555	-	X	*X*

Access to the secured market represents an important source of medium/long-term funding (Covered Bonds, ABS and TLTRO). With specific regard to Covered Bonds programmes, the funding obtained through such programmes represents, on average, 12% of annual wholesale funding.

As mentioned in the previous paragraph, the most important forms of encumbrance on the Group's part concern: repurchase transactions, TLTRO, derivative instruments, covered bonds, ABS, loans eligible with the Bank of Italy (Abaco), and collateralised loan agreements concluded with supranational entities.

The maximum level of overcall for the Covered Bonds programmes is 7.53%. In any case, the Bank always maintains a higher level of overcall in order to hedge any negative events that could impact the programme's underlying assets. The Bank is party to guarantee contracts with supranational entities; should certain events occur, it may be necessary to increase the amount of collateral supplied to those entities.
At the end of 2019, unencumbered assets - net of the financial statement components that cannot be committed - amounted to approximately 418 billion euro (at book value), 118 billion euro of which were immediately available for use as highly liquid reserves and/or reserves eligible with Central Banks.
As described previously herein, the Intesa Sanpaolo Group operates primarily in euro. There are encumbered assets denominated in US dollars, mainly referring to short-term repurchase agreement.

Information on the guarantees received by type of assets is also provided hereunder.

Guarantees received as at 31 December 2019

(millions of euro)

	Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
	Total	*of which notionally eligible EHQLA and HQLA*	Total	*of which EHQLA and HQLA*
Collateral received by the reporting institution	26,067	*20,862*	30,784	*23,524*
Loans on demand	-	-	-	-
Equity instruments	565	*512*	126	*51*
Debt securities	25,233	*20,409*	28,227	*23,478*
of which: covered bonds	-	-	114	-
of which: asset-backed securities	2,019	*36*	1,068	*96*
of which: issued by general governments	21,008	*20,373*	24,891	*23,395*
of which: issued by financial corporations	4,007	*13*	2,588	*16*
of which: issued by non-financial corporations	59	*25*	93	*61*
Loans and advances other than loans on demand	-	-	657	-
Other collateral received	282	-	1,785	-
Own debt securities issued other than own covered bonds or asset-backed securities	294	-	27,804	-
Own covered bonds and asset-backed securities issued and not yet pledged	X	*X*	8,623	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	214,985	*61,390*	X	*X*

Finally, the details of liabilities associated with the received encumbered assets or guarantees are stated below.

Sources of encumbrance as at 31 December 2019

(millions of euro)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	154,986	183,556
Derivatives	16,644	15,732
of which: Over-The-Counter	16,644	15,732
Deposits	119,404	146,206
Repurchase agreements	50,246	51,033
of which: Central banks	312	312
Collateralised deposits other than repurchase agreements	69,158	94,879
of which: Central banks	59,878	83,432
Issued debt securities	16,410	19,488
of which: issued covered bonds	16,410	19,488
of which: issued Asset-backed securities	-	-

Section 18 - Leverage ratio

Qualitative 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.

Description of the processes used to manage the risk of excessive leverage

The Intesa Sanpaolo Group shares the regulatory indication of monitoring and containing a leverage ratio to integrate the capital ratios based on risk, and acknowledges their usefulness in order to limit the excessive accumulation of leverage in the banking system, and especially to provide supplementary monitoring against model risk and the possible related measurement errors.
Accordingly, the Leverage ratio is given a high level of attention and, as such, it has been selected as a reference measurement criterion within the scope of the Risk Appetite Framework for the monitoring of the overall risk and, more specifically, of the Group's capital adequacy. In this regard, it is noted that the governance of the Risk Appetite Framework includes particularly strict escalation mechanisms in the event of breach of the Group's leverage limit, with the requirement for the Board of Directors to rapidly approve a remediation plan that can have a maximum duration of one year.
In line with the previous year, the 2019 RAF update confirmed both the choice to define its limit by adding a stress buffer to the regulatory minimum of 3% and the decision to also set an early warning threshold quantified based on an additional prudential buffer. In line with the limit established at Group level, the individual leverage ratio limits were also confirmed for the subsidiaries Banca IMI, Fideuram-ISPB Group and for the Group's international subsidiary banks (both those belonging to the International Subsidiary Banks Division and those within the scope of the Corporate & Investment Banking Division). In this regard, it is noted that the governance of the Risk Appetite Framework establishes specific escalation mechanisms for the Group companies, in the event of breach of the individual leverage limits, that not only require the Body with strategic supervision function of the company concerned to rapidly approve a remediation plan that can have a maximum duration of one year, but also the obligation to involve the competent Parent Company structures.
Compliance with these limits is monitored in the Risks Tableau de Bord and reported to the Risk Committee and the Board of Directors on a quarterly basis.
Lastly, it is noted that the Group has one of the best leverage ratios in comparison to the main European banking groups and, in view of the operations carried out, the management of the risk of excessive leverage, although it is subject to the utmost attention from Top Management, is not a significant constraint for the Group's strategic planning.

Description of the factors that had an impact on the Leverage ratio during the period

During the year, both aggregates that determine the leverage ratio recorded increases. In particular:

- the increase in capital level (Tier 1 capital) is substantially attributable to the effects deriving from the application, starting from the third quarter of 2019, of the Danish Compromise, which entails the risk weighting of the insurance investments instead of their deduction. See the Section relating to Own Funds of this document for a thorough analysis of the breakdown of the Tier 1 capital;
- the increase in Total exposure was due to:
  a) a rise in on-balance sheet exposures (excluding SFTs and derivatives), mainly attributable to the increase in exposures to monitored intermediaries, businesses and other assets of the trading book, partially offset by a decrease in exposures treated as sovereign issuers;
  b) an increase in off-balance sheet transactions;
  c) and fewer deductions of asset amounts deducted in determining Tier 1 capital, also due to the effect of the application of the Danish Compromise.

  It should also be noted that – again with an incremental effect for the overall Exposure - the methods for determining the measurement of the overall exposure of the leverage ratio during the transitional period, following a Q&A published in 2019, were extended to exposures subject to internal models (IRB) for the purposes of credit risk, thus adopting the same scaling factor already applied to standard exposures in line with the aforementioned regulation.

  Exposures in derivatives and SFTs bucked the overall trend.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 31 December 2019 is presented below, disclosed in accordance with the regulatory principles of the CRR and set out according to the provisions of Implementing Regulation (EU) 2016/200.

The ratio is expressed in percent form and is subject to the regulatory minimum threshold of 3% (the Basel Committee reference value). The Leverage ratio is indicated according to the transitional provisions.

Quantitative disclosure

LRCom table – Leverage ratio common disclosure

The table shows the Leverage ratio as at 31 December 2019 and the breakdown of the total exposure into the main categories, according to the provisions of Article 451(1) (a, b, c) of the CRR.

(millions of euro)

	On-balance sheet exposures (excluding derivatives and SFTs)	31.12.2019	31.12.2018
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	581,331	561,448
2	(Asset amounts deducted in determining Tier 1 capital) - transitional regime	-10,440	-13,872
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**570,891**	**547,576**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	9,998	9,128
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	13,197	13,801
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-16,311	-8,826
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	55,625	51,323
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-53,276	-48,406
11	**Total derivatives exposures (sum of lines 4 to 10)**	**9,233**	**17,020**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	36,913	44,110
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-9,173	-10,135
14	Counterparty credit risk exposure for SFT assets	4,454	5,976
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**32,194**	**39,951**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	236,495	228,568
18	(Adjustments for conversion to credit equivalent amounts)	-166,032	-164,553
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**70,463**	**64,015**
	(Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19a	(Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	-	-
	Capital and total exposure measure		
20	**Tier 1 capital**	**45,638**	**42,097**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**682,781**	**668,562**
	Leverage ratio		
22	**Leverage ratio**	**6.68%**	**6.30%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-	-

LRSum table - Summary reconciliation of accounting assets and leverage ratio exposure

The table shows the reconciliation between total exposure (the denominator of the ratio) and the information disclosed in the financial statements in accordance with the provisions of Article 451 (1) (b) of the CRR.

(millions of euro)

	Table of synthetic composition	31.12.2019	31.12.2018
1	Total assets as per published financial statements	816,102	787,721
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-167,852	-148,654
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 (CRR)	-	-
4	Adjustments for derivative financial instruments	-20,198	-11,875
5	Adjustment for securities financing transactions (SFTs)	-4,634	-4,241
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	70,463	64,015
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013 (CRR))	-	-
EU-6b	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013 (CRR))	-	-
7	Other adjustments (*)	-11,100	-18,404
8	**Leverage ratio total exposure measure**	**682,781**	**668,562**

(*) "Other adjustments" mainly include amounts related to assets deducted for the calculation of Tier 1 Capital (transitional regime).

LRSpl table – Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

For exposures other than derivatives and SFTs, the table provides a breakdown by counterparty, in accordance with the provisions of Article 451 (1) (b) of the CRR.

(millions of euro)

		CRR leverage ratio exposures	
		31.12.2019	31.12.2018
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**581,331**	**561,448**
EU-2	Trading book exposures	18,064	12,495
EU-3	Banking book exposures, of which:	563,267	548,953
EU-4	*Covered bonds*	*3,406*	*1,210*
EU-5	*Exposures treated as sovereigns*	*115,617*	*126,548*
EU-6	*Exposures to regional governments, local authorities, MDB, international organisations and PSE not treated as sovereigns*	*12,470*	*12,556*
EU-7	*Institutions*	*43,039*	*36,256*
EU-8	*Secured by mortgages of immovable properties*	*116,765*	*117,984*
EU-9	*Retail exposures*	*41,730*	*40,603*
EU-10	*Corporate*	*151,840*	*146,656*
EU-11	*Exposures in default*	*14,842*	*17,493*
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	*63,558*	*49,647*

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 December 2019” corresponds to the corporate records, books and accounts.

17 March 2020

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

Independent Auditors’ Report on Basel 3 Pillar 3

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
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Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

Independent auditors' report on the Basel 3 Pillar 3 disclosure as at 31 December 2019

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

We have been engaged to perform a limited assurance engagement on the accompanying Basel 3 Pillar 3 disclosure (the "Pillar 3 disclosure") of the Intesa Sanpaolo Group (the "Group") as at 31 December 2019.

Directors' responsibility for the Pillar 3 disclosure

The directors of Intesa Sanpaolo S.p.A. (the "Bank") are responsible for the preparation of the Pillar 3 disclosure in accordance with the provisions of part VIII of Regulation EU no. 575/2013 of 26 June 2013 (the "CRR"), implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Pillar 3 disclosure that is free from material misstatement, whether due to fraud or error.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Ancona Aosta Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

Società per azioni
Capitale sociale
Euro 10.345.200,00 i.v.
Registro Imprese Milano e
Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the Pillar 3 disclosure with the requirements of part VIII of the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (Revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the Pillar 3 disclosure is free from significant non-conformities with the requirements of part VIII of the CRR implemented in Italy through Bank of Italy's Circular no. 285 of 17 December 2013 and subsequent amendments. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 Revised and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the Pillar 3 disclosure are based on our professional judgement and include inquiries, primarily of the Bank's personnel responsible for the preparation of the information presented in the Pillar 3 disclosure, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

- comparing the financial disclosures presented in the Pillar 3 disclosure to those included in the Group's consolidated financial statements as at 31 December 2019, on which we issued our report dated 18 March 2020 pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014;
- interviews and discussions with the management of the Bank to gather information on the IT, accounting and reporting systems used in preparing the Pillar 3 disclosure and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the manager in charge of financial reporting for the preparation of the Pillar 3 disclosure;
- sample-based analyses of documentation supporting the preparation of the Pillar 3 disclosure to obtain evidence of the processes put in place to prepare the data and information presented therein;
- reading correspondence with the European Central Bank in relation to the authorisation process related to using internal models to calculate regulatory capital requirements;
- reading the reports issued by the Internal Auditing and Internal Validation departments on the management and internal control processes relevant for the preparation of the data and information presented in the Pillar 3 disclosure;
- obtaining the representation letter on the compliance of the Pillar 3 disclosure with part VIII of the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments and on the reliability and completeness of the information and data contained therein.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Pillar 3 disclosure of the Intesa Sanpaolo Group as at 31 December 2019 has not been prepared, in all material respects, in accordance with part 8 of the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments.

Other matters

This report has been prepared solely for the purposes set out in the first paragraph and, therefore, cannot be used, in whole or in part, for any other purposes. We have not undertaken to update this report for events or circumstances that may take place after its issue date.

Milan, 18 March 2020

KPMG S.p.A.

(signed on the original)

Mario Corti
Director

Attachment 1

Own Funds: Terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0000072618
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Ordinary shares - Art. 28 CRR
8	Amount recognised in regulatory capital (€/mln)	34,160
9	Nominal amount of instrument: original amount in currency of issuance (mln)	N/A
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	N/A
9a	Issue price	N/A
9b	Redemption price	0
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAU14
3	Governing law(s) of the instrument	New York law, except for subordination provisions governed by Italian law.
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	875
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	884
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	17/09/2015
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	17/09/2025 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 17/09/2025
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.70% (until first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1346815787
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	1,237
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	19/01/2016
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	19/01/2021 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 19/01/2021
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1548475968
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	1,237
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	11/01/2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	11/01/2027 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 11/01/2027
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.75% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1614415542
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	742
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	16/05/2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	16/05/2024 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 16/05/2024
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.25% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0526326334
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	103
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	16/07/2010
12	Perpetual or dated	Dated
13	Original maturity date	16/07/2020
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.0515
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0971213201
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,183
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,446
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,446
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	13/09/2013
12	Perpetual or dated	Dated
13	Original maturity date	13/09/2023
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.63%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAT41
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,664
9	Nominal amount of instrument: original amount in currency of issuance (mln)	2,000
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,466
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	26/06/2014
12	Perpetual or dated	Dated
13	Original maturity date	26/06/2024
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.05017
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1109765005
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,059
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	15/09/2014
12	Perpetual or dated	Dated
13	Original maturity date	15/09/2026
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	3.9280%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1222597905
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 486 CRR
8	Amount recognised in regulatory capital (€/mln)	506
9	Nominal amount of instrument: original amount in currency of issuance (mln)	500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	500
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	23/04/2015
12	Perpetual or dated	Dated
13	Original maturity date	23/04/2025
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.02855
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005118838
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 486 CRR
8	Amount recognised in regulatory capital (€/mln)	377
9	Nominal amount of instrument: original amount in currency of issuance (mln)	738
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	738
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	30/06/2015
12	Perpetual or dated	Dated
13	Original maturity date	30/06/2022
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 237 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAW79
3	Governing law(s) of the instrument	New York law, except for subordination provisions governed by Italian law.
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,340
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,500
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,378
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	15/01/2016
12	Perpetual or dated	Dated
13	Original maturity date	15/01/2026
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.71% per annum, payable semi-annually
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, subordinated to Senior Unsecured
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005279887
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	677
9	Nominal amount of instrument: original amount in currency of issuance (mln)	724
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	724
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	26/09/2017
12	Perpetual or dated	Dated
13	Original maturity date	26/09/2024
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	(3m EURIBOR + 1.90 bps) / 4
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, subordinated to Senior Unsecured
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005390833
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	153
9	Nominal amount of instrument: original amount in currency of issuance (mln)	160
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	160
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	11/12/2019
12	Perpetual or dated	Dated
13	Original maturity date	11/12/2026
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	1.98% fixed rate
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005390825
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	179
9	Nominal amount of instrument: original amount in currency of issuance (mln)	188
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	188
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	11/12/2019
12	Perpetual or dated	Dated
13	Original maturity date	11/12/2026
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3-month Euribor + 206 bps/4
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

Attachment 2 - Own funds: own funds disclosure template

(millions of euro)

		31.12.2019	31.12.2018	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	34,161	33,853	26, paragraph 1, 27, 28, 29
	of which: instrument type 1	34,161	33,853	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	16,511	16,239	26, paragraph 2(c)
3	Accumulated other comprehensive income (and other reserves)	-2,918	-4,169	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)	35	27	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	731	516	26, paragraph 2
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**48,520**	**46,466**	**Sum of rows from 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-282	-237	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-8,012	-7,774	36, paragraph 1(b), 37
9	Transitional adjustment related to IAS 19 and IFRS 9	2,590	2,895	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)	-1,360	-1,456	36, paragraph 1(c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	862	814	33, paragraph 1(a)
12	Negative amounts resulting from the calculation of expected loss amounts	-316	-208	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	61	-201	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)	-230	-204	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)	-	-1,721	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	-149	-319	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	-142	-227	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)	-142	-227	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)	-	-587	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	-	-375	36(1)(i), 48(1)(b)
24	Empty field in the EU	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-212	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**	**-6,978**	**-9,225**	**Sum of rows from 7 to 20a, 21, 22 and from 25a to 27**
29	**Common Equity Tier 1 capital (CET1)**	**41,542**	**37,241**	**Row 6 less row 28**

(millions of euro)

		31.12.2019	31.12.2018	Reference article of Regulation (EU) 575/2013
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	4,091	4,121	51, 52
31	of which: classified as equity under applicable accounting standards	4,091	4,121	
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	-	731	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	5	4	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**	**4,096**	**4,856**	**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**	**4,096**	**4,856**	**Row 36 less row 43**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**45,638**	**42,097**	**Sum of rows 29 and 44**
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	7,341	7,625	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	-	12	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	3	4	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**	**7,344**	**7,641**	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-100	-72	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	-187	-788	66 (d), 69, 79
56	Empty field in the EU	-	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-287**	**-860**	**Sum of rows from 52 to 56**
Tier 2 (T2) capital: regulatory adjustments				
58	**Tier 2 (T2) capital**	**7,057**	**6,781**	**Row 51 less row 57**
59	**Total capital (TC = T1 + T2)**	**52,695**	**48,878**	**Sum of rows 45 and 58**
60	**Total risk-weighted assets**	**298,524**	**276,446**	

(millions of euro)

		31.12.2019	31.12.2018	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)	13.92%	13.47%	92, paragraph 2(a)
62	Tier 1 capital (as a percentage of the risk exposure amount)	15.29%	15.23%	92, paragraph 2(b)
63	Total capital (as a percentage of the risk exposure amount)	17.65%	17.68%	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)	7.46%	6.63%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	1.88%	
66	of which: countercyclical buffer requirement	0.08%	0.06%	
67	of which: systemic risk buffer requirement	-	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.38%	0.19%	
68	Common Equity Tier 1 capital available to meet capital buffers (as a percentage of total risk exposure amount)	6.46%	6.84%	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)	1,394	1,145	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)	784	3,671	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)	1,626	2,077	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	849	850	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	615	820	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	1,418	1,891	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)

Glossary

ABS – Asset-Backed Securities
Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.
Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)
ABS whose collateral is made up of receivables.

Acquisition finance
Leveraged buy-out financing.

Additional return
Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

Advisor
Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

AIRB (Advanced Internal Rating Based) Approach
Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. In this case, the Bank uses its own internal estimates for all inputs (PD, LGD, EAD and Maturity) for credit risk assessment, whereas for Foundation IRB it only estimates PD.

ALM – Asset & Liability Management
Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

ALT-A Agency
Securities whose collateral consists of Alt-A mortgages, guaranteed by specialised Government Agencies.

ALT- A - Alternative A Loan
Residential mortgages generally of “prime” category, but which, due to various factors such as LTV ratio, documentation provided, borrower’s income/employment situation, type of property etc., cannot be classified as standard contracts usable in subscription programmes.
Incomplete documentation is the main reason for a loan being classified as “Alt-A”.

Alternative investment
Alternative investments comprise a wide range of investment products, including private equity and hedge funds (see definitions below).

Other related parties – close relatives
An individual’s “close relatives” comprise those family members likely to influence or be influenced by such individual in their relations with the entity. They include the individual’s non-separated spouse/domestic partner and the individual’s children, his/her spouse’s/domestic partner’s children, and the individual’s or his/her spouse’s/domestic partner’s dependents.

AP – Attachment Point
Level above which a protection seller will cover the losses of a protection buyer. It is typically used in synthetic CDOs.

Arrangement fee
A fee paid for professional advice and assistance provided in the loan structuring and arranging stage.

Arranger
In the structured finance sector, the arranger is the entity that – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger etc.) – coordinates the organisational aspects of the transaction.

Asset allocation
The distribution of assets in an investment portfolio among different markets, geographical areas, sectors and products.

Asset management
The various activities relating to the management and administration of different customer assets.

AT1
Additional Tier 1 Capital (AT1). In general, 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).

Intangible asset
An identifiable, non-monetary asset lacking physical substance.

Discounting
Process of determining the present value of a payment or payment flows to be received in the future

Audit
In listed companies, it indicates the various examinations of the business activities and bookkeeping of a company, performed by both in-house staff (internal audit) and independent audit firms (external audit).

AVA (Additional Valuation Adjustment)
Additional valuation adjustments necessary to adjust the fair value to the prudent value of the positions. To perform a prudent valuation of the positions measured at fair value, the EBA envisages two approaches for calculating the AVA (the Simplified approach and Core approach). The prudent valuation requirements apply to all positions measured at fair value regardless of whether they are held in the trading book or not, where the term 'positions' refers solely to financial instruments and commodities.

AUM Assets under management
Overall market value of assets such as deposits, securities and funds managed by the Group on behalf of customers

β
The beta coefficient of an issuer or a group of comparable issuers, an expression of the relationship between an equity's actual return and the total return of the market in question.

Back office
The unit of a bank or financial company that processes all the transactions performed by the operational units (front office).

Backtesting
Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

Banking book
Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to "proprietary" trading.

Basis swap
Contract providing for the exchange between two parties, of two floating-rate payments linked to a different index.

Best practice
It generally identifies conduct in line with state-of-the-art skills and techniques in a given technical/professional area.

Bid-ask spread
The difference between the buying and selling price of a given financial instrument or set of financial instruments.

Bookrunner
See Lead manager and Joint lead manager.

Brand name
IFRS 3 considers the "brand name" a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process. The term "brand" is used in accounting standards with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.

Budget
Forecast of cost and revenue performance of a company over a period of time.

Business combinations
In accordance with IFRS 3, a transaction or other event in which an acquirer obtains control of one or more company assets.

Business model
The business model within which financial assets are managed.
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed: Hold to Collect (HTC), Hold to Collect and Sell (HTCS), Others/Trading.

CAGR (Compound Annual Growth Rate)
Compound annual growth rate of an investment over a specified period of time. If n is the number of years, the CAGR is calculated as follows: (Ending value/Beginning value)^(1/n) -1.

Capital Asset Pricing Model (CAPM)
An economic model for determining the "opportunity cost" i.e. the amount of income for the period necessary to remunerate the cost of capital.

Capital structure
It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:
Equity Tranche (B): the riskiest portion of the portfolio, it is also known as “first loss” and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.
Mezzanine Tranche (B): the tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB-AAA.
Senior/Supersenior Tranche (B): the tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

Captive
Term generically referring to “networks” or companies that operate in the exclusive interest of their parent company or group.

Carry trade
The carry trade is a financial transaction in which funds are procured in a country with a low cost of money and then invested in a country with high interest rates to take advantage of the difference in returns.

Securitisation
A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

Cash flow hedge
Coverage against exposure to variability in cash flows associated with a particular risk.

Cash-generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash management
A banking service that in addition to informing companies on the status of their relations with the bank, is an operational tool enabling companies to transfer funds, thus leading to more efficient treasury management.

Certificates
Financial instruments which, based on their contracts, may be classified as optional derivatives that replicate the performance of an underlying asset. By purchasing a certificate, an investor acquires the right to receive – at a set date – an amount linked to the value of the underlying. In other words, through certificates investors can acquire an indirect position in the underlying asset. In some cases, investors can use the option structure to obtain full or partial protection of the invested capital, which takes the form of full or partial return of the premiums paid, irrespective of the performance of the parameters set in the contracts.
Certificates are securitised instruments and, as such, they can be freely traded as credit securities (traded on the SeDeX - Securitised Derivatives Exchange - managed by Borsa Italiana, and on the EuroTLX market).

Sale without recourse
Transfer of a loan or receivable in which the transferor does not offer any guarantees in the event of default by the debtor. The transferor thus only guarantees the transferee that the transferred loan or receivable exists, but not that the debtor is solvent.

Sale with recourse
Transfer of a loan or receivable in which the transferor guarantees payment by the debtor. The transferor thus guarantees the transferee both that the transferred loan or receivable exists and that the debtor is solvent.

CCF - Credit Conversion Factor
In determining credit risk, the CCF is the factor used to transform the EAD (Exposure At Default) of an off-balance sheet exposure into that of an on-balance sheet exposure. Where the Bank does not use internal models to estimate those factors (internal CCF), these are indicated as follows by the supervisory rules (regulatory CCF):
a) 100 % if it is a full risk item;
b) 50 % if it is a medium-risk item;
c) 20 % if it is a medium/low-risk item;
d) 0 % if it is a low-risk item.

CCP (Central Counterparty Clearing House)
A central counterparty is an institution interposed in securities trades between the two contracting parties, protecting the latter against default risk and guaranteeing the successful execution of the transaction. The central counterparty protects itself against its own risk by taking securities or cash collateral (margins) commensurate with the value and risk of the contracts guaranteed. Central counterparty services can be provided not only in the markets that expressly provide for them but also in respect of over-the-counter trading outside regulated markets.

CDO – Collateralised Debt Obligation
Financial instruments issued within the framework of securitisation transactions, backed by a pool of loans, bonds and other financial assets (including securitisation tranches). In the case of synthetic CDOs the risk is backed by credit derivatives instead of the sale of assets (cash CDOs).

CDSs on ABX
An Asset-backed security index (ABX) is an index with asset-backed securities as an underlying. Each ABX refers to a basket of 20 reference obligations belonging to a specific ABS sector. Each ABX (there are five in total) reproduces a rating class (AAA, AA, A, BBB, and BBB-).
In particular, the ABX.HE index, launched on 19 January 2006 (Annex Date), is made up of reference obligations of the home equity segment of ABS (Residential Mortgage-Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.
For ABX, the market does not provide credit curves but directly price valuation. The settlement admitted for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pays the protection buyer the losses incurred as these emerge, without leading to termination of the contract.
Please note that the coverage achieved via the purchase of ABX indices, even if it is structured so as to match as closely as possible the characteristics of the hedged portfolio, remains in any case exposed to basis risks. In other words, since it is not a specific hedge of individual exposures, it may generate volatility in the income statement whenever there is imperfect correlation between index prices and market value of the hedged positions.

CLO - Collateralised Loan Obligation
CDOs backed by a portfolio of corporate loans.

CMBS - Commercial Mortgage-Backed Securities
securitisationsDebt instruments backed by mortgages on commercial real estate.

CMO - Collateralised Mortgage Obligation
Securities backed by mortgages in which the total amount of the issue is divided into tranches with different maturities and return. The tranches are repaid according to an order specified in the issue.

Commercial paper
Short-term notes issued in order to collect funds from third-party underwriters as an alternative to other forms of indebtedness.

Consumer ABS
ABS whose collateral is made up of consumer credits.

Core Business
Main area of business on which company's strategies and policies are focused.

Core deposits
"Core deposits" are "customer-related intangibles", generally recorded in business combinations between banks. The intangible value of core deposits stems from the future benefits for the acquirer deriving from the normally lower funding cost compared to market parameters. Basically, the acquirer may use funding for its lending and investment activities which, under normal conditions, pays less than the market interest rate.

Common Equity Tier 1 Ratio (CET1 Ratio)
The ratio of Common Equity Tier 1 capital (CET1) to total risk-weighted assets.

Corporate
Customer segment consisting of medium- and large-sized companies (mid-corporate, large corporate).

Cost/income ratio
Economic indicator consisting of the ratio of operating costs to net operating income.

Amortised cost
Differs from "cost" in that it provides for the progressive amortisation of the differential between the book value and nominal value of an asset or liability on the basis of the effective rate of return.

Transaction costs
Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. It is a cost that would not have been incurred if the entity had not acquired issued or disposed of the financial instrument.

Covenant
A covenant is a clause, expressly agreed upon during the contractual phase, under which a lender is entitled to renegotiate and revoke a loan upon the occurrence of the events set out in the clause, linking the debtor's financial performance to events that trigger termination/amendment of contractual conditions (maturity, rates, etc.).

Coverage ratio
It represents the percentage coverage of the value adjustment with respect to the gross exposure.

Covered bond
Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

CPPI (Constant Proportion Insurance Portfolio)
A technique consisting of forming a portfolio of two assets, one without risk that offers a certain rate of return (risk-free) and one with risk that offers a generally higher return. The purpose of the re-balancing procedure is to prevent the value of the portfolio from falling below a predetermined level (floor), which rises at the risk-free rate over time and coincides with the capital to be guaranteed at maturity.

Credit default swap/option
Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives
Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit enhancement
Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

Credit/emerging markets (Funds)
Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

Credit-linked notes
Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

Credit Risk Adjustment (CRA)
A technique that aims to draw attention to the penalty resulting from the counterparty's creditworthiness used in determining the fair value of unlisted derivative financial instruments.

Credit spread option
Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

Past due loans
“Past due exposures” are non-performing exposures on which payments are past due on a continuing basis for over 90 days, in accordance with the definition set forth in current supervisory reporting rules.

CreditVaR
Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank’s risk appetite.

Cross selling
Activity designed to increase customer loyalty through the sale of integrated products and services.

CRM – Credit Risk Mitigation
Techniques used by institutions to reduce the credit risk associated with their exposures.

CRP (Country Risk Premium)
Country risk premium; it expresses the component of the cost of capital aimed specifically at providing compensation for the risk implicit in a particular country (namely the risk associated with financial, political and monetary instability).

CR01
Referred to a credit portfolio, it indicates the change in portfolio value that would occur for a 1-basis-point increase in credit spreads.

CSA (Credit Support Annex)
A document through which counterparties trading in an over-the-counter derivative instrument establish the terms of contribution and transfer of the underlying guarantees to mitigate credit risk in the event of in-the-money position of the instrument. This document, although not mandatory for the transaction, is one of the four components that contribute to the establishment of the Master Agreement according to the standards established by the International Swaps and Derivatives Association (ISDA).

Reclassification date
The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

Default
Declared inability to honour one’s debts and/or make the relevant interest payments.

Delinquency
Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

Delta
Value that expresses the sensitivity of the price of the underlying asset for an option. Delta is positive for call options because the price of the option rises along with the price of the underlying asset. Delta is negative for put options because a rise in the price of the underlying asset yields a decrease in the price of the option.

Embedded derivatives
Embedded derivatives are clauses (contractual terms) included in a financial instrument that generate the same effects as an independent derivative.

Desk
It usually designates an operating unit dedicated to a particular activity.

Dynamics of funding
Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time current accounts and time deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

Directional (Funds)
Funds that invest in financial instruments that profit from directional market movements, also through macroeconomic forecasting.

Domestic Currency Swap
Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the difference between the forward and the spot exchange rates is settled in euro.

Duration
An indicator of the interest rate risk of a bond or bond portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a bond.

EAD – Exposure At Default
Relating to on- or off-balance sheet positions, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

ECAI – External Credit Assessment Institution
An external credit assessment institution.

EDF – Expected Default Frequency
Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

EHQLA (Extremely High Quality Liquid Asset)
Encumbered assets that are notionally eligible to be classified as extremely high quality liquid assets. Notionally eligible encumbered EHQLA and HQLA are the assets listed in Articles 11, 12 and 13 of Commission Delegated Regulation (EU) 2015/61.

Embedded value
A measure of the underlying value of a life insurance company. It is the sum of the company's adjusted net asset value and the present value of the future income margins from the policies already in force over the period of their residual life.

Eonia (Euro overnight index average)
Weighted average of the overnight rates transmitted to the ECB by a sample of banks operating in the Euro area.

Equity hedge / long-short (Funds)
Funds that predominantly invest in stocks with the possibility of creating hedging strategies by means of short sales of the same stocks or strategies in derivative contracts involving securities or market indices.

Equity origination
Increase of a company's risk capital achieved by floating a new issue of stock.

ERP (Equity Risk Premium)
Risk premium demanded by investors in the market in question. ISP uses the risk premium calculated according to the historical approach (geometric average of the difference between equity and risk-free returns for the period 1928-2009) by New York University - Stern School of Business.

Exotics (derivatives)
Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

EVA (Economic Value Added)
An indicator that provides a snapshot of the amount of value created (if positive) or destroyed (if negative) by enterprises. In contrast to other parameters that measure business performance, EVA is calculated net of the cost of equity capital, that is to say the investment made by shareholders.

Event-driven (Funds)
Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

EVT – Extreme Value Theory
Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

Expected Credit Losses (ECL)
Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.
Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

12-Month Expected Loss
Portion of the lifetime expected loss that arises if the default occurs within 12 months from the reporting date (or a shorter period if the expected life is less than 12 months), weighted by the probability of that default.

Facility (fee)
Fee calculated with reference to the disbursed amount of a loan.

Factoring
Sale of trade receivables to factoring companies, for credit management and collection, normally associated with the granting of a loan to the seller.

Fair value
The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

Fair value hedge
Hedging against the risk of change in the fair value of a financial statement item, attributable to a particular risk.

Fair Value Option (FVO)
The Fair Value Option is an option for classifying a financial instrument.
When the option is exercised, even a non-derivative financial instrument not held for trading may be measured at fair value through profit or loss.

Fairness/Legal opinion
An opinion provided on request by experts of recognised professionalism and competence, on the adequacy of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

“G” factor (“g” growth rate)
It is the factor used for perpetuity projection of cash flows in order to calculate “Terminal value”.

FICO Score
In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual’s credit report. The FICO score is an indicator of the borrower’s creditworthiness. A mortgage lender will use the “score” to assess borrower default risk and to correctly price risk.

FIFO: First In First Out
Criterion used to recognise the expected credit losses (ECL) recorded on a security through profit or loss at the time of sale

Prudential filters
In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

Harmonised mutual funds
Mutual funds within the scope of Directive 85/611/EEC of 20 December 1985, as amended, characterised by their open form, the possibility of offering units to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

Forward Rate Agreement
See “Forwards”.

Forwards
Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

Front office
The divisions of a company designed to deal directly with customers.

Funding
The raising of capital, in various forms, to finance the company business or particular financial transactions.

Futures
Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

FVTOCI: Fair Value Through Other Comprehensive Income
Method of recognition of changes in the fair value of financial assets through other comprehensive income (therefore in shareholders' equity) and not through profit or loss.

FVTPL: Fair Value Through Profit or Loss
Method of recognition of changes in the fair value of financial assets through profit or loss

Global custody
An integrated package of services including, in addition to the custody of securities, the performance of administrative activities relating to the settlement of securities, collections and payments, acting as depositary bank and cash management, as well as various forms of portfolio performance reporting.

GMSLA
Global Master Securities Lending Agreement: these are margin agreements used to mitigate counterparty risk in securities lending transactions

GMRA
Global Master Repurchase Agreement: these are margin agreements used to mitigate counterparty risk in repurchase agreement transactions

Goodwill
The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Governance
The set of instruments, rules and standards regulating the life of the company, particularly as regards the transparency of documents and company records, and the completeness of information made available to the market.

Grandfathering
The new composition of own funds under Basel 3 and other less significant measures will enter into force following a transitional period. Specifically, old instruments included in Basel 2 regulatory capital, which are not included under Basel 3, will be gradually eliminated (referred to as the grandfathering period).

Greeks
Greeks are the quantities that identify the greater or lesser sensitivity of a derivative contract, typically an option, to changes in the value of the underlying asset or other parameters (e.g. intrinsic volatility, interest rates, stock prices, dividends and correlations).

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

Hedge funds
Mutual fund that employs hedging instruments in order to achieve a better result in terms of risk/return ratio.

HELs – Home Equity Loans
Loans granted up to the current market value of the real estate property used as collateral (therefore with a loan-to-value ratio higher than the ordinary thresholds), by means of first or second lien mortgages. Standard & Poor's considers Subprime and Home Equity Loan largely synonymous when the home equity loan borrowers have low credit score (FICO<659).

HQLA (High Quality Liquid Asset)
Encumbered assets that are notionally eligible to be classified as high quality liquid assets. Notionally eligible encumbered EHQLA and HQLA are the assets listed in Articles 11, 12 and 13 of Commission Delegated Regulation (EU) 2015/61.

HY CBO – High-Yield Collateralised Bond Obligation
CDOs with collateral represented by High-Yield securities.

IAS/IFRS
The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

IASB (International Accounting Standard Board)
The IASB (previously known as the IASC) is the entity responsible for issuing international accounting standards (IAS/IFRS).

ICAAP (Internal Capital Adequacy Assessment Process)
The "Second Pillar" provisions require that banks implement processes and instruments of Internal Capital Adequacy Assessment Process (ICAAP), to determine the amount of internal capital needed to cover all risks, including risks different from those covered by the total capital requirement ("First Pillar"), when assessing current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

IFRIC (International Financial Reporting Interpretations Committee)
A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

IMA (Internal Models Approach)
Approach for calculating the capital requirement for market risk using internal models.

IMM (Internal Model Method)
Method for calculating Exposure at Default, within the counterparty risk assessment, through internal models based on the concept of Expected Positive Exposure.

Impairment
When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

Deferred tax (tax liabilities or assets)
Deferred tax liabilities are the amounts of income tax that will be payable in future periods and arising from taxable temporary differences.
Deferred tax assets are the amounts of income taxes claimable in future periods and arising from:
(a) deductible temporary differences;
(b) the carry forward of unused tax losses; and
(c) the carry forward of unused tax credits.
Temporary difference is the difference between the carrying amount of an asset or liability and its tax base.
There are two types of temporary difference:
a) taxable temporary difference, i.e. a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability is settled; or
b) deductible temporary difference: a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled.

Significant increase in credit risk "SICR"
Criterion used to verify the transition between stages: if the credit risk of the financial instrument has increased significantly since initial recognition, the value adjustments are equal to the lifetime expected credit losses of the instrument (lifetime ECL). The bank establishes whether there has been a significant increase in credit risk based on qualitative and quantitative information. Exposures are considered to have had a significant increase in credit risk when:
- the weighted average lifetime PD has increased beyond the threshold at the time of the origination. Other measures of PD deterioration can also be used. The relative thresholds are defined as percentage increases and set at a particular value or segment;
- exposures are determined to be of higher credit risk and subject to closer monitoring;

exposures are more than 30 days past due, used as a backstop rather than a primary driver.

Incurred loss
Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." It represents the risk level inherent in a portfolio of performing loans and is the basic indicator for determining the size of the stock of collective adjustments recognised in the financial statements.

Index-linked
Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

CMBX index
The same as the ABX index, the only difference being that the reference entities are CMBSs.

Internal dealing
Transactions between different operating units of the same company. These transactions are recognised in the accounts and contribute to determining the position (trading or hedging) of the individual units involved.

Intraday
Used to refer to an investment/disinvestment transaction performed in the course of a single day involving the negotiation of a security. It is also used with reference to prices quoted during any one day.

Investment property
Real estate owned for the purpose of obtaining income and/or benefiting from an increase in their value.

Investment grade
Term used with reference to high-quality bonds that have received a medium/high rating (e.g., not less than BBB on Standard & Poor's index).

IRC – Incremental Risk Charge
The maximum potential loss in the trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level.

IRS – Interest Rate Swap
A binding agreement between two parties to exchange two flows calculated over a notional amount with fixed/floating or floating/floating rate.

Joint venture
Agreement between two or more firms for the performance of a given economic activity, generally through the incorporation of a joint-stock company.

Junior
In a securitisation transaction, it is the lowest-ranking tranche of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.

Ke (Cost of Equity)
Cost of equity, the minimum return demanded for investments of the same risk level.

Ke – g
Difference between the cash flow discounting rate and the long-term growth rate. If cash flows remain equal, value in use increases as that difference decreases.

Lambda (λ)
Coefficient that measures the assessed item's specific exposure to country risk. In the model used by Intesa Sanpaolo, it is estimated to be 1, in that it is presumed that it is necessary to vary the country's risk level.

LCRE: Low Credit Risk Exemption
Exemption from the ordinary credit risk measurement according to which it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk (at least equal to investment grade) at the reporting date.

LDA - Loss Distribution Approach
Method of quantitative assessment of the risk profile through actuarial analysis of individual internal and external loss events; by extension, the term Loss Distribution Approach also refers to the calculation model for the historical capital per business unit.

Lead manager - Bookrunner
Lead bank of a bond issue syndicate. The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the debtor. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

Risk-based lending
A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

Leveraged & acquisition finance
See “Acquisition finance”.

Liquidity Coverage Ratio (LCR)
It aims to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that may be converted into cash to meet its liquidity needs within a period of 30 days under conditions of severe stress. The liquidity coverage ratio is equal to the ratio of liquidity reserves to net outflows of liquidity over a stress period of 30 calendar days.

LTV – Loan-to-Value Ratio
The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.
The LTV ratio measures the weight of the borrower’s own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower’s own funds used to buy the asset, the lower the creditor’s protection.

Cumulative loss
Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

Loss Given Default (LGD)
It represents the percentage of loans that are estimated to be irrecoverable in the event of default by the debtor.

M–Maturity
The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Macro-hedging
Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

Mark to Market
Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

Market dislocation
Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with difficulties in finding significant prices on specialised information providers.

Market making
Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

Market neutral
Operating strategies involving securities designed to minimise the relevant portfolios' exposure to market volatility.

Mark-down
Difference between the 1-month Euribor and interest rates on household and business current accounts.

Mark-up
Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month Euribor.

Merchant banking
A range of activities including the underwriting of securities – both equities and bonds – issued by corporate customers for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

Mezzanine
In a securitisation transaction it is the tranche ranking between junior and senior tranche.

Monoline
Insurance companies which, in exchange for a commission, guarantee the reimbursement of certain bond issues. Formed in the 1970s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for issues of complex financial products: the structure and the assets underlying such issues are often highly complex; the debt positions guaranteed by monoline insurers become easier to value and more appealing for risk-averse investors, since default risk is borne by the insurer.

Multistrategy / Funds of funds (Funds)
Funds that do not invest in a single strategy but in a portfolio reflecting different strategies, i.e. in a portfolio of investment funds managed by third parties.

NAV - Net Asset Value
The market value of one share of the fund's managed assets.

Net Stable Funding Ratio (NSFR).
It is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. Net stable funding requirement is equal to the ratio of the stable funding available to the entity to the stable funding required by the entity and is expressed as a percentage.

Non-performing
Term generally referring to loans for which payments are overdue.

Option
Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

Outsourcing
The transfer of business processes to external providers.

Overnight Indexed Swap (OIS)
Contract involving the exchange of the net flow deriving from the difference between a fixed and floating interest rate applied to a notional principal amount. The fixed rate is set at the inception of the contract, while the floating rate is determined at maturity as the average of the overnight rates surveyed during the term of the contract, with compound interest.

Over-The-Counter (OTC)
It designates transactions carried out directly between the parties outside organised markets.

Packages
Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

Expected credit loss
It is calculated as the product of the Probability of Default (PD) and Loss Given Default (LGD) multiplied by the exposure value (EAD). It represents the ratio of the amount expected to be lost on the exposure, over a time horizon of one year, as a result of a potential default by the counterparty and the amount of the exposure at the time of default.

Lifetime expected loss
Expected credit loss that results from all possible default events over the expected life of a financial instrument.

Performing
Term generally referring to loans characterised by regular performance.

Plain vanilla (derivatives)
Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

POCI: Purchased or Originated Credit-Impaired Assets – Assets for which the lifetime expected losses are recognised upon initial recognition and which are automatically classed as Stage 3.

Index-linked life insurance policies
Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

Pool (transactions)
See "Syndicated lending".

Held for trading
A financial asset or financial liability that:
- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Pricing
Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

Prime broker
The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund's manager with the utmost confidentiality. The Prime Broker also acts as the fund's lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to the fund. The Prime Broker also provides risk management services, monitoring the hedge fund's risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund's cash and securities, handling of the netting and settlement process, and recording of all market transactions.

Prime loan
Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.

Private banking
Business designed to provide preferred customers with asset management, professional advice and other personalised services.

Private equity
Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

One-year Probability of Default (PD)
The likelihood that a debtor will default within the space of 1 year.

Lifetime PD
The likelihood that a debtor will default within a period equal to the expected life of the financial instrument.

Project finance
Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

PV01
Measures the price value change of a financial asset following a one basis point shift in the yield curve.

Indirect customer deposits
The holding of third parties' securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

Rating
An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

Relative value/Arbitrage (Funds)
Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

Counterparty risk
Counterparty risk is a particular type of credit risk, relating to OTC derivatives and SFTs (Securities Financing Transactions), which refers to the possible default of the counterparty before the expiry of a contract that has a positive market value.

Credit risk
The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

Market risk
Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Liquidity risk
The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Operational risk
Risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

Risk-free
Return on risk-free investments. For the Italy CGU and countries in the International Subsidiary Banks CGU with "normal" growth prospects, the return on 10-year Bunds has been adopted, while for countries with "strong" growth prospects, the return on 30-year Bunds has been used.

Risk Management
Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

RMBS - Residential Mortgage-Backed Securities
Asset-backed securities guaranteed by mortgages on residential real estate.

ROE (Return On Equity)
It expresses the return on equity in terms of net income. It is the indicator of greatest interest to shareholders in that it allows them to assess the return on their equity investment.

RTS (Regulation Technical Standards)
Regulatory technical standards

Risk-Weighted Assets (RWA)
On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

Scoring
System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

Senior/Super senior tranche
In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

Sensitivity
It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

Servicer
In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

SGR (Società di gestione del risparmio)
Joint-stock companies reserved the possibility of providing both collective and individual asset management service jointly. In particular, they are authorised to set up mutual funds, manage their own or others' mutual funds and the assets of SICAVs and provide individual investment portfolio management service.

SPE/SPV
A Special Purpose Entity or Special Purpose Vehicle is a company established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

Speculative grade
Term used to identify issuers with a low credit rating (e.g., below BBB on Standard & Poor's index).

SPPI TEST
One of the two classification drivers (the other is the "business model") that the classification of the financial assets and the measurement basis depend on. The objective of the SPPI test is to identify the instruments, which can be defined as "basic lending arrangements" in accordance with the standard, whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI - solely payment of principal and interest). Assets with contractual characteristics other than SPPI are mandatorily measured at FVTPL.

Spread
This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

SpreadVar
Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

Stage 1
Represents the financial instruments whose credit risk has not significantly increased since the initial recognition date. A 12-month expected loss is recognised for these financial Instruments.

Stage 2
Represents the financial instruments whose credit risk has significantly increased since the initial recognition date. A lifetime expected loss is recognised for these financial Instruments.

Stage 3
Represents financial instruments that are credit impaired or in default. A lifetime expected loss is recognised for these financial Instruments.

Stakeholders
Subjects who, acting in different capacities, interact with the firm's activity, sharing in its profits, influencing its performance/services, and evaluating its economic, social and environmental impact.

Stock options
Term used to indicate the right granted to company managers to purchase the company's shares at a certain price (strike price).

Stress tests
A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

Structured export finance
Structured finance transactions in the goods and services export financing sector.

Financial instruments listed in an active market
A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Subprime
A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or bad loans) or because their debt-to-income or loan-to-value ratio is high.

Swaps
Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In an interest-rate swap, the parties exchange flows which may or may not be benchmarked on interest rates, calculated on a notional principal amount (e.g., one party pays a fixed-rate flow while the other pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

Syndicated lending
Loans arranged and guaranteed by a pool of banks and other financial institutions.

Effective interest rate
The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

Tax rate
The effective tax rate, determined by the ratio of income taxes to income before tax.

Terminal value
An enterprise's value at the end of an analytical cash-flow forecasting period, calculated by multiplying the analytical cash flow for the final period by (1 + g) and dividing that amount by (Ke-g).

Impairment test
The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:
- intangible assets with indefinite useful life;
- goodwill acquired in a business combination;
- any asset, if there is any indication of impairment losses.

Tier 1
Tier 1 Capital consists of Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital (AT1).

Tier 1 capital ratio
Ratio of Tier 1 Capital, which consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1), to total risk-weighted assets.

Tier 2
Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.
Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Time value
Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

Total capital ratio
Capital ratio referred to regulatory capital components of Own Funds (Tier 1 plus Tier 2).

Total return swap
A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Trustee (Real estate)
Real estate vehicles.

Trust-preferred Securities (TruPS)
Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

Underwriting fee
Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

Value in use
Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

Collective assessment of performing loans
With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

Fundamental Valuation
Stock price analysis performed by estimating the fair value of stocks and comparing it with their market value.

VaR - Value at Risk
The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

Vega
Coefficient that measures the sensitivity of an option's value in relation to a change (increase or decrease) in volatility.

Vega 01
Referred to a portfolio, it indicates the change in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

Vintage
Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgage portfolios underlying securitisations.

Expected life
This refers to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolving financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the bank's exposure to credit losses to the contractual notice period. The expected life for these credit facilities is their behavioural life. Where data is insufficient or analysis inconclusive, an additional 'maturity factor' may be incorporated to reflect the full estimated life, based upon other experienced cases or similar cases of peers. Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until they occur.

Warrant
Negotiable instrument that entitles the holder to purchase from or sell to the issuer fixed-income securities or shares according to specific procedures.

Waterfall
Characteristic of a CDO's cash flow projection that is used in the CDO pricing process to model and allocate flows. It establishes the priority of payment of the various tranches in the event of failure of the tests on overcollateralisation and interest coverage ratios.

Wealth management
See "Asset management".

What-if
Form of analysis that attempts to predict the response of specific elements to changes in baseline parameters.

Wholesale banking
Banking activity mainly consisting of high-value transactions concluded with major counterparties.

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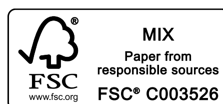
Prepress and printing: Agema® S.p.A.



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