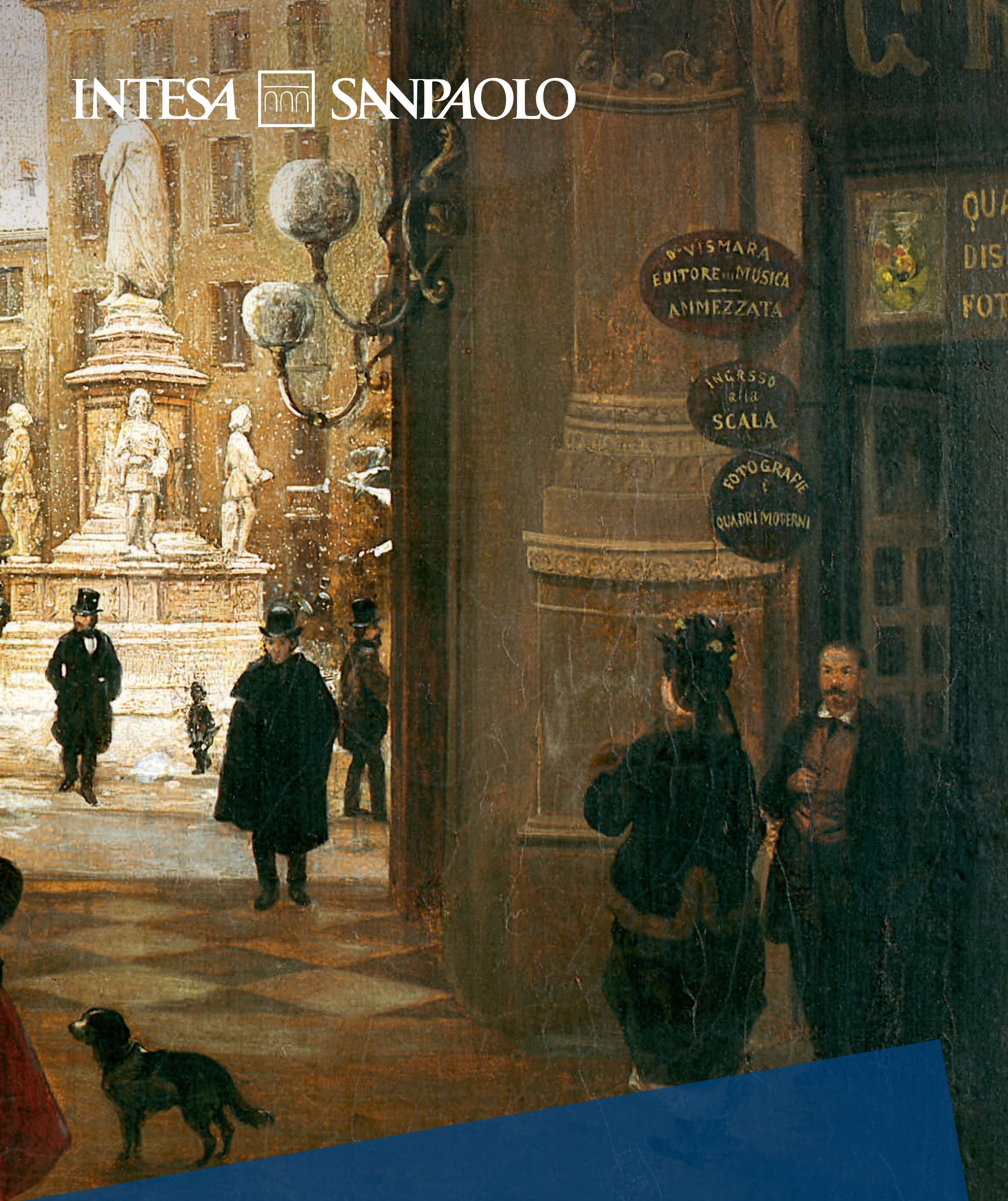

Basel 3 Pillar 3

Disclosure as at 30 June 2019

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa al pubblico al 30 giugno 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 30 June 2019

Intesa Sanpaolo S.p.A. Registered Office: Piazza S. Carlo, 156 10121 Torino Italy Secondary Registered Office: Via Monte di Pietà, 8 20121 Milano Italy Share Capital Euro 9,085,663,010.32 Torino Company Register and Fiscal Code No. 00799960158 "Intesa Sanpaolo" VAT Group representative Vat Code No. 11991500015 (IT11991500015) Included in the National Register of Banks No. 5361 ABI Code 3069.2 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund and Parent Company of the banking group "Intesa Sanpaolo" included in the National Register of Banking Groups.

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Introduction

Notes to the Basel 3 Pillar 3 disclosure

With effect from 1 January 2014, the reforms of the accord by the Basel Committee ("Basel 3") were implemented in the EU legal framework. Their aim is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and increase banks' transparency and disclosures. In doing so, the Committee maintained the approach founded on three Pillars, underlying the previous capital accord, known as "Basel 2", supplementing and strengthening it to increase the quantity and quality of intermediaries' available capital as well as introducing counter-cyclical regulatory instruments, provisions on liquidity risk management and financial leverage containment.

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

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

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

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

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

- the CRR, Part Eight "Disclosure by Institutions" (art. 431-455) and Part 10, Title I, Chapter 3, "Transitional provisions for disclosure of own funds" (Art. 492);
- the Regulations of the European Commission, whose preparation may be entrusted to the European Banking Authority (EBA), which draws up plans for regulatory or implementing technical standards;
- the Guidelines issued by the EBA - in line with the mandate entrusted to it by Regulation (EU) 1093/2010, which created it - for the purpose of establishing uniform templates for the publication of various types of information.

The issue of disclosure, handled for the first time in 2004, and subsequently revised in 2006 in the "Basel Framework" document, was the subject of an initial revision by the Basel Committee through its standard "Revised Pillar 3 disclosure requirements", published in January 2015. This document contains indications that the Supervisory Authorities should incorporate in the national regulations (in our case the EU) so that they come into force. At the end of March 2017, the Basel Committee published the standard "Pillar 3 disclosure requirements - consolidated and enhanced framework" which constitutes the second phase of the review of the regulatory framework concerning public disclosure, started with the abovementioned document issued in January 2015. This second review aims to further promote market regulations through the consolidation of all the requirements already introduced and the arrangement of a dashboard of a bank's key prudential metrics to support the market in the analysis of the data and achieve greater comparability.
The third phase of the review process initiated by the Basel Committee on Banking Supervision (BCBS) was completed in December 2018 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, 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. Likewise, these guidelines were also implemented in the proposed draft for the amendment of the CRR (CRR II) published in November 2016 and subject, from July 2018, to inter-institutional negotiations (trialogues) according to the usual approval procedure, which ended on 7 June 2019 with the publication in the Official Journal of the European Union of Regulation (EU) 2019/876.

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 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.

The EBA also supplemented the abovementioned guidelines 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.

Starting from 31 December 2014, Commission Implementing Regulation 1423/2013 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.

With specific reference to the information on the Leverage ratio, please note that 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 Delegated Act.

Starting from 1 January 2016, in application of Delegated Regulation 2015/1555 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. With effect from 31 December 2016, the disclosure 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.

Following the publication in the Official Journal of the European Union on 7 June 2019 of Regulation (EU) 2019/876 - also known as CRR II (Capital Requirements Regulation) - which is part of the broader package of regulatory reforms that also include CRD V (Capital Requirements Directive), BRRD II (Banking Recovery and Resolution Directive) and SRMR II (Single Resolution Mechanism Regulation) - with regard to disclosure requirements, as shown by Article 3 par. 3 (k) of the above-mentioned Regulation, action is expected from the EBA to develop draft regulatory technical standards (RTS) in order to rationalise and harmonise the information to be provided periodically to the market, in line with the regulatory changes introduced by CRR II, which will apply from 2021.

* * * * * *

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. Compared to 31 December 2018, the scope of consolidation did not show significant changes.
The changes concerning the entities under common control – which do not have an impact at consolidated level – include the mergers by incorporation into the Parent Company of Intesa Sanpaolo Group Services, Cassa di Risparmio di Firenze, Cassa di Risparmio in Bologna, Cassa di Risparmio di Pistoia e della Lucchesia, Banca Apulia and Banca Prossima.

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 new EBA Guidelines (EBA/GL/2016/11), 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. Details on own funds and capital ratios are also published in the consolidated Interim Statements for March and September and in the Half-yearly Report.

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

Given the public importance of this disclosure, the “Basel 3 Pillar 3 disclosure” is signed by the Manager responsible for preparing the Company’s financial reports and is subject to the checks and controls established in the Group’s “Guidelines for administrative and financial governance”, which set out the rules for the application of art. 154 bis of the Consolidated Law on Finance in the Intesa Sanpaolo Group. In particular, the internal control system for accounting and financial information is designed to ensure the ongoing verification of the adequacy and effective implementation of the administrative and accounting procedures at Group level.
The Group's website publishes information, upon the required deadlines, on the value of the indicators of global systemic importance (Governance\Risk management Section of the website: “Indicators of the assessment methodology to identify the global systemically important banks”).

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".

Furthermore, the Section on "Credit risk: credit quality" incorporates part of the new disclosure requirements, introduced starting from December 2018, presented by the ECB GL "Guidance to banks on non-performing loans" (published in March 2017) through additions to several existing tables and the introduction of new specific tables, structured on the basis of those contained in the "Guidelines on disclosures of non-performing and forborne exposures", published in December 2018 by the EBA and applicable from 31 December 2019.

CRR Article	Pillar 3 Section Reference as at 30 June 2019	Frequency of publishing Pillar 3 disclosures	Reference to other company disclosures as at 30 June 2019
435 - Risk management objectives and policies	-	▪ Annual	▪ Half-yearly Report as at 30 June 2019 - Half-yearly condensed consolidated financial statements - Explanatory notes ▪ Half-yearly Report as at 30 June 2019 - Half-yearly report on operations - Overview of the first half of 2019
436 - Scope of application	-	▪ Annual	▪ Half-yearly Report as at 30 June 2019 - Half-yearly condensed consolidated financial statements - Explanatory notes
437 - Own funds	▪ Own funds ▪ Attachment - Own funds: terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued in the half-year[1] ▪ Attachment - Own funds: own funds disclosure template	▪ Quarterly (except "Full reconciliation" table half-yearly) ▪ Quarterly (instruments issued in the period) / Annual (full disclosure) ▪ Half-yearly	▪ Half-yearly Report as at 30 June 2019 - Half-yearly condensed consolidated financial statements - Explanatory notes
438 - Capital Requirements	▪ Capital requirements	▪ Quarterly (summary) / Annual (full)	-
439 - Exposure to counterparty credit risk	▪ Counterparty risk	▪ Half-yearly (summary) / Annual (full)	▪ Half-yearly Report as at 30 June 2019 - Half-yearly condensed consolidated financial statements - Explanatory notes
440 - Capital buffers	▪ Capital requirements	▪ Quarterly (summary) / Half-yearly (full)	-
441 - Indicators of global systemic importance	-	▪ Annual	▪ Website (*Indicators of the assessment methodology to identify the global systemically important banks*)
442 - Credit risk adjustments	▪ Credit risk: credit quality	▪ Half-yearly (summary) / Annual (full)	▪ Half-yearly Report as at 30 June 2019 - Half-yearly condensed consolidated financial statements - Explanatory notes
443 - Unencumbered assets	-	▪ Annual	-
444 - Use of ECAIs	▪ Credit risk: disclosures on portfolios subject to the standardised approach	▪ Half-yearly (summary) / Annual (full)	-
445 - Exposure to market risk	▪ Market risk	▪ Half-yearly	-
446 - Operational risk	▪ Operational risk	▪ Half-yearly (summary) / Annual (full)	▪ Half-yearly Report as at 30 June 2019 - Half-yearly condensed consolidated financial statements - Explanatory notes
447 - Exposures in equities not included in the trading book	-	▪ Annual	-
448 - Exposure to interest rate risk on positions not included in the trading book	-	▪ Annual	-
449 - Exposure to securitisation positions	-	▪ Annual	-
450 - Remuneration policy	-	▪ Annual	-
451 - Leverage	▪ Leverage Ratio	▪ Quarterly (summary) / Half-yearly (full)	-

[1] No instruments were issued in the half-year

452 - Use of the IRB Approach to credit risk	▪ Credit risk: disclosures on portfolios subject to IRB approaches	▪ Half-yearly (summary) / Annual (full)	▪ Half-yearly Report as at 30 June 2019 - Half-yearly condensed consolidated financial statements - Explanatory notes
453 - Use of credit risk mitigation techniques	▪ Credit risk mitigation techniques	▪ Half-yearly (summary) / Annual (full)	-
454 - Use of the Advanced Measurement Approaches to operational risk	▪ Operational risk	▪ Annual	▪ Half-yearly Report as at 30 June 2019 - Half-yearly condensed consolidated financial statements - Explanatory notes
455 - Use of Internal Market Risk Models	▪ Market risk	▪ Half-yearly	▪ Half-yearly Report as at 30 June 2019 - Half-yearly condensed consolidated financial statements - Explanatory notes
492 – Disclosure of own funds	▪ Own Funds ▪ Attachment - Own funds: own funds disclosure template	▪ Quarterly ▪ Half-yearly	-

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

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 31.12.2017. In addition, the disclosure requirements relating to the IFRS9 transitional period requested by the EBA Guidelines (EBA/GL/2018/01) and EBA RTS (EBA/RTS/2017/03), as endorsed by Regulation (EU) 2017/2295, have been supplemented with regard to encumbered and unencumbered assets.

LG EBA / RTS EBA Table	LG EBA / RTS EBA Table Description	ISP Group publication frequency	Pillar 3 Section (annual document)
EU OVA	Institution risk management approach	Annual	Section 1 – General requirements
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Annual	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	Annual	
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Annual	
EU LIA	Explanations of differences between accounting and regulatory exposure amounts	Annual	
EU OV1	Overview of RWAs	Quarterly	Section 4 - Capital Requirements
EU CR8	RWA flow statements of credit risk exposures under the IRB approach	Quarterly	
EU CCR7	RWA flow statements of CCR exposures under the IMM	Quarterly	
EU MR2-B	RWA flow statements of market risk exposures under the IMA	Quarterly	
EU INS1*	Non-deducted participations in insurance undertakings	Half-yearly	
EU IFRS9-FL	Comparison of own funds, capital ratios and leverage ratio with and without the application of transitional provisions for IFRS 9	Quarterly	
EU LIQA	Qualitative information of liquidity risk	Quarterly (summary) / Half-yearly (full)	Section 5 – Liquidity Risk
EU LIQ1	LCR disclosure template and additional disclosure	Quarterly (summary) / Half-yearly (full)	
EU CRA	General information about credit risk	Annual	Section 6 – Credit risk: General disclosure
EU CRB-B	Total and average net amount of exposures	Annual	
EU CRB-C	Geographical breakdown of exposures	Annual	
EU CRB-D	Concentration of exposures by industry or counterparty types	Annual	
EU CRB-E	Breakdown of exposures by residual maturity	Annual	
EU CRB-A	Additional disclosure related to the credit quality of assets	Annual	Section 7 – Credit risk: Credit quality
EU CR1-A**	Credit quality of credit risk exposures by exposure class and instrument	Half-yearly	
EU CR1-B**	Credit quality of credit risk exposures by industry or counterparty types	Half-yearly	
EU CR1-C**	Credit quality of credit risk exposures by geography	Half-yearly	

EU CR1-D**	Ageing of the gross values of past-due exposures	Half-yearly	
EU CR1-E**	Non-performing and performing exposures by exposure class	Half-yearly	
EU CR2-B	Changes in gross non-performing on-balance sheet exposures	Half-yearly	
EU CR2-A	Changes in adjustments to non-performing on-balance sheet exposures	Half-yearly	
EU CRD	Qualitative disclosure on the institution's use of external credit ratings under the standardised approach for credit risk	Annual	Section 8 – Credit risk: Disclosures on portfolios subject to the standardised approach
EU CR4	Standardised approach - Credit risk exposure and CRM effects	Half-yearly	
EU CR5	Standardised approach - Exposures post CCF and CRM	Half-yearly	
EU CR5 bis	Standardised approach - Exposures before CCF and CRM	Half-yearly	
EU CRE	Qualitative disclosure on IRB models	Annual	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	Half-yearly	
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	Half-yearly	
EU CR10	IRB (specialised lending and equities)	Half-yearly	
EU CR9	IRB approach – Backtesting of PD per exposure class	Annual	
EU CRC	Qualitative disclosure on CRM techniques	Annual	Section 10 – Risk mitigation techniques
EU CR3	CRM techniques – Overview	Half-yearly	
EU CCRA	Qualitative disclosure on CCR	Annual	Section 11 – Counterparty risk
EU CCR1	Analysis of CCR exposure by approach	Half-yearly	
EU CCR2	CVA capital charge	Half-yearly	
EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk weighting	Half-yearly	
EU CCR3 bis	Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation	Half-yearly	
EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	Half-yearly	
EU CCR6	Credit derivatives exposures	Half-yearly	
EU CCR5-A	Impact of netting and collateral held on exposure values	Half-yearly	
EU CCR5-B	Composition of collateral for exposures to CCR	Half-yearly	
EU CCR8	Exposures to CCPs	Half-yearly	
EU MRA	Qualitative disclosure on market risk	Annual	Section 13 – Market risk
EU MRB	Qualitative disclosure for institutions using the IMA	Annual	
EU MR1	Market risk under the standardised approach	Half-yearly	
EU MR2-A	Market risk under the IMA	Half-yearly	
EU MR3	IMA values for trading portfolios	Half-yearly	
EU MR4	Comparison of VaR estimates with gains/losses	Half-yearly	
Template A	Encumbered and unencumbered assets	Annual	Section 17 – Encumbered and unencumbered assets
Template B	Guarantees received	Annual	
Template C	Sources of encumbrance	Annual	
Template D	Accompanying descriptive information	Annual	

* Table not applicable to the Intesa Sanpaolo Group.
** Table supplemented to comply with the requirements of the "Guidance to banks on non-performing loans" (ECB, March 2017 - Attachment 7).

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 (EU) Regulation 575/2013 (CRR) of 26 June 2013, 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.

These regulatory provisions were adopted in Italy through the following circulars:
– Bank of Italy Circular 285: Supervisory regulations for banks;
– Bank of Italy Circular 286: Instructions for preparing prudential reports for banks and Italian investment companies;
– Update to Bank of Italy Circular 154: Credit and financial institutions supervisory reports: Preparation and transmission.

The harmonised reporting requirements contained in Circulars 286 and 154 will now be gradually repealed by those established by Commission Implementing Regulation (EU) 680/2014 and by its subsequent amendments and additions, which includes implementing technical standards regarding the supervisory reporting of institutions for supervisory purposes in compliance with the provisions of the CRR.
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:
  o Common Equity Tier 1 Capital (CET1);
  o 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 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.

With regard to the transitional period for the introduction of the “Basel 3” regulatory framework, which moreover expired on 31 December 2017 and 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, the exemption period established by Regulation (EU) 575/2013 (CRR), regarding the amendments to be applied to IAS 19, also expired at the end of 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).
The transitional period (2018-2022), 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 CET 1 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.
Following the publication in the Official Journal of the European Union of 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 CRD V (Capital Requirements Directive), BRRD II (Banking Recovery and Resolution Directive), SRMR II (Single Resolution Mechanism Regulation) and regulation (EU) 2019/630 as regards minimum loss coverage for non-performing exposures (also known as calendar provisioning), please note that these are all in force at 30 June 2019 and already partially applicable.

Quantitative disclosure

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 30 June 2019 is summarised in the table below.

(millions of euro)

	30.06.2019	31.12.2018
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**47,616**	**46,466**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**644**	**376**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**48,260**	**46,842**
D. Items to be deducted from CET 1	**-12,783**	**-13,870**
E. Transitional period - Impact on CET1 (+/-)	**2,538**	**4,269**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**38,015**	**37,241**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**4,740**	**4,856**
of which AT1 instruments subject to transitional adjustments	615	731
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**4,740**	**4,856**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**7,269**	**8,419**
of which T2 instruments subject to transitional adjustments	113	12
N. Items to be deducted from T2	**-783**	**-788**
O. Transitional period - Impact on T2 (+ / -)	**-**	**-850**
P. Total Tier 2 (T2) (M - N +/- O)	**6,486**	**6,781**
Q. Total own funds (F + L + P)	**49,241**	**48,878**

The tables below provide a detailed summary of the various capital levels before regulatory adjustments and transitional regime adjustments, together with the reconciliation between Common Equity Tier 1 and net book value. With regard to transitional regime adjustments, please note that for the eligibility of:
- grandfathered instruments;
- minority interests;
- IFRS 9 FTA filter (pursuant to Article 473a amending EU Regulation 575/2013);
- other minor captions;

the regulations envisage specific treatment allowing 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.

Attachment 1 reports the Own Funds Disclosure Template envisaged in the instructions issued by the EBA.

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	30.06.2019	31.12.2018
Group Shareholders' equity	53,535	54,024
Minority interests	337	407
Shareholders' equity as per the Balance Sheet	**53,872**	**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	-4,121	-4,121
- Minority interests eligible for inclusion in AT1	-4	-4
- Minority interests eligible for inclusion in T2	-4	-4
- Ineligible minority interests on full phase-in	-298	-372
- Ineligible net income for the period (a)	-1,887	-3,534
- Treasury shares included under regulatory adjustments	206	204
- Other ineligible components on full phase-in	-148	-134
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**47,616**	**46,466**
Regulatory adjustments (including transitional adjustments) (b)	**-9,601**	**-9,225**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**38,015**	**37,241**

(a) Common Equity Tier 1 capital as at 30 June 2019 includes the net income for the second quarter of 2019, less the related dividend, calculated according to the payout envisaged in the 2018-2021 Business Plan (80% for 2019) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 30 June 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.

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)

	30.06.2019	31.12.2018
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	9,086	9,085
Share premium reserve	25,074	24,767
Reserves [(a)]	13,197	12,975
Accumulated other comprehensive income [(b)]	-151	-904
Net income (loss) for the period	2,266	4,050
Net income (loss) for the period not eligible	-1,887	-
Dividends and other foreseeable charges [(c)]	-	-3,534
Minority interests	31	27
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**47,616**	**46,466**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-206	-204
Goodwill	-4,469	-4,477
Other intangible assets	-3,238	-3,297
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,487	-1,456
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-176	-208
Defined benefit pension funds assets	-	-
Prudential filters	644	376
- of which Cash Flow Hedge Reserve	*951*	*814*
- of which Gains or Losses due to changes in own credit risk (DVA)	*2*	*-201*
- of which Prudent valuation adjustments	*-309*	*-237*
- of which Other prudential filters	*-*	*-*
Exposures to securitisations deducted rather than risk weighted at 1250%	-200	-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)]	-2,165	-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	*-2,165*	*-1,727*
Deductions with threshold of 17.65% [(e)]	-498	-1,955
Positive or negative elements – other	-344	-319
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-12,139**	**-13,494**
Total adjustments in the transitional period (CET1)	**2,538**	**4,269**
Common Equity Tier 1 (CET1) – Total	**38,015**	**37,241**

(a) Amount included in CET1. It 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 2018, the figure considers the dividends on 2018 results, the portion of the remuneration of the AT1 instruments issued at that date and the portion of 2018 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) 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 period, 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.

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 30 June 2019 is equal to -200 million euro.
The "Negative elements – other" mainly include the sterilisation in common equity of deferred tax assets (DTA) associated with tax realignment of a single item of goodwill.

The amount of the filter as at 30 June 2019 is equal to 164 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

	30.06.2019	31.12.2018
Additional Tier 1 capital (AT1)		
AT1 instruments	4,121	4,121
Minority interests	4	4
Additional Tier 1 capital (AT1) before regulatory adjustments	**4,125**	**4,125**
Regulatory adjustments to Additional Tier 1 (AT1)	**-**	**-**
Adjustments in the transitional period, including minority interests (AT1)	**-**	**-**
AT1 instruments eligible for grandfathering	**615**	**731**
Additional Tier 1 (AT1) - Total	**4,740**	**4,856**

No AT1 instruments were issued in the first half of 2019.

Additional Tier 1 Capital (AT1) equity instruments eligible for grandfathering and Other AT1 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 regulatory capital (millions of euro)
Intesa Sanpaolo	up to 14/10/2019: 8.375% fixed rate; thereafter 3-month Euribor + 687 bps/year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	615
Total Additional Tier 1 instruments subject to transitional provisions									**615**
Intesa Sanpaolo	6.25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	750
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	1,250
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	1,250
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	871
Total Additional Tier 1 instruments not subject to transitional provisions									**4,121**
Total Additional Tier 1 equity instruments									**4,736**

Tier 2 Capital (T2)

(millions of euro)

	30.06.2019	31.12.2018
Tier 2 Capital (T2)		
T2 Instruments	7,152	7,553
Minority interests	4	4
Excess of provisions over expected losses eligible (excess reserve)	-	850
Tier 2 capital before regulatory adjustments	**7,156**	**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	-783	-788
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-783**	**-788**
Total adjustments in the transitional period, including minority interests (T2)	**-**	**-850**
T2 instruments eligible for grandfathering	**113**	**12**
Tier 2 Capital (T2) - Total	**6,486**	**6,781**

Tier 2 (T2) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	3-month Euribor + 190 bps/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	724
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,726
Intesa Sanpaolo	6.6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,217
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,316
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	979
Intesa Sanpaolo	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	469
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	192
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	49
Intesa Sanpaolo	2.855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	480
Total Tier 2 instruments									**7,152**

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

(millions of euro)

	30.06.2019	31.12.2018
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,814	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	3,814	3,665
C. Threshold of 17.65% for significant investments and DTA not deducted in the threshold described under point B	5,153	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 are weighted among risk-weighted assets at 250%.
In the third quarter of 2018, the EBA published a Q&A which resulted in the exclusion - during the transitional period (2018-2022) - from the basis of calculation of CET 1 used to determine the “thresholds”, as described above, of the gradually decreasing amount of the CET 1 adjustment due to the adoption of the “static” approach to mitigate the capital impacts linked to the introduction of IFRS 9.

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			**51,051**	
Assets				
70. Investments in associates and companies subject to joint control	1,071	6,932	-2,861	8, 19
of which: implicit goodwill in associated companies IAS 28-31	*369*	*970*	*-369*	*8, 19*
100. Intangible assets	9,028	7,311	-7,912	8
of which: goodwill	*4,163*	*3,562*	*-4,163*	*8*
of which: other intangible assets	*4,865*	*3,749*	*-3,749*	*8*
110. Tax assets	16,120	15,428	-1,659	10
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*1,487*	*1,487*	*-1,487*	*10*
Liabilities				
10. Securities issued	83,094	85,068	7,880	33, 46, 47, 52
of which: subordinated instruments subject to transitional arrangements	*0*	*728*	*728*	*33, 47*
of which: subordinated instruments not subject to transitional arrangements	*0*	*7,152*	*7,152*	*46, 52*
60. Tax liabilities	2,056	1,362	574	8
a) Current tax liabilities	312	251	N.A.	
b) Deferred tax liabilities	1,744	1,111	N.A.	
of which: tax liabilities related to goodwill and other intangible assets	*0*	*0*	*0*	*8*
120. Valuation reserves	-152	-152	799	3, 11
of which: valuation reserves on securities available for sale	*311*	*0*	*311*	
of which: valuation reserves on financial assets measured at fair value through other comprehensive income	*74*	*396*	*74*	
of which: valuation reserves on cash flow hedges	*-951*	*-962*	*0*	*11*
of which: foreign exchange differences	*-945*	*-945*	*-945*	*3*
of which: legally-required revaluations	*1,796*	*1,796*	*1,796*	*3*
of which: valuation reserves on net actuarial losses	*-437*	*-437*	*-437*	*3*
of which: other	*0*	*0*	*0*	
140 Equity instruments	4,103	4,103	4,121	
150. Reserves	13,230	13,230	15,737	2
of which: impact of the adoption of IFRS9 net of transitional arrangements		*0*	*2,538*	*9*
160. Share premium reserve	25,074	25,074	25,074	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 (-)	-72	-72	-206	16
190. Minority interests (+/-)	337	208	39	5, 34, 48
of which CET1 compliant		*0*	*31*	*5*
of which AT1 compliant		*0*	*4*	*34*
of which T2 compliant		*0*	*4*	*48*
200. Net income (loss) for the period (+/-)	2,266	2,266	379	5a
of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period			*379*	*5a*
OTHER COMPONENTS OF OWN FUNDS, OF WHICH:			**-1,810**	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities			2	14
Value adjustments due to the requirements for prudent valuation			-309	7
Exposures to securitisations deducted rather than risk weighted at 1250%			-200	20a, 20c
IRB shortfall of credit risk adjustments to expected losses			-176	12
IRB Excess of provisions over expected losses eligible			0	50
Filter on unrealised capital gains on real properties			-30	20
Filter on double tax realignment			-164	20
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment			-783	55
Indirect investments			-150	20
Total own funds as at 30 June 2019			**49,241**	

Capital requirements

Qualitative and quantitative disclosure

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group's total own funds must amount to at least 12.45% 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 0.07% in the second 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, on consolidated basis, as of 1 March 2019. The overall capital requirement the Group 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[2], the Common Equity Tier 1 ratio to be met is 8.96% under the transitional arrangements in force for 2019 and 9.36% on a fully loaded basis.

Regarding credit risks, 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, should be noted.
There were no changes in the scope of application of the internal models concerning counterparty risk for OTC derivatives and operational risks compared to 31 December 2018.

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.

[2] Countercyclical Capital Buffer calculated taking into account the exposures as at 30 June 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 to the 2019-2020 period, where available, or the most recent update of the reference period (requirement was set at zero per cent in Italy for the first nine months of 2019).

EU OV1 – Overview of RWAs

(millions of euro)

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			30.06.2019	31.03.2019	30.06.2019
	1	**Credit risk (excluding CCR)**	**213,115**	**213,833**	**17,049**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*71,117*	*70,756*	*5,689*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*1,033*	*960*	*83*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*135,574*	*136,538*	*10,846*
Article 438(d)	*5*	*Of which equity with simple risk-weighted approach or PD/LGD*	*5,391*	*5,579*	*431*
Article 107 Article 438(c)(d)	**6**	**CCR**	**8,164**	**7,902**	**653**
Article 438(c)(d)	*7*	*Of which mark to market*	*1,661*	*1,832*	*133*
Article 438(c)(d)	*8*	*Of which original exposure*	-	-	-
	9	*Of which the standardised approach*	-	-	-
	10	*Of which internal model method (IMM)*	*5,156*	*4,855*	*412*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*258*	*224*	*21*
Article 438(c)(d)	*12*	*Of which CVA*	*1,089*	*991*	*87*
Article 438(e)	**13**	**Settlement risk**	-	-	-
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**7,211**	**5,967**	**577**
	15	*Of which IRB approach*	*1,193*	*971*	*96*
	16	*Of which IRB supervisory formula approach (SFA)*	*2,291*	*2,335*	*183*
	17	*Of which internal assessment approach (IAA)*	-	-	-
	18	*Of which standardised approach*	*3,727*	*2,661*	*298*
Article 438 (e)	**19**	**Market risk**	**20,116**	**25,244**	**1,609**
	20	*Of which the standardised approach*	*2,596*	*2,135*	*208*
	21	*Of which IMA*	*17,520*	*23,109*	*1,401*
Article 438(e)	**22**	**Large exposures**	-	-	-
Article 438(f)	**23**	**Operational risk**	**18,344**	**17,671**	**1,468**
	24	*Of which basic indicator approach*	*496*	*645*	*40*
	25	*Of which standardised approach*	*2,006*	*2,117*	*161*
	26	*Of which advanced measurement approach*	*15,842*	*14,909*	*1,267*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subjectto 250% risk weight)**	**13,310**	**13,024**	**1,065**
Article 500	**28**	**Floor adjustment**	-	-	-
	29	**TOTAL**	**280,260**	**283,641**	**22,421**

The total amount of risk-weighted exposures recorded as at 30 June 2019 was around 280.3 billion euro, with a change of approximately -3.4 billion euro compared to March 2019. In particular, please note the following:

- credit risk (excluding counterparty risk) recorded a slight drop mainly attributable to the advanced IRB segment, affected by the decline in the Corporate and Bank segments;
- counterparty risk is stable overall;
- securitisations included in the banking book increased due to the restructuring of transactions linked to Retail portfolios, reshaped while keeping the risk profile substantially uniform, to some new transactions and some new positions acquired during the quarter;
- the market risk decreased significantly mainly as a consequence of the internal models, connected to the reduction of the prudential multiplier of the VaR and Stressed VaR metrics following the lower number of backtesting exceptions and the lower sensitivity of the portfolio to credit spreads;
- operational risk recorded a change, explained by the half-yearly update of the models with the advanced measurement approach.

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

EU CR8 – RWA flow statements of credit risk exposures under the IRB approach in the second quarter

(millions of euro)

		RWA AMOUNTS	CAPITAL REQUIREMENTS
1	**RWAs as at 31 March 2019**	**150,837**	**12,067**
2	Asset size	-457	-37
3	Asset quality	-561	-45
4	Model updates	486	39
5	Methodology and policy	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-279	-22
8	Other	220	18
9	**RWAs as at 30 June 2019 (*)**	**150,246**	**12,020**

(*) As at 30 June 2019, the RWA relating to IRB models amounted to 150,246 million euro and was attributable to the Foundation IRB approach for 1,033 million euro (Row 3 EU OV1), to the Advanced IRB approach for 135,574 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 5,391 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 8,248 million euro (of which Row 27 EU OV1).

The aggregate of the RWAs relating to the exposures subject to credit risk measured using advanced approaches[3] was stable in the half: the value, identified as 150,837 million euro in March 2019, was 150,246 million euro in June 2019. The modest decrease of 591 million euro between the two periods is mainly due to the following effects:

- -561 million euro attributable to an improvement in the credit rating of the counterparties in the portfolio.
- -279 million euro attributable to foreign currency exposures due to changes in exchange rates, in particular for the exposures denominated in US dollars;
- -457 million euro due to the decrease in volumes in the quarter;
- 486 million euro deriving from the adoption of the new internal models (Model updates), extended to the portfolios of Banca Apulia transferred to the ISP scope following the merger by incorporation[4].

[3] 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).

[4] The calculation with internal models of the Retail SME portfolio (former Banca Apulia), currently measured with the standardised approach, is still pending.

EU CCR7 - RWA flow statements of CCR exposures under the IMM in the second quarter

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 31 March 2019**	**4,855**	**388**
2	Asset size	167	13
3	Credit quality of counterparties	156	12
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-1	-
8	Other	-21	-1
9	**RWAs as at 30 June 2019**	**5,156**	**412**

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 was identified as 4,855 million euro at the end of March 2019 and 5,156 million euro at the end of June 2019. The overall increase of 301 million euro between the two periods was due to the following two effects: 167 million euro due to the increase in exposure and 156 million euro following the increase in risk of the transactions in the portfolio.

EU MR2-B – RWA flow statements of market risk exposures under the IMA in the second quarter

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 31 March 2019**	**5,666**	**12,686**	**4,702**	**-**	**55**	**23,109**	**1,848**
1a	*Regulatory adjustment*	-	-	-	-	-	-	-
1b	*RWAs at the previous quarter-end (end of the day)*	*4,774*	*12,223*	*4,059*	-	*38*	*21,094*	*1,687*
2	Movement in risk levels	-1,647	-3,508	-478	-	-10	-5,643	-450
3	Model updates/changes	-	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	-	-	54	-	-	54	3
8a	*RWAs at the end of the reporting period (end of the day)*	*4,124*	*12,323*	*4,278*	-	*46*	*20,771*	*1,662*
8b	*Regulatory adjustment*	-	-	-	-	-	-	-
8	**RWAs as at 30 June 2019**	**4,019**	**9,178**	**4,278**	**-**	**45**	**17,520**	**1,401**

The changes in the levels of risk resulted in a decrease in RWAs of 5,643 million euro compared to the first quarter. Mainly contributing to the reduction were the VaR (-1,647 million) and Stressed VaR (-3,508 million) figures due to the reduced exposure in the financial and sovereign sector and, to a lower extent, the IRC (-478 million). Compared to March, the requirement also benefited from a reduction in the prudential multipliers linked to the backtesting exceptions (Caption "Other").

Institution-specific Countercyclical Capital Buffer

Below is the information relating to the “Countercyclical capital buffer”, prepared based on the ratios applicable at 30 June 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 in the weighted average of the countercyclical ratios which are applied in the countries where the relevant credit exposures of the institutions are located.
CRD IV established the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical buffer rate (for exposures towards Italian counterparties) at 0% also for the third quarter of 2019.
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.

With reference to 30 June 2019:
- the countercyclical capital ratios at individual country level were set, with the methods summarised above, generally equal to 0%, with the exception of the following countries: Sweden (2.00%), Norway (2.00%), Hong Kong (2.50%), Czech Republic (1.25%), Slovakia (1.25%), United Kingdom (1.00%), Lithuania (1,00%), Denmark (0.50%) and Iceland (1.75%);
- at consolidated level, Intesa Sanpaolo’s specific countercyclical ratio amounts to 0.066%.

Amount of the Institution-specific Countercyclical Capital Buffer

(millions of euro)

Total risk exposure	280,260
Specific countercyclical ratio of the institution (%)	0.066%
Specific countercyclical capital buffer requirement of the institution	185

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 30 June 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 approcach	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 approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
ITALY	49,088	267,832	801	297	5,579	11,603	*11,079*	*70*	*555*	11,704	70.74	-
ABU DHABI	5	1,022	-	-	-	-	*29*	-	-	29	0.18	-
ALBANIA	499	5	-	-	-	-	*77*	-	-	77	0.46	-
ALGERIA	-	8	-	-	-	-	-	-	-	-	0.00	-
SAUDI ARABIA	27	172	-	-	-	-	*9*	-	-	9	0.05	-
ARGENTINA	6	10	-	-	-	-	-	-	-	-	0.00	-
AUSTRALIA	34	677	-	-	-	-	*28*	-	-	28	0.17	-
AUSTRIA	110	331	-	3	-	-	*19*	-	-	19	0.12	-
AZERBAIJAN	2	265	-	-	-	-	*17*	-	-	17	0.10	-
BAHAMAS	112	56	-	-	-	-	*6*	-	-	6	0.04	-
BAHRAIN	2	-	-	-	-	-	-	-	-	-	0.00	-
BANGLADESH	-	46	-	-	-	-	*3*	-	-	3	0.02	-
BELGIUM	79	1,135	-	6	-	-	*43*	-	-	43	0.26	-
BELIZE	-	1	-	-	-	-	-	-	-	-	0.00	-
BERMUDA	2	318	-	-	-	-	*19*	-	-	19	0.12	-
BELARUS	-	1	-	-	-	-	-	-	-	-	0.00	-
BOLIVIA	1	-	-	-	-	-	-	-	-	-	0.00	-
BOSNIA AND HERZEGOVINA	869	4	-	-	-	-	*70*	-	-	70	0.42	-
BRAZIL	192	263	-	-	-	-	*21*	-	-	21	0.13	-
BULGARIA	2	24	-	-	-	-	*1*	-	-	1	0.01	-
CANADA	136	136	-	-	-	-	*6*	-	-	6	0.04	-
CAYMAN ISLANDS	247	473	-	-	-	-	*39*	-	-	39	0.24	-
CZECH REPUBLIC	318	889	2	-	-	-	*74*	-	-	74	0.45	1.25
CHILE	1	263	-	-	-	-	*9*	-	-	9	0.06	-
CHINA	205	634	-	-	-	-	*101*	-	-	101	0.61	-
CYPRUS	35	276	-	-	-	-	*12*	-	-	12	0.07	-
COLOMBIA	1	52	-	-	-	-	*2*	-	-	2	0.01	-
SOUTH KOREA	5	16	-	-	-	-	*1*	-	-	1	0.01	-
COSTA RICA	1	-	-	-	-	-	-	-	-	-	0.00	-
CROATIA	8,210	228	-	-	-	-	*573*	-	-	573	3.47	-
DENMARK	28	17	4	6	-	-	*2*	*1*	-	3	0.02	0.50
DOMINICAN REPUBLIC	-	13	-	-	-	-	*1*	-	-	1	0.01	-
ECUADOR	2	420	-	-	-	-	*9*	-	-	9	0.06	-
EGYPT	2,648	3	-	-	-	-	*169*	-	-	169	1.02	-
ESTONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
ETHIOPIA	113	1	-	-	-	-	-	-	-	-	0.00	-
FINLAND	96	61	1	8	-	9	*8*	-	-	8	0.05	-
FRANCE	672	2,843	46	64	-	5	*136*	*9*	-	145	0.88	-
GABON	37	-	-	-	-	-	*3*	-	-	3	0.02	-
GERMANY	904	2,482	10	108	-	4	*144*	*14*	-	158	0.95	-
GHANA	-	17	-	-	-	-	*1*	-	-	1	0.01	-
JAPAN	1	1,014	-	37	-	-	*42*	-	-	42	0.25	-
GREECE	16	38	-	4	-	-	*2*	-	-	2	0.02	-

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 approcach	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 approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
GUATEMALA	1	-	-	-	-	-	-	-	-	-	0.00	-
HONG KONG	56	263	-	7	-	-	10	1	-	11	0.07	2.50
INDIA	3	474	-	-	-	-	19	-	-	19	0.12	-
INDONESIA	43	78	-	-	-	-	7	-	-	7	0.04	-
IRELAND	428	210	52	8	-	64	39	4	-	43	0.27	-
ISRAEL	4	30	-	2	-	-	2	-	-	2	0.02	-
JERSEY	162	100	-	-	-	-	18	-	-	18	0.11	-
KAZAKHSTAN	9	19	-	-	-	-	1	-	-	1	0.01	-
KENYA	-	2	-	-	-	-	-	-	-	-	0.00	-
KUWAIT	1	210	-	-	-	-	7	-	-	7	0.04	-
LEBANON	-	1	-	-	-	-	-	-	-	-	0.00	-
LIBERIA	10	6	-	-	-	-	1	-	-	1	0.00	-
LITHUANIA	11	-	-	-	-	-	1	-	-	1	0.01	1.00
LUXEMBOURG	2,488	2,516	46	81	-	-	378	14	-	392	2.37	-
MACAO	-	10	-	-	-	-	-	-	-	-	0.00	-
MACEDONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
MALAYSIA	-	182	-	-	-	-	2	-	-	2	0.01	-
MALTA	3	27	-	-	-	-	2	-	-	2	0.01	-
MOROCCO	1	-	-	-	-	-	-	-	-	-	0.00	-
MARSHALL ISLANDS	20	169	-	-	-	-	15	-	-	15	0.09	-
MAURITIUS ISLAND	-	216	-	-	-	-	11	-	-	11	0.06	-
MEXICO	94	1,046	-	36	-	-	49	-	-	49	0.30	-
REPUBLIC OF MOLDOVA	72	-	-	-	-	-	3	-	-	3	0.02	-
MONGOLIA	-	128	-	-	-	-	10	-	-	10	0.06	-
MONTENEGRO	8	-	-	-	-	-	1	-	-	1	0.00	-
NICARAGUA	1	-	-	-	-	-	-	-	-	-	0.00	-
NIGERIA	9	1	-	-	-	-	-	-	-	-	0.00	-
NORWAY	98	132	-	3	-	-	6	-	-	6	0.04	2.00
NEW ZEALAND	1	-	-	-	-	-	-	-	-	-	0.00	-
OMAN	31	141	-	-	-	-	7	-	-	7	0.04	-
NETHERLANDS	490	2,361	129	76	-	44	135	11	-	146	0.88	-
PANAMA	91	34	-	-	-	-	8	-	-	8	0.05	-
PARAGUAY	1	-	-	-	-	-	-	-	-	-	0.00	-
PERU	2	114	-	-	-	-	4	-	-	4	0.02	-
POLAND	549	677	-	-	-	-	71	-	-	71	0.43	-
PORTUGAL	116	114	53	5	-	6	9	2	-	11	0.06	-
PRINCIPALITY OF MONACO	2	11	-	-	-	-	-	-	-	-	0.00	-
PUERTO RICO	-	6	-	-	-	-	1	-	-	1	0.01	-
QATAR	64	247	-	-	-	-	5	-	-	5	0.03	-
UNITED KINGDOM	886	3,954	16	98	-	-	235	13	-	248	1.50	1.00
ROMANIA	973	53	-	-	-	-	65	-	-	65	0.39	-
RUSSIA	1,741	2,770	-	-	-	-	162	-	-	162	0.98	-
SAN MARINO	3	22	-	-	-	-	1	-	-	1	0.01	-
SERBIA	3,642	224	6	-	-	-	226	-	-	226	1.37	-
SINGAPORE	37	425	-	-	-	-	13	-	-	13	0.08	-
SLOVAKIA	2,894	11,665	-	-	-	-	532	-	-	532	3.21	1.25
SLOVENIA	1,292	695	-	-	-	-	118	-	-	118	0.71	-
SPAIN	251	3,377	40	40	-	21	165	3	2	170	1.03	-

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 approcach	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 approcach	***Of which: Generic credit exposures***	***Of which: Exposures in the trading book***	***Of which: Exposures to securitisations***	Total		
UNITED STATES OF AMERICA	675	6,859	10	78	-	59	307	23	12	342	2.07	-
SOUTH AFRICA	2	339	-	-	-	-	17	-	-	17	0.10	-
SWEDEN	186	239	-	14	-	-	20	-	-	20	0.12	2.00
SWITZERLAND	358	1,129	-	76	-	-	58	8	-	66	0.39	-
TANZANIA	1	-	-	-	-	-	-	-	-	-	0.00	-
THAILAND	-	5	-	-	-	-	-	-	-	-	0.00	-
TUNISIA	-	3	-	-	-	-	-	-	-	-	0.00	-
TURKEY	351	811	-	-	-	-	78	-	-	78	0.47	-
UKRAINE	55	23	-	-	-	-	3	-	-	3	0.02	-
HUNGARY	2,976	356	-	-	-	-	201	-	-	201	1.22	-
URUGUAY	5	61	-	-	-	-	1	-	-	1	0.01	-
VENEZUELA	1	3	-	-	-	-	-	-	-	-	0.00	-
BRITISH VIRGIN ISLANDS	8	269	-	-	-	-	13	-	-	13	0.08	-
VIETNAM	-	5	-	-	-	-	-	-	-	-	0.00	-
ZIMBABWE	1	-	-	-	-	-	-	-	-	-	0.00	-
TOTAL	**85,915**	**324,858**	**1,216**	**1,057**	**5,579**	**11,815**	**15,792**	**173**	**569**	**16,534**	**100.00**	

Non-deducted participations in insurance undertakings

The Intesa Sanpaolo Group has not exercised the option provided by Article 49 of the CRR regarding the treatment of positions in insurance undertakings. As a result, the related disclosure (EU INS1) is not applicable at Group level.

EU IFRS9-FL - Comparison of own funds, capital ratios and leverage ratio with and without the application of transitional provisions for IFRS 9

(millions of euro)

	Available capital (amounts)	30.06.2019	31.03.2019	31.12.2018	30.09.2018	30.06.2018
1	Common Equity Tier 1 capital (CET1)	38,015	37,231	37,241	37,189	36,012
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	34,351	33,534	33,072	34,219	32,833
3	Tier 1 capital	42,755	41,971	42,097	42,044	41,354
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	39,091	38,274	37,928	39,074	38,175
5	Total capital	49,241	48,719	48,878	48,957	48,337
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	46,430	45,881	45,560	46,850	45,977
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	280,260	283,641	276,446	275,944	282,383
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	279,410	282,831	275,533	275,424	280,464
	Capital ratios					
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	13.6%	13.1%	13.5%	13.5%	12.8%
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	12.3%	11.9%	12.0%	12.4%	11.7%
11	Tier 1 capital (as a percentage of the risk exposure amount)	15.3%	14.8%	15.2%	15.2%	14.6%
12	Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.0%	13.5%	13.8%	14.2%	13.6%
13	Total capital (as a percentage of the risk exposure amount)	17.6%	17.2%	17.7%	17.7%	17.1%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.6%	16.2%	16.5%	17.0%	16.4%
	Leverage ratio					
15	Leverage ratio total exposure measure	700,805	702,039	668,562	675,453	665,393
16	Leverage ratio	6.1%	6.0%	6.3%	6.2%	6.2%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.6%	5.5%	5.7%	5.8%	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 transition period (2018-2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios as at 30 June 2019 (with and without applying the transitional provisions for IFRS 9) shown in the table above due to the following:

- the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9, after eliminating the shortfall existing as at 31 December 2017 on IRB exposures;
- the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component as a result of the adoption of the adjustment introduced by the afore-mentioned Regulation, aimed at mitigating the impact of FTA;
- a positive impact on CET 1 resulting from the change in the classification of the financial assets in the new categories established by IFRS 9 and the consequent change in measurement metrics;
- an increase in the DTAs that are deducted from CET 1 due to the exceeding of the prudential thresholds, only when there is no requirement their deduction under the local tax regulations;
- 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 CET 1 as a result of the adoption of said transitional adjustment;
- the reduction of the risk-weighted assets (RWA) on standard exposures which, as a result of the increase in the provisions linked to the first-time adoption of IFRS 9, reduced the risk exposure (EAD);
- the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

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.

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).
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.

The "Liquidity Risk Management Guidelines" of the Intesa Sanpaolo Group contain the latest regulatory provisions on liquidity risk and illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of such risk, thereby preventing the emergence of crisis situations.

In particular, from an organisational standpoint, a detailed definition is prepared of the tasks assigned to the Board of Directors and reports are presented to senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.
The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Group Treasury and Finance Head Office Department, responsible for liquidity management, and the Financial and Market Risks Head Office Department, directly responsible for measuring liquidity risk on a consolidated basis.

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.

With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.

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 1 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, the minimum regulatory threshold for which is 100% after 1 January 2018, is aimed at strengthening the short-term liquidity risk profile, ensuring the holding of sufficient unencumbered high-quality liquid assets (HQLA) that can be easily and immediately converted into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario, as defined by Delegated Regulation (EU) 2015/61.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: 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: this requirement will take on the minimum regulatory value of 100% by June 2021 following the recent publication in the Official Journal of the new CRD IV and CRR 2. In addition, the 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 Group 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 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 the first six months of 2019: both regulatory indicators, LCR and NSFR, were met, already reaching a level well above the limits provided for by the Regulations under normal conditions. The Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 162%. For the purposes of compliance with the internal limits, the LCR indicator also takes account of the prudential estimate of the "additional outflows for other products and services", assessed based on the provisions of Regulation (EU) 2015/61 (Article 23).

As at 30 June 2019, the Central Banks eligible and liquid reserves, mainly under centralised management by the Treasury Head Office Department of the Parent Company, including the reserves held with Central Banks (Cash and Deposits), amounted to a total of 191 billion euro (175 billion euro at December 2018), of which 110 billion euro, net of haircut, was unencumbered (89 billion euro at the end of December 2018). The HQLA component represented 60% of own reserves and 94% of the unencumbered reserves. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Bonds Own Portfolio		Unencumbered (net of haircut)	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Cash and Deposits held with Central Banks (HQLA)	40,631	40,156	40,631	40,156
Other High Quality Liquid Assets (HQLA)	73,710	64,805	63,026	44,190
Other eligible and/or marketable reserves	76,818	69,843	6,568	4,251
Total Group Liquidity Buffer	**191,159**	**174,804**	**110,225**	**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 (CRR and CRD IV) 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 starting from the LCR recorded at the end of June 2019.

EU LIQ1 - Liquidity Coverage Ratio (LCR) disclosure template and additional disclosure

(millions of euro)

SCOPE OF CONSOLIDATION		TOTAL UNWEIGHTED VALUE (AVERAGE)	TOTAL WEIGHTED VALUE (AVERAGE)
	Quarter ending	June 30th 2019	June 30th 2019
	Number of data points used in the calculation of averages	12	12
HIGH-QUALITY LIQUIDIT ASSETS			
1	**Total high-quality liquid assets (HQLA) (a)**		**82,866**
CASH-OUTFLOWS			
2	**Retail deposits and deposits from small business customers, of which:**	**195,978**	**13,691**
3	*Stable deposits*	*142,412*	*7,121*
4	*Less stable deposits*	*53,566*	*6,570*
5	**Unsecured wholesale funding**	**96,755**	**45,477**
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*32,146*	*8,034*
7	*Non operational deposits (all counterparties)*	*61,526*	*34,360*
8	*Unsecured debt*	*3,083*	*3,083*
9	**Secured wholesale funding**		**1,148**
10	**Additional requirements**	**50,594**	**11,081**
11	*Outflows related to derivative exposure and other collateral requirements*	*2,374*	*1,772*
12	*Outflos related to loss of funding on debt products*	-	-
13	*Credit and liquidity facilities*	*48,220*	*9,309*
14	**Other contractual funding obligations**	**868**	**863**
15	**Other contingent funding obligations**	**110,881**	**1,711**
16	**TOTAL CASH OUTFLOWS**		**73,971**
CASH-INFLOWS			
17	Secured lending (e.g. reverse repos)	40,646	1,909
18	Inflows from fully performing exposures	19,835	12,689
19	Other cash inflows	21,799	8,219
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**	**82,280**	**22,817**
20a	*Fully exempt inflows*	-	-
20b	*Inflows subject to 90% cap*	-	-
20c	*Inflows subject to 75% cap*	*82,280*	*22,817*
21	**LIQUIDITY BUFFER**		**82,866**
22	**TOTAL NET CASH OUTFLOWS**		**51,154**
23	**LIQUIDITY COVERAGE RATIO (%)**		**162%**

(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.

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 VI, 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 in the reference period. 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 30 June 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). 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. 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.

Credit risk: credit quality

Qualitative disclosure

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.
The overall watch-list and non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring through a control system and periodic managerial reporting. In particular, this activity is performed using measurement methods and performance controls that allow the production of synthetic risk indicators. The quality of the loan portfolio is pursued through specific operating checks for all the phases of loan management, through the use of both IT procedures and systematic supervision of positions with the aim of detecting any symptoms of difficulty and promote corrective measures to prevent possible deterioration of credit risk.
Positions are detected and automatically entered in the credit management processes by way of daily and monthly checks using objective risk indicators that allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and monitoring.
Within the Group, in accordance with pre-set rules, positions which are attributed a persistent high-risk rating are intercepted (manually or automatically) and classified to the following categories based on their risk profile, in accordance with the regulatory provisions on credit quality:

- Bad loans: the set of "on-” and "off-balance sheet” exposures towards borrowers in default or similar situations;
- Unlikely to pay: "on-” and "off-balance sheet” exposures which the bank, based on its opinion, does not deem likely to be completely (as principal and/or interest) repaid by the borrowers without the implementation of actions such as enforcement of guarantees. This assessment is irrespective of the presence of any amounts (or instalments) due and unpaid.

The category of non-performing loans also includes past due positions that cannot be considered mere delays in reimbursements, as established by the Bank of Italy.
Lastly, non-performing exposures also include the individual forborne exposures which comply with the definition of “Non-performing exposures with forbearance measures” envisaged by the EBA ITS (European Banking Authority - Implementing Technical Standards), which are not a separate category of non-performing assets, but rather a sub-category. Similarly, exposures characterised by "forbearance measures" are also included among performing loans.
The management process for such exposures, in close accordance with regulatory provisions concerning classification times and methods, is assisted by automatic mechanisms that ensure pre-established, autonomous and independent management procedures.
For more detailed qualitative disclosure on Credit risk, see the Basel 3 – Pillar 3 Disclosure as at 31 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 as at 31 December 2018.

EU CR1-A – Credit quality of on-balance sheet and off-balance sheet credit risk exposures by exposure class and instrument as at 30 June 2019

(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 (**)	TOTAL	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD (***)			NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)						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**	**466**	**64,059**	**207**	**-**	**18**	**1**	**28**	**14**	**14**	**1**	**64,318**
3	**Corporates**	**24,216**	**284,010**	**12,888**	**-**	**5,574**	**1,497**	**846**	**828**	**18**	**-5**	**295,338**
4	*- Of which: Specialised lending*	*1,609*	*15,809*	*905*	*-*	*112*	*45*	*33*	*49*	*-16*	*1*	*16,513*
5	*- Of which: SMEs*	*14,136*	*64,922*	*7,929*	*-*	*3,422*	*520*	*415*	*415*	*-*	*-9*	*71,129*
6	**Retail**	**9,161**	**135,504**	**5,606**	**-**	**832**	**114**	**336**	**303**	**33**	**9**	**139,059**
7	Secured by real estate property	2,958	97,384	1,118	-	57	37	97	76	21	9	99,224
8	*- SMEs*	*843*	*4,736*	*330*	-	*38*	*5*	*17*	*21*	*-4*	-	*5,249*
9	*- Non-SMEs*	*2,115*	*92,648*	*788*	-	*19*	*32*	*80*	*55*	*25*	*9*	*93,975*
10	Qualifying revolving	-	-	-	-	-	-	-	-	-	-	-
11	Other retail	6,203	38,120	4,488	-	775	77	239	227	12	-	39,835
12	*- SMEs*	*3,882*	*16,902*	*2,818*	-	*410*	*53*	*125*	*128*	*-3*	-	*17,966*
13	*- Non-SMEs*	*2,321*	*21,218*	*1,670*	-	*365*	*24*	*114*	*99*	*15*	-	*21,869*
14	**Equity**	**90**	**4,733**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,823**
15	**Total IRB approach**	**33,933**	**488,306**	**18,701**	**-**	**6,424**	**1,612**	**1,210**	**1,145**	**65**	**5**	**503,538**
16	Central governments or central banks	-	126,351	66	-	-	-	7	-	7	-	126,285
17	Regional governments or local authorities	-	880	4	-	-	-	-	-	-	-	876
18	Public sector entities	-	3,019	11	-	-	-	-2	-	-2	-	3,008
19	Multilateral development banks	-	411	-	-	-	-	-	-	-	-	411
20	International organisations	-	299	-	-	-	-	-	-	-	-	299
21	Institutions	-	7,776	43	-	-	-	2	-	2	-	7,733
22	Corporates	-	46,842	249	-	-	17	-56	4	-60	-	46,593
23	*- Of which: SMEs*	-	*10,413*	*72*	-	-	-	*2*	*1*	*1*	-	*10,341*
24	Retail	-	18,283	164	-	-	5	5	13	-8	1	18,119
25	*- Of which: SMEs*	-	*3,519*	*47*	-	-	-	*1*	*1*	-	-	*3,472*
26	Secured by mortgages on immovable property	-	4,154	41	-	-	-	-3	-	-3	-	4,113
27	*- Of which: SMEs*	-	*1,104*	*25*	-	-	-	-	-	-	-	*1,079*
28	Exposures in default (****)	3,696	-	1,902	-	111	46	78	78	-	19	1,794
29	Items associated with particularly high risk	-	958	66	-	-	1	-1	-1	-	-	892
30	Covered bonds	-	1,441	-	-	-	-	-	-	-	-	1,441
31	Claims on institutions and corporates with a short-term credit rating	-	1	-	-	-	-	-	-	-	-	1
32	Collective investments undertakings	-	2,823	-	-	-	-	-39	-	-39	-	2,823
33	Equity exposures	-	2,399	-	-	-	-	-5	-	-5	-	2,399
34	Other exposures	-	18,210	9	-	-	-	12	-	12	-	18,201
35	**Total standardised approach**	**3,696**	**233,847**	**2,555**	**-**	**111**	**69**	**-2**	**94**	**-96**	**20**	**234,988**
36	**Total**	**37,629**	**722,153**	**21,256**	**-**	**6,535**	**1,681**	**1,208**	**1,239**	**-31**	**25**	**738,526**
37	Of which: Loans (*****)	35,301	402,227	20,705	-	6,535	1,681	1,278	1,277	1	25	416,823
38	Of which: Debt securities	26	83,076	142	-	-	-	-21	-	-21	-	82,960
39	Of which: Off-balance-sheet exposures	2,212	229,841	409	-	-	-	-49	-38	-11	-	231,644

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

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

(***) Net adjustments (+) or recoveries (-) referring to the first half of 2019. The amounts refer to existing positions at the end of the 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): 7 million euro attributable to the Central governments and central banks portfolio, 12 million euro attributable to the Public sector entities portfolio, 703 million euro attributable to the Exposures secured by real estate property portfolio, 1,964 million euro attributable to the Corporates portfolio, 1,004 million euro attributable to the Retail portfolio, 4 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.

The portfolio increased slightly in the period (+1.7% at gross values and +1.5% at net values) due to the performance of the Securities component (+9.4 billion euro), with an offsetting effect and marginal remodulation of the incidence with respect to the Loans component for some exposure classes, such as Central Administrations and Governments, Supervised Intermediaries, Companies. The contribution from the commercial development of loans to customers is limited. It continues

to be oriented towards principles of selectivity, within a stagnant economic framework in the domestic market and a moderately more sustained growth in some foreign markets where the Group is present (Slovakia, Egypt, Serbia). Loans to Companies recorded a limited shift, with the absorption of short-term domestic loans, towards more complex forms of lending (Structured Finance), also to non-resident customers and extended 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. Contributing to the increase in the "Other Exposures" aggregate (+2.5 billion euro) are the measurement of the leased assets pursuant to the new IFRS 16 – relating to the change in use of the leased assets (full risk weighting for prudential purposes) – and the effects of macrohedging on the core deposits. The credit quality of the portfolio benefits from the gradual absorption of defaulting exposures (-5.8%, equal to -2.3 billion euro), with the recovery of the financial stability of the counterparties that were in difficulty, together with a widespread improvement in the risk profile of the borrower customers, which is reflected in a reduction in the level and flow of adjustments. With reference to the valuation methods to which the exposures shown in the table refer, please note that the level of use of advanced approaches (68.2% of the aggregate) remained more or less stable in the half, with the extension of the internal models to Banca Apulia following the merger by incorporation into the Parent Company, while the corporate reorganisation operations carried out with the mergers by incorporation of domestic banks already previously authorised to use internal models remain neutral (Cassa di Risparmio di Bologna, Cassa di Risparmio di Firenze, Cassa di Risparmio di Pistoia e della Lucchesia, Banca Prossima).

EU CR1-B – Credit quality of on-balance sheet and off-balance sheet exposures to credit risk by industry or counterparty types as at 30 June 2019

(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 (**)	TOTAL	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD (***)			NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)						on non-performing exposures	on performing exposures	of which: due to write-offs	(a+ b -c-d)
1	Agriculture, forestry and fishing	1,127	7,440	658	-	131	19	30	35	-5	1	7,909
2	Mining and quarrying	227	10,502	169	-	12	-	33	34	-1	-	10,560
3	Manufacturing	7,554	89,584	4,312	-	2,490	1,064	288	298	-10	-1	92,826
4	Electricity, gas, steam and air conditioning supply	394	21,980	293	-	58	17	11	10	1	-	22,081
5	Water supply; sewerage, waste management and remediation activities	196	2,642	133	-	60	10	5	5	-	-	2,705
6	Construction	8,016	25,999	4,131	-	1,154	130	233	257	-24	4	29,884
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	4,386	46,239	2,761	-	1,008	187	173	160	13	-	47,864
8	Transport and storage	1,404	12,933	904	-	189	30	19	21	-2	-4	13,433
9	Accommodation and food service activities	1,214	6,497	621	-	80	13	28	27	1	-	7,090
10	Information and communication	370	14,209	218	-	71	24	12	13	-1	-	14,361
11	Financial Institutions	541	99,186	454	-	107	26	-24	28	-52	1	99,273
12	Governments and Central Banks	7	129,030	75	-	-	-	7	-	7	-	128,962
13	Households	4,189	127,913	2,461	-	307	62	188	168	20	12	129,641
14	Real estate activities	4,627	15,563	2,014	-	556	37	82	80	2	-1	18,176
15	Professional, scientific and technical activities	1,288	26,348	748	-	135	22	66	59	7	2	26,888
16	Administrative and support service activities	551	6,015	327	-	114	33	11	10	1	-	6,239
17	Public administration and defence, compulsory social security	317	13,169	127	-	10	-	5	-	5	-	13,359
18	Education	51	741	34	-	6	1	-	-	-	-	758
19	Human health services and social work activities	193	6,038	113	-	7	1	2	5	-3	-	6,118
20	Arts, entertainment and recreation	281	1,568	151	-	28	2	14	14	-	-	1,698
21	Other services activities	696	47,722	550	-	12	3	25	15	10	11	47,868
22	**TOTAL (****)**	**37,629**	**711,318**	**21,254**	**-**	**6,535**	**1,681**	**1,208**	**1,239**	**-31**	**25**	**727,693**

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

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

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

(****) 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 10,833 million euro.

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

As part of a limited increase in the overall aggregate, the breakdown of exposures by sector remained essentially stable, with a limited shift within the portfolio, including the increase towards Financial Institutions (exposures characterised by investment grade profiles, Eurozone), partially offset by the reduction in the Public Administration segment;
the changes in the Construction and Trade segments were more marginal, showing a downward trend, while the development trend of the Energy sector was more sustained, with an increasing exposure to renewable sources and the Mining sector.

EU CR1-C – Credit quality of on-balance sheet and off-balance sheet credit risk exposures by geography as at 30 June 2019

(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 (**)	TOTAL	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD (***)			NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)						on non-performing exposures	on performing exposures	of which: due to write-offs	(a+ b -c-d)
1	**EUROPE**	**37,103**	**636,500**	**20,890**	**-**	**6,507**	**1,675**	**1,157**	**1,186**	**-29**	**25**	**652,713**
2	*of which: France*	*8*	*13,783*	*20*	*-*	*15*	*-*	*3*	*1*	*2*	*-*	*13,771*
3	*of which: United Kingdom*	*3*	*10,991*	*5*	*-*	*4*	*-*	*-4*	*-*	*-4*	*-*	*10,989*
4	*of which: Netherlands*	*-*	*7,178*	*6*	*-*	*-*	*-*	*-1*	*-*	*-1*	*-*	*7,172*
5	*of which: Spain*	*32*	*19,634*	*19*	*-*	*-*	*-*	*2*	*-*	*2*	*-*	*19,647*
6	*of which: Turkey*	*-*	*6,277*	*33*	*-*	*-*	*-*	*-1*	*-*	*-1*	*-*	*6,244*
7	*of which: Italy*	*35,316*	*482,732*	*19,431*	*-*	*6,396*	*1,606*	*1,104*	*1,128*	*-24*	*14*	*498,617*
8	*of which: Luxembourg*	*65*	*9,988*	*49*	*-*	*20*	*-*	*-10*	*1*	*-11*	*-*	*10,004*
9	*of which: Germany*	*103*	*11,210*	*73*	*-*	*1*	*-*	*-*	*-*	*-*	*-*	*11,240*
10	*of which: Croatia*	*551*	*12,465*	*353*	*-*	*1*	*4*	*22*	*38*	*-16*	*-*	*12,663*
11	*of which: Slovakia*	*328*	*16,422*	*351*	*-*	*-*	*39*	*30*	*2*	*28*	*10*	*16,399*
12	*of which: Serbia*	*154*	*6,151*	*121*	*-*	*3*	*12*	*14*	*19*	*-5*	*-*	*6,184*
13	*of which: Russia*	*77*	*7,256*	*58*	*-*	*-*	*-*	*4*	*-*	*4*	*-*	*7,275*
14	**AMERICA**	**311**	**44,549**	**169**	**-**	**9**	**4**	**43**	**47**	**-4**	**-**	**44,691**
15	*Of which: United States*	*37*	*30,774*	*25*	*-*	*8*	*4*	*4*	*-*	*4*	*-*	*30,786*
16	**ASIA**	**48**	**27,508**	**35**	**-**	**19**	**-**	**12**	**12**	**-**	**-**	**27,521**
17	**REST OF THE WORLD**	**167**	**13,596**	**162**	**-**	**-**	**2**	**-4**	**-6**	**2**	**-**	**13,601**
18	*Of which: Egypt*	*142*	*7,779*	*152*	*-*	*-*	*2*	*-4*	*-6*	*2*	*-*	*7,769*
19	**TOTAL**	**37,629**	**722,153**	**21,256**	**-**	**6,535**	**1,681**	**1,208**	**1,239**	**-31**	**25**	**738,526**

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

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

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

Please note that the values shown in the table include revocable margins. In the table, only the countries towards which the Group has exposures that exceed the threshold of 6 billion euro are shown individually (which represent, in any case, approximately 90% of the total exposures).
The most significant remaining countries not shown are:

1) Europe: Hungary, Switzerland, Belgium and Poland;
2) America: Brazil and Mexico;
3) Asia: China, Qatar, India, Abu Dhabi and Japan.

The breakdown of exposures by geography remained substantially stable, with a presence concentrated in Europe (88%), in which the incidence of the domestic market remains dominant (76%), despite a slight decline due to the stagnant situation of the economy compared with a moderately more favourable economic situation in the other European economies. The exposure to the traditional trading partners remains stable (the total aggregate in Spain, France, England and Germany is around 8.5%), while the presence in the geographically neighbouring countries of Central and South-Eastern Europe (the aggregate exposure referring to Croatia, Slovenia, Serbia, Bosnia, Albania, Poland, Slovakia, Hungary and Romania is around 8%) and towards the Russian Federation shows a moderate level of development. With regard to the other countries bordering the Mediterranean, the level of exposure is limited overall, with a relatively larger lending presence in Egypt and Turkey. Exposure to the main world economies was greater in the USA (around 4%) and considerable in Brazil (around 1.5%) with a development orientation, which is confirmed by the recent establishment of the subsidiary Intesa Sanpaolo Brasil; the exposure towards China, Qatar and Abu Dhabi remains limited. The lending quality of the portfolio confirms a positive trend, reflected in the gradual absorption of non-performing exposures and in the decrease in net adjustments for the period.

The tables below show the Book Values (regulatory scope) of on-balance sheet and off-balance sheet exposures, irrespective of the specific treatments the values may be subject to for the quantification of the credit risk for regulatory purposes. The on-balance sheet exposures refer to loans, excluding repurchase agreements and debt securities.

EU CR1-D – Ageing of the gross values of on-balance sheet past-due exposures as at 30 June 2019

This table reports the gross values of on-balance sheet exposures by past-due band and risk status. The values shown in the table include the amount of the debt not yet past due.

(millions of euro)

		GROSS CARRYING VALUES										
		TOTAL PERFORMING	PERFORMING EXPOSURES				TOTAL NON-PERFORMING	NON-PERFORMING EXPOSURES				
			Not past due	Past due ≤ 30 days	Past due > 30 days ≤ 60 days	Past due > 60 days ≤ 90 days		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	*Of which defaulted*
1	**Loans**	**405,593**	**400,383**	**2,423**	**552**	**2,235**	**35,700**	**6,596**	**1,289**	**1,375**	**26,440**	***35,700***
2	Central banks	41,565	41,565	-	-	-	-	-	-	-	-	-
3	General governments	14,874	14,302	144	10	418	364	104	1	21	238	*364*
4	Credit institutions	22,349	22,348	1	-	-	101	97	-	-	4	*101*
5	Other financial corporations	35,866	35,811	3	4	48	746	201	60	125	360	*745*
6	Non-financial corporations	154,426	152,271	974	200	981	27,583	5,436	957	859	20,331	*27,583*
7	Households	136,513	134,086	1,301	338	788	6,906	758	271	370	5,507	*6,907*
8	**Debt securities**	**90,069**	**90,069**	**-**	**-**	**-**	**118**	**14**	**-**	**-**	**104**	***118***
9	Central banks	141	141	-	-	-	-	-	-	-	-	-
10	General governments	66,777	66,777	-	-	-	11	2	-	-	9	*11*
11	Credit institutions	6,373	6,373	-	-	-	-	-	-	-	-	-
12	Other financial corporations	13,174	13,174	-	-	-	71	9	-	-	62	*70*
13	Non-financial corporations	3,604	3,604	-	-	-	36	3	-	-	33	*37*
14	**TOTAL**	**495,662**	**490,452**	**2,423**	**552**	**2,235**	**35,818**	**6,610**	**1,289**	**1,375**	**26,544**	***35,818***

The ageing of the gross values of Loans and Securities, by past-due band, is essentially in line with the previous period.

EU CR1-E – Non-performing and performing exposures by exposure class as at 30 June 2019
(Table 1 of 2)

(millions of euro)

		GROSS CARRYING VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES				
		TOTAL PERFORMING AND NON-PERFORMING	TOTAL PERFORMING	PERFORMING		NON-PERFORMING
				Stage 1	Stage 2	Stage 3
1	**Debt securities**	**90,187**	**90,069**	**84,674**	**5,395**	**118**
2	Central banks	141	141	100	41	-
3	General governments	66,788	66,777	62,174	4,603	11
4	Credit institutions	6,373	6,373	6,301	72	-
5	Other financial corporations	13,245	13,174	12,663	511	71
6	Non-financial corporations	3,640	3,604	3,436	168	36
7	**Loans and advances**	**441,293**	**405,593**	**362,062**	**43,531**	**35,700**
8	Central banks	41,565	41,565	41,270	295	-
9	General governments	15,238	14,874	11,369	3,505	364
10	Credit institutions	22,450	22,349	20,231	2,118	101
11	Other financial corporations	36,612	35,866	31,207	4,659	746
12	Non-financial corporations	182,009	154,426	136,045	18,381	27,583
13	Households	143,419	136,513	121,940	14,573	6,906
14	**Off-balance-sheet exposures**	**248,227**	**245,998**	**231,825**	**14,173**	**2,229**
15	Central banks	1,620	1,620	1,620	-	-
16	General governments	7,447	7,440	6,428	1,012	7
17	Credit institutions	40,380	40,371	39,819	552	9
18	Other financial corporations	28,516	28,489	25,473	3,016	27
19	Non-financial corporations	159,177	157,031	148,284	8,747	2,146
20	Households	11,087	11,047	10,201	846	40
21	**TOTAL**	**779,707**	**741,660**	**678,561**	**63,099**	**38,047**

EU CR1-E – Non-performing and performing exposures by exposure class as at 30 June 2019
(Table 2 of 2)

(millions of euro)

		ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
		TOTAL ON PERFORMING	ON PERFORMING		ON NON-PERFORMING	On performing exposures	On non-performing exposures
			Stage 1	Stage 2	Stage 3		
1	**Debt securities**	**136**	**69**	**67**	**93**	**220**	**-**
2	Central banks	4	1	3	-	-	-
3	General governments	102	52	50	2	-	-
4	Credit institutions	4	4	-	-	-	-
5	Other financial corporations	16	6	10	69	220	-
6	Non-financial corporations	10	6	4	22	-	-
7	**Loans and advances**	**2,024**	**750**	**1,274**	**19,022**	**186,351**	**12,602**
8	Central banks	8	7	1	-	-	-
9	General governments	54	19	35	121	1,681	1
10	Credit institutions	17	16	1	19	354	-
11	Other financial corporations	105	59	46	416	11,332	224
12	Non-financial corporations	1,143	423	720	14,962	69,782	9,676
13	Households	697	226	471	3,504	103,202	2,701
14	**Off-balance-sheet exposures**	**156**	**102**	**54**	**267**	**58,116**	**590**
15	Central banks	-	-	-	-	-	-
16	General governments	2	1	1	5	1,226	-
17	Credit institutions	2	2	-	-	12,278	-
18	Other financial corporations	30	28	2	1	16,834	11
19	Non-financial corporations	100	58	42	253	24,184	566
20	Households	22	13	9	8	3,594	13
21	**TOTAL**	**2,316**	**921**	**1,395**	**19,382**	**244,687**	**13,192**

Compared with the previous half and as already described, there was a slight increase in gross exposure values, mainly due to Debt Securities component (+12%). With regard to the adjustment allowances, there was a slight decrease in the aggregate (-6%) during the half.

For the disclosure regarding forborne exposures, see the detailed table (Credit quality of forborne exposures).

EU CR2-B – Changes in gross non-performing on-balance sheet exposures as at 30 June 2019

(millions of euro)

		Gross carrying value defaulted exposures
1	**Opening balance as at 31 December 2018**	**37,991**
2	Transfers from performing exposures categories	2,138
3	Return to non-defaulted status	-680
4	Amounts written off	-1,723
5	Other changes	-1,908
6	**Closing balance as at 30 June 2019**	**35,818**

EU CR2-A - Changes in adjustments to non-performing on-balance sheet exposures as at 30 June 2019

(millions of euro)

		Accumulated specific credt risk adjustments	Accumulated general credit risk adjustments
1	**Opening balance as at 31 December 2018**	**20,253**	**-**
2	Increases due to credit risk adjustments	1,789	-
3	Decreases due to recoveries on valuation/collection	-891	-
4	Decreases due to sale/write-off	-1,959	-
5	Transfers between credit risks adjustments	-	-
6	Impact of exchange rate differences	-2	-
7	Business combinations	-	-
8	Other adjustments	-75	-
9	**Closing balance as at 30 June 2019**	**19,115**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-41	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	150	-

The following are allocated to the caption “Other Changes”:
- In CR2-B, the increases in the amounts for charges, collections and profits on disposal;
- In CR2-A, the collections of overdue interest applied in previous years and the collections on written-off loans.

Credit quality of forborne exposures as at 30 June 2019

(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
		TOTAL	Of which performing past due	Of which non performing past due	On performing forborne exposures		On non-performing forborne exposures		
						Of which value adjustment		*Of which value adjustment*	
1	**Debt Securities (including at amortised cost and fair value)**	**82**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2	Central banks	-	-	-	-	-	-	-	-
3	General governments	72	-	-	-	-	-	-	-
4	Credit institutions	-	-	-	-	-	-	-	-
5	Other financial corporations	-	-	-	-	-	-	-	-
6	Non-financial corporations	10	-	-	-	-	-	-	-
7	**Loans and advances (including at amortised cost and fair value)**	**16,702**	**545**	**9,158**	**336**	**-**	**3,672**	**10**	**8,164**
8	Central banks	-	-	-	-	-	-	-	-
9	General governments	520	48	91	9	-	58	-	2
10	Credit institutions	97	-	97	-	-	15	-	-
11	Other financial corporations	537	7	313	8	-	208	6	212
12	Non-financial corporations	12,909	308	7,532	259	-	3,061	4	6,027
13	Households	2,639	182	1,125	60	-	330	-	1,923
14	**Debt instruments other than HFT**	**16,784**	**545**	**9,158**	**336**	**-**	**3,672**	**10**	**8,164**
15	**Loan commitments given**	**551**	**-**	**255**	**1**	**-**	**8**	**-**	**254**
16	**Total exposures with forbearance measures**	**17,335**	**545**	**9,413**	**337**	**-**	**3,680**	**10**	**8,418**

Credit risk: disclosures on portfolios subject to the standardised approach

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).

EU CR4 – Standardised approach - Credit risk exposure and CRM effects as at 30 June 2019

(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	122,872	3,413	138,709	3,119	19,286	14%
2	Regional government or local authorities	675	201	790	159	290	31%
3	Public sector entities	2,687	321	2,078	81	740	34%
4	Multilateral development banks	321	90	416	2	-	0%
5	International organisations	299	-	299	-	-	0%
6	Institutions	5,682	2,051	5,778	206	2,691	45%
7	Corporates	30,788	15,805	21,589	3,368	23,786	95%
8	Retail	12,610	5,509	10,039	684	7,527	70%
9	Secured by mortgages on immovable property	4,070	43	4,066	25	1,507	37%
10	Exposures in default	1,754	40	1,678	18	1,774	105%
11	Exposures associated with particularly high risk	739	153	688	84	1,158	150%
12	Covered bonds	1,441	-	1,441	-	197	14%
13	Institutions and corporates with a short-term credit rating	1	-	1	-	1	100%
14	Collective investment undertaking	1,611	1,212	1,440	476	1,894	99%
15	Equity	2,347	52	2,347	52	2,683	112%
16	Other items	18,201	-	18,201	-	12,586	69%
17	**TOTAL**	**206,098**	**28,890**	**209,560**	**8,274**	**76,120**	**35%**
	TOTAL ON- AND OFF-BALANCE SHEET AMOUNTS	**234,988**		**217,834**			

In the first half, there was a modest increase in the overall aggregate (around +1.3 billion euro), mainly due to the positive increase in the “Other items” portfolio, which includes the restatement of the leased assets pursuant to the new IFRS 16 – relating to the change in use of the leased assets (full risk weighting for prudential purposes) – and the effects of macrohedging on the core deposits. Partially offsetting this, the aggregate decreased following the extension of the internal models (Retail, Corporate, Institutions) also to the scope of the former Banca Apulia, merged by incorporation into the Parent Company, with a consequent restatement of the values from standardised approaches to advanced approaches. The restatement of Banca Apulia’s values and the reclassification of the accounting items, together with other more marginal

changes in operating volumes, result in substantial RWA density stability, which remains at 35% on the portfolio of exposures measured with the standardised approach.

EU CR5 – Standardised approach - Exposures post CCF and CRM as at 30 June 2019 *(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	122,342	-	-	48	1,561	-	1,807	-	-
2	Regional government or local authorities	-	-	-	-	823	-	1	-	-
3	Public sector entities	1,311	-	-	-	78	-	92	-	-
4	Multilateral development banks	418	-	-	-	-	-	-	-	-
5	International organisations	299	-	-	-	-	-	-	-	-
6	Institutions	-	222	-	-	2,622	-	2,025	-	-
7	Corporates	-	-	-	-	631	-	836	58	-
8	Retail	-	-	-	-	-	-	-	-	10,723
9	Secured by mortgages on immovable property	-	-	-	-	-	2,928	1,163	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	1,134	280	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	3,897	-	-	-	2,148	-	-	-	-
17	**TOTAL**	**128,267**	**222**	**-**	**1,182**	**8,143**	**2,928**	**5,924**	**58**	**10,723**

EU CR5 – Standardised approach - Exposures post CCF and CRM as at 30 June 2019 *(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	13,084	86	1,835	-	-	1,065	1,659	**141,828**	*13,244*
2	Regional government or local authorities	125	-	-	-	-	-	-	**949**	*635*
3	Public sector entities	678	-	-	-	-	-	-	**2,159**	*1,346*
4	Multilateral development banks	-	-	-	-	-	-	-	**418**	*263*
5	International organisations	-	-	-	-	-	-	-	**299**	*299*
6	Institutions	1,027	88	-	-	-	-	-	**5,984**	*1,738*
7	Corporates	23,315	117	-	-	-	-	783	**24,957**	*10,596*
8	Retail	-	-	-	-	-	-	-	**10,723**	*10,723*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**4,091**	*3,550*
10	Exposures in default	1,539	157	-	-	-	-	-	**1,696**	*1,696*
11	Exposures associated with particularly high risk	-	772	-	-	-	-	-	**772**	*772*
12	Covered bonds	27	-	-	-	-	-	-	**1,441**	*191*
13	Institutions and corporates with a short-term credit rating	1	-	-	-	-	-	-	**1**	*1*
14	Collective investment undertakings	1,653	49	28	-	-	186	-	**1,916**	*1,916*
15	Equity	2,209	-	190	-	-	-	2,492	**2,399**	*2,398*
16	Other items	12,156	-	-	-	-	-	-	**18,201**	*18,201*
17	**TOTAL**	**55,814**	**1,269**	**2,053**	**-**	**-**	**1,251**	**4,934**	**217,834**	**67,569**

In the first half, the breakdown of exposure classes by risk weight shows a worsening due to the increase in the incidence of 100% weighting classes compared to the reduction of classes with lower weighting (<100%); it is also worth noting that this reduction in the aggregates on the lower-weighting classes for the portion of the portfolio measured using the standardised approach is a consequence of the extension of the internal models (Retail, Corporate, Institutions) to the scope of Banca Apulia, subject to merger by incorporation into the Parent Company, which implies the restatement of values from standardised approaches to advanced approaches and a more favourable treatment of the same exposures. The increase in the "Other items" portfolio includes the restatement of the leased assets pursuant to the new IFRS 16 – relating to the change in use of the leased assets (full risk weighting for prudential purposes) – and the effects of macrohedging on the core deposits.

EU CR5 bis – Standardised approach - Exposures before CCF and CRM as at 30 June 2019 *(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	104,832	-	-	48	1,516	-	1,275	-	-
2	Regional government or local authorities	-	-	-	-	750	-	-	-	-
3	Public sector entities	1,323	-	-	-	152	-	168	-	-
4	Multilateral development banks	411	-	-	-	-	-	-	-	-
5	International organisations	299	-	-	-	-	-	-	-	-
6	Institutions	-	224	-	-	3,899	-	2,572	-	-
7	Corporates	-	-	-	-	412	-	918	-	-
8	Retail	-	-	-	-	-	-	-	-	18,119
9	Secured by mortgages on immovable property	-	-	-	-	-	2,937	1,176	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	1,134	280	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	3,896	-	-	-	2,148	-	-	-	-
17	**TOTAL**	**110,761**	**224**	**-**	**1,182**	**9,157**	**2,937**	**6,109**	**-**	**18,119**

EU CR5 bis – Standardised approach - Exposures before CCF and CRM as at 30 June 2019 *(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	15,678	176	1,835	-	-	925	1,659	**126,285**	*12,223*
2	Regional government or local authorities	126	-	-	-	-	-	-	**876**	*681*
3	Public sector entities	1,365	-	-	-	-	-	-	**3,008**	*2,050*
4	Multilateral development banks	-	-	-	-	-	-	-	**411**	*313*
5	International organisations	-	-	-	-	-	-	-	**299**	*299*
6	Institutions	944	94	-	-	-	-	-	**7,733**	*2,699*
7	Corporates	45,146	117	-	-	-	-	783	**46,593**	*22,510*
8	Retail	-	-	-	-	-	-	-	**18,119**	*18,118*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**4,113**	*3,565*
10	Exposures in default	1,610	184	-	-	-	-	-	**1,794**	*1,784*
11	Exposures associated with particularly high risk	-	892	-	-	-	-	-	**892**	*892*
12	Covered bonds	27	-	-	-	-	-	-	**1,441**	*191*
13	Institutions and corporates with a short-term credit rating	1	-	-	-	-	-	-	**1**	*1*
14	Collective investment undertakings	2,560	49	28	-	-	186	-	**2,823**	*2,823*
15	Equity	2,209	-	190	-	-	-	2,492	**2,399**	*2,398*
16	Other items	12,157	-	-	-	-	-	-	**18,201**	*18,201*
17	**TOTAL**	**81,823**	**1,512**	**2,053**	**-**	**-**	**1,111**	**4,934**	**234,988**	***88,748***

Credit risk: disclosures on portfolios subject to IRB approaches

Qualitative disclosure

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.

The table below shows the regulatory portfolios for which the Group, as at 30 June 2019, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the “Corporate” (Foundation and Advanced IRB), Retail (IRB) Retail SME (IRB), Banks and Public Entities (Advanced IRB) regulatory segments and for Banking Book equity exposures (IRB). With regard to credit risks, 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.

Regulatory portfolios 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
	Default model (Municipalities and Provinces) Shadow model (Regions) (4)	Workout model (Municipalities and Provinces and Regions)	Regulatory Parameters (Municipalities and Provinces and Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Corporate; Leasing and Factoring)	CCF/ K factor model (Corporate)	FIRB authorised since December 2009, AIRB LGD authorised since December 2010. EAD authorised since September 2017 (1)
	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 authorised since September 2018 (2)
	Default model (Retail SME)	Workout model (Retail SME)	Regulatory Parameters (Retail SME)	AIRB authorised since December 2012 (3)

1) Intesa Sanpaolo: FIRB authorised since December 2008, LGD AIRB since December 2010 and AIRB since 2017 (EAD model authorisation). Mediocredito Italiano AIRB authorised since December 2010. Banca Imi (2012), ISP Ireland (2010), VUB (2010), Banka Intesa dd (2017), ISP Luxembourg (2017). Since 2017, the Corporate model has also been used to calculate the risk on the banking book equity portfolio with LGD 65%/90%
2) The authorisation for the IRB Retail model received in 2018 represented a model change for the Retail Mortgage component, already authorised in 2010, and a new validation for the Other Retail component. VUB has been authorised since June 2012 for the PD and LGD Retail Mortgage models.
3) VUB has been authorised since June 2014
4) Intesa Sanpaolo, Mediocredito Italiano and Banca Imi have been authorised since 2017

The EAD values of exposures as at 30 June 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	
	30.06.2019	31.12.2018
Exposures to or secured by corporates:		
- Specialised lending	-	-
- SMEs (Small and Medium Enterprises)	501	451
- Other corporates	687	664
Total credit risk (IRB)	**1,188**	**1,115**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2019	31.12.2018
Exposures to or secured by corporates:		
- Specialised lending	12,588	11,339
- SMEs (Small and Medium Enterprises)	56,018	56,865
- Other corporates	114,303	116,770
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities:	35,089	32,805
Total credit risk (Advanced IRB approach)	**217,998**	**217,779**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2019	31.12.2018
Retail exposures:		
- Exposures secured by residential property: SMEs	5,548	5,639
- Exposures secured by residential property: private individuals	94,562	91,307
- Other retail exposures: SMEs	13,484	13,989
- Other retail exposures: private individuals	21,281	20,503
Total credit risk (IRB)	**134,875**	**131,438**

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2019	31.12.2018
Exposures in equity instruments subject to the PD/LGD approach	1,052	967
Total credit risk (IRB)	**1,052**	**967**

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitizations	Exposure value	
	30.06.2019	31.12.2018
Exposures to securitisations (RBA - SFA)	11,669	12,976
Total credit risk (IRB)	**11,669**	**12,976**

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.

EU CR7 - IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques as at 30 June 2019

(millions of euro)

		PRE-CREDIT DERIVATIVES RWAs	ACTUAL RWAs
1	**Exposures under FIRB**	**1,032**	**1,032**
2	Central governments and central banks	-	-
3	Institutions	-	-
4	Corporates – SMEs	422	422
5	Corporates – Specialised lending	-	-
6	Corporates – Other	610	610
7	**Exposures under AIRB**	**149,214**	**149,214**
8	Central governments and central banks	-	-
9	Institutions	13,674	13,674
10	Corporates – SMEs	31,984	31,984
11	Corporates – Specialised lending	7,420	7,420
12	Corporates – Other	56,108	56,108
13	Retail – Secured by real estate SMEs	1,383	1,383
14	Retail – Secured by real estate non-SMEs	15,891	15,891
15	Retail – Qualifying revolving	-	-
16	Retail – Other SMEs	2,986	2,986
17	Retail – Other non-SMEs	6,129	6,129
18	Equity IRB	13,639	13,639
19	Other non credit obligation assets	-	-
20	**TOTAL**	**150,246**	**150,246**

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

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 30 June 2019
(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	5,078	17,192	3%	5,540	0.07	756	43.9	899	1,694	31%	2	
0.15 to <0.25	3,514	4,740	6%	3,823	0.19	497	29.1	786	1,154	30%	2	
0.25 to <0.50	4,600	5,192	8%	5,024	0.33	835	23.5	1,407	2,145	43%	4	
0.50 to <0.75	1,804	2,139	5%	1,924	0.70	481	20.9	1,396	886	46%	3	
0.75 to <1.25	1,912	1,444	1%	1,921	1.04	352	12.2	1,619	643	34%	2	
1.25 to <2.50	6,353	6,193	4%	6,581	1.83	700	34.6	828	5,901	90%	41	
2.50 to <5.00	685	2,156	6%	792	3.47	326	26.9	1,162	712	90%	7	
5.00 to <10.00	489	368	3%	464	5.76	185	13.5	1,690	265	57%	4	
10.00 to <20.00	87	80	10%	96	13.87	146	26.5	1,097	139	145%	4	
20.00 to <100.00	28	5	0%	28	36.42	25	13.0	1,579	22	77%	1	
100.00 (default)	452	14	5%	452	100.00	190	47.6	547	113	25%	206	
Subtotal	25,002	39,523	4%	26,645	2.67	4,493	30.6	1,066	13,674	51%	276	207
Exposures to or secured by corporates:												
- Specialised lending												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	
0.15 to <0.25	322	24	17%	326	0.23	46	26.7	865	102	31%	-	
0.25 to <0.50	462	701	18%	473	0.35	83	19.5	1,267	146	31%	-	
0.50 to <0.75	1,604	414	18%	1,668	0.54	207	19.6	1,566	711	43%	2	
0.75 to <1.25	2,015	2,384	17%	2,419	0.82	284	19.7	1,276	1,066	44%	8	
1.25 to <2.50	2,562	935	13%	2,517	1.56	773	22.8	1,366	1,553	62%	9	
2.50 to <5.00	1,555	377	18%	1,605	3.22	672	21.7	1,292	1,052	66%	12	
5.00 to <10.00	339	19	15%	340	8.54	122	23.5	1,380	337	99%	7	
10.00 to <20.00	551	136	15%	568	15.43	193	18.9	1,246	525	92%	17	
20.00 to <100.00	299	97	15%	298	35.79	222	33.2	1,611	534	180%	36	
100.00 (default)	1,498	97	99%	1,574	100.00	700	38.5	1,154	364	23%	577	
Subtotal	11,207	5,184	18%	11,788	16.29	3,302	23.7	1,320	6,390	54%	668	853
- SMEs (small and medium enterprises)												
0.00 to <0.15	1,015	1,525	21%	1,327	0.13	4,287	38.6	851	287	22%	1	
0.15 to <0.25	1,996	2,058	23%	2,406	0.21	9,036	38.4	849	684	28%	2	
0.25 to <0.50	6,987	6,501	22%	7,821	0.40	30,445	40.7	771	3,207	41%	13	
0.50 to <0.75	4,967	3,585	23%	5,306	0.64	19,026	40.3	795	2,743	52%	14	
0.75 to <1.25	5,368	3,127	22%	5,329	1.13	18,035	40.8	784	3,487	65%	25	
1.25 to <2.50	8,840	4,043	24%	8,834	1.79	29,053	39.9	873	6,627	75%	63	
2.50 to <5.00	4,486	1,354	23%	4,325	3.30	14,112	38.7	936	3,709	86%	55	
5.00 to <10.00	5,396	1,234	21%	5,098	7.13	15,951	38.3	1,003	5,539	109%	139	
10.00 to <20.00	1,548	228	22%	1,465	15.68	3,995	35.8	1,229	2,118	145%	82	
20.00 to <100.00	585	79	35%	769	28.94	2,174	35.1	1,232	1,238	161%	78	
100.00 (default)	13,583	553	86%	13,301	100.00	22,522	52.0	852	2,767	21%	6,705	
Subtotal	54,771	24,287	24%	55,981	25.99	168,636	42.5	867	32,406	58%	7,177	7,929
- Other corporates												
0.00 to <0.15	10,504	33,212	20%	17,260	0.09	1,961	33.2	783	3,461	20%	5	
0.15 to <0.25	11,399	28,614	16%	16,016	0.22	2,550	33.2	780	5,300	33%	12	
0.25 to <0.50	20,574	28,555	20%	26,035	0.36	6,685	32.9	833	11,373	44%	32	
0.50 to <0.75	11,337	13,900	27%	14,295	0.58	3,742	33.2	899	7,852	55%	27	
0.75 to <1.25	6,745	5,951	25%	8,249	0.99	3,478	32.1	740	5,273	64%	26	
1.25 to <2.50	11,839	7,284	22%	12,991	1.70	4,558	32.3	779	10,240	79%	72	
2.50 to <5.00	3,941	1,654	26%	4,333	3.25	1,450	31.3	943	4,211	97%	45	
5.00 to <10.00	3,548	2,123	37%	3,513	6.81	1,141	31.1	838	4,176	119%	74	
10.00 to <20.00	577	139	33%	634	14.73	263	30.8	1,160	1,037	164%	29	
20.00 to <100.00	1,121	262	34%	1,313	28.11	354	29.3	718	2,178	166%	107	
100.00 (default)	7,077	1,394	52%	7,390	100.00	2,721	40.2	690	1,617	22%	2,839	
Subtotal	88,662	123,088	21%	112,029	7.82	28,903	33.2	808	56,718	51%	3,268	4,054

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 30 June 2019
(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 (days)	RWAs	RWA density (**)	EL	Value adjust-ments and provisions
Retail exposures: (*)												
- Exposures secured by residential properties: SMEs												
0.00 to <0.15	452	7	50%	457	0.12	2,656	22.0	-	22	5%	-	
0.15 to <0.25	545	10	51%	550	0.16	4,389	22.1	-	33	6%	-	
0.25 to <0.50	1,095	14	51%	1,102	0.32	9,093	22.0	-	110	10%	1	
0.50 to <0.75	432	6	55%	436	0.68	3,519	22.2	-	75	17%	1	
0.75 to <1.25	465	6	53%	468	1.12	4,001	22.2	-	113	24%	1	
1.25 to <2.50	576	5	52%	578	1.87	5,362	22.4	-	196	34%	2	
2.50 to <5.00	497	6	53%	500	3.12	4,574	22.6	-	233	47%	4	
5.00 to <10.00	284	3	50%	286	5.46	2,911	22.3	-	177	62%	3	
10.00 to <20.00	226	2	51%	227	14.70	2,150	22.4	-	209	92%	7	
20.00 to <100.00	101	3	52%	102	44.51	1,043	22.6	-	97	95%	10	
100.00 (default)	840	4	53%	842	100.00	7,146	33.6	-	118	14%	273	
Subtotal	5,513	66	52%	5,548	17.59	46,844	24.0	-	1,383	25%	302	330
- Exposures secured by residential properties: individuals												
0.00 to <0.15	27,349	493	85%	27,768	0.08	365,208	15.6	-	944	3%	4	
0.15 to <0.25	11,636	37	13%	11,641	0.17	131,303	15.3	-	673	6%	3	
0.25 to <0.50	14,542	113	71%	14,621	0.29	167,839	16.2	-	1,325	9%	7	
0.50 to <0.75	8,302	58	70%	8,343	0.50	94,294	16.3	-	1,127	14%	7	
0.75 to <1.25	11,388	44	52%	11,411	0.77	134,691	16.1	-	2,055	18%	14	
1.25 to <2.50	9,317	40	75%	9,347	1.83	116,881	15.7	-	2,873	31%	27	
2.50 to <5.00	3,318	24	77%	3,336	3.79	40,373	16.3	-	1,630	49%	20	
5.00 to <10.00	3,543	17	73%	3,556	6.39	44,786	15.9	-	2,208	62%	36	
10.00 to <20.00	1,041	1	17%	1,041	14.67	12,656	15.4	-	885	85%	24	
20.00 to <100.00	1,383	2	40%	1,383	26.63	16,994	15.4	-	1,306	94%	57	
100.00 (default)	2,114	1	100%	2,115	100.00	27,290	35.5	-	865	41%	681	
Subtotal	93,933	830	76%	94,562	3.57	1,152,315	16.3	-	15,891	17%	880	788
- Other retail exposures: SMEs												
0.00 to <0.15	1,318	1,217	8%	1,261	0.12	36,289	32.0	-	92	7%	-	
0.15 to <0.25	1,330	1,127	7%	1,268	0.15	68,732	33.1	-	115	9%	1	
0.25 to <0.50	2,557	1,884	5%	2,370	0.32	120,760	33.8	-	351	15%	3	
0.50 to <0.75	901	473	7%	845	0.68	44,947	35.0	-	202	24%	2	
0.75 to <1.25	1,003	449	6%	929	1.11	46,186	35.5	-	283	31%	4	
1.25 to <2.50	1,212	459	8%	1,121	1.86	67,011	36.7	-	420	37%	8	
2.50 to <5.00	1,137	345	8%	1,035	3.14	56,951	37.3	-	440	43%	12	
5.00 to <10.00	586	157	8%	512	5.57	45,295	38.1	-	238	47%	11	
10.00 to <20.00	461	110	8%	391	13.83	32,332	38.0	-	232	59%	21	
20.00 to <100.00	133	43	12%	107	41.79	20,815	40.1	-	88	82%	18	
100.00 (default)	3,814	68	19%	3,611	100.00	103,687	65.3	-	525	15%	2,316	
Subtotal	14,452	6,332	7%	13,450	28.40	643,005	43.1	-	2,986	22%	2,396	2,818
- Other retail exposures: private individuals												
0.00 to <0.15	2,124	1,607	58%	3,030	0.08	966,187	30.4	-	190	6%	1	
0.15 to <0.25	1,527	420	62%	1,753	0.17	386,627	31.0	-	209	12%	1	
0.25 to <0.50	2,217	390	67%	2,421	0.29	429,237	31.6	-	420	17%	2	
0.50 to <0.75	1,812	235	69%	1,927	0.50	304,394	32.8	-	483	25%	3	
0.75 to <1.25	2,947	340	74%	3,100	0.77	449,162	33.1	-	985	32%	8	
1.25 to <2.50	2,598	302	73%	2,709	1.84	426,073	30.9	-	1,126	42%	15	
2.50 to <5.00	1,579	111	77%	1,585	3.82	254,629	32.9	-	806	51%	20	
5.00 to <10.00	1,779	108	76%	1,702	6.41	322,900	32.7	-	932	55%	36	
10.00 to <20.00	468	18	78%	401	14.67	69,980	31.6	-	280	70%	19	
20.00 to <100.00	616	20	76%	477	26.00	82,208	32.2	-	428	90%	40	
100.00 (default)	2,310	11	98%	2,176	100.00	216,918	73.0	-	270	12%	1,566	
Subtotal	19,977	3,562	64%	21,281	12.33	3,908,315	36.1	-	6,129	29%	1,711	1,670

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 30 June 2019
(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 (days)	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	10	-	100%	10	0.85	-	90.0	1,825	26	251%	-	
1.25 to <2.50	557	40	100%	598	1.65	-	90.0	1,825	1,737	291%	9	
2.50 to <5.00	28	1	100%	28	3.36	-	90.0	1,825	98	346%	1	
5.00 to <10.00	22	-	100%	22	7.50	-	90.0	1,825	93	423%	1	
10.00 to <20.00	36	-	100%	36	14.01	-	90.0	1,825	185	517%	5	
20.00 to <100.00	268	-	100%	268	28.06	-	90.0	1,825	1,524	569%	68	
100.00 (default)	90	-	100%	90	100.00	-	90.0	1,825	-	0%	81	
Subtotal	1,011	41	100%	1,052	17.40	-	90.0	1,825	3,663	348%	165	-

(*) 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.

In the first half of 2019, the aggregate of the exposures subject to credit risk, measured using advanced approaches, is essentially stable (+0.6% equal to +2 billion euro), increased by the “Exposures secured by residential property: private individuals” (+1% equal to +3.3 billion euro) and “Entities” (+0.3% equal to +1.2 billion euro), partly offset by the decline recorded on the “Other corporates” portfolio (-0.8% equal to -2.7 billion euro); a marginal realignment is also recorded between the Corporates – SMEs portfolio (-0.3% equal to -0.9 billion euro) and the Corporates – Specialised Lending portfolio (+0.3% equal to + 0.9 billion euro). The average riskiness (PD) of the performing exposures reached a more favourable level, equal to 172 bps, decreasing by 5 bps on December, reflecting the more generally positive situation, which is also common to the measurement of the non-performing exposures; with reference to the Corporates – SMEs portfolio, a prudential add-on was introduced to the estimate of the LGD on “non-defaulted exposures”, with a parameter standing at 42.5% compared to the previous 40.7%.

EU CR10 - IRB (specialised lending and equities) as at 30 June 2019

(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	233	10	70%	240	168	1
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	Equal to or more than 2.5 years	395	74	90%	450	405	4
Category 3	Less than 2.5 years	138	69	115%	190	218	5
	Equal to or more than 2.5 years	-	-	115%	-	-	-
Category 4	Less than 2.5 years	96	-	250%	96	239	8
	Equal to or more than 2.5 years	-	-	250%	-	-	-
Category 5	Less than 2.5 years	13	-	-	13	-	7
	Equal to or more than 2.5 years	-	-	-	-	-	-
Total	**Less than 2.5 years**	**247**	**69**		**299**	**457**	**20**
	Equal to or more than 2.5 years	**628**	**84**		**690**	**573**	**5**

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	22	-	290%	22	63	5
Other equity exposures	420	30	370%	450	1,665	133
TOTAL	**442**	**30**		**472**	**1,728**	**138**

There was also an amount of 3,299 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.

Credit risk mitigation techniques

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.

EU CR3 – CRM techniques – Overview

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 of the 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 financial guarantees	Exposures secured by credit derivatives
1	Total loans (*)	260,991	155,832	134,198	21,634	-
2	Total debt securities	82,951	9	-	9	-
3	**Total exposures as at 30 June 2019 (**)**	**573,889**	**164,637**	**137,189**	**27,448**	**-**
4	*Of which defaulted*	*9,087*	*9,871*	*8,263*	*1,608*	-

(*) 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 of the type of guarantee: collateral, personal guarantees, and exposures secured by credit derivatives (a type that is immaterial for the Group). Considering a slight increase in the overall aggregate (+1.5% at net values), 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 (+0.9% on the half and +1.5% annually), together with the sharp reduction in the net book value of the exposures in default (around -1.3 billion euro in the half and -5.5 billion euro annually), confirmed the significant improvement in the portfolio’s risk profile.

Counterparty risk

Qualitative disclosure

Counterparty risk is a particular type of credit risk, relating to OTC derivatives and SFTs (Securities Financing Transactions, i.e. repurchase agreements and security lending), which refers to the possible default of the counterparty before the expiry of a contract that has a positive market value.

The Group uses techniques to mitigate counterparty risk through bilateral netting arrangements which enable the netting off of credit and debit positions in the event of counterparty default.
This is achieved by entering into ISDA agreements, for OTC derivatives, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Bank establishes collateral arrangements, where possible, typically calling for daily margins, to hedge bilateral OTC derivatives (CSAs) and SFTs (GMRAs and GMSLAs).

For reporting purposes, Intesa Sanpaolo, Banca IMI and the banks of the Banca dei Territori Division (only Mediocredito Italiano remaining as at 30 June) are authorised to use the internal models approach to calculate the counterparty risk requirement for OTC derivatives and SFTs.
These advanced risk measurement methods are also used at operational level to perform the "use test": the Financial and Market Risks Department calculates, validates and sends the metrics to the credit monitoring systems on a daily basis to measure the use of the credit lines for OTC derivatives and SFTs.
The Group's banks which are not included in the roll-out plan for the internal models nevertheless apply the advanced metrics in a simplified manner at operational level.

To perform the use test of the model, the Group has implemented the processes required by the "Basel 3" regulations.
In particular, stress tests are carried out to measure the impacts on risk measures under extreme market conditions. Backtesting is also conducted to ensure the robustness of the model.
To complete the risk analysis process, the following corporate processes have been activated:

- 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 margined OTC derivatives and SFTs;
- periodic reporting to management of the measures calculated using the current and future internal exposure model, analysis of portfolio composition by type of counterparty/division/segment/country, underlying type per SFT capital requirement, level of use of management limits, and results of stress tests and Wrong-Way Risk analyses.

Quantitative disclosure

EU CCR1 – Analysis of CCR exposure by approach as at 30 June 2019

(millions of euro)

		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		539	195			357	263
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				15,377	1.54	23,681	5,156
5	*Of which securities financing transactions*				*3,227*	*1.54*	*4,969*	*393*
6	*Of which derivatives and long settlement transactions*				*12,150*	*1.54*	*18,712*	*4,763*
7	*Of which from contractual cross-product netting*				-	-	-	-
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						6,673	1,398
10	VaR for SFTs						-	-
11	**TOTAL**							**6,817**

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

As already illustrated, Banca IMI, the Parent Company and Mediocredito Italiano (last bank remaining after the incorporation of the Banks of the Banca dei Territori Division) are authorised to use EPE (Expected Positive Exposure) internal models to determine the capital requirement for counterparty risk.

This approach has been applied since March 2014 to almost the entire trading portfolio (as shown in the table, as at 30 June 2019 approximately 99% 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 30 June 2019 accounting for approximately 1% of overall EAD) and refer to:

- residual contracts of Banca IMI, Intesa Sanpaolo and Mediocredito Italiano to which EPE is not applied (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 for OTC derivatives amounts for Banca IMI, the Parent Company and Mediocredito Italiano to approximately 4.2 billion euro, while the collateral paid equals 18.8 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 12 million euro for Banca IMI (to vehicles) and 3.8 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).

EU CCR2 – CVA capital charge as at 30 June 2019

(millions of euro)

		Exposure value	RWAs
1	**Total portfolios subject to the advanced method**	**1,279**	**979**
2	VaR component (including the 3× multiplier)		151
3	SVaR component (including the 3× multiplier)		828
4	**All portfolios subject to the standardised method**	**169**	**110**
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**1,448**	**1,089**

The requirement in terms of RWA is up compared to the previous half, for both components (advanced measurement approach and standardised approach). In particular, for the advanced measurement approach, the new illiquid derivatives policy requested by the ECB was introduced in May 2019.

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk weighting as at 30 June 2019

(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	7,763	-	-	-	-	6	-	-	255	-	-	**8,024**	*8,018*
2	Regional government or local authorities	-	-	-	-	16	-	-	-	-	-	-	**16**	*16*
3	Public sector entities	-	-	-	-	-	-	-	-	14	-	-	**14**	*-*
4	Multilateral development banks	2,157	-	-	-	-	-	-	-	-	-	-	**2,157**	*9*
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	**-**	*-*
6	Institutions	-	6,759	-	-	54	17	-	-	8	-	-	**6,838**	*6,809*
7	Corporates	-	-	-	-	1	124	-	-	639	-	-	**764**	*61*
8	Retail	-	-	-	-	-	-	-	37	-	-	-	**37**	*37*
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	**-**	*-*
10	Other items	-	-	-	-	-	-	-	-	-	-	-	**-**	*-*
11	**TOTAL**	**9,920**	**6,759**	**-**	**-**	**71**	**147**	**-**	**37**	**916**	**-**	**-**	**17,850**	***14,950***

EU CCR3 bis – Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation as at 30 June 2019

(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	7,763	-	-	-	-	6	-	-	255	-	-	**8,024**	*8,018*
2	Regional government or local authorities	-	-	-	-	16	-	-	-	-	-	-	**16**	*16*
3	Public sector entities	-	-	-	-	-	-	-	-	14	-	-	**14**	-
4	Multilateral development banks	2,157	-	-	-	-	-	-	-	-	-	-	**2,157**	*9*
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions	-	7,561	-	-	139	471	-	-	109	-	-	**8,280**	*7,798*
7	Corporates	-	-	-	-	1	127	-	-	787	-	-	**915**	*103*
8	Retail	-	-	-	-	-	-	-	609	-	-	-	**609**	*609*
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	**-**	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	**-**	-
11	**TOTAL**	**9,920**	**7,561**	**-**	**-**	**156**	**604**	**-**	**609**	**1,165**	**-**	**-**	**20,015**	***16,553***

EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale as at 30 June 2019 *(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	5,233	0,07	151	21.9	364	586	11%
da 0,15 a <0,25	573	0.19	33	35.4	638	226	40%
da 0,25 a <0,50	657	0.32	41	28.8	1,058	270	41%
da 0,50 a <0,75	580	0.72	29	32.6	511	363	63%
da 0,75 a <1,25	57	1.04	3	25.6	1,824	43	76%
da 1,25 a <2,50	508	1.68	32	15.6	1,576	242	48%
da 2,50 a <5,00	209	3.56	22	34.4	605	66	31%
da 5,00 a <10,00	597	5.43	12	29.1	394	556	93%
da 10,00 a <20,00	15	18.12	1	25.6	1,825	24	156%
da 20,00 a <100,00	-	0.00	-	0.0	-	-	0%
100,00 (default)	15	100.00	1	24.6	1,179	4	25%
Subtotal	8,444	0.92	325	24.6	541	2,380	28%
Exposures to or secured by corporates:							
- Specialised lending							
0.00 to <0.15	-	0.00	-	0.0	-	-	0%
0.15 to <0.25	108	0.23	2	32.2	1,825	58	54%
0.25 to <0.50	23	0.35	3	16.6	1,458	7	29%
0.50 to <0.75	310	0.54	23	16.3	1,596	111	36%
0.75 to <1.25	124	0.82	16	16.3	1,462	48	39%
1.25 to <2.50	139	1.32	31	18.4	1,563	73	53%
2.50 to <5.00	44	2.90	19	17.6	949	23	52%
5.00 to <10.00	18	8.54	5	31.7	1,177	25	140%
10.00 to <20.00	14	19.42	5	15.8	1,530	13	94%
20.00 to <100.00	19	35.79	1	66.3	1,493	76	402%
100.00 (default)	1	100.00	5	49.8	516	-	24%
Subtotal	800	2.26	110	20.4	1,546	434	54%
- SMEs (small and medium enterprises)							
0.00 to <0.15	10	0.13	166	51.2	793	3	30%
0.15 to <0.25	19	0.21	345	51.6	846	8	42%
0.25 to <0.50	59	0.40	1,412	51.6	867	35	60%
0.50 to <0.75	48	0.65	926	51.8	825	37	75%
0.75 to <1.25	53	1.14	967	51.6	968	52	98%
1.25 to <2.50	133	1.87	1,501	51.7	1,070	155	116%
2.50 to <5.00	53	3.29	624	51.7	1,004	65	124%
5.00 to <10.00	93	7.42	688	51.6	1,014	157	169%
10.00 to <20.00	18	16.43	180	52.0	1,084	40	219%
20.00 to <100.00	19	28.86	70	51.8	1,093	46	248%
100.00 (default)	33	100.00	250	48.2	1,001	8	24%
Subtotal	538	10.01	7,129	51.5	984	606	113%
- Other corporates							
0.00 to <0.15	328	0.09	93	38.1	1,184	91	28%
0.15 to <0.25	290	0.22	137	38.0	1,178	138	48%
0.25 to <0.50	920	0.34	487	38.0	1,143	535	58%
0.50 to <0.75	644	0.55	308	38.0	1,425	517	80%
0.75 to <1.25	173	0.97	286	38.0	990	145	84%
1.25 to <2.50	324	1.69	387	37.9	857	309	95%
2.50 to <5.00	94	3.23	125	37.4	1,061	114	122%
5.00 to <10.00	163	7.37	61	38.2	988	255	157%
10.00 to <20.00	6	14.17	15	37.7	1,104	11	198%
20.00 to <100.00	4	24.35	15	37.7	705	8	212%
100.00 (default)	15	100.00	41	41.3	879	4	24%
Subtotal	2,961	1.56	1,955	38.0	1,160	2,127	72%

EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale as at 30 June 2019 *(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	5	0.12	362	48.4	-	1	11%
0.15 to <0.25	3	0.15	297	48.2	-	-	13%
0.25 to <0.50	8	0.32	587	48.1	-	2	21%
0.50 to <0.75	3	0.68	187	48.1	-	1	33%
0.75 to <1.25	4	1.12	211	47.7	-	1	41%
1.25 to <2.50	3	1.86	200	48.3	-	1	50%
2.50 to <5.00	4	3.08	208	47.8	-	2	54%
5.00 to <10.00	1	5.10	69	48.6	-	-	58%
10.00 to <20.00	1	14.22	65	47.9	-	1	74%
20.00 to <100.00	-	0.00	-	0.0	-	-	0%
100.00 (default)	2	100.00	108	47.3	-	-	14%
Subtotal	34	8.11	2,294	48.1	-	9	31%

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

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

In the first half of 2019, the aggregate of CCR exposures, measured using advanced approaches, shows an increase (+1.8 billion euro), mainly attributable (+1.1 billion euro) to the Institutions portfolio (Supervised Intermediaries, Public and territorial Entities and other Counterparties) as a result of the increase in short-term transaction volumes, as part of the ordinary volatility that characterises movements in the segment. With reference to the risk profile, the positive effect of the LGD change is significant on the Institutions portfolio (EAD around 8.5 billion euro), which stands at 24.6% compared to the past 29.9% due to a sizeable improvement in the parameter on the less risky classes on which the exposures are concentrated; on the contrary, though with a limited effect in relation to the smaller operating size of the domestic Small and Medium Enterprises portfolio (around 0.5 billion euro), the introduction of a prudential add-on impacted on the internal estimates of the LGD on the "non-defaulted exposures", leading to a slight worsening of the parameter, standing at 51.5% compared to the previous 47.1%.

EU CCR6 – Credit derivatives exposures as at 30 June 2019

(millions of euro)

	CREDIT DERIVATIVE HEDGES		OTHER CREDIT DERIVATIVES
	Protection bought	Protection sold	
Notionals			
Credit default products - On single counterparty	-	-	18,286
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)	-	-	111,543
Credit spread products - On more counterparties (basket)	-	-	-
Total rate of return swap - On more counterparties (basket)	-	-	-
Other - On more counterparties (basket)	-	-	-
Total notionals	**-**	**-**	**129,829**
Fair values			
Positive fair value (asset)	-	-	*1,019*
Negative fair value (liability)	-	-	*1,120*

The transactions in credit derivatives related to the own credit portfolio with a notional value of 91 billion euro (of which 44 billion euro relating to protection sales), whereas the dealing on behalf of customers had a notional value of 39 billion euro (of which 20 billion euro relating to protection sales).

EU CCR5-A – Impact of netting and collateral held on exposure values as at 30 June 2019

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 (Central Counterparty). 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 of the Consolidated financial statements as at 31 December 2018.

(millions of euro)

		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	22,262	17,262	5,000	4,380	620
2	SFTs	48,715	19,994	28,721	28,705	16
3	Cross-product netting	-	-	-	-	-
4	**TOTAL**	**70,977**	**37,256**	**33,721**	**33,085**	**636**

EU CCR5-B – Composition of collateral for exposures to CCR as at 30 June 2019

(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	3,921	17,632	727	531
Debt Securities	784	1,607	22	85
TOTAL	**4,705**	**19,239**	**749**	**616**

The collateral paid and received on derivative transactions increased compared to the previous half-year, in both cash and securities components. This is due to the decline in interest rates, which produced increases in the absolute values of both positive and negative exposures.

Regarding the SFT component, there was a decrease in collateral received and collected: in particular, the collateral received on SFTs with underlying Italian securities seems notably lower.

EU CCR8 – Exposures to CCPs as at 30 June 2019

(millions of euro)

		EAD POST CRM	RWAs
1	**Exposures to QCCPs (total)**		**397**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	1,010	20
3	*i) OTC derivatives*	*190*	*4*
4	*ii) Exchange-traded derivatives*	*248*	*5*
5	*iii) SFTs*	*572*	*11*
6	*iv) Netting sets where cross-product netting has been approved*	*-*	*-*
7	Segregated initial margin	-	
8	Non-segregated initial margin	5,943	119
9	Prefunded default fund contributions	2,392	258
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 clearing houses is mainly generated by Initial Margins paid by Banca IMI to LCH (SFT and OTC trading), Cassa di Compensazione e Garanzia (central counterparty clearing house) and Eurex (SFT and ETD trading).
Intesa Sanpaolo has a direct exposure to CCP only for SFT trading; the rest of the Parent Company's trading for which there is a clearing obligation is carried out by Banca Imi, which acts as the clearing broker on Intesa Sanpaolo's behalf.
The RWA values of exposures to QCCPs are in line with the previous half year.

Market risks

Qualitative and quantitative disclosure regarding the trading book

The quantification of trading risks 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.

Other Group subsidiaries hold smaller trading portfolios with a marginal risk (approximately less than 1% of the Group's overall 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.

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, (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 delay 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.

Effective from June 2014, the market risk capital requirements for the Parent Company's hedge fund portfolios are included in the Internal Model.
Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Supervisory Authority following completion of the previously recommended corrective actions.
As of 31 December 2017, the requirement includes the effects from the integration of the trading books of Banca Popolare di Vicenza and Veneto Banca into the scope of Intesa Sanpaolo. Starting from the second quarter of 2018, the requirement includes the residual trading positions of the former Banca Nuova.

Following that reduction, the prudential multipliers for both banks were set at 3.4, both for current VaR values and for those in stress conditions.

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).

EU MR1 - Market risk under the standardised approach

(millions of euro)

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	415	33
2	Equity risk (general and specific)	281	23
3	Foreign exchange risk	903	72
4	Commodity risk	8	1
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	**Securitisation (specific risk)**	**989**	**79**
9	**Total**	**2,596**	**208**

RWAs calculated with the Standardised approach recorded an increase of about 894 million euro compared to December. The figure regarding trading book securitisations amounted to about 79 million euro of requirement, up compared to the previous half year (+514 million euro of RWAs). The main driver was the increase in the exposure at book level, particularly for the Senior tranches and Investment Grade rating classes. Concerning the other components, please note the increase in the foreign exchange risk (+344 million euro of RWAs) linked to the trend in the EUR/USD positions.

EU MR2-A – Market risk under the IMA[5]

(millions of euro)

			RWAs	Capital requirements
1		**VaR (higher of values a and b)**	**4,064**	**325**
	a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		97
	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		325
2		**SVaR (higher of values a and b)**	**9,178**	**734**
	a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		290
	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)		734
3		**IRC (higher of values a and b)**	**4,278**	**342**
	a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)		342
	b)	Average of the IRC number over the preceding 12 weeks		279
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**	**17,520**	**1,401**

Compared to December 2018, the average portfolio composition recorded a reduction in the financial and government segments. This reduction produced a positive effect of about 150 million euro on the requirement.

[5] The VaR figure in the table includes illiquid parameters.

Stressed VaR

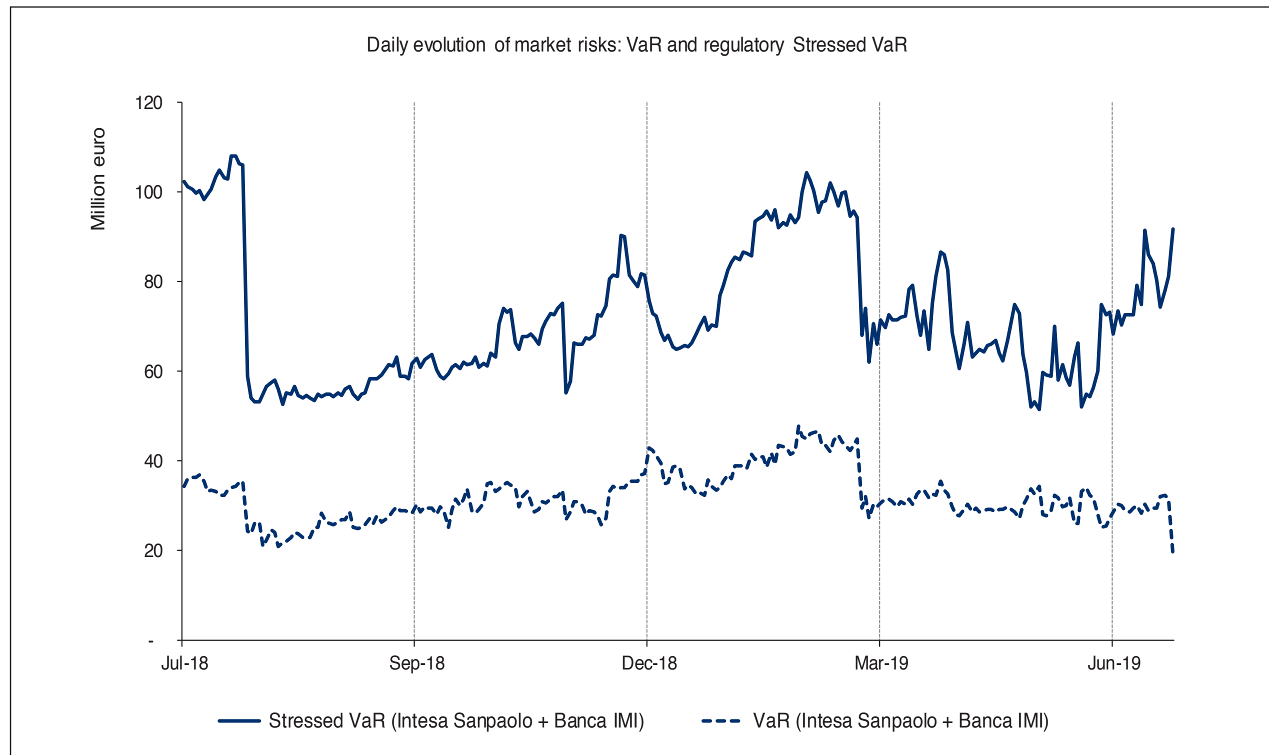
From 31 December 2011, the capital requirement for market risk includes stressed VaR. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel 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 preparing this document, the period for the measurement of Stressed VaR was set as between October 2011 and 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 and Stressed VaR measures.

EU MR3 – IMA values for trading portfolios

(millions of euro)

VaR (10 day 99%)		
1	Maximum value	123
2	Average value	95
3	Minimum value	74
4	Period end	97
SVaR (10 day 99%)		
5	Maximum value	304
6	Average value	216
7	Minimum value	159
8	Period end	290
IRC (99.9%)		
9	Maximum value	374
10	Average value	279
11	Minimum value	209
12	Period end	342
Comprehensive risk capital charge (99.9%)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-

As at 30 June, the regulatory metrics are down compared to December 2018. Contributing to this trend is the reduction in the exposure on the financial segment and, on average, the sovereign debt segment.

Managerial VaR

The analysis of market risk profiles relative to the trading book (managerial VaR 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 trading book of Intesa Sanpaolo and Banca IMI.

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 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.

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).

Daily managerial VaR evolution

During the second quarter of 2019, the market risks originated by Intesa Sanpaolo and Banca IMI decreased compared to the previous period: the average daily managerial VaR was 164 million euro, compared to 177 million euro in the first quarter. In detail, the reduction was due to Banca IMI (average VaR in the first quarter of 160.1 million euro compared to 149 million euro in the second quarter).

Daily managerial VaR of the trading book for Intesa Sanpaolo and Banca IMI[(a)]

(millions of euro)

	2019				2018			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	15.0	13.4	17.0	16.9	13.9	14.4	11.8	7.8
Banca IMI	149.0	111.6	188.0	160.1	81.3	75.9	50.1	40.3
Total	**164.0**	**127.7**	**203.1**	**177.0**	**95.2**	**90.4**	**61.9**	**48.1**

(a) Each line in the table sets out past estimates of daily VaR calculated on the quartely historical time-series respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

Daily managerial VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2019 and 2018[(a)]

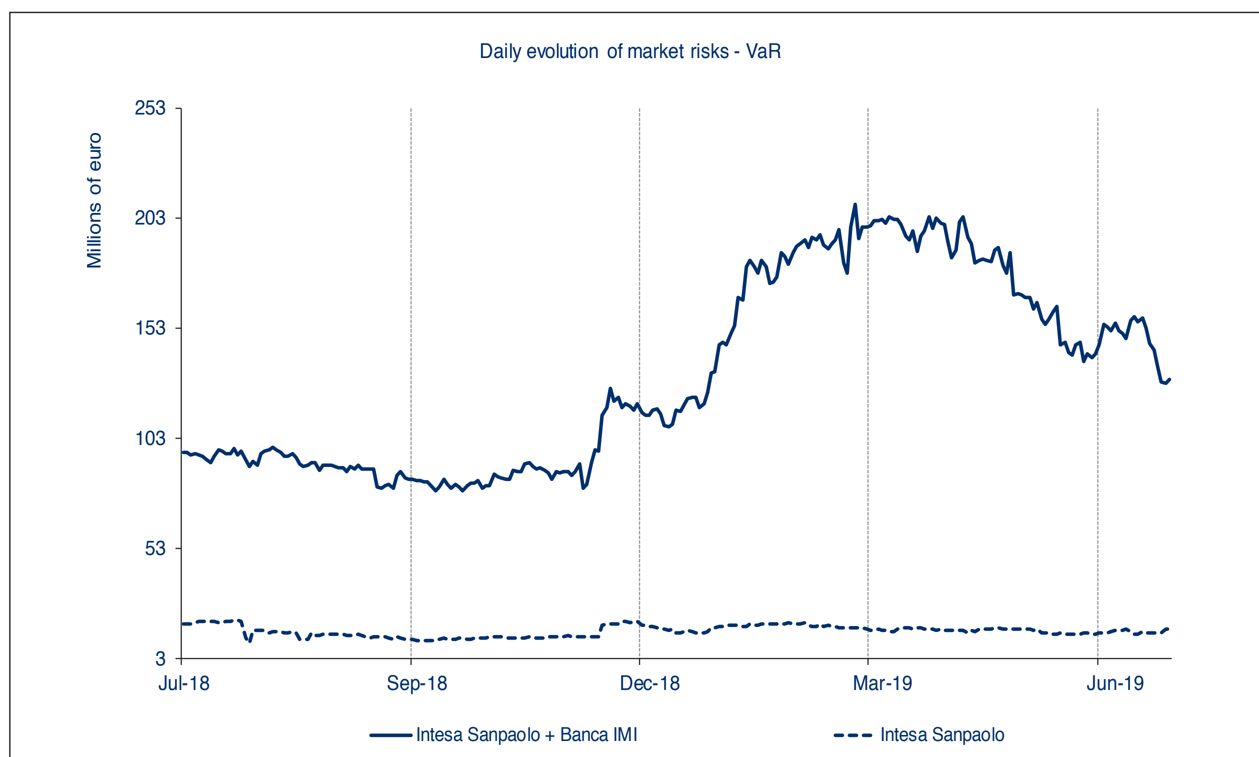
The risk measures for the first half of 2019 (amounting to 170.4 million euro) were up at Group level compared to the first half of 2018 (55 million euro). The performance of this indicator – mainly determined by Banca IMI – derives from an increase in the risk measures, mainly attributable to government bonds dealing, consistently with the 2019 Risk Appetite Framework.

(millions of euro)

	2019			2018		
	average 1st half	minimum 1st half	maximum 1st half	average 1st half	minimum 1st half	maximum 1st half
Intesa Sanpaolo	16.0	13.4	19.0	9.8	6.7	20.9
Banca IMI	154.4	102.5	192.3	45.2	24.6	85.8
Total	**170.4**	**116.6**	**208.8**	**55.0**	**33.7**	**105.3**

(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first six months of the year respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

The performance of the VaR is mainly attributable to the operations of Banca IMI. During the first quarter of 2019, the risk measures increased, mainly as a result of dealings in government bonds. The increase in risks is consistent with the 2019 RAF. The second quarter was characterised by the exit of volatile scenarios from the calculation of the historical simulation; this element generates, for a portfolio that was almost stable in the second quarter, a reduction in risks.



Contribution of risk factors to total managerial VaR (a)

2nd quarter 2019	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	2%	3%	24%	59%	11%	1%	0%
Banca IMI	2%	0%	14%	81%	0%	2%	1%
Total	**2%**	**0%**	**14%**	**80%**	**1%**	**2%**	**1%**

(a) Each line in the table sets out the contribution of the risk factors considering the overall Var as 100%, calculated as the average of daily estimates in the second quarter of 2019, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall scope.

The breakdown of risk profile in the second quarter of 2019 with regard to the various factors shows the prevalence of the risk generated by the spread, which accounted for 59% of the total managerial VaR for Intesa Sanpaolo and 81% for Banca IMI.

Risk control with regard to the 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 June 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	-10%	+10%	Crash	Bullish
Total	0	2	-245	140	579	-560	37	26	0	3

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 245 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 560 million euro (primarily relating to government bond positions);

- for foreign exchange positions, there would be a profit in both euro's appreciation and depreciation scenarios, given the portfolio non-linearity;
- 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:

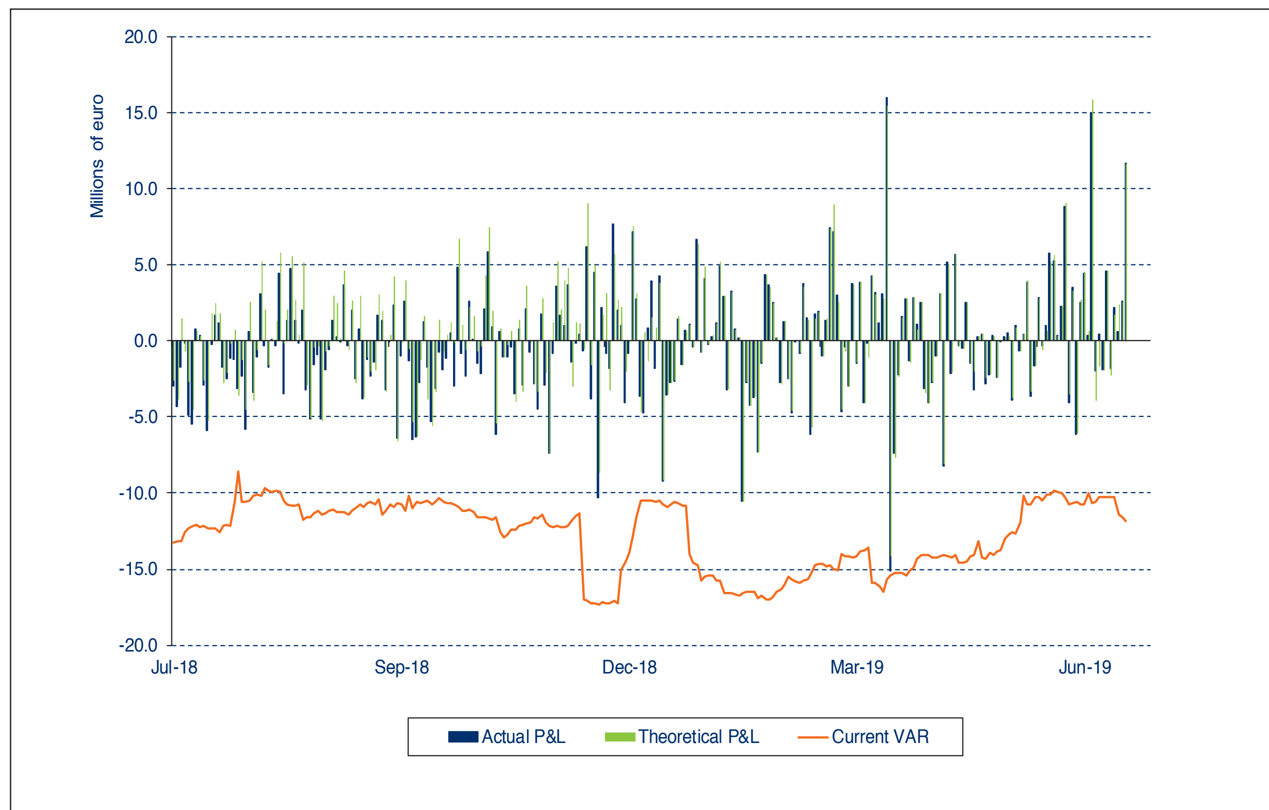
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting: these include fees, financial costs of managing the positions and P&L reserves 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.

EU MR4 – Comparison of VaR estimates with gains/losses

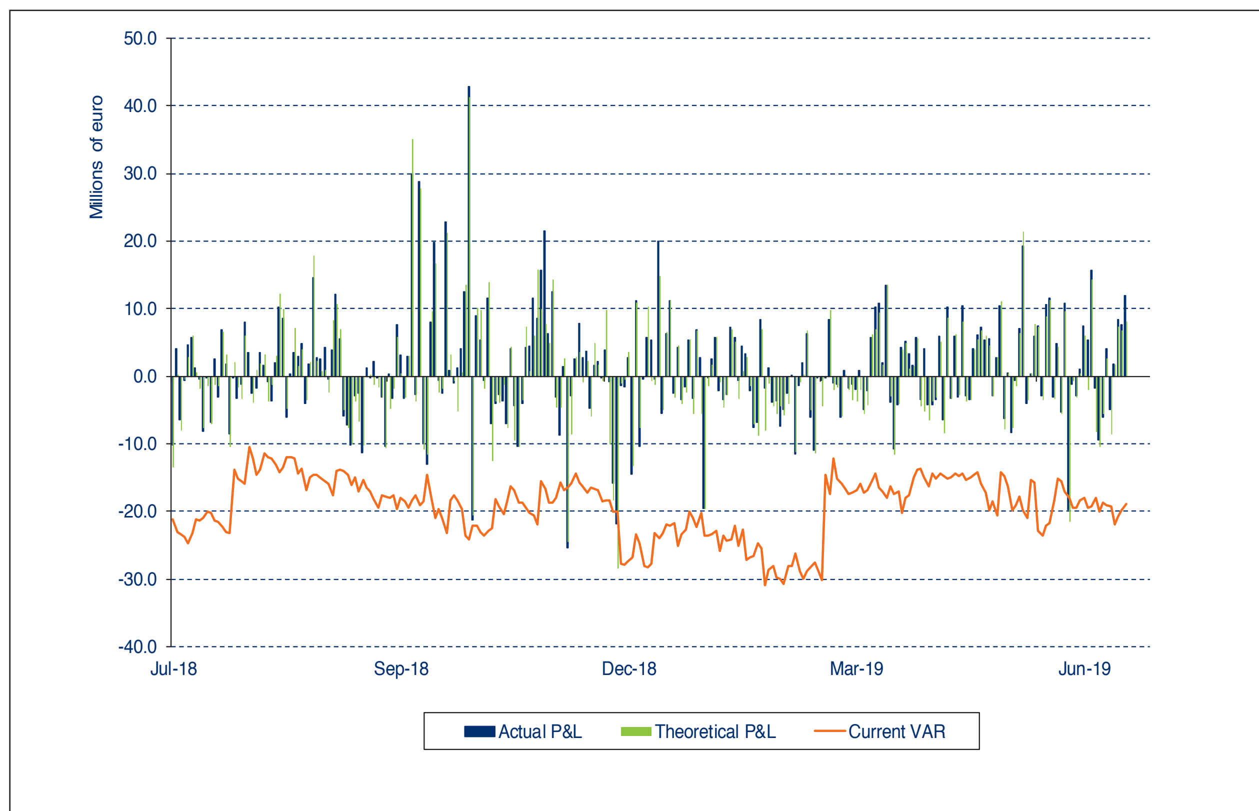
Backtesting in Intesa Sanpaolo

Over the last twelve months there have been no backtesting exceptions.



Backtesting in Banca IMI

Over the last twelve months there have been three backtesting exceptions. The breaches were due to the credit component of the portfolio, which was particularly affected by the volatility in the second half of 2018, and, in the more recent period, to the trend in interest rates.



Issuer risk

Issuer risk in the trading portfolio is analysed in terms of mark to market, with exposures aggregated by rating class, 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**	**Governement**	**Securitis.**
Intesa Sanpaolo	40%	4%	0%	0%	4%	82%	10%
Banca IMI	60%	5%	5%	6%	5%	46%	33%
Total	**100%**	**4%**	**3%**	**4%**	**4%**	**61%**	**24%**

(a) The table sets out in the Total column the contribution of Intesa Sanpaolo and Banca IMI to the total issuer risk exposure, providing details of the contribution of the exposure by type of issuer, considering the total equal to 100%.

Period-end percentage on area total (excluding Italian Government bonds, AAA, own bonds) and including CDS.

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for Intesa Sanpaolo and in the securitisation and government segments 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 Risks 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.

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.

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 66% in 2019, with a maximum use of 84%. For Banca IMI, the average use of VaR Limit was 87%, with a maximum use of 114% (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 VaR limit also includes the HTCS component.

The use of VaR operating limits on the HTCS component (excluding Banca IMI) at the end of June was 41%. For 2019, the limit for this component was reduced from 260 million euro to 220 million euro.

The use of the IRC limits at the end of June amounted to 74.7% for Intesa Sanpaolo (limit of 230 million euro) and 39.6% for Banca IMI (limit of 430 million euro).

Incremental Risk Charge – Summary of 2019 performance

(millions of euro)

	2019			2018				
	average 2nd quarter	**minimum 2nd quarter**	**maximum 2nd quarter**	**average 1st quarter**	**average 4th quarter**	**average 3rd quarter**	**average 2nd quarter**	**average 1st quarter**
Intesa Sanpaolo	128.0	114.9	171.8	158.8	132.1	59.6	35.7	32.0
Banca IMI	150.7	94.0	202.2	217.4	158.6	117.5	130.5	128.6
Total	**278.7**	**208.9**	**374.0**	**376.2**	**290.7**	**177.1**	**166.2**	**160.6**

Financial measurements

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.

Fair value of financial instruments

The methodologies for the fair value measurement of financial instruments, as well as any adjustments attributable to uncertainties in valuation, are governed by the Fair Value Policy of the Intesa Sanpaolo Group and are described in detail in the 2018 Annual Report, to which reference is made for more information.

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. quoted on the EuroMTS circuit, or for which at least three bid and ask prices can be continuously derived from the main price contribution international platforms), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds, spot exchange rates, derivatives for which quotations 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 40%.
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 for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters which may be presumed from the market;
- 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, using, therefore, the "relative" valuation models based on multipliers;
- loans measured through the discounting of future cash flows;
- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed 40%.

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:
- debt securities and complex credit derivatives (CDOs) included among structured credit products and credit derivatives on index tranches;
- hedge funds in which Level 3 assets predominate, as a percentage of the NAV, or in which Level 3 assets represent at least 40% of the NAV;
- funds, shareholding and other equity instruments measured using models based on discounted cash flows;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- some transactions in derivatives or structured bonds, measured using level 3 inputs.

Independent price verification (IPV)

Independent Price Verification (IPV) is "a process by which market prices or marking to model inputs are regularly verified for accuracy and independence" (Article 4(1.70) EU Regulation 575/2013), carried out "in addition to daily marking to market or marking to model [...] by a person or unit independent from persons or units that benefit from the trading book" (Article 105(8) EU Regulation 575/2013).

The Intesa Sanpaolo Group has structured an IPV process with 3 levels of control in line with the provisions of Bank of Italy Circular 285/2013, 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.

The Intesa Sanpaolo Group governs and formalises its independent price verification process through the Group Independent Price Verification Policy, which is described in detail in the 2018 Annual Report and to which reference is made for further information.

Prudent value of financial instruments

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 prudent value corresponds to the exit price from the position with a level of certainty equal to 90%.

The Intesa Sanpaolo Group governs and formalises the measurement of the prudent value of financial instruments through the Group Prudent Value Policy, which is described in detail in the 2018 Annual Report and to which reference is made for further information.

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.

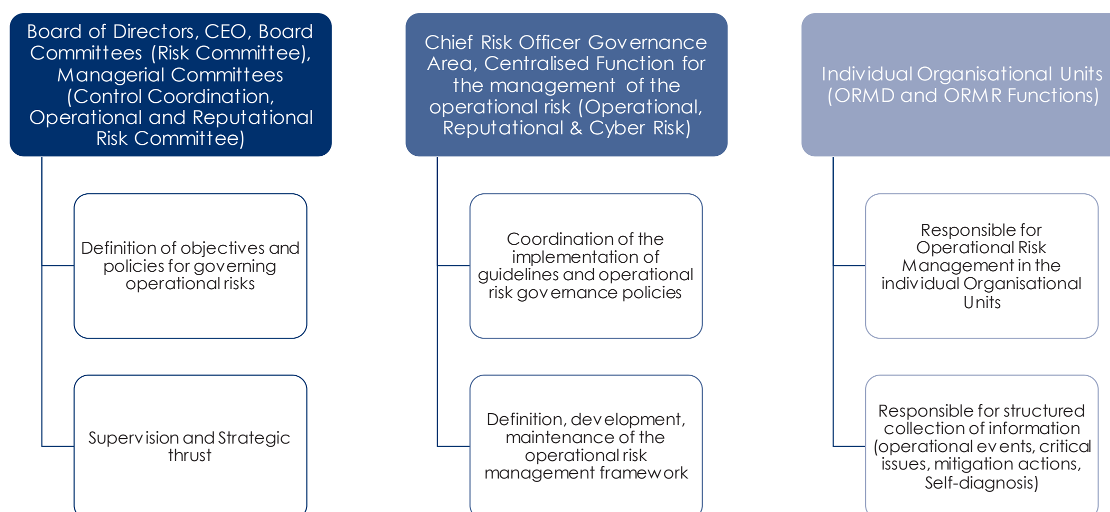
General operational risk management aspects

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.



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 critical issues;
- the performance of the annual self-diagnosis process, 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 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.

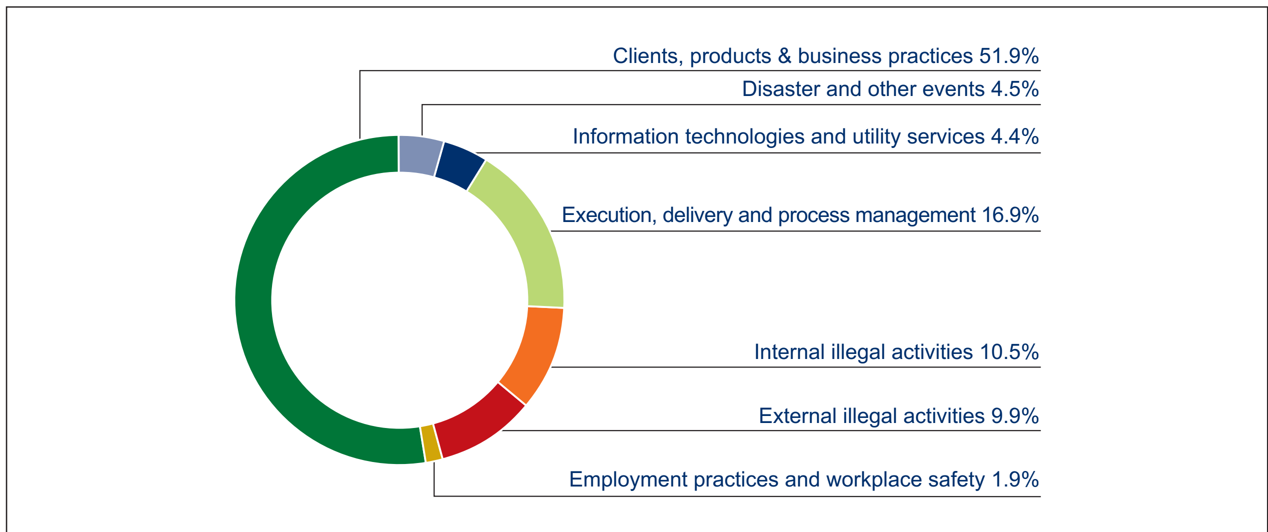
In this regard, in addition to benefiting from a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cyber crimes, fire and earthquake, and third-party liability), the Group has taken out an insurance 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.

Internal model for the measurement of operational risk
The Intesa Sanpaolo Group's internal model for calculating capital absorption (the "Advanced Measurement Approach" or "AMA") 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.

For regulatory purposes, the Group adopts the advanced measurement approach, in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement.
The AMA approach is adopted by Intesa Sanpaolo SpA., Mediocredito, belonging to the Banca dei Territori Division, the main companies in the Corporate and Investment Banking, Private Banking and Asset Management divisions, VUB Banka and PBZ Banka.
The capital absorption resulting from this approach amounts to 1,468 million euro as at 30 June 2019, up modestly from 1,414 million euro as at 31 December 2018.
The former Banca Prossima SpA and Banca Apulia SpA, merged into Intesa Sanpaolo SpA in the last quarter, have been included within the AMA scope.

Breakdown of capital requirement (Advanced Measurement Approach - AMA) by type of operational event



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 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. 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 first half of the year, both aggregates that determine the leverage ratio recorded increases. In particular:

- the increase in capital level (Tier 1 capital) is mainly attributable to the increase in valuation reserves; 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;
  b) an increase in SFTs and off-balance sheet transactions.

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.

Derivatives exposures bucked the overall trend.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 30 June 2019 is presented below, disclosed in accordance with the regulatory principles of the CRR and set out according to the provisions of (EU) Implementing Regulation 2016/200.

The 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 30 June 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)	30.06.2019	31.12.2018
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	584,703	561,448
2	(Asset amounts deducted in determining Tier 1 capital) - transitional regime	-13,932	-13,872
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**570,771**	**547,576**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	10,915	9,128
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	14,137	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)	-14,462	-8,826
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	62,416	51,323
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-59,527	-48,406
11	**Total derivatives exposures (sum of lines 4 to 10)**	**13,479**	**17,020**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	51,182	44,110
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-10,313	-10,135
14	Counterparty credit risk exposure for SFT assets	6,980	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)**	**47,849**	**39,951**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	242,289	228,568
18	(Adjustments for conversion to credit equivalent amounts)	-173,583	-164,553
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**68,706**	**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**	**42,755**	**42,097**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**700,805**	**668,562**
	Leverage ratio		
22	**Leverage ratio**	**6.1%**	**6.3%**
	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	30.06.2019	31.12.2018
1	Total assets as per published financial statements	828,365	787,721
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-160,029	-148,652
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	-17,131	-11,875
5	Adjustment for securities financing transactions (SFTs)	-3,320	-4,241
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	68,705	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 (*)	-15,785	-18,406
8	**Leverage ratio total exposure measure**	**700,805**	**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	
		30.06.2019	31.12.2018
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**584,703**	**561,448**
EU-2	Trading book exposures	22,014	12,495
EU-3	Banking book exposures, of which:	562,689	548,953
EU-4	*Covered bonds*	*2,343*	*1,210*
EU-5	*Exposures treated as sovereigns*	*127,502*	*126,548*
EU-6	*Exposures to regional governments, local authorities, MDB, international organisations and PSE not treated as sovereigns*	*12,340*	*12,556*
EU-7	*Institutions*	*43,618*	*36,256*
EU-8	*Secured by mortgages of immovable properties*	*118,646*	*117,984*
EU-9	*Retail exposures*	*40,826*	*40,603*
EU-10	*Corporate*	*148,953*	*146,656*
EU-11	*Exposures in default*	*16,859*	*17,493*
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	*51,602*	*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 30 June 2019" corresponds to the corporate records, books and accounts.

Milan, 31 July 2019

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

Attachment 1 - Own funds: own funds disclosure template

(millions of euro)

		Amount at disclosure date	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	34,160	26, paragraph 1, 27, 28, 29
	of which: instrument type 1	34,160	EBA list as per article 26 (3)
	of which: instrument type 2	0	EBA list as per article 26 (3)
	of which: instrument type 3	0	EBA list as per article 26 (3)
2	Retained earnings	16,462	26, paragraph 2(c)
3	Accumulated other comprehensive income (and other reserves)	-3,416	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)	31	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	379	26, paragraph 2
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**47,616**	**Sum of rows from 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-309	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-7,707	36, paragraph 1(b), 37
9	Transitional adjustment related to IFRS 9	2,538	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)	-1,487	36, paragraph 1(c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	951	33, paragraph 1(a)
12	Negative amounts resulting from the calculation of expected loss amounts	-176	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	2	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)	-206	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)	-2,165	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	-344	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	-200	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)	-200	36, paragraph 1(k)(ii), 243 (1)(b), 244 (1)(b), 258
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 17.65% threshold (negative amount)	-498	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	-326	36(1)(i), 48(1)(b)
24	Empty field in the EU	-	
25	of which: deferred tax assets arising from temporary differences	-172	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**	**-9,601**	**Sum of rows from 7 to 20a, 21, 22 and from 25a to 27**
29	**Common Equity Tier 1 capital (CET1)**	**38,015**	**Row 6 less row 28**

(millions of euro)

			Amount at disclosure date	Reference article of Regulation (EU) 575/2013
Additional Tier 1 (AT1) capital: instruments				
30		Capital instruments and the related share premium accounts	4,121	51, 52
	31	of which: classified as equity under applicable accounting standards	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	615	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	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**	**4,740**	**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**	**4,740**	**Row 36 less row 43**
45		**Tier 1 capital (T1 = CET1 + AT1)**	**42,755**	**Sum of rows 29 and 44**

(millions of euro)

			Amount at disclosure date	Reference article of Regulation (EU) 575/2013
Tier 2 (T2) capital: instruments and provisions				
46		Capital instruments and the related share premium accounts	7,224	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	113	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	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**	**7,341**	
Tier 2 (T2) capital: regulatory adjustments				
52		Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-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	-783	66 (d), 69, 79
56		Empty field in the EU	-	
57		**Total regulatory adjustments to Tier 2 (T2) capital**	**-855**	**Sum of rows from 52 to 56**
Tier 2 (T2) capital: regulatory adjustments				
58		**Tier 2 (T2) capital**	**6,486**	**Row 51 less row 57**
59		**Total capital (TC = T1 + T2)**	**49,241**	**Sum of rows 45 and 58**
60		**Total risk-weighted assets**	**280,260**	

(millions of euro)

		Amount at disclosure date	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)	13.56%	92, paragraph 2(a)
62	Tier 1 capital (as a percentage of the risk exposure amount)	15.26%	92, paragraph 2(b)
63	Total capital (as a percentage of the risk exposure amount)	17.57%	92, paragraph 2(c)
64	Institution-specific buffer requirement (CET1 requirement pursuant to Article 92 (1)(a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer, expressed as a percentage of risk exposure amount)	7.45%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.07%	
67	of which: systemic risk buffer requirement	0.00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.38%	
68	Common Equity Tier 1 capital available to meet capital buffers (as a percentage of total risk exposure amount)	6.12%	CRD 128
69	[not relevant in EU regulation]		
70	[not relevant in EU regulation]		
71	[not relevant in EU regulation]		
Amounts below the deduction thresholds (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	1,124	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)	3,814	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)	2,006	36, paragraph 1(c), 38, 48

(millions of euro)

		Amount at disclosure date	Reference article of Regulation (EU) 575/2013
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	853	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	484 (4), 486 (3 and 5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	(113)	484 (4), 486 (3 and 5)
84	Current cap on T2 instruments subject to phase-out arrangements	1,418	484 (5), 486 (4 and 5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4 and 5)

Contacts

Intesa Sanpaolo S.p.A.

Registered office
Piazza San Carlo, 156
10121 Torino
Telephone: +39 011 555 1

Secondary registered office
Via Monte di Pietà, 8
20121 Milano
Telephone: +39 02 879 11

Investor Relations & Price-Sensitive Communication
Telephone: +39 02 8794 3180
Fax: +39 02 8794 3123
E-mail investor.relations@intesasanpaolo.com

Media Relations
Telephone: +39 02 8796 3845
Fax: +39 02 8796 2098
E-mail stampa@intesasanpaolo.com

Internet: group.intesasanpaolo.com

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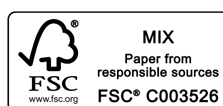

GALLERIE D'ITALIA.
THREE MUSEUM VENUES: AN ITALIAN CULTURAL NETWORK.

Through the Gallerie d'Italia, Intesa Sanpaolo intends to share its artistic and architectural heritage with the public at large: 1,000 works of art displayed in historic palazzi in three cities creating a unique museum network.

Set in an architectural context of great value, **Gallerie d'Italia - Piazza Scala in Milan** displays a selection of two hundred nineteenth-century works of the Lombard school of painting, coming from the art collections of Fondazione Cariplo and Intesa Sanpaolo, along with a collection representative of twentieth-century Italian art.

Gallerie d'Italia - Palazzo Leoni Montanari in Vicenza exhibits works of eighteenth-century Veneto art and a collection of Attic and Magna Graecia pottery. Moreover, one of the most important collections of Russian icons in the West is safeguarded here.

Gallerie d'Italia - Palazzo Zevallos Stigliano in Naples houses *The Martyrdom of Saint Ursula*, Caravaggio's last documented painting, as well as a collection of over one hundred and twenty artworks representative of Neapolitan artistic output from the early seventeenth century to the beginning of the twentieth century.

Cover photo:

ANGELO INGANNI
(Brescia, 1807 - 1880)
Piazza della Scala under the snow, seen from the Gallery 1874
oil on canvas, 65,5 x 55,5 cm
Intesa Sanpaolo Collection
Gallerie d'Italia - Piazza Scala, Milan

Angelo Inganni's vedute are fine works offering a valuable insight into the urban transformations that Milan experienced during the 19th century. In *Piazza della Scala under the snow, seen from the Gallery*, the artist depicts Teatro alla Scala before the square it faces was opened, which involved the demolition of a housing block next to the Palazzo Marino, and subsequently led to the construction of the Galleria Vittorio Emanuele II and the erection of the Leonardo da Vinci monument.

Despite the structural balance of the work, the resulting image - created with free and vibrant brushstrokes with no concern for defined outlines - seems somewhat random, almost like a snapshot of the path running between the snowy square and the Galleria.

The work is part of the permanent collection at the **Gallerie d'Italia**, Intesa Sanpaolo's museum complex located in **Piazza Scala, Milan**. The exhibition dedicated principally to 19th century art opens with Neoclassical works and continues through to the turn of the 20th century, with a century's worth of Italian paintings depicting historical events, battles of the Risorgimento (the Italian Unification), vedute and landscapes, as well as genre paintings and masterpieces of Symbolism.