INTESA SANPAOLO

Basel 3 Pillar 3

Disclosure as at 30 June 2020

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa al pubblico al 30 giugno 2020". 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 2020

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Introduction

Notes to the Basel 3 Pillar 3 disclosure

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

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

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

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

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

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

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

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

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

i) revisions and additions to the Pillar 3 regulatory framework resulting from the completion of the reform of the Basel 3 regulatory framework in December 2017, with the introduction of changes to the disclosure requirements for credit risk, operational risk, leverage ratio, credit valuation adjustment (CVA), the risk management summary models, the determination of risk-weighted assets (RWA), and the key prudential metrics;
ii) new requirements on encumbered assets, with the introduction of a new disclosure requirement that obliges banks to provide disclosure on both encumbered and unencumbered assets;
iii) new disclosure requirements on capital distribution restrictions to provide Pillar 3 users with additional information on the capital ratios that would give rise to capital distribution restrictions imposed by national regulators.

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

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

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

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

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

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

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

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

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

With specific reference to the information on the Leverage ratio, in February 2016 Commission Implementing Regulation 2016/200 was published in the Official Journal of the European Union, laying down implementing technical standards with regard to the disclosure on the Leverage ratio, under Regulation (EU) 575/2013.
Consequently, the Intesa Sanpaolo Group is publishing the Leverage ratio on the basis of the provisions contained in the above-mentioned Regulation.

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

Following the publication in the Official Journal of the European Union on 7 June 2019 of Regulation (EU) 2019/876 – also known as CRR II (Capital Requirements Regulation) and part of the broader package of regulatory reforms, also referred to as the Risk Reduction Measures (RRM), which also include the CRD V (Capital Requirements Directive), the BRRD II (Banking Recovery and Resolution Directive) and the SRMR II (Single Resolution Mechanism Regulation) – significant changes were made, particularly with regard to Part Eight of the CRR. In line with the regulatory changes introduced by

CRR II, and to streamline and standardise the periodic disclosure to be provided to the market, in June 2020, the EBA, in accordance with the mandate given to it by Article 434 bis “Uniform disclosure formats” of the CRR II, after the conclusion of the public consultation process that ended on 16 January 2020, published the implementing technical standards (EBA/ITS/2020/04) for all the entities subject to the disclosure requirements set out in Part Eight of the CRR and applicable from June 2021.

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

Also within the emergency scenario outlined above, Regulation (EU) 2020/873 of 24 June 2020, amending Regulations (EU) 575/2013 and Regulation (EU) 2019/876 containing temporary support provisions in terms of capital and liquidity, was published with an accelerated approval procedure (the “quick fix”).
The Regulation establishes that institutions that decide to apply the provisions of the new transitional IFRS 9 rules relating to adjustments to loans after 31 December 2019, amending the rules introduced by Regulation (EU) 2017/2395, and/or the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income in view of the COVID-19 pandemic (the prudential filter for exposures to central governments classified as FVTOCI) in addition to disclosing the information required in Part Eight of the CRR, are required to disclose the amounts of own funds, Common Equity Tier 1 capital and Tier 1 capital, the total capital ratio, the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio, and the leverage ratio they would have in case they were not to apply that treatment.
The Intesa Sanpaolo Group has decided not to adopt the above-mentioned temporary treatment for the calculation of own funds as at 30 June 2020.

Lastly, with regard to the aftermath of the COVID-19 pandemic more generally, details of the specific guidance provided by the Authorities and the consequent choices made by the Group can be found in the Half-yearly Report as at 30 June 2020.

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In accordance with the above provisions and in line with the approach described above, this document has been prepared on a consolidated basis with reference to a “prudential” scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes. There were no significant changes in the prudential scope of consolidation with respect to 31 December 2019, as the entry of RBM Assicurazione Salute into the scope of consolidation on a line-by-line basis, which was the only significant change in the ISP Group‘s accounting scope of consolidation, was not included in the prudential scope as it is an insurance company.
The changes concerning the entities under common control – which thus do not have any impact at consolidated level – consist solely of the elimination from the scope of line-by-line consolidation of PBZ Nekretnine D.O.O., merged by absorption into PBZ Card D.O.O. within the PBZ Group, with effect from 1 January 2020.

Under the terms of Art. 433 of the CRR, banks publish the disclosures envisaged in European regulations at least once a year, at the same time as the financial statements. They are also required to assess the need to publish some or all these disclosures more frequently, based on the significant characteristics of current activities. In particular, entities must assess whether there is a need to publish disclosures more frequently in relation to "Own Funds" (Art. 437), "Capital Requirements" (Art. 438), and disclosures regarding risk exposure or other aspects subject to rapid change. In this regard, it is also necessary to consider the specific instructions introduced by the EBA Guidelines (EBA/GL/2016/11, EBA/GL/2018/10 and EBA/GL/2020/07), which require interim disclosures of certain information. Given the above regulatory provisions, when issuing its interim statements for March and September, the Intesa Sanpaolo Group publishes summary disclosures on its “Own Funds”, “Capital Requirements”, “Liquidity Risk” and “Leverage ratio”, supplemented in the half-yearly report with additional information on credit, counterparty, market and operational risks.

In relation to the scope of application of the provisions of the CRR, which refers - as previously indicated - to a “prudential” consolidation scope, and the provisions of the CRR, this document does not illustrate all the types of risk that the Intesa Sanpaolo Group is exposed to. Details on own funds and capital ratios are also published in the consolidated Interim Statements for March and September and in the Half-yearly Report.

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

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 “Administrative and Financial Governance Guidelines”, 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";
- GL/2018/10 - "Guidelines on disclosures of non-performing and forborne exposures".

In addition, as mentioned above, from 30 June 2020 the Section "Credit risk: credit quality" includes the new disclosure requirements established by the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis", published in June 2020 by the EBA.

CRR Article	Pillar 3 Section Reference as at 30 June 2020	Frequency of publishing Pillar 3 disclosures	Reference to other company disclosures as at 30 June 2020
435 - Risk management objectives and policies	-	▪ Annual	▪ Half-yearly Report as at 30 June 2020 - Half-yearly condensed consolidated financial statements - Explanatory notes ▪ Half-yearly Report as at 30 June 2020 - Half-yearly report on operations - Overview of the first half of 2020
436 - Scope of application	-	▪ Annual	▪ Half-yearly Report as at 30 June 2020 - Half-yearly condensed consolidated financial statements - Explanatory notes
437 - Own funds	▪ Own funds ▪ Attachment 1 - Own funds: terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued in the half-year ▪ Attachment 2 - Own funds: own funds disclosure template	▪ Quarterly (except "Full reconciliation" table half-yearly) ▪ Quarterly (instruments issued in the period) / Annual (full disclosure) ▪ Quarterly	▪ Half-yearly Report as at 30 June 2020 - 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 2020 - 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 2020 - 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 2020 - 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	▪ Market risk	▪ Half-yearly (summary) / Annual (full)	-

449 - Exposure to securitisation positions	-	▪ Annual	-
450 - Remuneration policy	-	▪ Annual	-
451 - Leverage	▪ Leverage Ratio	▪ Quarterly (summary) / Half-yearly (full)	-
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 2020 - 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 2020 - 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 2020 - Half-yearly condensed consolidated financial statements - Explanatory notes
492 – Disclosure of own funds	▪ Own Funds ▪ Attachment 2 - Own funds: own funds disclosure template	▪ Quarterly ▪ Quarterly	-

Reference to EBA requirements (EBA/GL/2016/11, EBA/GL/2017/01, EBA/GL/2018/01, EBA/RTS/2017/03, EBA/GL/2018/10 and EBA/GL/2020/07)

The table below shows the location within the Pillar 3 document of the disclosure requirements introduced by:

- EBA Guidelines EBA/GL/2016/11 and EBA/GL/2017/01, relating, respectively, to the disclosure requirements in the Pillar 3 document in accordance with CRR Part Eight and to liquidity risk disclosure, in force from 31 December 2017;
- EBA Guidelines EBA/GL/2018/01 on the IFRS 9 transitional period, with first-time adoption on 31 March 2018;
- EBA/RTS/2017/03, transposed by EU Regulation 2017/2295, on encumbered and unencumbered assets, applicable from 2018.

Lastly, the Section "Credit risk: credit quality" includes the requirements of the following:

- EBA Guidelines EBA/GL/2018/10 on disclosure of non-performing and forborne exposures, with first-time adoption on 31 December 2019;
- EBA Guidelines EBA/GL/2020/07 on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis, with first-time adoption on 30 June 2020.

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 IFRS 9-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	
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 exposures by exposure class and instrument	Half-yearly	
Template 5**	Quality of non-performing exposures by geography	Half-yearly	
Template 3**	Credit quality of performing and non-performing exposures by past due days	Half-yearly	
Template 4**	Performing and non-performing exposures and related provisions	Half-yearly	
Template 6**	Credit quality of loans and advances by industry	Half-yearly	
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Half-yearly	
EU CR2-A	Changes in the stock of general and specific credit risk adjustments	Half-yearly	
Template 8**	Changes in the stock of non-performing loans and advances	Annual	
Template 1**	Credit quality of forborne exposures	Half-yearly	
Template 2**	Quality of forbearance	Annual	
Template 7**	Collateral valuation –loans and advances	Annual	
Template 9**	Collateral obtained by taking possession and execution processes	Half-yearly	

Template 10**	Collateral obtained by taking possession and execution processes –vintage breakdown	Annual	
Template 1***	Information on loans and advances subject to legislative and non-legislative moratoria	Half-yearly	
Template 2***	Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria	Half-yearly	
Template 3***	Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	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 supplemented to comply with the requirements of the "Guidance to banks on non-performing loans" (ECB, March 2017 - Annex 7).
** Table introduced as at 31 December 2019 based on the requirements of EBA/GL/2018/10.
*** New table introduced as at 30 June 2020 based on the requirements of the new EBA/GL/2020/07.

Own funds

Qualitative disclosure

Introduction

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

The above provisions have been incorporated into the following two regulations:

- Bank of Italy Circular 285: “Supervisory regulations for banks” which renders the above-mentioned provisions operational;
- Implementing Regulation No. 680/2014, as amended, laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) 575/2013 (CRR) of the European Parliament and of the Council.

These provisions are supplemented by the European Commission Delegated Regulations and the ECB Decisions on the definition of Own Funds, listed below:

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

This regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:

- Tier 1 Capital, in turn composed of:
  - Common Equity Tier 1 Capital (CET1);
  - Additional Tier 1 Capital (AT1);
- Tier 2 Capital (T2).

Tier 1’s predominant element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, retained earnings reserves, 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;

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

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

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

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

The transitional period for the introduction of the "Basel 3" regulatory framework, which provided for the partial inclusion within or deduction from Own Funds of certain items to enable a gradual impact of the new regulatory requirements, in accordance with the provisions of Directive 2013/36/EU (CRD IV) and the CRR, ended in 2017, and the exemption period established by Regulation (EU) 575/2013 (CRR), regarding the amendments to be applied to IAS 19, also ended in 2018. In addition, as at 30 June 2020, the Intesa Sanpaolo Group no longer held any subordinated instruments subject to specific transitional rules (i.e. grandfathering, which would have ended in 2021) aimed at the gradual exclusion from own funds of instruments that do not meet the requirements of the new rules.

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

In November 2019, Q&A 2018_4302 was published which allows the amount of net deferred tax assets that rely on future profitability to be treated for prudential purposes, within the deductions from the CET1 items provided for in the CRR, independently and distinctly from the accounting framework applied to them. In this respect, the EBA clarified that for the deduction of the above-mentioned DTAs from CET1 items, the netting rules established by the CRR apply and that therefore the amount of the DTAs – calculated for prudential purposes – may differ from the related net balance reported in the periodic reports and determined according to the applicable accounting rules.

With regard to Regulation (EU) 2019/876, also known as CRR II (Capital Requirements Regulation) – which is part of the broader package of regulatory reforms that also include the CRD V (Capital Requirements Directive), the BRRD II (Banking Recovery and Resolution Directive) and the SRMR II (Single Resolution Mechanism Regulation) – and to Regulation (EU) 2019/630 as regards minimum loss coverage for non-performing exposures, these are all in force as at 30 June 2020 and already partially applicable.

The above-mentioned Regulation (EU) 2019/876 (CRR II), in Article 494b "Grandfathering of own funds instruments and eligible liabilities instruments", introduced a new transitional regime, applicable until 28 June 2025, which allows own funds instruments issued before 27 June 2019 – the date of entry into force of CRR II – which do not meet the specific conditions set out in points p), q) and r) of Article 52 ("Additional Tier 1 instruments"), as amended by Article 1 point 23) of CRR II, and in points n), o) and p) of Article 63 ("Tier 2 instruments"), as amended by Article 1 point 27) of CRR II, to be respectively qualified as AT1 and T2 instruments.
For the Intesa Sanpaolo Group, these transitional rules only apply to one T2 instrument, for a nominal amount of 1,250 million euro, issued in July 2010 and maturing before the end of the above-mentioned transitional period, in July 2020.

Lastly, as already mentioned in the Introduction to this document, the Group has not yet adopted neither the new IFRS 9 transitional rules relating to adjustments to loans after 31 December 2019 nor the reintroduction of the prudential filter for exposures to central governments classified to the FVTOCI category, both introduced by the European Commission in Regulation 2020/873 of 24 June 2020.

Quantitative disclosure

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 30 June 2020 is summarised in the table below.

(millions of euro)

	30.06.2020	31.12.2019
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**51,092**	**48,520**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**497**	**641**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**51,589**	**49,161**
D. Items to be deducted from CET1	**-10,462**	**-10,209**
E. Transitional period - Impact on CET1 (+/-)	**2,133**	**2,590**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**43,260**	**41,542**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**5,596**	**4,096**
of which AT1 instruments subject to transitional adjustments	-	-
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**5,596**	**4,096**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**8,136**	**7,244**
of which T2 instruments subject to transitional adjustments	-	-
N. Items to be deducted from T2	**-204**	**-187**
O. Transitional period - Impact on T2 (+ / -)	**-**	**-**
P. Total Tier 2 (T2) (M - N +/- O)	**7,932**	**7,057**
Q. Total own funds (F + L + P)	**56,788**	**52,695**

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.

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

The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments have been reported in Attachment 1 to the Basel 3 Pillar 3 - Disclosure as at 31 December 2019.

Attachment 1 to this document contains details of the terms and conditions of the Additional Tier 1 instruments issued during the half year.

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

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	30.06.2020	31.12.2019
Group Shareholders' equity	58,582	55,968
Minority interests	221	554
Shareholders' equity as per the Balance Sheet	**58,803**	**56,522**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Other equity instruments eligible for inclusion in AT1	-5,590	-4,091
- Minority interests eligible for inclusion in AT1	-6	-5
- Minority interests eligible for inclusion in T2	-3	-3
- Ineligible minority interests on full phase-in	-179	-511
- Ineligible net income for the period [(a)]	-2,020	-3,451
- Treasury shares included under regulatory adjustments	240	230
- Other ineligible components on full phase-in	-153	-171
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**51,092**	**48,520**
Regulatory adjustments (including transitional adjustments) [(b)]	**-7,832**	**-6,978**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**43,260**	**41,542**

(a) Common Equity Tier 1 capital as at 30 June 2020 includes the net income as at that date, less the related dividend, calculated taking into account the payout envisaged in the 2018-2021 Business Plan (75% for 2020) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 30 June 2020 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (70% in 2020) set to decrease progressively until 2022.

Common Equity Tier 1 Capital (CET1)

(millions of euro)

Information	30.06.2020	31.12.2019
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	9,086	9,086
Share premium reserve	25,078	25,075
Reserves (a)	17,386	13,246
Accumulated other comprehensive income (b)	-1,037	347
Net income (loss) for the period	2,566	4,182
Net income (loss) for the period not eligible	-2,020	-
Dividends and other foreseeable charges (c)	-	-3,451
Minority interests	33	35
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**51,092**	**48,520**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-240	-230
Goodwill	-4,714	-4,465
Other intangible assets	-3,539	-3,547
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,348	-1,360
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-346	-316
Defined benefit pension funds assets	-	-
Prudential filters	497	641
- of which Cash Flow Hedge Reserve	*855*	*862*
- of which Gains or Losses due to changes in own credit risk (DVA)	*-111*	*61*
- of which Prudent valuation adjustments	*-247*	*-282*
- of which Other prudential filters	*-*	*-*
Exposures to securitisations deducted rather than risk weighted at 1250%	-86	-142
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)	-	-
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	*-*	*-*
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	*-*	*-*
Deductions with threshold of 17.65% (d)	-	-
Positive or negative elements - other	-189	-149
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-9,965**	**-9,568**
Total adjustments in the transitional period (CET1)	**2,133**	**2,590**
Common Equity Tier 1 (CET1) - Total	**43,260**	**41,542**

(a) Amount included in CET1, includes a negative effect of about 3.265 million euro deriving from the adoption of IFRS 9, in addition to the 2019 income allocated to reserves.

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

(c) As at 31.12.2019, the figure considers the dividends on 2019 results, the portion of the remuneration of the AT1 instruments issued at the date and the portion of 2019 income allocated to charity, net of the tax effect. In compliance with the Recommendation of the European Central Bank dated 27 March 2020 (repealed by Recommendation dated 27 July 2020) on dividend policy in the aftermath of the COVID-19 epidemic, the Shareholders' Meeting held on 27 April 2020 has resolved to allocate net income for the financial year 2019 to reserves.

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

Common Equity Tier 1 Capital takes account of the net income for the first half of 2020, net of the related dividends (and other foreseeable charges), as the dividend policy set out in the 2018-2021 Business Plan has been confirmed, which envisages a payout ratio of 75% for 2020, subject to the recommendations that will be provided by the ECB in the fourth quarter of 2020 regarding dividend distributions after 1 January 2021.

As envisaged by Article 36 (1)(k)(ii) of (EU) Regulation 575/2013 which governs this circumstance, in place of the weighting of the positions towards securitisations that meet the requirements to receive a weighting of 1,250%, it was chosen to proceed with the direct deduction of these exposures from the Own Funds.
The amount of such deduction as at 30 June 2020 is equal to -86 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

Information	30.06.2020	31.12.2019
Additional Tier 1 capital (AT1)		
AT1 instruments	5,590	4,091
Minority interests	6	5
Additional Tier 1 capital (AT1) before regulatory adjustments	**5,596**	**4,096**
Regulatory adjustments to Additional Tier 1 (AT1)	**-**	**-**
Adjustments in the transitional period, including minority interests (AT1)	**-**	**-**
Additional Tier 1 (AT1) - Total	**5,596**	**4,096**

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 the own funds (millions of euro)
Intesa Sanpaolo	6.25% fixed rate (up to the first call date)	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	744
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	1,240
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	NO	1,250,000,000	1,240
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	NO	1,000,000,000	878
Intesa Sanpaolo	3.75% fixed rate (up to the first call date)	NO	27-Feb-2020	perpetual	27-Feb-2025	Eur	NO	750,000,000	744
Intesa Sanpaolo	4.125% fixed rate (up to the first call date)	NO	27-Feb-2020	perpetual	27-Feb-2030	Eur	NO	750,000,000	744
Total Additional Tier 1 equity instruments									**5,590**

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

Tier 2 capital (T2)

(millions of euro)

	30.06.2020	31.12.2019
Tier 2 Capital (T2)		
T2 Instruments	8,133	7,241
Minority interests	3	3
Excess of provisions over expected losses eligible (excess reserve)	-	-
Tier 2 capital before regulatory adjustments	**8,136**	**7,244**
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	-204	-187
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-204**	**-187**
Total adjustments in the transitional period, including minority interests (T2)	**-**	**-**
Tier 2 Capital (T2) - Total	**7,932**	**7,057**

Tier 2 (T2) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to the own funds (millions of euro)
Intesa Sanpaolo	3-month Euribor + 1.94%/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	607
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,562
Intesa Sanpaolo	6.6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,051
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,446
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	1,094
Intesa Sanpaolo	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	304
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	8
Intesa Sanpaolo	2.855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	502
Intesa Sanpaolo	1.98% fixed rate	NO	11-Dec-2019	11-Dec-2026	NO	Eur	NO	160,250,000	157
Intesa Sanpaolo	3-month Euribor + 206 bps/4	NO	11-Dec-2019	11-Dec-2026	NO	Eur	NO	188,000,000	180
Intesa Sanpaolo	3.75% fixed rate	NO	29-Jun-2020	29-Jun-2027	NO	Eur	NO	309,250,000	295
Intesa Sanpaolo	3-month Euribor + 405 bps/4	NO	29-Jun-2020	29-Jun-2027	NO	Eur	NO	590,500,000	562
Intesa Sanpaolo	5.148% fixed rate	NO	10-Jun-2020	10-Jun-2030	NO	GBP	NO	350,000,000	365
Total Tier 2 instruments									**8,133**

In June 2020, two new Tier 2 Capital instruments were issued for a total of around 900 million euro (309.25 million euro and 590.5 million euro, respectively), listed on the ExtraMOT PRO market. Both instruments have characteristics in line with the indications of CRD IV and the CRR and have a term of 7 years. Both instruments are reserved exclusively for subscription by professional customers and qualified investors as defined in Directive 2014/65/EU (“MIFID II”) and meeting the definition of qualified investors set out in Article 2 e) of Regulation (EU) 2017/1129 of 14 June 2017. For the first of the two instruments, the gross annual interest of 3.75% will be payable in annual instalments in arrears on 29 June each year from 29 June 2021. For the second of the two instruments, the gross interest will be payable in quarterly instalments in arrears (29 March,

29 June, 29 September and 29 December each year) from 29 September 2020 and will be determined on the basis of an annual rate of 3-month EURIBOR +4.05%.

In addition, in June 2020, a new Tier 2 capital instrument was issued for 350 million GBP, listed on the Luxembourg Stock Exchange and reserved exclusively for professional customers and qualified investors as defined in Directive 2014/65/EU (“MIFID II”). This instrument has characteristics in line with the indications of CRD IV and the CRR and has a term of 10 years. The gross annual interest of 5.148% will be payable in half-yearly instalments in arrears (10 June and 10 December each year from 10 December 2020).

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

(millions of euro)

	30.06.2020	31.12.2019
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	4,113	3,895
B. Threshold of 10% for CET1 instruments of financial sector entities where the institution has a significant investment and for DTA that rely on future profitability and arise from temporary differences	4,113	3,895
C. Threshold of 17.65% for significant investments and DTA not deducted in the threshold described under point B	6,641	6,280

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

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

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

Changes in Own Funds

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

OWN FUNDS	01.01.2020 - 30.06.2020
Common Equity Tier 1 capital (CET1)	
Amount 31/12/2019	**41,542**
Changes of IFRS 9 filter	-457
Initial amount 01/01/2020	**41,085**
Shares issued during the period and relates share premium	3
Changes in reserves [a]	3,409
Accumulated other comprehensive income [b]	-1,384
Net income for the period (net of foreseeable dividends) [c]	546
Minority interests	-2
Regulatory adjustments	
Prudential filters [d]	-144
Own CET1 instruments	-10
Goodwill and other intangible assets [e]	-241
Deferred tax assets that rely on future profitability and do not arise from temporary differences	12
Deferred tax assets that rely on future profitability and arise from temporary differences	-
Significant and non-significant investments in CET1 instruments of the financial sector	-
Amount by which expected losses exceed total impairment provisions on IRB positions	-30
Deductions deriving from securitisations	56
Other deductions	-40
Final amount 30/06/2020	**43,260**
Additional Tier 1 (AT1)	
Initial amount 01/01/2020	**4,096**
Issues/redemptions of AT1 instruments [f]	1,499
Minority interests	1
Regulatory adjustments	
Own AT1 instruments	-
Non-significant investments in AT1 instruments of the financial sector	-
Significant investments in AT1 instruments of the financial sector	-
Transitional adjustments and instruments eligible for grandfathering	-
Final amount 30/06/2020	**5,596**
Tier 2 (T2)	
Initial amount 01/01/2020	**7,057**
Issues/redemptions of T2 instruments [g]	892
Minority interests	-
Excess adjustments over expected losses (excess reserve)	-
Regulatory adjustments	
Own T2 instruments	-
Non-significant investments in T2 instruments of the financial sector	-
Significant investments in T2 instruments of the financial sector	-17
Transitional adjustments and instruments eligible for grandfathering	-
Final amount 30/06/2020	**7,932**
Total Own Funds at the end of the reporting period	**56,788**

Below is a summary analysis of the main changes in Own Funds during the first half of the year.

Common Equity Tier 1 capital (CET1)

a. The increase in reserves was attributable to the net income from the previous year and other minor effects;

b. the change in accumulated other comprehensive income was due to:
   - the decrease in the negative reserve for equity and debt securities measured at fair value of -1,134 million euro;
   - the decrease in the positive AFS reserve for insurance companies of -112 million euro;
   - the further decrease in the negative exchange rate reserve of -143 million euro;
   - the increase in other minor reserves of +5 million euro;

c. the consolidated net income as at 30 June 2020, amounting to 2,566 million euro, was recognised in Own Funds for 546 million euro, due to the regulatory conditions having been met for its inclusion, net of dividends (1,925 million euro as at 30 June 2020) and other foreseeable charges (95 million euro as at 30 June 2020) as already mentioned above;

d. the change was attributable to the increase in the cash flow reserves and the deduction deriving from the change in the Bank's credit rating (DVA), partly offset by the change in the filter for prudent valuation adjustments;

e. the increase was mainly due to the goodwill arising from the acquisition of RBM Assicurazione Salute S.p.A.

Additional Tier 1 (AT1)

f. The change was due to the issue of new equity instruments during the first half of the year.

Tier 2 (T2)

g. During the half year, new T2 instruments were issued, which were offset by the period amortisation for instruments with a maturity of less than 5 years and other minor changes.

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			**57,943**	
Assets				
70. Investments in associates and companies subject to joint control	1,462	7,465	-429	8, 19
of which: implicit goodwill in associated companies IAS 28-31	*429*	*1,221*	*-429*	*8, 19*
100. Intangible assets	8,394	7,460	-8,423	8
of which: goodwill	*4,182*	*3,390*	*-4,353*	*8*
of which: other intangible assets	*4,212*	*4,070*	*-4,070*	*8*
110. Tax assets	15,805	15,274	-1,348	10
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*1,505*	*1,505*	*-1,505*	*10*
Liabilities				
10. Securities issued	78,117	79,743	8,133	33, 46, 47, 52
of which: subordinated instruments subject to transitional arrangements	-	-	-	*33, 47*
of which: subordinated instruments not subject to transitional arrangements	-	*8,133*	*8,133*	*46, 52*
60. Tax liabilities	2,204	1,444	600	8
a) Current tax liabilities	350	320	N.A.	
b) Deferred tax liabilities	1,854	1,124	N.A.	
of which: tax liabilities related to goodwill and other intangible assets	-	-	*600*	*8*
120. Valuation reserves	-1,038	-1,038	-183	3, 11
of which: valuation reserves on securities available for sale	*403*	-	*372*	
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	*-886*	*-855*	-	*11*
of which: foreign exchange differences	*-1,082*	*-1,082*	*-1,082*	*3*
of which: legally-required revaluations	*1,828*	*1,828*	*1,828*	*3*
of which: valuation reserves on net actuarial losses	*-398*	*-398*	*-398*	*3*
of which: other	-	-	-	
140 Equity instruments	5,549	5,549	5,590	
150. Reserves	17,428	17,428	19,491	2
of which: impact of the adoption of IFRS 9 net of transitional arrangements		-	*2,133*	*9*
160. Share premium reserve	25,078	25,078	25,078	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 (-)	-87	-87	-240	16
190. Minority interests (+/-)	221	249	42	5, 34, 48
of which CET1 compliant		-	*33*	*5*
of which AT1 compliant		-	*6*	*34*
of which T2 compliant		-	*3*	*48*
200. Net income (loss) for the period (+/-)	2,566	2,566	546	5a
of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period			*546*	*5a*
OTHER COMPONENTS OF OWN FUNDS, OF WHICH:			**-1,155**	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities			-111	14
Value adjustments due to the requirements for prudent valuation			-247	7
Exposures to securitisations deducted rather than risk weighted at 1250%			-86	20a, 20c
IRB shortfall of credit risk adjustments to expected losses			-346	12
IRB Excess of provisions over expected losses eligible			-	50
Filter on unrealised capital gains on real properties			-	20
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment			-204	55
Indirect investments and irrevocable payment commitments			-161	20
Total own funds as at 30 June 2020			**56,788**	

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 12.62% 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 2020, the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.56% under the transitional arrangements in force for 2020, and the institution-specific countercyclical capital buffer of 0.06% in the second quarter of 2020) 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 26 November 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 January 2020.
When the regulatory amendment introduced by the ECB with effect from 12 March this year – which establishes that the Pillar 2 requirement may be met by partially using capital instruments other than Common Equity Tier 1 – is applied, the overall capital requirement the Bank is required to meet in terms of Common Equity Tier 1 ratio is 8.40% under the transitional arrangements for 2020 and 8.59% on a fully loaded basis.
This is the result of:

a) an SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, and an additional Pillar 2 capital requirement of 1.5%, of which 4.5% and 0.84%, respectively, in the Common Equity Tier 1 ratio and 6% and 1.13%, respectively, in the Tier 1 ratio;
b) the additional Capital Conservation Buffer requirement of 2.5% on a fully-loaded basis already from 2019 and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.56% under the transitional arrangements in force for 2020 and 0.75% on a fully-loaded basis in 2021.

Considering the additional requirement consisting of the Institution-Specific Countercyclical Capital Buffer[2], the Common Equity Tier 1 ratio to be met is 8.44% under the transitional arrangements in force for 2020 and 8.64% on a fully loaded basis.

There were no changes relating to the authorisations for the internal credit risk models with respect to 31 December 2019.
There were no changes in the scope of application of the internal models concerning counterparty risk for OTC and ETD derivatives and SFTs compared to 31 December 2019.
There were no changes in the scope of application of the internal models for operational risk compared to 31 December 2019.

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 2020.

[2] Countercyclical Capital Buffer calculated taking into account the exposures as at 30 June 2020 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating either to 2020-2021, where available, or to the latest update of the reference period requirement was set at zero per cent in Italy for the third quarter of 2020.

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

(millions of euro)

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			30.06.2020	31.03.2020	30.06.2020
	1	**Credit risk (excluding CCR)**	**231,869**	**234,711**	**18,550**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*66,968*	*68,886*	*5,357*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*1,061*	*1,032*	*85*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*134,832*	*138,044*	*10,787*
Article 438(d)	*5*	*Of which equity with simple risk-weighted approach or PD/LGD*	*29,008*	*26,749*	*2,321*
Article 107 Article 438(c)(d)	**6**	**CCR**	**8,126**	**7,625**	**649**
Article 438(c)(d)	*7*	*Of which mark to market*	*1,941*	*1,485*	*155*
Article 438(c)(d)	*8*	*Of which original exposure*	-	-	-
	9	*Of which the standardised approach*	-	-	-
	10	*Of which internal model method (IMM)*	*4,806*	*4,880*	*384*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*227*	*237*	*18*
Article 438(c)(d)	*12*	*Of which CVA*	*1,152*	*1,023*	*92*
Article 438(e)	**13**	**Settlement risk**	**-**	**-**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**7,205**	**7,040**	**577**
	15	*Of which IRB approach*	-	-	-
	16	*Of which IRB supervisory formula approach (SEC-IRBA)*	*4,744*	*4,730*	*380*
	17	*Of which internal assessment approach (IAA)*	-	-	-
	18	*Of which standardised approach (SEC-SA and SEC-ERBA)*	*2,461*	*2,310*	*197*
Article 438 (e)	**19**	**Market risk**	**19,617**	**18,701**	**1,569**
	20	*Of which the standardised approach*	*2,384*	*2,406*	*190*
	21	*Of which IMA*	*17,233*	*16,295*	*1,379*
Article 438(e)	**22**	**Large exposures**	**-**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**22,258**	**21,212**	**1,781**
	24	*Of which basic indicator approach*	*485*	*485*	*39*
	25	*Of which standardised approach*	*2,090*	*2,090*	*167*
	26	*Of which advanced measurement approach*	*19,683*	*18,637*	*1,575*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**6,898**	**7,830**	**552**
Article 500	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**TOTAL**	**295,973**	**297,119**	**23,678**

The total amount of risk-weighted assets recorded as at 30 June 2020 was 296 billion euro, with a change of around -1.1 billion euro compared to March 2020. In particular, please note the following:
- for credit risk (excluding counterparty risk), there was a decrease for the advanced IRB portfolios, mainly attributable to the early application of the supporting factor for exposures to SMEs (CRR II, Article 1 point 133), and the portfolios using the Standardised approaches, partially offset by the increase in the portfolios relating to equity instruments, as a result of new purchases of equity investments;
- for counterparty risk, there was a slight increase mainly linked to the growth in exposures due to changes in market factors;
- for securitisations included in the banking book, the situation was essentially unchanged;
- for market risk, there was a slight increase linked to the volatility of the markets;
- for operational risk, there was a change mainly due to the increase in the historical component of the internal model, especially on the Customers and Processes risk class;
- for the amounts below the thresholds for deduction (250%), there was a decrease mainly due to the change in DTAs generated by the capital buffers.

For details of the RWA changes with the IRB, IMM and IMA approaches, see the qualitative comments at the bottom of the RWA flow statements (EU CR8, EU CCR7 and EU MR2-B).
It is noted that, as required by the rules (EBA/GL/2016/11), these tables show the movements of RWAs during the last quarter.

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

(millions of euro)

		RWA AMOUNTS	CAPITAL REQUIREMENTS
1	**RWAs as at 31 March 2020**	**167,237**	**13,379**
2	Asset size	1,535	123
3	Asset quality	833	67
4	Model updates	-	-
5	Methodology and policy	-2,638	-212
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-402	-32
8	Other	-368	-29
9	**RWAs as at 30 June 2020 (*)**	**166,197**	**13,296**

(*) As at 30 June 2020, the RWA relating to IRB models amounted to 166,197 million euro and was attributable to the Foundation IRB approach for 1,061 million euro (Row 3 EU OV1), to the Advanced IRB approach for 134,832 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 29,008 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 1,296 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 identified as 166,197 million euro in June 2020, down on 167,237 million euro for the previous quarter. The changes during the period more directly related to regulatory and lending aspects were attributable to the following components:
- -2,638 million euro due to the early application of the supporting factor for exposures to SMEs (CRR II, Article 1 point 133) permitted by the publication, on 26 June 2020, of Regulation (EU) 2020/873 of the European Parliament and of the Council;
- -402 million euro due to changes in exchange rates for foreign currency exposures, in particular for the exposures denominated in US dollars;
- 1,535 million euro due to the growth in operating volumes;
- 833 million euro due to the improvement in the credit rating of the counterparties in the portfolio.

[3] The risk-weighted assets 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).

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

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 31 March 2020**	**4,880**	**390**
2	Asset size	-308	-25
3	Credit quality of counterparties	298	24
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-64	-5
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-	-
8	Other	-	-
9	**RWAs as at 30 June 2020**	**4,806**	**384**

With regard to the changes in RWAs related to CCR exposures (derivatives and SFTs, determined based on the IMM, in accordance with part three, title II, chapter 6 of the CRR), the value of the aggregate decreased between the two quarters: 4,880 million euro in March 2020 and 4,806 million euro in June 2020. The change of -74 million euro was attributable to the following components:

– -308 million euro due to the decrease in exposures in the portfolio;
– -64 million euro due to the above-mentioned early application of the supporting factor for exposures to SMEs (CRR II, Article 1 point 133). This change was marginal compared to the impact observed on credit risk;
– 298 million euro due to the deterioration in the credit rating of the counterparties in the portfolio.

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

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 31 March 2020**	**4,390**	**8,590**	**3,164**	**-**	**151**	**16,295**	**1,304**
1a	*Regulatory adjustment*	*2,677*	*5,928*	*353*	*-*	*25*	*8,983*	*719*
1b	*RWAs at the previous quarter-end (end of the day)*	*1,713*	*2,662*	*2,811*	*-*	*126*	*7,312*	*585*
2	Movement in risk levels	-150	-818	146	-	110	-712	-57
3	Model updates/changes	-	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	-	-	-	-	-	-	-
8a	*RWAs at the end of the reporting period (end of the day)*	*1,563*	*1,844*	*2,957*	*-*	*236*	*6,600*	*528*
8b	*Regulatory adjustment*	*4,347*	*5,726*	*557*	*-*	*3*	*10,633*	*851*
8	**RWAs as at 30 June 2020**	**5,910**	**7,570**	**3,514**	**-**	**239**	**17,233**	**1,379**

The RWAs relating to market risks were up slightly compared to the first quarter of 2020. The increase in volatility had a significant impact on the current VaR, but efficient repositioning in the credit market limited the overall effects on the total RWAs. The effects of the repositioning were particularly strong for the Stressed VaR.

Institution-specific Countercyclical Capital Buffer

Below is the information relating to the "Countercyclical capital buffer", prepared based on the ratios applicable at 30 June 2020 and Delegated Regulation (EU) 2015/1555 of the Commission of 28 May 2015 which integrates regulation (EU) 575/2013 of the European Parliament and of the Council (so-called CRR) regarding the regulatory technical standards pertaining to the publication of information in relation to the compliance of the institutions' obligation to hold a countercyclical capital buffer pursuant to Article 440 of the CRR. As established by Article 140, paragraph 1, of directive 2013/36/EU (so-called CRD IV), the institution-specific countercyclical capital buffer is the weighted average of the countercyclical ratios which are applied in the countries where the relevant credit exposures of the institutions are located.
CRD IV established the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical buffer ratio (for exposures towards Italian counterparties) at 0% also for the third quarter of 2020.
The relevant credit exposures include all the classes of exposure other than those under Article 112, letters from a) to f), of regulation (EU) 575/2013. The following portfolios are excluded: exposures to central administrations or central banks; exposures to regional administrations or local authorities; exposures to public-sector entities; exposures to multilateral development banks; exposures to international organisations; exposures to institutions.

With reference to 30 June 2020:
- 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: Slovakia (1.50%), Hong Kong (1.00%), Norway (1.00%), Czech Republic (1.00%), Bulgaria (0.50%) and Luxembourg (0.25%);
- at consolidated level, Intesa Sanpaolo's specific countercyclical ratio amounts to 0.056%.

Amount of the Institution-specific Countercyclical Capital Buffer

(millions of euro)

Total risk exposure	295,973
Specific countercyclical ratio of the institution (%)	0.056%
Specific countercyclical capital buffer requirement of the institution	166

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 2020.

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	38,935	286,948	823	312	7,507	16,967	*11,676*	*160*	*524*	12,360	70.59	-
ALBANIA	522	9	-	-	-	-	*1*	-	-	1	0.00	-
SAUDI ARABIA	7	174	-	11	-	-	*7*	*1*	-	8	0.05	-
ARGENTINA	16	2	-	-	-	-	*1*	-	-	1	0.01	-
AUSTRALIA	66	646	-	-	-	-	*28*	-	-	28	0.16	-
AUSTRIA	164	1,020	-	2	-	-	*58*	-	-	58	0.33	-
AZERBAIJAN	-	156	-	-	-	-	*10*	-	-	10	0.06	-
BAHAMAS	-	152	-	-	-	-	*5*	-	-	5	0.03	-
BAHREIN	2	-	-	-	-	-	-	-	-	-	0.00	-
BAILIWICK OF GUERNSEY	-	28	-	-	-	-	*2*	-	-	2	0.01	-
BAILIWICK OF JERSEY	361	55	-	-	-	-	*33*	-	-	33	0.19	-
BELGIUM	1,003	469	-	4	-	-	*88*	-	-	88	0.50	-
BELIZE	-	1	-	-	-	-	-	-	-	-	0.00	-
BERMUDA	1	581	-	1	-	-	*27*	-	-	27	0.16	-
BELARUS	-	1	-	-	-	-	-	-	-	-	0.00	-
BOLIVIA	1	-	-	-	-	-	-	-	-	-	0.00	-
BOSNIA AND HERZEGOVINA	890	14	-	-	-	-	*72*	-	-	72	0.41	-
BRAZIL	327	665	-	2	-	-	*51*	*2*	-	53	0.30	-
BULGARIA	2	23	-	-	-	-	*1*	-	-	1	0.01	50
BURUNDI	1	-	-	-	-	-	-	-	-	-	0.00	-
CANADA	474	112	-	3	-	-	*12*	*1*	-	13	0.07	-
CAYMAN ISLANDS	136	434	-	-	-	-	*31*	-	-	31	0.18	-
CZECH REPUBLIC	282	843	-	-	-	-	*66*	-	-	66	0.38	1.00
CHILE	2	426	-	-	-	-	*13*	-	-	13	0.08	-
CHINA	255	784	-	-	-	-	*126*	-	-	126	0.72	-
CYPRUS	18	264	-	-	-	-	*12*	-	-	12	0.07	-
COLOMBIA	-	80	-	-	-	-	*3*	-	-	3	0.02	-
SOUTH KOREA	6	25	-	-	-	-	*2*	-	-	2	0.01	-
CROATIA	7,166	186	-	-	-	-	*440*	-	-	440	2.51	-
CUBA	86	-	-	-	-	-	*10*	-	-	10	0.06	-
DENMARK	14	40	2	4	-	-	*1*	-	-	1	0.01	0.00
DOMINICAN REPUBLIC	-	12	-	-	-	-	*1*	-	-	1	0.01	-
EGYPT	2,263	124	-	-	-	-	*154*	-	-	154	0.88	-
UNITED ARAB EMIRATES	3	1,124	-	-	-	-	*29*	-	-	29	0.17	-
ECUADOR	1	176	-	-	-	-	*8*	-	-	8	0.05	-
ESTONIA	24	-	-	-	-	-	-	-	-	-	0.00	-
ETIOPIA	-	114	-	-	-	-	-	-	-	-	0.00	-
PHILIPPINES	-	1	-	-	-	-	-	-	-	-	0.00	-
FINLAND	76	235	1	8	5	-	*13*	-	-	13	0.07	-
FRANCE	1,075	2,962	35	89	5	-	*155*	*11*	-	166	0.95	-
GERMANY	915	3,973	7	262	3	-	*213*	*14*	*2*	229	1.30	-
JAPAN	8	999	-	1	-	-	*46*	-	-	46	0.26	-

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

(millions of euro)

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	**Total**		
GREECE	11	34	-	1	-	-	2	-	-	2	0.01	-
GUATEMALA	1	-	-	-	-	-	-	-	-	-	0.00	-
HONG KONG	52	351	-	5	-	-	15	1	-	16	0.09	1.00
INDIA	1	963	-	-	-	-	36	-	-	36	0.21	-
INDONESIA	39	59	-	-	-	-	6	-	-	6	0.03	-
IRELAND	178	236	21	2	107	-	24	-	11	35	0.20	-
ICELAND	-	16	-	-	-	-	1	-	-	1	0.01	-
ISRAEL	38	30	-	6	-	-	5	1	-	6	0.04	-
KAZAKHSTAN	8	10	-	-	-	-	1	-	-	1	0.00	-
KENYA	-	2	-	-	-	-	-	-	-	-	0.00	-
KUWAIT	-	199	-	-	-	-	7	-	-	7	0.04	-
LIBERIA	-	3	-	-	-	-	-	-	-	-	0.00	-
LIECHTESTEIN	-	1	-	-	-	-	-	-	-	-	0.00	-
LITHUANIA	7	3	-	-	-	-	-	-	-	-	0.00	-
LUXEMBOURG	3,318	4,931	-	58	314	-	415	4	23	442	2.52	0.25
MACAU	-	21	-	-	-	-	1	-	-	1	0.00	-
MACEDONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
MALAYSIA	-	30	-	-	-	-	1	-	-	1	0.00	-
MALTA	2	37	-	-	-	-	1	-	-	1	0.01	-
MOROCCO	3	-	-	-	-	-	-	-	-	-	0.00	-
MARSHALL ISLANDS	8	180	-	-	-	-	9	-	-	9	0.05	-
MARTINIQUE	2	-	-	-	-	-	-	-	-	-	0.00	-
MAURITIUS	-	204	-	-	-	-	9	-	-	9	0.05	-
MEXICO	13	1,413	-	59	-	-	51	1	-	52	0.30	-
MOLDOVA	120	-	-	-	-	-	6	-	-	6	0.03	-
PRINCIPALITY OF MONACO	1	11	-	-	-	-	-	-	-	-	0.00	-
MONGOLIA	-	130	-	-	-	-	9	-	-	9	0.05	-
MONTENEGRO	6	-	-	-	-	-	-	-	-	-	0.00	-
NIGERIA	-	9	-	-	-	-	-	-	-	-	0.00	-
NORWAY	107	690	-	3	-	-	15	-	-	15	0.08	1.00
NEW ZELAND	1	54	-	-	-	-	4	-	-	4	0.02	-
OMAN	19	105	-	-	-	-	4	-	-	4	0.02	-
THE NETHERLANDS	663	3,451	27	198	104	-	158	11	1	170	0.97	-
PANAMA	4	120	-	-	-	-	8	-	-	8	0.05	-
PERU	-	112	-	-	-	-	3	-	-	3	0.02	-
POLAND	746	914	-	-	-	-	91	-	-	91	0.52	-
PORTUGAL	2	172	41	3	6	-	5	2	-	7	0.04	-
PUERTO RICO	-	6	-	-	-	-	1	-	-	1	0.01	-
QATAR	1	229	-	-	-	-	6	-	-	6	0.03	-
UNITED KINGDOM	2,104	4,262	8	178	-	-	293	17	-	310	1.77	-
ROMANIA	896	49	-	-	-	-	55	-	-	55	0.32	-
RUSSIAN FEDERATION	825	4,955	-	-	-	-	210	-	-	210	1.20	-
SAN MARINO	3	36	-	-	-	-	1	-	-	1	0.01	-
SERBIA	3,988	203	8	-	-	-	235	1	-	236	1.35	-

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**		
SINGAPORE	2	561	-	-	-	-	*13*	-	-	13	0.08	-
SLOVAKIA	2,908	12,470	69	-	-	-	*506*	*5*	-	511	2.92	1.50
SLOVENIA	1,114	921	-	-	-	-	*108*	-	-	108	0.62	-
SPAIN	260	3,095	14	50	139	-	*149*	*5*	*11*	165	0.94	-
UNITED STATES OF AMERICA	522	10,240	1	125	45	-	*405*	*18*	*4*	427	2.44	-
SOUTH AFRICAN REPUBLIC	-	326	-	15	-	-	*23*	*1*	-	24	0.14	-
SWEDEN	180	280	-	10	-	-	*19*	-	-	19	0.11	-
SWITZERLAND	182	1,394	-	179	-	-	*56*	*8*	-	64	0.37	-
THAILAND	-	29	-	-	-	-	*2*	-	-	2	0.01	-
TUNISIA	2	3	-	-	-	-	-	-	-	-	0.00	-
TURKEY	184	826	-	6	-	-	*75*	*1*	-	76	0.44	-
UKRAINE	88	29	-	-	-	-	*5*	-	-	5	0.03	-
HUNGARY	3,263	357	-	-	-	-	*207*	-	-	207	1.18	-
URUGUAY	7	127	-	-	-	-	*4*	-	-	4	0.02	-
VENEZUELA	1	3	-	-	-	-	-	-	-	-	0.00	-
BRITISH VIRGIN ISLANDS	-	165	-	-	-	-	*7*	-	-	7	0.04	-
VIETNAM	-	3	-	-	-	-	-	-	-	-	0.00	-
TOTAL	**76,983**	**358,918**	**1,057**	**1,597**	**8,235**	**16,967**	***16,662***	***265***	***576***	**17,503**	**100.00**	

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

(millions of euro)

Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	5,075
TOTAL RWAs	**18,778**

As a “financial conglomerate” with a Parent Company of a banking group, Intesa Sanpaolo S.p.A., which controls the Intesa Sanpaolo Vita Insurance Group, on 9 September 2019 the Intesa Sanpaolo Group received permission from the ECB to calculate the Group’s consolidated capital ratios, from the report as at 30 September 2019, using the Danish Compromise set out in Article 49 of Regulation (EU) 575/2013 (CRR), which allows banks that hold own funds instruments in insurance companies, subject to authorisation from their competent authorities, not to deduct those significant investments from Common Equity Tier 1 Capital (CET 1) and weight them at 370% among RWA.
Between December 2019 and June 2020, there was a decrease of around 2 billion euro in terms of RWAs, due to the reduction in the value of insurance equity investments during the period.
In addition, based on specific instructions received from the ECB, the T2 subordinated instruments issued by the Group’s insurance companies and held by the Parent Company (164 million euro as at 30 June 2020) have been weighted among RWAs, resulting in additional RWAs of around 600 million euro. These latter figures are not included in the EU INS1 table figures.

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

(millions of euro)

	Available capital (amounts)	30.06.2020	31.03.2020	31.12.2019	30.09.2019	30.06.2019
1	Common Equity Tier 1 capital (CET1)	43,260	42,339	41,542	41,747	38,015
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	41,128	40,212	38,952	39,208	34,351
3	Tier 1 capital	48,856	47,935	45,638	46,468	42,755
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	46,724	45,808	43,048	43,929	39,091
5	Total capital	56,788	54,971	52,695	53,167	49,241
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	55,506	53,711	50,953	51,486	46,430
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	295,973	297,119	298,524	298,393	280,260
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	297,523	298,732	300,510	300,284	279,410
	Capital ratios					
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	14.6%	14.2%	13.9%	14.0%	13.6%
10	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.8%	13.5%	13.0%	13.1%	12.3%
11	Tier 1 capital (as a percentage of the risk exposure amount)	16.5%	16.1%	15.3%	15.6%	15.3%
12	Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.7%	15.3%	14.3%	14.6%	14.0%
13	Total capital (as a percentage of the risk exposure amount)	19.2%	18.5%	17.7%	17.8%	17.6%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.7%	18.0%	17.0%	17.1%	16.6%
	Leverage ratio					
15	Leverage ratio total exposure measure	745,133	722,405	682,781	724,167	700,805
16	Leverage ratio	6.6%	6.6%	6.7%	6.4%	6.1%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.3%	6.4%	6.3%	6.1%	5.6%

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 2020 (with and without applying the transitional provisions for IFRS 9) shown in the table above due to the following:

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

From 30 September 2019, the deduction of DTAs and investments in companies in the financial sector described in the section on Own Funds ceased to be applied following the application of the Danish Compromise. As a consequence, the difference between the amount of the 250% risk-weighted DTAs in the IFRS 9 transitional approach and those re-determined

on the assumption IFRS 9 had not been applied (fully-loaded IFRS 9), as described in detail in the above-mentioned section, results in an increase in risk-weighted assets for the latter, which will cease at the end of the transitional period (2022).
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, in implementation of the most recent applicable regulatory provisions.

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

In particular, a detailed definition is prepared of the tasks assigned to the corporate bodies and reports are presented to the 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.
In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.
The 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.
The liquidity risk measurement metrics and mitigation tools are formalised by the Group Liquidity Risk Management Guidelines which establish the methodology used for both the short-term and structural liquidity indicators.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of specific short-term indicators, both of a regulatory nature with a holding a period of one month (Liquidity Coverage Ratio - LCR) and internally defined (Survival Period indicators) with a holding period of up to 12 months.

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 Survival Period is an internal indicator designed to measure the first day on which the net liquidity position (calculated as the difference between available liquidity reserves and net outflows) becomes negative, i.e. when additional liquidity is no longer available to cover simulated net outflows up to 12 months. To this end, two different scenario hypotheses are considered, baseline and stressed, designed to measure, respectively: (i) the Group's independence from interbank funding on the financial markets and (ii) the survival period in the event of further tensions of a market and idiosyncratic nature, of medium-high severity, managed without envisaging restrictions on credit activity involving customers. For the Survival Period indicator, in stress conditions it is established that a minimum survival period must be maintained 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.
The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions - the Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. In addition, the 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 entry into force of the net stable funding ratio (100%) is, instead, planned for June 2021, following

publication in the Official Journal in May 2019 of the package of banking reforms containing the new EU Directive 2019/878 (CRD V) and the new Regulation 2019/876 (CRR2).

The Group Liquidity Risk Management 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. 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 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 in the first six months of 2020: both regulatory indicators, LCR and NSFR, were above 100%. The Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 150%.

At the end of June 2020, the value of unencumbered HQLA reserves was 119 billion euro, more than 28% comprised of cash and deposits held with Central Banks. Including the other marketable reserves and/or eligible Central Bank reserves, the Group’s unencumbered liquidity reserves amounted to 127 billion euro.

(millions of euro)

	Unencumbered (net of haircut)	
	30.06.2020	**31.12.2019**
HQLA Liquidity Reserves	**119,316**	**95,762**
Cash and Deposits held with Central Banks (HQLA)	33,624	22,326
Highly liquid securities (HQLA)	85,692	73,436
Other eligible and/or marketable reserves	**8,031**	**22,594**
Total Group's Liquidity Reserves	**127,347**	**118,356**

In view of the high stock of available liquidity reserves (liquid or eligible), the period of independence from wholesale funding, measured by the Survival Period indicator (baseline scenario), identifies a financial independence in situations of freeze of the money market for more than 12 months. The additional stress tests, measured by the Survival Period indicator in a combined scenario of severe market and specific crises (with significant loss in customer deposits), also yielded results in excess of the target threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the risk factors. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.

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

The table below contains the quantitative information on the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured in accordance with the EU regulations and subject to periodic reporting to the competent Supervisory Authority. The figures shown refer to the simple average of the last 12 months of monthly observations[4].

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

(millions of euro)

SCOPE OF CONSOLIDATION		TOTAL UNWEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
	Quarter ending	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUIDIT ASSETS									
1	**Total high-quality liquid assets (HQLA) (a)**					**98,980**	**96,818**	**97,082**	**91,819**
CASH-OUTFLOWS									
2	**Retail deposits and deposits from small business customers, of which:**	**212,544**	**207,032**	**203,409**	**199,546**	**15,032**	**14,634**	**14,332**	**13,998**
3	*Stable deposits*	*152,165*	*148,392*	*146,514*	*144,313*	*7,608*	*7,420*	*7,326*	*7,216*
4	*Less stable deposits*	*60,379*	*58,640*	*56,895*	*55,233*	*7,424*	*7,214*	*7,006*	*6,782*
5	**Unsecured wholesale funding**	**107,675**	**104,202**	**101,397**	**99,112**	**49,576**	**48,871**	**47,889**	**47,000**
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*36,578*	*35,248*	*34,113*	*32,674*	*9,142*	*8,809*	*8,525*	*8,166*
7	*Non operational deposits (all counterparties)*	*67,927*	*65,659*	*64,012*	*62,835*	*37,264*	*36,767*	*36,092*	*35,231*
8	*Unsecured debt*	*3,170*	*3,295*	*3,272*	*3,603*	*3,170*	*3,295*	*3,272*	*3,603*
9	**Secured wholesale funding**					**1,557**	**1,562**	**1,545**	**1,305**
10	**Additional requirements**	**63,640**	**62,138**	**59,126**	**54,924**	**16,816**	**15,928**	**14,580**	**12,844**
11	*Outflows related to derivative exposure and other collateral requirements*	*4,430*	*3,834*	*3,323*	*2,799*	*4,215*	*3,577*	*2,932*	*2,273*
12	*Outflos related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	*59,210*	*58,304*	*55,803*	*52,125*	*12,601*	*12,351*	*11,648*	*10,571*
14	**Other contractual funding obligations**	**2,273**	**1,767**	**1,495**	**1,328**	**2,270**	**1,764**	**1,491**	**1,323**
15	**Other contingent funding obligations**	**92,915**	**95,920**	**101,385**	**106,175**	**4,143**	**3,906**	**3,571**	**2,751**
16	**TOTAL CASH OUTFLOWS**					**89,394**	**86,665**	**83,408**	**79,221**
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	32,206	36,311	42,159	41,211	1,116	1,231	1,408	1,620
18	Inflows from fully performing exposures	21,545	20,996	20,351	19,667	13,742	13,322	12,927	12,553
19	Other cash inflows	21,876	22,075	21,723	21,705	8,619	8,571	8,339	8,237
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**	**75,627**	**79,382**	**84,233**	**82,583**	**23,477**	**23,124**	**22,674**	**22,410**
20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
20c	*Inflows subject to 75% cap*	*75,627*	*79,382*	*84,233*	*82,583*	*23,477*	*23,124*	*22,674*	*22,409*
21	**LIQUIDITY BUFFER**					**98,980**	**96,818**	**97,082**	**91,819**
22	**TOTAL NET CASH OUTFLOWS**					**65,917**	**63,541**	**60,734**	**56,811**
23	**LIQUIDITY COVERAGE RATIO (%)**					**150.0%**	**152.8%**	**160.6%**	**161.8%**

(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 6, CRR) for the Italian banks of the Group.

Intesa Sanpaolo is therefore required to comply with the provisions of Part VI 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 well above the minimum regulatory amounts required in the reference period. To this end, and based on the particular characteristics of each

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

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 2020, 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 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). The Group Liquidity Risk Management Guidelines require the regular monitoring of the concentration analyses for the funding (by counterparty/product) and for the liquidity reserves (by issuer/counterparty).

Derivatives transactions and potential collateral calls

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

Other liquidity risks not captured in the LCR calculation, but relevant to the Group’s liquidity profile

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

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 2019.

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 2019.

Credit quality of on-balance sheet and off-balance sheet credit risk exposures by exposure class and instrument as at 30 June 2020 (EU CR1-A EBA GL 2016/11)

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Write-offs on NPE during the reporting period (**)	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD (***)				NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)					TOTAL	on non-performing exposures	on performing exposures	of which due to write-offs	(a+ b -c-d)
1	**Central governments or central banks**	-	-	-	-	-	-	-	-	-	-	-
2	**Institutions**	**456**	**63,055**	**209**	-	**24**	-	**21**	**9**	**12**	-	**63,302**
3	**Corporates**	**19,747**	**293,618**	**10,865**	-	**7,616**	**1,230**	**950**	**655**	**295**	**4**	**302,500**
4	*- Of which: Specialised lending*	*1,285*	*14,810*	*759*	-	*133*	*57*	*33*	*28*	*5*	*1*	*15,336*
5	*- Of which: SMEs*	*11,422*	*64,731*	*6,614*	-	*5,238*	*428*	*587*	*445*	*142*	*24*	*69,539*
6	**Retail**	**8,767**	**139,558**	**5,099**	-	**1,676**	**524**	**611**	**386**	**225**	**8**	**143,226**
7	Secured by real estate property	3,682	100,095	1,359	-	183	46	178	93	85	2	102,418
8	*- SMEs*	*955*	*4,493*	*393*	-	*118*	*33*	*38*	*12*	*26*	*1*	*5,055*
9	*- Non-SMEs*	*2,727*	*95,602*	*966*	-	*65*	*13*	*140*	*81*	*59*	*1*	*97,363*
10	Qualifying revolving	-	-	-	-	-	-	-	-	-	-	-
11	Other retail	5,085	39,463	3,740	-	1,493	478	433	293	140	6	40,808
12	*- SMEs*	*3,203*	*18,363*	*2,293*	-	*1,097*	*390*	*231*	*169*	*62*	*5*	*19,273*
13	*- Non-SMEs*	*1,882*	*21,100*	*1,447*	-	*396*	*88*	*202*	*124*	*78*	*1*	*21,535*
14	**Equity**	**99**	**8,530**	-	-	-	-	-	-	-	-	**8,629**
15	**Total IRB approach**	**29,069**	**504,761**	**16,173**	-	**9,316**	**1,754**	**1,582**	**1,050**	**532**	**12**	**517,657**
16	Central governments or central banks	-	139,537	45	-	-	-	-31	-	-31	-	139,492
17	Regional governments or local authorities	-	970	5	-	-	-	2	-	2	-	965
18	Public sector entities	-	2,681	12	-	-	-	-1	-	-1	-	2,669
19	Multilateral development banks	-	947	-	-	-	-	-	-	-	-	947
20	International organisations	-	287	-	-	-	-	-	-	-	-	287
21	Institutions	-	6,532	44	-	-	-	3	-	3	-	6,488
22	Corporates	-	46,155	207	-	-	15	85	-3	88	-	45,948
23	*- Of which: SMEs*	-	*6,643*	*77*	-	-	-	*23*	-	*23*	-	*6,566*
24	Retail	-	20,513	192	-	-	18	54	32	22	2	20,321
25	*- Of which: SMEs*	-	*3,409*	*49*	-	-	-	*20*	*7*	*13*	-	*3,360*
26	Secured by mortgages on immovable property	-	4,605	49	-	-	-	10	-1	11	-	4,556
27	*- Of which: SMEs*	-	*993*	*25*	-	-	-	*12*	*4*	*8*	-	*968*
28	Exposures in default (****)	3,440	-	1,815	-	146	23	117	118	-1	31	1,625
29	Items associated with particularly high risk	-	1,368	68	-	-	-	2	-	2	-	1,300
30	Covered bonds	-	2,085	2	-	-	-	2	-	2	-	2,083
31	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
32	Collective investments undertakings	-	3,711	2	-	-	-	12	-	12	-	3,709
33	Equity exposures	-	2,027	-	-	-	-	-	-	-	-	2,027
34	Other exposures	-	17,313	123	-	-	-	12	-	12	16	17,190
35	**Total standardised approach**	**3,440**	**248,731**	**2,564**	-	**146**	**56**	**267**	**146**	**121**	**49**	**249,607**
36	**Total**	**32,509**	**753,492**	**18,737**	-	**9,462**	**1,810**	**1,849**	**1,196**	**653**	**61**	**767,264**
37	Of which: Loans (*****)	30,057	414,352	18,122	-	9,462	1,810	1,799	1,189	610	61	426,287
38	Of which: Debt securities	38	102,743	150	-	-	-	26	-	26	-	102,631
39	Of which: Off-balance-sheet exposures	2,314	225,930	465	-	-	-	24	7	17	-	227,779

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

(**) The reference period is the first half of 2020. The amounts refer to existing positions at the end of the reporting period.

(***) Net adjustments (+) or recoveries (-) referring to the first half of 2020. The amounts refer to existing positions at the end of the reporting period.

(****) With regard to the standardised approach, the gross value of defaulted exposures may be broken down as follows by original portfolio (prior to classification as defaulted): 1 million euro attributable to the Central governments and central banks portfolio, 14 million euro attributable to the Public sector entities portfolio, 691 million euro attributable to the Exposures secured by real estate property portfolio, 1,421 million euro attributable to the Corporates portfolio, 1,206 million euro attributable to the Retail portfolio, 1 million euro attributable to the Other exposures portfolio, 1 million euro attributable to the Institutions portfolio and 105 million euro attributable to the Collective investments undertakings portfolio. Furthermore, portfolio "Items associated with particularly high risk" contains 169 million euro of defaulted exposures.

(*****) 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.

As at June 2020, the performing portfolio showed a sharp increase compared to December 2019 (+4.8% in gross values and +4.6% in net values), attributable both to the performance of the Loans component (+26.7 billion euro), which recorded substantial growth compared to the trend in 2019, and the Securities component (+9.5 billion euro), which confirmed the strength seen in previous six months' periods. The growth was driven by lending to customers, boosted by the measures adopted by the Authorities to deal with the economic impacts of the COVID-19 crisis, which provided credit intermediaries extensive coverage of their exposures both through government guarantee schemes to preserve market liquidity conditions and business continuity for companies, and through the widespread use of moratoriums. More specifically, there was considerable growth in retail loans (+3.8 billion euro), accompanied by a boost to the provision of advances and loans to businesses, which was reflected both in the growth in "Loans to businesses" (+9.4 billion euro) and in the significant increase in new lending allocated to Central Government in the table above, relating to the amount (6 billion euro) guaranteed by the Ministry of the Economy and Finance. The significant change in the "Central Governments and Central banks" portfolio (+24.1 billion euro) was also driven by: a) the changes in deposits and current accounts (+10.9 billion euro), attributable to the restoration of the level of the Reserve Requirement held with the Bank of Italy, which had fallen by the same amount in December 2019; b) an increase in the Securities portfolio, with new investments directed towards investment-grade government bonds (+8.3 billion euro), largely consisting of Eurozone sovereigns, with a small proportion in the domestic segment; and c) the restatement of the loans from the high risk portfolio (-1.1 billion euro) – originally included in the acquisition of the Venetian Banks in relation to the provision of the time-limited government guarantees – which from June 2019 were allocated to the specific classes, because the time limit for the government guarantees has now expired.
The credit quality of the portfolio continued to benefit from the steady reduction in defaulted exposures (-1.6 billion euro in the first half, -5.1 billion euro year-on-year, -7.4 billion euro over 18 months), driven both by the positive recovery in the financial stability of the counterparties in difficulty (4,300 companies returned to performing status in the first half) and by targeted write-off policies designed to optimise capital ratios.
Lastly, with regard to the valuation methods used for the exposures shown in the table, the level of use of advanced approaches (67% of the aggregate) decreased slightly during the half-year, due to the growth in the volumes of exposures to "Central Governments and Central Banks", calculated using the Standard approach, which increased as a percentage of the total aggregate from 16% in December 2019 to 18.5% in June 2020.

Quality of non-performing exposures by geography as at 30 June 2020 (Table 5 EBA GL 2018/10)

(millions of euro)

		GROSS CARRYING VALUE				ACCUMULATED IMPAIRMENT	PROVISIONS ON OFF-BALANCE-SHEET COMMITMENTS AND FINANCIAL GUARANTEES GIVEN	ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK ON NON-PERFORMING EXPOSURES
		Total	Of which non-performing		Of which subject to impairment			
				Of which defaulted				
1	**ON-BALANCE-SHEET EXPOSURES**	**547,103**	**30,303**	**30,303**	**545,130**	**18,325**		**20**
2	Italy	347,704	28,142	28,142	346,041	16,356		20
3	United States	25,401	34	34	25,393	63		-
4	United Kingdom	24,342	3	3	24,277	31		-
5	France	15,250	56	56	15,200	14		-
6	Spain	18,879	3	3	18,879	26		-
7	Slovakia	14,288	430	430	14,288	332		-
8	Germany	11,109	89	89	11,109	74		-
9	Luxembourg	6,221	50	50	6,212	38		-
10	Croatia	8,260	495	495	8,260	406		-
11	Ireland	3,064	45	45	3,064	22		-
12	The Netherlands	4,606	-	-	4,592	11		-
13	Russia	5,509	60	60	5,509	75		-
14	Egypt	5,400	120	120	5,400	121		-
15	Serbia	4,966	95	95	4,966	123		-
16	Qatar	4,909	-	-	4,909	1		-
17	Hungary	4,666	135	135	4,549	116		-
18	Other Countries	42,529	546	546	42,482	516		-
19	**OFF-BALANCE-SHEET EXPOSURES**	**261,965**	**2,328**	**2,328**			**487**	
20	Italy	151,704	2,199	2,199			360	
21	United States	18,037	15	15			8	
22	United Kingdom	8,160	-	-			8	
23	France	12,800	5	5			1	
24	Spain	4,101	-	-			1	
25	Slovakia	3,279	24	24			10	
26	Germany	4,631	5	5			3	
27	Luxembourg	4,741	-	-			6	
28	Croatia	2,083	38	38			28	
29	Ireland	5,981	-	-			16	
30	The Netherlands	3,761	-	-			1	
31	Russia	2,435	-	-			2	
32	Egypt	1,168	3	3			7	
33	Serbia	1,249	4	4			3	
34	Qatar	1,126	-	-			-	
35	Hungary	1,207	2	2			4	
36	Other Countries	35,502	33	33			29	
37	**TOTAL**	**809,068**	**32,631**	**32,631**	**545,130**	**18,325**	**487**	**20**

This table only includes countries towards which the Group has on- and off-balance sheet exposures that exceed the threshold of 5.8 billion euro shown in descending order of overall exposure (which represents around 90% of the total exposure). The total on-balance sheet exposures amounting to 547,103 million euro include 1,973 million euro of exposures not subject to impairment. The geographical breakdown as at 30 June 2020 did not change significantly compared to December 2019.

Credit quality of non-performing and performing exposures by past due days as at 30 June 2020 (Table 3 EBA GL 2018/10)

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

(millions of euro)

		GROSS CARRYING VALUES											
		PERFORMING EXPOSURES			NON-PERFORMING EXPOSURES								
		Total	Not past due or Past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 years	*Of which defaulted / impaired*
1	**Loans and advances**	**405,935**	**403,590**	**2,345**	**30,175**	**3,607**	**1,206**	**2,095**	**3,317**	**6,593**	**4,835**	**8,522**	***30,175***
2	Central banks	2,032	2,032	-	-	-	-	-	-	-	-	-	-
3	General governments	17,812	17,496	316	331	57	1	40	1	13	2	217	*331*
4	Credit institutions	18,008	18,008	-	92	29	59	-	-	3	-	1	*92*
5	Other financial corporations	49,404	49,296	108	671	167	14	100	59	219	58	54	*671*
6	Non-financial corporations	177,740	176,589	1,151	22,045	2,416	724	1,438	2,518	4,591	3,841	6,517	*22,045*
7	*Of which: SMEs*	*65,455*	*65,005*	*450*	*15,981*	*1,226*	*525*	*906*	*1,433*	*3,257*	*2,883*	*5,751*	*15,981*
8	Households	140,939	140,169	770	7,036	938	408	517	739	1,767	934	1,733	*7,036*
9	**Debt securities**	**110,865**	**110,857**	**8**	**128**	**16**	**-**	**4**	**21**	**72**	**14**	**1**	***128***
10	Central banks	41	41	-	-	-	-	-	-	-	-	-	-
11	General governments	82,943	82,942	1	22	8	-	1	-	9	3	1	*22*
12	Credit institutions	8,207	8,200	7	-	-	-	-	-	-	-	-	-
13	Other financial corporations	15,137	15,137	-	70	8	-	-	-	62	-	-	*70*
14	Non-financial corporations	4,537	4,537	-	36	-	-	3	21	1	11	-	*36*
15	**Off-balance-sheet exposures**	**259,637**			**2,328**								***2,328***
16	Central banks	2,124			-								-
17	General governments	7,969			3								*3*
18	Credit institutions	37,927			6								*6*
19	Other financial corporations	43,895			28								*28*
20	Non-financial corporations	155,864			2,216								*2,216*
21	Households	11,858			75								*75*
22	**TOTAL**	**776,437**	**514,447**	**2,353**	**32,631**	**3,623**	**1,206**	**2,099**	**3,338**	**6,665**	**4,849**	**8,523**	***32,631***

As shown in the table above, the gross NPE ratio as at 30 June 2020 was 6.92%, down from 7.35% as at 31 December 2019. This ratio is calculated in accordance with GL 2018/10, i.e. the ratio of the gross value of non-performing loans and advances to the gross value of total loans and advances.

There were no significant changes in the breakdown by past-due band of non-performing and performing exposures compared to December 2019.

Performing and non-performing exposures and related provisions as at 30 June 2020 (Table 4 EBA LG 2018/10) *(Table 1 of 2)*

(millions of euro)

		GROSS CARRYING VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES					
		Performing exposures			Non-performing exposures		
		Total	*Of which stage 1*	*Of which stage 2*	**Total**	*Of which stage 2*	*Of which stage 3*
1	**Loans and advances**	**405,935**	***340,386***	***64,702***	**30,175**	**-**	***30,106***
2	Central banks	2,032	*2,032*	-	-	-	-
3	General governments	17,812	*12,481*	*5,332*	331	-	*331*
4	Credit institutions	18,008	*16,257*	*1,743*	92	-	*92*
5	Other financial corporations	49,404	*43,229*	*6,038*	671	-	*646*
6	Non-financial corporations	177,740	*138,587*	*38,572*	22,045	-	*22,002*
7	*Of which: SMEs*	*65,455*	*51,219*	*14,102*	*15,981*	-	*15,962*
8	Households	140,939	*127,800*	*13,017*	7,036	-	*7,035*
9	**Debt securities**	**110,865**	***98,891***	***10,917***	**128**	**-**	***128***
10	Central banks	41	-	*41*	-	-	-
11	General governments	82,943	*77,362*	*5,580*	22	-	*22*
12	Credit institutions	8,207	*5,856*	*2,301*	-	-	-
13	Other financial corporations	15,137	*11,588*	*2,594*	70	-	*70*
14	Non-financial corporations	4,537	*4,085*	*401*	36	-	*36*
15	**Off-balance-sheet exposures**	**259,637**	***211,244***	***48,391***	**2,328**	**-**	***2,328***
16	Central banks	*2,124*	*2,088*	*36*	-	-	-
17	General governments	7,969	*5,673*	*2,296*	3	-	*3*
18	Credit institutions	37,927	*33,182*	*4,744*	6	-	*6*
19	Other financial corporations	43,895	*38,763*	*5,132*	28	-	*28*
20	Non-financial corporations	155,864	*120,739*	*35,124*	2,216	-	*2,216*
21	Households	11,858	*10,799*	*1,059*	75	-	*75*
22	**TOTAL**	**776,437**	***650,521***	***124,010***	**32,631**	**-**	***32,562***

Performing and non-performing exposures and related provisions as at 30 June 2020 (Table 4 EBA LG 2018/10) *(Table 2 of 2)*

(millions of euro)

		ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS							COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
		Performing exposures			Non-performing exposures			ACCUMULATED PARTIAL WRITE-OFF		
		Total	*Of which stage 1*	*Of which stage 2*	Total	*Of which stage 2*	*Of which stage 3*		On performing exposures	On non-performing exposures
1	**Loans and advances**	**2,226**	***777***	***1,449***	**15,887**	**-**	***15,867***	**9,382**	**229,049**	**10,713**
2	Central banks	1	*1*	*-*	-	-	*-*	-	-	-
3	General governments	50	*14*	*36*	93	-	*93*	1	3,314	3
4	Credit institutions	17	*11*	*6*	18	-	*18*	4	6,930	-
5	Other financial corporations	135	*51*	*84*	362	-	*350*	193	24,179	219
6	Non-financial corporations	1,315	*473*	*842*	12,075	-	*12,067*	8,347	78,594	7,675
7	*Of which: SMEs*	*716*	*235*	*481*	*8,965*	-	*8,961*	*6,094*	*43,916*	*6,072*
8	Households	708	*227*	*481*	3,339	-	*3,339*	837	116,032	2,816
9	**Debt securities**	**139**	***53***	***86***	**93**	**-**	***93***	**-**	**244**	**-**
10	Central banks	4	*-*	*4*	-	-	*-*	-	-	-
11	General governments	68	*35*	*33*	2	-	*2*	-	-	-
12	Credit institutions	21	*2*	*19*	-	-	*-*	-	-	-
13	Other financial corporations	32	*10*	*22*	69	-	*69*	-	229	-
14	Non-financial corporations	14	*6*	*8*	22	-	*22*	-	15	-
15	**Off-balance-sheet exposures**	**223**	***103***	***120***	**264**	**-**	***264***	**-**	**63,684**	**478**
16	Central banks	-	*-*	*-*	-	-	*-*	-	-	-
17	General governments	4	*1*	*3*	4	-	*4*	-	1,139	-
18	Credit institutions	8	*2*	*6*	-	-	*-*	-	5,962	-
19	Other financial corporations	40	*23*	*17*	2	-	*2*	-	25,120	1
20	Non-financial corporations	146	*65*	*81*	246	-	*246*	-	27,492	460
21	Households	25	*12*	*13*	12	-	*12*	-	3,971	17
22	**TOTAL**	**2,588**	***933***	***1,655***	**16,244**	**-**	***16,224***	**9,382**	**292,977**	**11,191**

The exposures relating to loans and advances and debt securities also include exposures not subject to impairment.
As at 30 June 2020, the performing exposures for loans and advances, amounting to 405,935 million euro, were up by around 7,199 million euro on 31 December 2019. The increase reflected the Group's support to the economy, mainly in Italy, to combat the crisis generated by the COVID-19 pandemic.
The non-performing component of loans and advances fell by 1,442 million euro compared to December 2019, in line with the de-risking strategy in the Business Plan.
Finally, there was an increase of 8,283 million euro in on-balance sheet exposures represented by debt securities compared to 31 December 2019, mainly attributable to government bonds, as well as an increase in off-balance sheet exposures of 23,218 million euro, mainly related to transactions to be settled as at 30 June 2020.

Credit quality of loans and advances by industry as at 30 June 2020 (Table 6 EBA GL 2018/10)

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

(millions of euro)

		GROSS CARRYING VALUE				ACCUMULATED IMPAIRMENT	ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK ON NON-PERFORMING EXPOSURES
		Total	*Of which non-performing*		*Of which subject to impairment*		
				Of which defaulted			
1	Agriculture, forestry and fishing	3,624	*450*	*450*	*3,602*	273	-
2	Mining and quarrying	4,776	*203*	*203*	*4,776*	155	-
3	Manufacturing	57,751	*5,580*	*5,581*	*57,549*	3,462	-
4	Electricity, gas, steam and air conditioning supply	9,396	*232*	*232*	*9,383*	221	-
5	Water supply; sewerage, waste management and remediation activities	1,683	*125*	*125*	*1,683*	92	-
6	Construction	17,824	*5,304*	*5,304*	*17,816*	3,056	1
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	31,445	*3,103*	*3,103*	*31,414*	2,064	-
8	Transport and storage	12,918	*915*	*915*	*12,918*	630	-
9	Accommodation and food service activities	5,974	*762*	*762*	*5,969*	471	2
10	Information and communication	7,751	*224*	*224*	*7,750*	175	-
11	Financial and Insurance activities	5,032	*193*	*193*	*5,032*	99	-
12	Real estate activities	16,369	*3,308*	*3,308*	*16,119*	1,682	5
13	Professional, scientific and technical activities	13,125	*767*	*767*	*13,035*	416	-
14	Administrative and support service activities	4,299	*450*	*450*	*4,299*	296	-
15	Public administration and defence, compulsory social security	4	*-*	*-*	*4*	-	-
16	Education	199	*23*	*23*	*199*	12	-
17	Human health services and social work activities	1,903	*114*	*114*	*1,903*	81	-
18	Arts, entertainment and recreation	1,007	*146*	*146*	*1,007*	80	-
19	Other services	4,705	*146*	*146*	*4,703*	117	-
20	**TOTAL**	**199,785**	***22,045***	***22,046***	***199,161***	**13,382**	**8**

The total exposures, amounting to 199,785 million euro, include 624 million euro of exposures not subject to impairment.
There were no significant changes in the breakdown by industry of loans and advances to non-financial companies compared to December 2019.

Changes in gross non-performing on-balance sheet exposures as at 30 June 2020 (Table EU CR2-B EBA GL 2016/11)

(millions of euro)

		Gross carrying value defaulted exposures
1	**Opening balance as at 31 December 2019**	**32,121**
2	Transfers from performing exposures categories	1,976
3	Return to non-defaulted status	-370
4	Amounts written off	-2,290
5	Other changes	-1,097
6	**Closing balance as at 30 June 2020**	**30,340**

Changes in adjustments to non-performing on-balance sheet exposures as at 30 June 2020 (Table EU CR2-A EBA GL 2016/11)

(millions of euro)

		Accumulated specific credit risk adjustments	Accumulated general credit risk adjustments
1	**Opening balance as at 31 December 2019**	**17,308**	**-**
2	Increases due to credit risk adjustments	1,723	-
3	Decreases due to recoveries on valuation/collection	-678	-
4	Decreases due to sale/write-off	-2,284	-
5	Transfers between credit risks adjustments	-	-
6	Impact of exchange rate differences	-15	-
7	Business combinations	-	-
8	Other adjustments	-63	-
9	**Closing balance as at 30 June 2020**	**15,991**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	35	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-75	-

The following are mainly allocated to the caption “Other Changes”:
- in Table CR2-B, the increases in the amounts for charges, collections and profits on disposal;
- in Table CR2-A, the collections on written-off loans.

Credit quality of forborne exposures as at 30 June 2020 (Table 1 EBA GL 2018/10)

(millions of euro)

		GROSS CARRYING VALUE OF FORBORNE EXPOSURES				ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS		COLLATERALS RECEIVED AND FINANCIAL GUARANTEES RECEIVED ON FORBORNE EXPOSURES	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	*Of which collateral and financial guarantees received on non-performing exposures with forbearance measures*
			Total	*Of which defaulted*	*Of which impaired*				
1	**Loans and advances**	**6,046**	**7,106**	***7,106***	***7,079***	**236**	**2,905**	**7,393**	***3,225***
2	Central banks	-	-	-	-	-	-	-	-
3	General governments	354	65	*65*	*65*	6	33	-	-
4	Credit institutions	1	88	*88*	*88*	-	13	-	-
5	Other financial corporations	218	229	*229*	*209*	6	178	173	*32*
6	Non-financial corporations	4,235	5,451	*5,451*	*5,444*	182	2,300	5,395	*2,435*
7	Households	1,238	1,273	*1,273*	*1,273*	42	381	1,825	*758*
8	**Debt Securities**	**62**	**-**	**-**	**-**	**1**	**-**	**-**	**-**
9	**Loan commitments given**	**385**	**185**	***185***	***185***	**2**	**7**	**136**	***52***
10	**Total**	**6,493**	**7,291**	***7,291***	***7,264***	**239**	**2,912**	**7,529**	***3,277***

Net forborne exposures, amounting to 10,633 million euro, were substantially in line with 31 December 2019.

Collateral obtained by taking possession and execution processes as at 30 June 2020 (Table 9 EBA GL 2018/10)

(millions of euro)

		COLLATERAL OBTAINED BY TAKING POSSESSION	
		Value at initial recognition	Accumulated negative changes
1	Property, plant and equipment (PP&E)	5	1
2	Other than PP&E	684	207
3	*Residential immovable property*	*20*	*2*
4	*Commercial immovable property*	*293*	*44*
5	*Movable property (auto, shipping, etc.)*	*1*	*1*
6	*Equity and debt instruments*	*368*	*160*
7	*Other*	*2*	*-*
8	**TOTAL**	**689**	**208**

As at 30 June 2020, the value of the assets obtained by taking possession through the recovery of credit exposures was in line with 31 December 2019.

As already mentioned in the Introduction to this document, EBA GL 2020/07 requires institutions to disclose information, on a half-yearly basis starting from 30 June 2020, on exposures subject to the EBA Guidelines on legislative and non-legislative moratoria on loan payments applied as a result of the COVID-19 crisis and on new exposures subject to public guarantee schemes (EBA GL 2020/02). Below are the three new tables based on the templates provided in Annex 3 of EBA GL 2020/07.

Information on loans and advances subject to legislative and non-legislative moratoria (Table 1 EBA GL 2020/07) *(Table 1 of 2)*

(millions of euro)

		Gross carrying amount						
		Total Performing and Non performing	Performing			Non performing		
			Total	*Of which: exposures with forbearance measures*	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*	Total	*Of which: exposures with forbearance measures*	*Of which: Unlikely to pay that are not past-due or past-due <= 90 days*
1	**Loans and advances subject to moratorium**	**46,379**	**45,848**	***102***	***10,577***	**531**	***101***	***339***
2	of which: Households	**17,856**	17,648	*33*	*3,353*	208	*17*	*159*
3	*of which: Collateralised by residential immovable property*	**12,602**	*12,476*	*16*	*2,337*	*126*	*4*	*113*
4	of which: Non-financial corporations	**26,611**	26,320	*31*	*6,130*	291	*73*	*149*
5	*of which: Small and Medium-sized Enterprises*	**20,680**	*20,483*	*24*	*5,308*	*197*	*15*	*119*
6	*of which: Collateralised by commercial immovable property*	**11,055**	*10,894*	*5*	*2,622*	*161*	*43*	*81*

Information on loans and advances subject to legislative and non-legislative moratoria (Table 1 EBA GL 2020/07) *(Table 2 of 2)*

(millions of euro)

		Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount of inflows to non-performing exposures
		Total Performing and Non performing	Performing			Non performing			
			Total	*Of which: exposures with forbearance measures*	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*	Total	*Of which: exposures with forbearance measures*	*Of which: Unlikely to pay that are not past-due or past-due <= 90 days*	
1	**Loans and advances subject to moratorium**	**698**	**529**	***11***	***385***	**169**	***58***	***87***	**155**
2	of which: Households	244	188	*2*	*146*	56	*12*	*33*	*77*
3	*of which: Collateralised by residential immovable property*	*109*	*88*	*1*	*73*	*21*	*2*	*18*	*40*
4	of which: Non-financial corporations	418	318	*4*	*220*	100	*37*	*42*	91
5	*of which: Small and Medium-sized Enterprises*	*327*	*268*	*2*	*196*	*59*	*11*	*31*	*83*
6	*of which: Collateralised by commercial immovable property*	*204*	*167*	*-*	*122*	*37*	*14*	*18*	*40*

The Intesa Sanpaolo Group supported the legislative and non-legislative measures adopted in the various countries where it operates in order to combat the crisis generated by the COVID-19 pandemic.
Within the non-financial companies, the sectors most affected by these measures were: manufacturing, real estate, wholesale and retail trade, and accommodation and food services.

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria (Table 2 EBA GL 2020/07)

(millions of euro)

		NUMBER OF OBLIGORS	GROSS CARRYING AMOUNT							
			Total			Residual maturity of moratoria				
				Of which: legislative moratoria	*Of which: expired*	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	**Loans and advances for which moratorium was offered**	**1,056,154**	**52,348**							
2	**Loans and advances subject to moratorium (granted)**	**1,003,161**	**50,476**	***28,139***	***4,097***	**11,485**	**27,813**	**4,706**	**1,484**	**891**
3	of which: Households		19,408	*5,654*	*1,552*	5,542	10,920	994	113	287
4	*of which: Collateralised by residential immovable property*		*13,347*	*2,925*	*745*	*3,234*	*8,341*	*662*	*95*	*270*
5	of which: Non-financial corporations		29,141	*22,253*	*2,530*	5,587	16,612	3,672	141	599
6	*of which: Small and Medium-sized Enterprises*		*21,918*	*19,548*	*1,238*	*3,245*	*13,600*	*3,188*	*119*	*528*
7	*of which: Collateralised by commercial immovable property*		*11,805*	*9,527*	*750*	*1,398*	*7,386*	*1,736*	*90*	*445*

Around 85% of the moratoria granted and still in force as at 30 June 2020 had a residual maturity within the following 6 months. However, these are likely to be extended in the coming months, both for the legislative measures and for the measures adopted the Intesa Sanpaolo Group.

Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis (Table 3 EBA GL 2020/07)

(millions of euro)

		GROSS CARRYING AMOUNT		MAXIMUM AMOUNT OF THE GUARANTEE THAT CAN BE CONSIDERED	GROSS CARRYING AMOUNT
		Total			
			Of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	**Newly originated loans and advances subject to public guarantee schemes**	**6,684**	***3***	**5,991**	**-**
2	of which: Households	1,150			-
3	*of which: Collateralised by residential immovable property*	-			-
4	of which: Non-financial corporations	5,528	2	4,836	-
5	*of which: Small and Medium-sized Enterprises*	*3,067*			-
6	*of which: Collateralised by commercial immovable property*	-			-

As at 30 June 2020, a total of 6.7 billion euro of new liquidity was provided to customers, with around 6 billion euro covered by government guarantees, of which 67% had a residual maturity of more than 5 years.
The sectors most affected by these measures were: manufacturing and wholesale and retail trade.
As at 30 June 2020, almost all the exposures were performing (only 0.2% non-performing) and the level of Forborne exposures was also very low (0.04%).

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 CR5 bis reports all the exposures not considered for the purposes of determining the weighted assets, as they are directly deducted from the regulatory capital (see Own Funds).

Standardised approach - Credit risk exposure and CRM effects as at 30 June 2020 (EU CR4 EBA GL 2016/11)

(millions of euro)

	EXPOSURE CLASSES	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWAS AND RWA DENSITY	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central government or central banks	135,894	3,598	155,761	4,535	18,375	11%
2	Regional government or local authorities	725	240	886	179	326	31%
3	Public sector entities	2,295	374	1,627	128	1,173	67%
4	Multilateral development banks	857	90	979	1	-	0%
5	International organisations	287	-	287	-	-	0%
6	Institutions	5,057	1,431	5,126	236	2,151	40%
7	Corporates	29,797	16,151	21,151	3,690	23,328	94%
8	Retail	14,551	5,770	10,922	695	8,248	71%
9	Secured by mortgages on immovable property	4,513	43	4,512	22	1,636	36%
10	Exposures in default	1,578	47	1,507	14	1,612	106%
11	Exposures associated with particularly high risk	887	413	878	199	1,616	150%
12	Covered bonds	2,083	-	2,083	-	252	12%
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	0%
14	Collective investment undertaking	2,208	1,501	2,066	541	1,883	72%
15	Equity	1,985	42	1,985	42	2,345	116%
16	Other items	17,190	-	17,193	1	9,549	56%
17	**TOTAL**	**219,907**	**29,700**	**226,963**	**10,283**	**72,494**	**31%**
	TOTAL ON- AND OFF-BALANCE SHEET AMOUNTS	**249,607**		**237,246**			

In the first half of 2020 there was a significant increase in the overall aggregate (around +23.9 billion euro), almost entirely attributable to the "Central Governments and Central Banks" portfolio (+24.2 billion euro) driven by: a) the restoration of the level of the Reserve Requirement held with the Bank of Italy (+10.9 billion euro) against the decrease of the same amount recorded at December 2019; b) the increase in the Securities portfolio, which reflected the increase in short-term operations due to the growth of the Government bond portfolio (+8.3 billion euro), with new diversified investment-grade investments, mainly in Eurozone sovereigns, with a small proportion in the domestic segment; c) a significant flow of new medium-term

lending (6 billion euro) guaranteed by the Ministry of the Economy and Finance as part of the measures taken to deal with the economic impact of the COVID-19 crisis, to preserve market liquidity and support business continuity for companies; and d) the restatement of the loans from the high risk portfolio (-1.1 billion euro), included in the acquisition of the Venetian Banks, because the time limit for the government guarantee has now expired. This aggregate, which is measured in terms of EAD, i.e. after the application of the Credit Conversion Factor and taking into account the mitigation of the credit risk for the government guarantees, recorded an increase of around +30.6 billion euro. There was also a moderate reduction in the "Other positions" portfolio (-2.4 billion euro), which includes financial assets subject to macro fair value hedges of interest rate risk: the value adjustment also reflected a disclosure reclassification, to align the disclosure to the prudential presentation adopted by the main European intermediaries, without any actual changes in the composition of the portfolio. Lastly, with regard to the RWA density indicator for the portfolio of exposures valued using the standardised approach, the changes during the period resulted in a sharp decrease in the average level (-570 bps), which stood at 30.6% compared with the previous 36.3%.

Standardised approach - Exposures post CCF and CRM as at 30 June 2020 (EU CR5 EBA GL 2016/11) *(Table 1 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	143,298	-	-	-	787	-	2,072	-	-
2	Regional government or local authorities	-	-	-	-	924	-	1	-	-
3	Public sector entities	29	-	-	-	113	-	924	-	-
4	Multilateral development banks	980	-	-	-	-	-	-	-	-
5	International organisations	287	-	-	-	-	-	-	-	-
6	Institutions	-	28	-	-	2,890	-	1,709	-	-
7	Corporates	-	-	-	-	786	-	897	59	-
8	Retail	-	-	-	-	-	-	-	-	11,617
9	Secured by mortgages on immovable property	-	-	-	-	-	3,474	1,060	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	1,642	441	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	14	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	6,381	-	-	-	1,581	-	-	-	-
17	**TOTAL**	**150,975**	**28**	**-**	**1,642**	**7,522**	**3,474**	**6,677**	**59**	**11,617**

Standardised approach - Exposures post CCF and CRM as at 30 June 2020 (EU CR5 EBA GL 2016/11) *(Table 2 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL	*OF WHICH UNRATED*
		100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	12,107	4	2,028	-	-	-	1,306	**160,296**	*5,509*
2	Regional government or local authorities	140	-	-	-	-	-	-	**1,065**	*511*
3	Public sector entities	689	-	-	-	-	-	-	**1,755**	*1,424*
4	Multilateral development banks	-	-	-	-	-	-	-	**980**	*7*
5	International organisations	-	-	-	-	-	-	-	**287**	-
6	Institutions	734	1	-	-	-	-	-	**5,362**	*1,255*
7	Corporates	22,834	265	-	-	-	-	204	**24,841**	*20,051*
8	Retail	-	-	-	-	-	-	-	**11,617**	*11,445*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**4,534**	*4,527*
10	Exposures in default	1,315	206	-	-	-	-	-	**1,521**	*1,512*
11	Exposures associated with particularly high risk	-	1,077	-	-	-	-	-	**1,077**	*1,057*
12	Covered bonds	-	-	-	-	-	-	-	**2,083**	*676*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	-
14	Collective investment undertakings	1,654	48	27	-	-	864	-	**2,607**	*2,583*
15	Equity	1,815	-	212	-	-	-	-	**2,027**	*2,027*
16	Other items	9,232	-	-	-	-	-	-	**17,194**	*17,090*
17	**TOTAL**	**50,520**	**1,601**	**2,267**	**-**	**-**	**864**	**1,510**	**237,246**	***69,674***

In the first half of 2020, the breakdown of exposure classes by weighting factor showed a sharp reduction in the average level (-570 bps), which stood at 30.6% compared to the previous 36.3%. The change was almost entirely due to the sharp increase (+32.3 billion euro) in the exposures with a zero risk weight in the “Government and Central Banks” class and, to a residual extent, to the small reduction (-2.5 billion euro) in the “Other Positions” portfolio, with a 100% weighting; the changes in the other weighting classes were marginal. Within the portfolios valued using the standardised approach – which together made up a smaller share (33%) than the portfolios valued using internal models – the largest component was the “Central Governments and Central Banks” class (68%), with a smaller percentage for the “Corporate” class (10%) and the “Retail” class (5%). The total of exposures, of all the classes without a rating, represented 29% of the total aggregate. Lastly, the RWA density bulk essentially came from the exposures with a zero risk weight (64% of the aggregate) and a 100% risk weight (21% of the aggregate), with a small amount of exposures in the 20% to 50% risk weight range (7% of the aggregate).

Standardised approach - Exposures before CCF and CRM as at 30 June 2020 (EU CR5 bis) *(Table 1 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	119,709	-	-	-	787	-	1,775	-	-
2	Regional government or local authorities	-	-	-	-	822	-	1	-	-
3	Public sector entities	39	-	-	-	133	-	986	-	-
4	Multilateral development banks	947	-	-	-	-	-	-	-	-
5	International organisations	287	-	-	-	-	-	-	-	-
6	Institutions	-	28	-	-	3,637	-	1,991	-	-
7	Corporates	-	-	-	-	578	-	1,327	-	-
8	Retail	-	-	-	-	-	-	-	-	20,321
9	Secured by mortgages on immovable property	-	-	-	-	-	3,480	1,076	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	1,642	441	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	14	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	6,377	-	-	-	1,581	-	-	-	-
17	**TOTAL**	**127,359**	**28**	**-**	**1,642**	**7,979**	**3,480**	**7,170**	**-**	**20,321**

Standardised approach - Exposures before CCF and CRM as at 30 June 2020 (EU CR5 bis) *(Table 2 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL	*OF WHICH UNRATED*
		100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	15,110	83	2,028	-	-	-	1,306	**139,492**	*5,461*
2	Regional government or local authorities	142	-	-	-	-	-	-	**965**	*572*
3	Public sector entities	1,511	-	-	-	-	-	-	**2,669**	*1,726*
4	Multilateral development banks	-	-	-	-	-	-	-	**947**	*6*
5	International organisations	-	-	-	-	-	-	-	**287**	*-*
6	Institutions	816	16	-	-	-	-	-	**6,488**	*1,611*
7	Corporates	43,717	326	-	-	-	-	204	**45,948**	*39,278*
8	Retail	-	-	-	-	-	-	-	**20,321**	*20,063*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**4,556**	*4,548*
10	Exposures in default	1,410	215	-	-	-	-	-	**1,625**	*1,617*
11	Exposures associated with particularly high risk	-	1,300	-	-	-	-	-	**1,300**	*1,280*
12	Covered bonds	-	-	-	-	-	-	-	**2,083**	*676*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	*-*
14	Collective investment undertakings	2,757	48	27	-	-	863	-	**3,709**	*3,685*
15	Equity	1,815	-	212	-	-	-	-	**2,027**	*2,027*
16	Other items	9,232	-	-	-	-	-	-	**17,190**	*17,063*
17	**TOTAL**	**76,510**	**1,988**	**2,267**	**-**	**-**	**863**	**1,510**	**249,607**	***99,613***

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 2020, 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 risk, there were no changes with respect to the situation as at 31 December 2019.

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, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Corporate; Leases and Factoring)	CCF/K factor model (Corporate)	FIRB authorised since December 2008, AIRB LGD authorised since December 2010, EAD authorised since September 2017 [1]
	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory parameters (Specialised Lending)	AIRB authorised since June 2012
Retail	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	AIRB Retail since September 2018 [2]
	Default model (Retail SME)	Workout model (Retail SME)	Regulatory parameters (Retail SME)	AIRB authorised since December 2012 [3]

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

Quantitative disclosure

The EAD values of exposures as at 30 June 2020 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	
	30.06.2020	**31.12.2019**
Exposures to or secured by corporates:		
- Specialised lending	-	-
- SMEs (Small and Medium Enterprises)	492	524
- Other corporates	844	706
Total credit risk (IRB)	**1,336**	**1,230**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2020	**31.12.2019**
Exposures to or secured by corporates:		
- Specialised lending	12,467	12,378
- SMEs (Small and Medium Enterprises)	51,928	51,058
- Other corporates	124,577	119,624
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities:	35,795	35,967
Total credit risk (Advanced IRB approach)	**224,767**	**219,027**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2020	**31.12.2019**
Retail exposures:		
- Exposures secured by residential property: SMEs	5,345	5,464
- Exposures secured by residential property: private individuals	97,230	96,263
- Other retail exposures: SMEs	12,144	12,979
- Other retail exposures: private individuals	21,194	20,987
Total credit risk (IRB)	**135,913**	**135,693**

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2020	**31.12.2019**
Exposures in equity instruments subject to the PD/LGD approach	2,125	1,283
Total credit risk (IRB)	**2,125**	**1,283**

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitisations	Exposure value	
	30.06.2020	31.12.2019
Exposures to securitisations (RBA - SFA - SEC-IRBA)	16,821	18,249
Total credit risk (IRB)	**16,821**	**18,249**

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.

IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques as at 30 June 2020 (EU CR7 EBA GL 2016/11)

(millions of euro)

		PRE-CREDIT DERIVATIVES RWAs	ACTUAL RWAs
1	**Exposures under FIRB**	**1,061**	**1,061**
2	Central governments and central banks	-	-
3	Institutions	-	-
4	Corporates – SMEs	341	341
5	Corporates – Specialised lending	-	-
6	Corporates – Other	720	720
7	**Exposures under AIRB**	**165,183**	**165,136**
8	Central governments and central banks	-	-
9	Institutions	13,217	13,240
10	Corporates – SMEs	28,698	28,698
11	Corporates – Specialised lending	6,849	6,849
12	Corporates – Other	60,371	60,301
13	Retail – Secured by real estate SMEs	1,315	1,315
14	Retail – Secured by real estate non-SMEs	15,868	15,868
15	Retail – Qualifying revolving	-	-
16	Retail – Other SMEs	2,699	2,699
17	Retail – Other non-SMEs	5,862	5,862
18	Equity IRB	30,304	30,304
19	Other non credit obligation assets	-	-
20	**TOTAL**	**166,244**	**166,197**

The recent limited use of credit derivatives as a credit risk mitigation instrument had a small effect as at 30 June, with a decrease of 70 million euro in the Corporates portfolio and an increase of 23 million euro in the Institutions portfolio, generating an overall benefit of 47 million euro in Risk Weighted Assets.

IRB approach – Credit risk exposures by exposure class and PD range as at 30 June 2020 (EU CR6 EBA GL 2016/11) *(Table 1 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)	EL	Value adjust-ments and provisions
Exposures to or secured by Supervised Intermediaries, Public sector and local authorities and Other entities												
0.00 to <0.15	5,311	15,300	2%	5,863	0.06	760	44.3	775	1,568	27%	1	
0.15 to <0.25	5,691	5,461	7%	6,091	0.18	481	32.0	774	2,215	36%	5	
0.25 to <0.50	4,853	4,769	8%	5,250	0.33	751	25.3	1,380	2,391	46%	4	
0.50 to <0.75	2,376	1,642	3%	2,447	0.69	366	18.2	1,509	1,007	41%	3	
0.75 to <1.25	820	1,660	1%	837	1.04	328	13.0	1,205	259	31%	1	
1.25 to <2.50	5,332	6,083	2%	5,601	1.60	573	32.6	921	4,843	87%	32	
2.50 to <5.00	593	2,270	4%	667	3.55	272	24.1	1,204	538	81%	6	
5.00 to <10.00	344	300	3%	321	6.25	134	13.1	1,722	182	57%	3	
10.00 to <20.00	58	161	4%	65	15.45	66	31.9	964	113	173%	3	
20.00 to <100.00	16	16	0%	16	40.26	27	12.1	1,591	12	71%	1	
100.00 (default)	446	9	3%	447	100.00	152	47.3	736	112	25%	202	
Subtotal	25,840	37,671	4%	27,605	2.37	3,910	31.5	1,019	13,240	48%	261	209
Exposures to or secured by corporates:												
- Specialised lending												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	
0.15 to <0.25	5	6	20%	6	0.23	17	29.9	1,027	1	21%	-	
0.25 to <0.50	724	353	15%	777	0.35	114	19.0	980	214	28%	1	
0.50 to <0.75	2,023	1,025	17%	2,180	0.54	243	19.1	1,433	853	39%	2	
0.75 to <1.25	1,713	1,068	15%	1,822	0.82	315	23.1	1,396	874	48%	3	
1.25 to <2.50	3,210	725	15%	3,323	1.57	739	21.3	1,415	1,735	52%	10	
2.50 to <5.00	1,424	467	14%	1,432	3.56	639	22.8	1,215	882	62%	11	
5.00 to <10.00	247	58	13%	248	8.42	106	20.4	1,401	199	80%	4	
10.00 to <20.00	420	51	14%	412	16.61	175	27.9	1,334	533	129%	18	
20.00 to <100.00	178	95	4%	191	35.77	159	25.2	1,180	300	157%	23	
100.00 (default)	1,194	86	99%	1,256	100.00	667	39.2	1,177	316	25%	468	
Subtotal	11,138	3,934	17%	11,647	13.28	3,174	23.4	1,329	5,907	51%	540	727
- SMEs (small and medium enterprises)												
0.00 to <0.15	888	1,634	18%	1,152	0.13	3,908	40.3	804	238	21%	1	
0.15 to <0.25	1,939	1,980	23%	2,282	0.21	7,989	40.9	794	633	28%	2	
0.25 to <0.50	7,762	7,008	22%	8,317	0.40	27,075	41.8	808	3,287	40%	14	
0.50 to <0.75	5,030	3,709	23%	5,154	0.64	16,601	42.7	786	2,656	52%	14	
0.75 to <1.25	5,305	2,884	23%	5,198	1.13	15,497	41.7	807	3,204	62%	25	
1.25 to <2.50	8,795	3,920	23%	8,470	1.79	25,334	41.0	884	5,991	71%	62	
2.50 to <5.00	3,998	1,622	25%	3,954	3.32	12,232	39.8	911	3,175	80%	52	
5.00 to <10.00	4,756	1,382	25%	4,584	7.13	13,919	38.5	998	4,488	98%	126	
10.00 to <20.00	1,310	211	23%	1,283	14.95	3,399	36.0	1,175	1,659	129%	69	
20.00 to <100.00	506	92	34%	676	28.89	2,017	36.7	1,157	1,070	158%	71	
100.00 (default)	10,940	482	84%	10,833	100.00	21,155	53.1	804	2,638	24%	5,539	
Subtotal	51,229	24,924	24%	51,903	23.04	149,126	43.4	855	29,039	56%	5,975	6,614
- Other corporates												
0.00 to <0.15	8,102	29,630	22%	14,659	0.09	1,615	32.9	695	2,655	18%	4	
0.15 to <0.25	17,693	26,947	19%	22,513	0.22	2,144	33.3	685	7,148	32%	16	
0.25 to <0.50	21,973	24,184	20%	26,622	0.35	4,846	33.1	783	11,329	43%	32	
0.50 to <0.75	13,864	18,798	24%	16,135	0.57	3,029	32.3	769	8,376	52%	30	
0.75 to <1.25	10,186	5,785	24%	10,567	0.95	2,615	32.8	791	6,917	65%	33	
1.25 to <2.50	15,292	9,768	26%	17,350	1.66	3,550	32.3	785	13,432	77%	93	
2.50 to <5.00	3,530	1,844	22%	3,976	3.44	1,178	31.1	855	3,665	92%	43	
5.00 to <10.00	2,663	1,334	27%	2,683	7.19	961	31.1	876	3,142	117%	60	
10.00 to <20.00	690	259	32%	657	16.08	207	26.5	925	843	128%	27	
20.00 to <100.00	1,127	408	20%	1,318	25.09	343	32.0	627	2,072	157%	106	
100.00 (default)	5,500	1,540	49%	5,941	100.00	2,154	39.5	624	1,442	24%	2,230	
Subtotal	100,620	120,497	22%	122,421	6.00	22,642	33.0	749	61,021	50%	2,674	3,492

IRB approach – Credit risk exposures by exposure class and PD range as at 30 June 2020 (EU CR6 EBA GL 2016/11) *(Table 2 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)	EL	Value adjust-ments and provisions
Retail exposures: (*)												
- Exposures secured by residential properties: SMEs												
0.00 to <0.15	425	16	50%	430	0.12	2,552	22.2	-	21	5%	-	
0.15 to <0.25	490	14	51%	492	0.15	4,045	22.2	-	29	6%	-	
0.25 to <0.50	1,054	28	56%	1,058	0.32	8,723	22.2	-	106	10%	1	
0.50 to <0.75	410	9	49%	409	0.68	3,420	22.3	-	71	17%	1	
0.75 to <1.25	448	9	50%	448	1.12	3,837	22.2	-	108	24%	1	
1.25 to <2.50	517	8	46%	517	1.87	4,994	22.4	-	176	34%	2	
2.50 to <5.00	470	8	49%	470	3.11	4,336	22.7	-	220	47%	3	
5.00 to <10.00	280	4	52%	279	5.42	2,809	22.4	-	172	62%	3	
10.00 to <20.00	212	4	52%	212	14.19	2,022	22.8	-	196	93%	7	
20.00 to <100.00	85	1	37%	85	42.02	1,021	22.8	-	83	98%	8	
100.00 (default)	947	9	52%	945	100.00	7,683	35.6	-	133	14%	326	
Subtotal	5,338	110	51%	5,345	19.88	45,442	24.7	-	1,315	25%	352	393
- Exposures secured by residential properties: individuals												
0.00 to <0.15	30,900	536	81%	31,230	0.08	395,367	15.6	-	1,052	3%	4	
0.15 to <0.25	11,397	49	12%	11,325	0.17	129,557	15.3	-	652	6%	3	
0.25 to <0.50	14,324	118	63%	14,258	0.29	165,534	16.2	-	1,295	9%	7	
0.50 to <0.75	8,315	58	65%	8,256	0.50	92,802	16.3	-	1,116	14%	7	
0.75 to <1.25	11,219	49	48%	11,075	0.77	132,426	16.1	-	1,986	18%	14	
1.25 to <2.50	9,203	36	71%	9,116	1.83	115,925	15.7	-	2,798	31%	26	
2.50 to <5.00	3,410	22	66%	3,369	3.78	40,633	16.3	-	1,646	49%	21	
5.00 to <10.00	3,665	11	40%	3,613	6.37	44,100	15.9	-	2,248	62%	37	
10.00 to <20.00	1,025	2	12%	1,013	14.67	11,925	15.5	-	865	85%	23	
20.00 to <100.00	1,260	3	40%	1,250	26.54	14,707	15.6	-	1,189	95%	52	
100.00 (default)	2,724	3	100%	2,725	100.00	33,297	38.1	-	1,021	38%	957	
Subtotal	97,442	887	70%	97,230	4.06	1,176,273	16.4	-	15,868	16%	1,151	966
- Other retail exposures: SMEs												
0.00 to <0.15	1,336	1,168	7%	1,179	0.12	35,978	32.3	-	87	7%	-	
0.15 to <0.25	1,458	1,111	6%	1,193	0.15	66,277	33.5	-	109	9%	1	
0.25 to <0.50	2,932	1,926	4%	2,272	0.32	125,244	34.0	-	337	15%	2	
0.50 to <0.75	1,017	493	5%	772	0.68	46,844	35.1	-	185	24%	2	
0.75 to <1.25	1,126	481	4%	847	1.11	47,258	35.5	-	258	31%	3	
1.25 to <2.50	1,346	498	6%	1,003	1.86	66,855	36.8	-	378	38%	7	
2.50 to <5.00	1,241	394	6%	917	3.14	58,684	37.5	-	392	43%	11	
5.00 to <10.00	762	190	4%	485	5.50	49,177	37.7	-	221	46%	10	
10.00 to <20.00	543	121	5%	340	13.59	33,706	38.2	-	199	59%	18	
20.00 to <100.00	182	38	7%	109	40.96	24,950	39.6	-	89	82%	18	
100.00 (default)	3,116	87	12%	2,997	100.00	110,124	64.5	-	444	15%	1,896	
Subtotal	15,059	6,507	5%	12,114	26.31	665,097	42.3	-	2,699	22%	1,968	2,293
- Other retail exposures: private individuals												
0.00 to <0.15	2,722	1,653	58%	3,635	0.08	1,037,954	30.0	-	229	6%	1	
0.15 to <0.25	1,664	426	62%	1,895	0.17	397,195	31.2	-	227	12%	1	
0.25 to <0.50	2,209	401	65%	2,415	0.29	430,182	31.7	-	420	17%	2	
0.50 to <0.75	1,784	259	66%	1,919	0.50	305,278	32.6	-	477	25%	3	
0.75 to <1.25	2,805	373	70%	3,026	0.77	456,938	33.2	-	961	32%	8	
1.25 to <2.50	2,421	295	72%	2,482	1.84	418,225	31.9	-	1,057	43%	15	
2.50 to <5.00	1,426	129	71%	1,495	3.82	243,834	32.9	-	749	50%	19	
5.00 to <10.00	1,603	126	72%	1,671	6.40	366,243	33.2	-	895	54%	35	
10.00 to <20.00	349	19	74%	357	14.67	65,964	32.4	-	239	67%	17	
20.00 to <100.00	414	22	72%	421	25.87	83,846	32.9	-	357	85%	36	
100.00 (default)	1,860	22	91%	1,878	100.00	211,043	69.9	-	251	13%	1,292	
Subtotal	19,257	3,725	64%	21,194	10.83	4,016,702	35.3	-	5,862	28%	1,429	1,447

IRB approach – Credit risk exposures by exposure class and PD range as at 30 June 2020 (EU CR6 EBA GL 2016/11) *(Table 3 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (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	-	-	100%	-	-	-	90.0	1,825	-	0%	-	
0.15 to <0.25	-	-	100%	-	-	-	90.0	1,825	-	0%	-	
0.25 to <0.50	-	-	100%	-	-	-	90.0	1,825	-	0%	-	
0.50 to <0.75	-	-	100%	-	-	-	90.0	1,825	-	0%	-	
0.75 to <1.25	6	-	100%	6	0.85	-	90.0	1,825	14	251%	-	
1.25 to <2.50	1,596	-	100%	1,596	1.82	-	90.0	1,825	4,857	304%	26	
2.50 to <5.00	65	-	100%	65	3.34	-	90.0	1,825	223	345%	2	
5.00 to <10.00	39	-	100%	39	8.83	-	90.0	1,825	169	431%	3	
10.00 to <20.00	28	-	100%	28	18.50	-	90.0	1,825	125	439%	5	
20.00 to <100.00	272	20	100%	292	29.74	-	90.0	1,825	1,564	536%	78	
100.00 (default)	99	-	100%	99	100.00	-	90.0	1,825	-	0%	89	
Subtotal	2,105	20	100%	2,125	10.00	-	90.0	1,825	6,952	327%	203	-

(*) 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.

The aggregate of exposures subject to credit risk, valued using advanced approaches, increased by around 6 billion euro (+1.7%) during the first half of the year, driven by the “Other corporates” segment (+4% or around 5 billion euro) and the “Exposures secured by residential property: private individuals” segment (+1% or around 1 billion euro), which resulted in an increase of 3.6 billion euro in RWAs. The extension of the scope of application of the PD/LGD calculation methods also resulted in an increase of +3 billion euro of RWAs in the “Equity Exposures”. In contrast, the “Public Entities” portfolio (-1.4 billion euro of RWAs) contributed to the reduction in RWAs, due to the recomposition of the exposures to banks resident in countries not at risk, and the “SMEs” portfolio (-1.7 billion euro of RWAs), due to the benefits deriving from the measures taken by the authorities (the quick fix to the Capital Requirements Regulation (CRR) of Regulation (EU) 2020/873), which – as already mentioned several times – enabled the early application of the supporting factor for the exposures to SMEs (CRR II Article 1 point 133) as part of the measures implemented to contain the shock resulting from the COVID-19 epidemic. The main changes described above and other more marginal changes resulted in an increase of +2.4 billion of RWAs for the total aggregate. During the period, the average risk level (PD) of the individual portfolios fluctuated within normal ranges, with a sharper decrease for the “Public Entities” segment (-17 bps) and the “Specialised Lending” segment (-40 bps), but with the level remaining unchanged for the overall aggregate compared to December 2019 (157 bps), confirming the significant improvement on the figure in June 2019 (173 bps).

IRB (specialised lending and equities) as at 30 June 2020 (EU CR10 EBA GL 2016/11)

(millions of euro)

SPECIALISED LENDING								
Regulatory categories	**Remaining maturity**	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Expected losses**
Category 1	Less than 2.5 years	-	-	50%	-	-	-
	Equal to or more than 2.5 years	338	20	70%	353	247	1
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	Equal to or more than 2.5 years	280	95	90%	352	317	3
Category 3	Less than 2.5 years	192	45	115%	225	259	6
	Equal to or more than 2.5 years	-	-	115%	-	-	-
Category 4	Less than 2.5 years	46	2	250%	47	119	4
	Equal to or more than 2.5 years	-	-	250%	-	-	-
Category 5	Less than 2.5 years	5	-	-	5	-	3
	Equal to or more than 2.5 years	-	-	-	-	-	-
Total	**Less than 2.5 years**	**243**	**47**		**277**	**378**	**13**
	Equal to or more than 2.5 years	**618**	**115**		**705**	**564**	**4**

EQUITIES UNDER THE SIMPLE RISK-WEIGHTED APPROACH						
Categories	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Capital requirements**
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	24	-	290%	24	70	6
Other equity exposures	5,926	35	370%	5,942	21,986	1,759
TOTAL	**5,950**	**35**		**5,966**	**22,056**	**1,765**

There was also an amount of 519 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.

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

This table shows the exposure classes – Loans and Debt Securities – based on the degree of protection provided by the contractual structure, distinguishing between “Unsecured exposures” and “Secured exposures”, with a breakdown by type of guarantee: collateral, personal guarantees, and exposures secured by credit derivatives.

(millions of euro)

		Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans (*)	264,589	161,698	135,617	25,836	245
2	Total debt securities	102,453	178	-	178	-
3	**Total exposures as at 30 June 2020 (**)**	**592,964**	**174,300**	**139,002**	**35,053**	**245**
4	*Of which defaulted*	*7,588*	*9,056*	*8,047*	*1,009*	-

(*) 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 contractual protection provided, distinguishing between “Unsecured exposures” and “Secured exposures”, with a breakdown by type of guarantee: collateral, personal guarantees and exposures secured by credit derivatives. The total aggregate increased sharply during the period (+34 billion euro or +4,6% in net values, compared to the end of 2019), largely driven by the growth in loans to customers, which was strongly supported by the measures adopted by the Authorities with the offering of government guarantee schemes to contain the economic impacts of the COVID-19 crisis. The growth was proportionately stronger for the unsecured exposures (+25 billion euro), which, as already mentioned, included the increase in the Reserve Requirement held at the Bank of Italy, which, moreover, consisted of high quality credit exposures that are given a zero risk weight in the determination of the prudential requirement (RWAs). The secured exposures represented 38% of the total loans. Lastly, there was a minimal use of credit derivatives to hedge the exposures in the corporates segment (notional amount of 245 million euro) and a reduction in the net book value of the defaulted exposures (-0.4 billion euro in the first half and -2.3 billion euro year-on-year).

Counterparty risk

Qualitative disclosure

Counterparty risk is a particular type of credit risk, relating to OTC (Over The Counter) derivatives, ETDs (Exchange Trade Derivatives) and SFTs (Securities Financing Transactions, i.e. repurchase agreements and securities 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 (International Swaps and Derivatives Association) 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 or Credit Support Annexes) and SFTs (GMRAs or Global Master Repurchase Agreements and GMSLAs or Global Master Securities Lending Agreements).

For reporting purposes, Intesa Sanpaolo and Banca IMI are authorised to use the internal models approach to calculate the counterparty risk requirement for derivatives (OTC derivatives and ETDs) 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 derivatives (OTC derivatives and ETDs) 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

Analysis of CCR exposure by approach as at 30 June 2020 (EU CCR1 EBA GL 2016/11)

(millions of euro)

		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		708	167			432	292
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				16,184	1.47	23,790	4,806
5	*Of which securities financing transactions*				*2,829*	*1.47*	*4,158*	*317*
6	*Of which derivatives and long settlement transactions*				*13,355*	*1.47*	*19,632*	*4,489*
7	*Of which from contractual cross-product netting*				-	-	-	-
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						5,199	1,649
10	VaR for SFTs						-	-
11	**TOTAL**							**6,747**

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

As already illustrated, the Parent Company and Banca IMI 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 2020 approximately 98% of the total EAD of financial and credit derivatives is measured using EPE models). At consolidated level, derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 30 June 2020 accounting for approximately 2% of overall EAD) and refer to:

- residual contracts of Banca IMI and Intesa Sanpaolo 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 and the Parent Company to approximately 7.3 billion euro, while the collateral paid equals 23.9 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 9.6 million euro for Banca IMI (of which 8.3 million euro to vehicles) and 1.55 billion euro for the Parent Company (of which 1.4 billion euro to vehicles of the Group), linked to contractual clauses that would be activated following this event.

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

CVA capital charge as at 30 June 2020 (EU CCR2 EBA GL 2016/11)

(millions of euro)

		Exposure value	RWAs
1	**Total portfolios subject to the advanced method**	**1,811**	**1,106**
2	VaR component (including the 3× multiplier)		534
3	SVaR component (including the 3× multiplier)		572
4	**All portfolios subject to the standardised method**	**154**	**46**
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**1,965**	**1,152**

The requirement in terms of RWAs increased slightly compared to the previous half year. The increase related to the component calculated using the advanced measurement approach, which reflected the increased volatility of credit spreads since March 2020 in the market environment generated by the COVID-19 epidemic.

Standardised approach – CCR exposures by regulatory portfolio and risk weighting as at 30 June 2020 (EU CCR3 EBA GL 2016/11)

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL	*Of WHICH UNRATED*
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1	Central governments or central banks	6,435	-	-	-	-	1	-	-	119	-	-	**6,555**	*107*
2	Regional government or local authorities	-	-	-	-	9	-	-	-	-	-	-	**9**	*9*
3	Public sector entities	-	-	-	-	-	-	-	-	8	-	-	**8**	*8*
4	Multilateral development banks	2,359	-	-	-	-	-	-	-	-	-	-	**2,359**	*-*
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	**-**	*-*
6	Institutions	-	7,214	-	-	85	26	-	-	5	-	-	**7,330**	*223*
7	Corporates	-	-	-	-	20	124	-	-	404	-	-	**548**	*235*
8	Retail	-	-	-	-	-	-	-	4	-	-	-	**4**	*4*
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	**-**	*-*
10	Other items	-	-	-	-	-	-	-	-	-	-	-	**-**	*-*
11	**TOTAL**	**8,794**	**7,214**	**-**	**-**	**114**	**151**	**-**	**4**	**536**	**-**	**-**	**16,813**	***586***

Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation as at 30 June 2020 (EU CCR3 bis)

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL	*Of WHICH UNRATED*
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1	Central governments or central banks	6,435	-	-	-	-	1	-	-	119	-	-	**6,555**	*107*
2	Regional government or local authorities	-	-	-	-	9	-	-	-	-	-	-	**9**	*9*
3	Public sector entities	-	-	-	-	-	-	-	-	8	-	-	**8**	*8*
4	Multilateral development banks	2,359	-	-	-	-	-	-	-	-	-	-	**2,359**	*-*
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	**-**	*-*
6	Institutions	90	7,214	-	-	329	534	-	-	12	-	-	**8,179**	*252*
7	Corporates	-	-	-	-	23	153	-	-	736	-	-	**912**	*567*
8	Retail	-	-	-	-	-	-	-	6	-	-	-	**6**	*6*
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	**-**	*-*
10	Other items	-	-	-	-	-	-	-	-	-	-	-	**-**	*-*
11	**TOTAL**	**8,884**	**7,214**	**-**	**-**	**361**	**688**	**-**	**6**	**875**	**-**	**-**	**18,028**	***949***

IRB approach – CCR exposures by exposure class and PD range as at 30 June 2020 (EU CCR4 EBA GL 2016/11) *(Table 1 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities							
da 0,00 a <0,15	4,426	0.05	145	19.2	422	444	10%
da 0,15 a <0,25	638	0.18	46	34.8	398	214	33%
da 0,25 a <0,50	727	0.32	48	30.5	1,316	397	55%
da 0,50 a <0,75	127	0.68	13	19.3	1,725	61	48%
da 0,75 a <1,25	12	1.04	6	18.6	980	5	43%
da 1,25 a <2,50	1,328	1.60	36	21.3	726	763	57%
da 2,50 a <5,00	457	3.58	13	28.9	490	371	81%
da 5,00 a <10,00	459	5.50	8	29.8	141	416	91%
da 10,00 a <20,00	4	12.17	2	25.6	1,662	6	139%
da 20,00 a <100,00	-	0.00	-	0.0	-	-	0%
100,00 (default)	12	100.00	2	24.6	966	3	25%
Subtotal	8,190	1.00	319	22.9	559	2,680	33%
Exposures to or secured by corporates:							
- Specialised lending							
0.00 to <0.15	-	0.00	-	0.0	-	-	0%
0.15 to <0.25	-	0.00	-	0.0	-	-	0%
0.25 to <0.50	33	0.35	5	18.9	1,296	11	32%
0.50 to <0.75	302	0.54	22	18.6	1,617	125	41%
0.75 to <1.25	151	0.82	22	18.7	1,260	61	40%
1.25 to <2.50	240	1.34	46	16.6	1,490	115	48%
2.50 to <5.00	69	4.82	12	26.2	1,638	75	109%
5.00 to <10.00	3	6.17	1	51.5	1,340	4	137%
10.00 to <20.00	21	19.88	2	65.3	1,513	83	395%
20.00 to <100.00	1	35.79	2	25.0	529	1	147%
100.00 (default)	-	0.00	-	0.0	-	-	0%
Subtotal	820	1.75	112	20.0	1,498	475	58%
- SMEs (small and medium enterprises)							
0.00 to <0.15	9	0.13	168	51.4	904	3	29%
0.15 to <0.25	18	0.21	420	51.6	901	7	42%
0.25 to <0.50	77	0.39	1,694	51.6	1,012	47	60%
0.50 to <0.75	40	0.64	1,072	51.9	965	28	70%
0.75 to <1.25	48	1.14	1,067	51.6	982	40	85%
1.25 to <2.50	144	1.78	1,790	51.7	996	147	102%
2.50 to <5.00	52	3.29	737	51.5	1,067	58	111%
5.00 to <10.00	67	7.45	771	51.7	1,108	93	140%
10.00 to <20.00	19	15.78	146	51.9	1,181	40	208%
20.00 to <100.00	10	27.24	60	51.7	1,097	21	204%
100.00 (default)	33	100.00	281	50.3	1,027	8	24%
Subtotal	517	9.48	8,206	51.6	1,022	492	95%
- Other corporates							
0.00 to <0.15	219	0.07	80	38.2	1,223	54	24%
0.15 to <0.25	313	0.22	130	38.0	897	128	41%
0.25 to <0.50	678	0.35	470	38.2	1,200	409	60%
0.50 to <0.75	792	0.55	339	37.3	1,512	636	80%
0.75 to <1.25	159	0.93	296	40.6	1,058	145	91%
1.25 to <2.50	651	1.50	361	37.8	1,096	642	99%
2.50 to <5.00	70	3.32	110	36.6	918	77	110%
5.00 to <10.00	95	7.25	77	38.1	1,229	148	156%
10.00 to <20.00	5	13.23	7	38.2	709	7	166%
20.00 to <100.00	1	29.24	9	37.6	753	3	193%
100.00 (default)	17	100.00	49	41.2	748	4	24%
Subtotal	3,000	1.55	1,928	38.0	1,213	2,253	75%

IRB approach – CCR exposures by portfolio and PD scale as at 30 June 2020 (EU CCR4 EBA GL 2016/11) *(Table 2 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity (days)	RWAs	RWA density (**)
Retail exposures: (*)							
- Other retail exposures: SMEs							
0.00 to <0.15	4	0.12	335	48.4	-	-	11%
0.15 to <0.25	3	0.15	284	48.8	-	-	13%
0.25 to <0.50	8	0.31	619	48.1	-	2	21%
0.50 to <0.75	3	0.68	171	47.7	-	1	33%
0.75 to <1.25	3	1.12	197	48.1	-	2	41%
1.25 to <2.50	3	1.85	196	48.2	-	1	49%
2.50 to <5.00	2	3.08	178	48.5	-	1	55%
5.00 to <10.00	1	5.10	97	47.9	-	1	57%
10.00 to <20.00	1	15.75	55	47.9	-	1	77%
20.00 to <100.00	-	0.00	-	0.0	-	-	0%
100.00 (default)	2	100.00	119	46.9	-	-	14%
Subtotal	30	9.46	2,251	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.
In addition, “Other retail exposures: private individuals” present immaterial amounts as at 30 June 2020.

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

At the end of June 2020, the aggregate exposures subject to counterparty risk, valued using advanced measurement approaches, increased slightly compared to December 2019 (+0.9 billion euro), with an increase of the same amount in the capital requirement (+0.9 billion euro of RWAs). The increase in this aggregate was mainly due to the growth in trading for the “Supervised Intermediaries, Public and Territorial Entities and other Counterparties” portfolio (+0.4 billion euro) and the “Other Companies” portfolio (+0.4 billion euro). In terms of risk profile, the LGD remained essentially unchanged from the previous levels (27.6% compared to the previous 27.2%), whereas there was an increase of +15 bps in the PD, which shows a reversal in the trend compared to the previous year, symptomatic of the deterioration of the macroeconomic scenario as a result of the COVID-19 pandemic.

Credit derivatives exposures as at 30 June 2020 (EU CCR6 EBA GL 2016/11)

(millions of euro)

	CREDIT DERIVATIVE HEDGES		OTHER CREDIT DERIVATIVES
	Protection bought	Protection sold	
Notionals			
Credit default products - On single counterparty	-	-	19,459
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)	-	-	132,431
Credit spread products - On more counterparties (basket)	-	-	-
Total rate of return swap - On more counterparties (basket)	-	-	-
Other - On more counterparties (basket)	-	-	450
Total notionals	**-**	**-**	**152,340**
Fair values			
Positive fair value (asset)	-	-	*1,765*
Negative fair value (liability)	-	-	*1,821*

The transactions in credit derivatives related to the own credit portfolio with a notional value of 125 billion euro (of which 61 billion euro relating to protection sales), whereas the dealing on behalf of customers had a notional value of 27 billion euro (of which 13 billion euro relating to protection sales).

Impact of netting and collateral held on exposure values as at 30 June 2020 (EU CCR5-A EBA GL 2016/11)

This table provides an overview of the impact of the netting and collateral held on exposures whose value is measured in accordance with part three, title II, chapter six, of the CRR, including the exposures resulting from transactions netted through a CCP (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 2019.

(millions of euro)

		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	26,787	20,196	6,591	5,764	827
2	SFTs	25,527	17,786	7,741	7,546	195
3	Cross-product netting	-	-	-	-	-
4	**TOTAL**	**52,314**	**37,982**	**14,332**	**13,310**	**1,022**

Composition of collateral for exposures to CCR as at 30 June 2020 (EU CCR5-B EBA GL 2016/11)

(millions of euro)

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS		COLLATERAL USED IN SFTS	
	Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received	Fair value of posted collateral
Cash	6,222	21,807	542	368
Debt Securities	1,105	2,108	106	53
TOTAL	**7,327**	**23,915**	**648**	**421**

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.
With regard to SFT trading, there were minor movements compared with the previous half year, with an increase in margins received and a reduction in margins paid.

Exposures to CCPs as at 30 June 2020 (EU CCR8 EBA GL 2016/11)

(millions of euro)

		EAD POST CRM	RWAs
1	**Exposures to QCCPs (total)**		**346**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	872	17
3	*i) OTC derivatives*	*162*	*3*
4	*ii) Exchange-traded derivatives*	*235*	*5*
5	*iii) SFTs*	*475*	*9*
6	*iv) Netting sets where cross-product netting has been approved*	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	5,112	102
9	Prefunded default fund contributions	2,052	227
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), the central counterparty clearing house Cassa di Compensazione e Garanzia (SFTs) 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 was carried out by Banca IMI, as the clearing broker on Intesa Sanpaolo's behalf.
The RWA values of exposures to QCCPs were slightly down on the previous half year, mainly due to a reduction in the initial margin paid.

Market risks

Qualitative and quantitative disclosure regarding the trading book

The quantification of trading risks (managerial calculation scope) is based on daily and periodic analysis 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.

Some Group subsidiaries hold smaller trading portfolios with a marginal risk (approximately less than 1% of the Group's overall management 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 included in the managerial VaR measurements, with regard to the regulatory trading book, 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.

See the paragraph below, for more details on the Incremental Risk Charge.

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.

This measure applies to all financial products that are sensitive to credit spreads included in the trading books except for the securitisations.

The simulation is based on a Modified Merton Model. The probabilities of transition and default are those observed through the historical matrices of the main rating agencies. The asset correlation is inferred from the equity correlation of the issuers. The model is based on the assumption of a constant position with a holding period of one year.

A regular stress program is applied to the model's main parameters (correlation, and transition and default matrices and credit spreads).

Market risk under the standardised approach (EU MR1 EBA GL 2016/11)

(millions of euro)

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	384	31
2	Equity risk (general and specific)	53	4
3	Foreign exchange risk	730	58
4	Commodity risk	13	1
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	**Securitisation (specific risk)**	**1,204**	**96**
9	**Total**	**2,384**	**190**

The increase in RWAs calculated using the standardised approach was related to securitisations. Under the standardised approach (CRR 2017), RWAs from these securities amounted to 1,204 million euro, slightly up from 993 million euro at the end of December 2019 (calculated using the CRR 2013 and CRR 2017 standardised approach).
Compared to the end of December 2019, the total exposure of the trading book decreased significantly (EAD 975 million euro compared to 1,570 million euro) with the reductions concentrated in the investment grade senior tranches (EAD -585 million euro). More specifically, there was a decrease in exposure to RMBS, Consumer Loans (EAD -381 million euro).
The total RWAs for other exposures capitalised using the standardised approach were slightly lower than at the end of the year.

Market risk under the IMA[5] (EU MR2-A EBA GL 2016/11)

(millions of euro)

			RWAs	Capital requirements
1		**VaR (higher of values a and b)**	**6,149**	**492**
	a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		125
	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		492
2		**SVaR (higher of values a and b)**	**7,570**	**606**
	a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		147
	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)		606
3		**IRC (higher of values a and b)**	**3,514**	**281**
	a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)		237
	b)	Average of the IRC number over the preceding 12 weeks		281
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**	**17,233**	**1,379**

Despite suffering from the significant increase in market volatility, the portfolio tracked a relatively small RWA increase.. The stability was due to the strategies to limit risks to the financial and government sectors. At the end of June, the increase in RWAs compared to December was around 770 million euro.

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

Stressed VaR

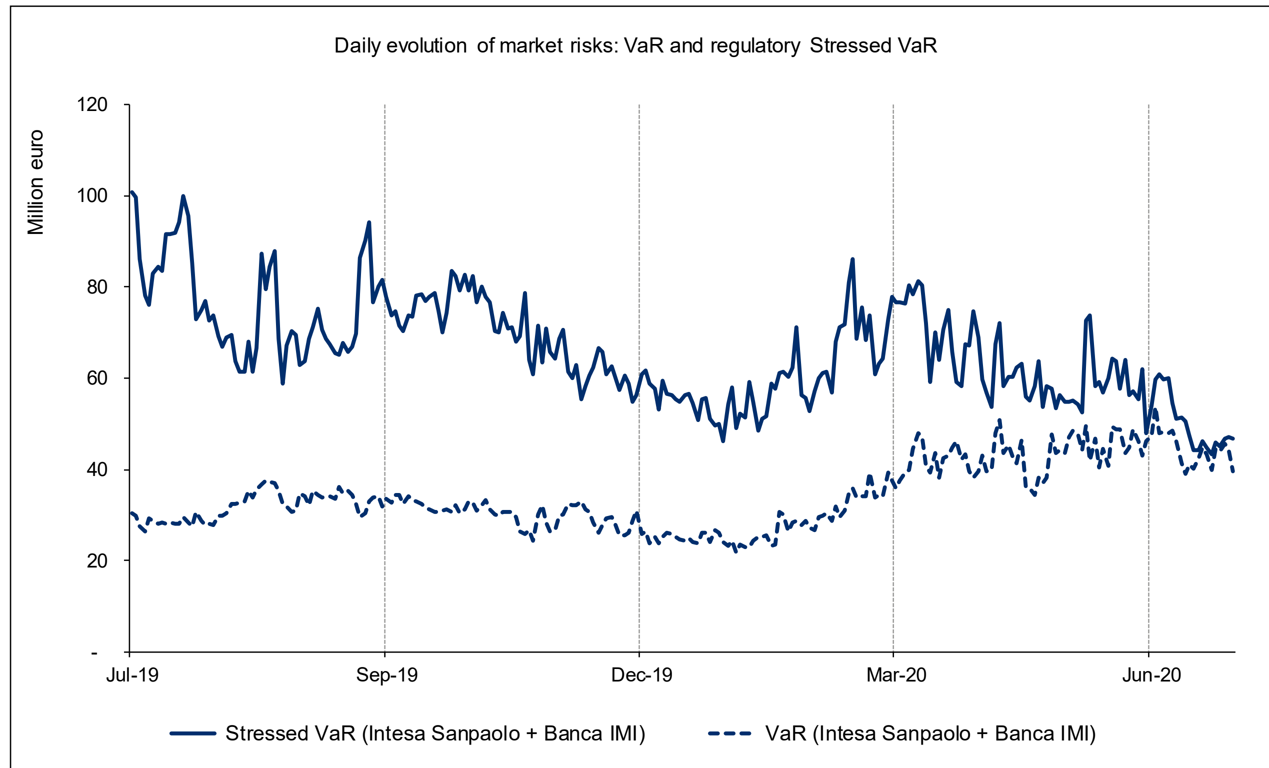
From 31 December 2011, the capital requirement for market risk includes stressed VaR. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel 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

IMA values for trading portfolios (EU MR3 EBA GL 2016/11)

(millions of euro)

VaR (10 day 99%)		
1	Maximum value	188
2	Average value	139
3	Minimum value	93
4	Period end	125
SVaR (10 day 99%)		
5	Maximum value	240
6	Average value	178
7	Minimum value	136
8	Period end	147
IRC (99.9%)		
9	Maximum value	359
10	Average value	281
11	Minimum value	218
12	Period end	237
Comprehensive risk capital charge (99.9%)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-

As at 30 June 2020, the regulatory metrics were up slightly compared to the end of December 2019. In response to the increased market volatility, which affected the VaR metrics, the Bank has implemented an effective portfolio derisking policy. These strategies were particularly evident for the Stressed VaR metrics.

Managerial VaR
The analysis of market risk profiles relative to the trading book (managerial scope) uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.
In line with what has been approved by the Board of Directors, with regard to the VaR limits for legal entities, the managerial VaR of the held-for-trading component includes the HTCS portfolio for Banca IMI.

Sensitivity and greeks
Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

Level measures
Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

Stress tests
Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests for management purposes are applied periodically to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst-case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

Daily managerial VaR evolution

During the second quarter of 2020, management market risks (inclusive of the HTCS portfolio for Banca IMI) generated by Intesa Sanpaolo and Banca IMI increased compared to the average values of the first quarter of 2020. The Group's average managerial VaR for the period totalled 363.5 million euro compared to 174.8 million euro in the previous quarter. The Group's average VaR for the period on the trading component only was 85.6 million euro, an increase on the previous quarter. The increase in managerial VaR performance of this indicator – mainly determined by Banca IMI – derives from an increase in the risk measures, mainly attributable to the health emergency caused by the COVID-19 pandemic.

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

(millions of euro)

	2020				2019			
	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 Trading	37.9	34.2	42.6	15.0	13.1	16.8	15.0	16.9
Banca IMI Trading & HTCS	325.6	301.5	356.3	159.8	107.2	128.5	149.0	160.1
of which Trading Book IMI	*47.7*	*29.7*	*57.0*	*26.1*	*27.8*	*28.4*	*27.9*	*34.2*
Total	**363.5**	**337.7**	**394.9**	**174.8**	**120.2**	**145.3**	**164.0**	**177.0**
of which Group Trading Book (a)	***85.6***	***66.6***	***97.4***	***41.1***	***40.8***	***45.2***	***42.9***	***51.1***

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.

(a) The Group Trading Book figure has been calculated as the sum of the managerial VaR of Intesa Sanpaolo and the managerial VaR of Banca IMI (trading book scope).

Daily managerial VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2020 and 2019[(a)]

Managerial market risks for the first half of 2020 (equal to 269.9 million euro) were up at Group level compared to the first half of 2019 (170.4 million euro); at the level of the trading component only (63.5 million euro), there was an increase in the Group's total risks. The performance of this indicator – mainly determined by Banca IMI – once again derives from an increase in the risk measures, mainly attributable to the health emergency caused by the COVID-19 pandemic.

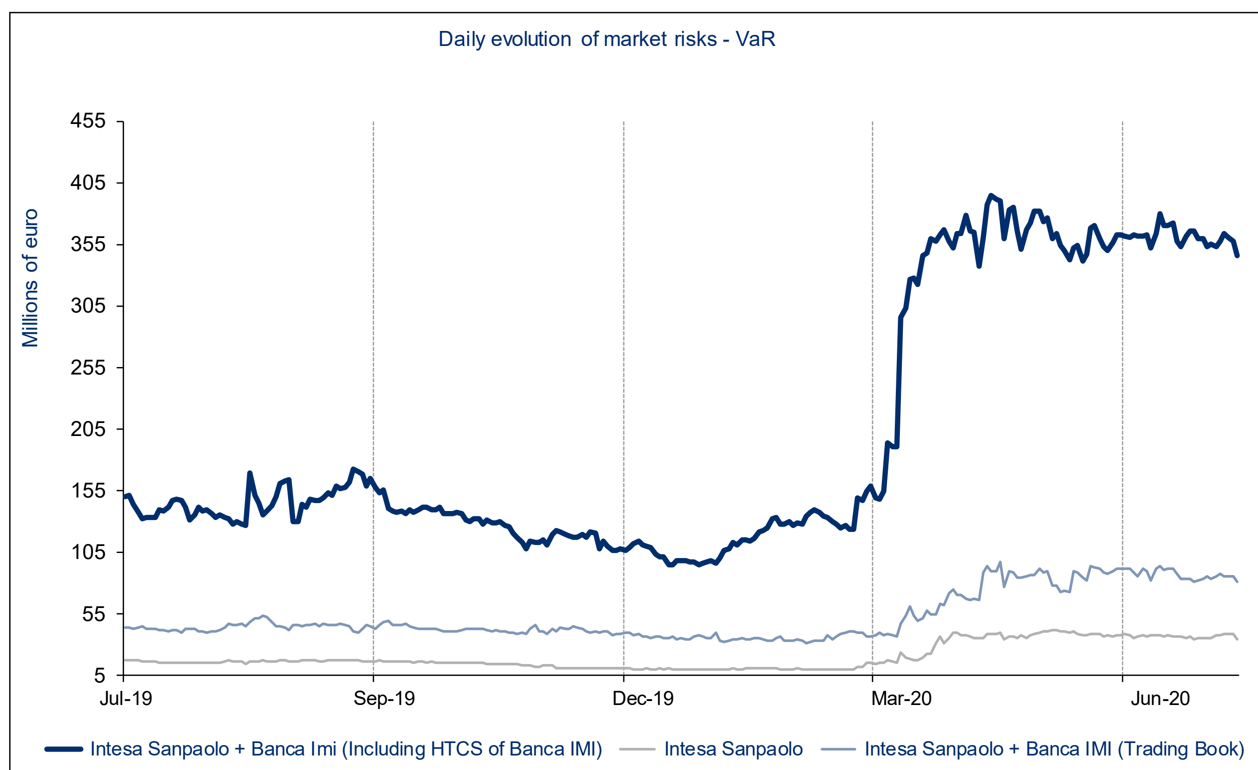
(millions of euro)

	2020			2019		
	average 1st half	minimum 1st half	maximum 1st half	average 1st half	minimum 1st half	maximum 1st half
Intesa Sanpaolo Trading	26.5	10.1	42.6	16.0	13.4	19.0
Banca IMI Trading & HTCS	243.3	85.0	356.3	154.4	102.5	192.3
of which Trading Book IMI	*37.0*	*20.7*	*57.0*	*31.0*	*24.6*	*38.4*
Total	**269.9**	**95.6**	**394.9**	**170.4**	**116.6**	**208.8**
of which Group Trading Book (a)	***63.5***	***31.0***	***97.4***	***47.0***	***40.0***	***57.1***

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.

(a) The Group Trading Book figure has been calculated as the sum of the managerial VaR of Intesa Sanpaolo and the managerial VaR of Banca IMI (trading book scope).

The VaR trend in the first half of 2020 is primarily attributable to Banca IMI. In January risks increased by approximately 37% overall, owing to transactions in government bonds, in accordance with the 2020 RAF. In March there was a sharp increase in managerial VaR (mainly due to the government bonds in Banca IMI's HTCS portfolio), entirely attributable to the health emergency generated by the COVID-19 pandemic, which caused an exceptional increase in volatility and correlations in various segments of the financial markets (e.g. equities and fixed income). Finally, the measure was generally stable in the last quarter: in further detail, given the reduced financial market volatility observed in the second quarter, the stability of the managerial VaR figure may be attributed to both an overall stable portfolio and to the absence of new scenarios in the tail end of the distribution (managerial VaR is calculated using a weighted historical simulation with a 99% confidence interval and a time horizon of 1 day). Lastly, it should be noted that following the revision of the Risk Appetite Framework within the environment resulting from the COVID-19 epidemic, the managerial VaR figure remained constantly within the pre-established limits.



Contribution of risk factors to total managerial VaR [(a)]

2nd quarter 2020	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	1%	1%	11%	70%	17%	1%	0%
Banca IMI	3%	0%	12%	82%	1%	2%	0%
Total	**2%**	**0%**	**12%**	**81%**	**2%**	**2%**	**0%**

(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 2020, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall scope.

The breakdown of the risk profile in the second quarter of 2020 with regard to the different factors shows the prevalence of the risk generated by the credit spread, which accounted for 81% of the total managerial VaR for the Group (67% for the trading component only), 70% for Intesa Sanpaolo and 82% for Banca IMI.

Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices within the managerial scope defined above 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	-5%	+5%	Crash	Bullish
Total	1	-3	-211	115	898	-858	22	-5	-	-2
of which HTCS of Banca Imi	*-*	*-*	*-205*	*124*	*786*	*-750*	*-*	*-*	*-*	*-*

In particular:
- for stock market positions, there would be a loss of 3 million euro in the event of a sharp rise in equity prices and a decrease in volatility;
- for positions in interest rates, there would be a loss of -211 million euro in the event of an increase in rate curves of 40 bps (of which -205 million euro attributable to Banca IMI’s HTCS portfolio);

- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 858 million euro (of which -750 million euro attributable to Banca IMI's HTCS portfolio);
- for positions in exchange rates, there would be a loss of 5 million euro in the event of a 5% appreciation in the Euro;
- finally, for positions in commodities, there would be a loss of 2 million euro in the event of an increase in commodity prices other than precious metals and the consequent decline in volatility.

Backtesting

The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting: these include, for example, fees and financial costs of managing the positions that are regularly reported within the managerial area.

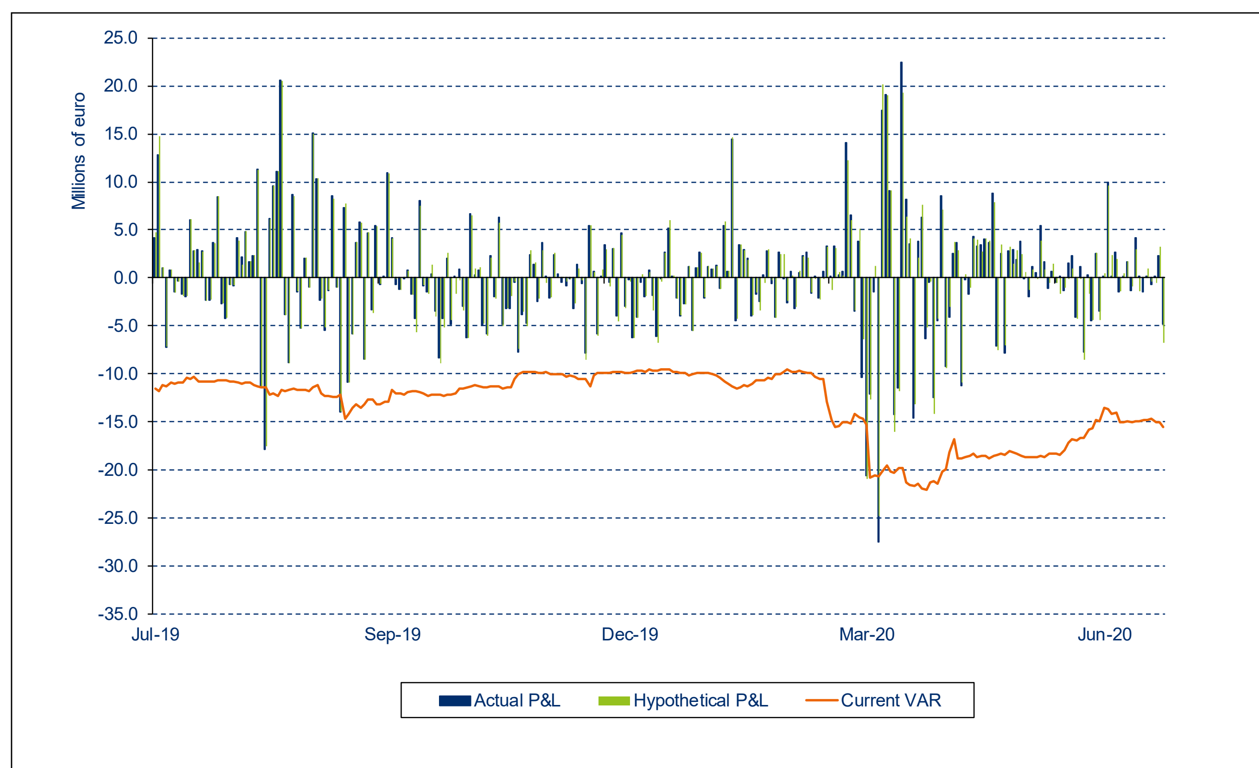
Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the internal model are represented by situations in which daily profits/losses based on backtesting highlight more than four occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual and hypothetical P&L series.

As at 30 June 2020, the ISP Group did not benefit from the exclusion of overshootings from the calculation of the backtesting addend in view of the COVID-19 pandemic (Reg. 2020/873, Art. 500c). The exceptions set out below are the only cases recorded by the legal entities over the last twelve months.

Comparison of VaR estimates with gains/losses (EU MR4 EBA GL 2016/11)

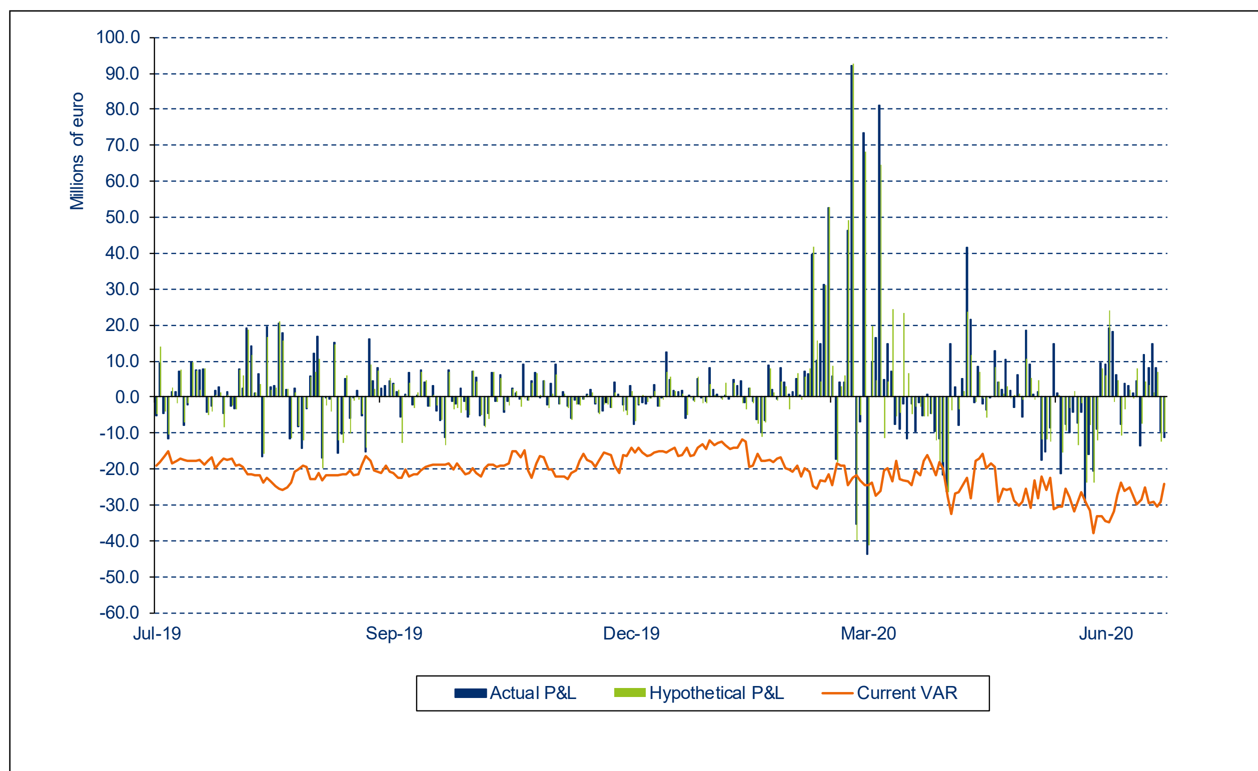
Backtesting in Intesa Sanpaolo

Four backtesting exceptions have been recorded during the last year. As for the exceptions in the third quarter of 2019, the most recent cases, recorded in March, are also primarily due to the interest rate component within the trading book.



Backtesting in Banca IMI

Over the last twelve months there have been three effective backtesting exceptions (two hypothetical P&L exceptions). In addition to interest rate volatility, the largest losses are to be attributed to the variability of financial sector credit spreads.



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	30%	1%	2%	0%	12%	85%	0%
Banca IMI	70%	6%	49%	8%	3%	2%	32%
Total	**100%**	**4%**	**34%**	**5%**	**6%**	**28%**	**23%**

(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 financial and securitisation 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 Risk Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;
- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures;
- other significant limits: they have the objective of monitoring particular transactions (e.g. ceiling for transactions with issuer risk, Incremental Risk Charge limit).

Some of these limits may be covered by the RAF rules.

In the 2020 annual update of the Group RAF, limits were set on the Value at Risk measures for both the trading and HTCS components; these limits were revised in May 2020 in light of the significant impact on the VaR from the exceptional events in the financial markets resulting from the COVID-19 pandemic.

Incremental Risk Charge – Summary of 2020 performance

(millions of euro)

	2020				2019			
	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	133.7	98.5	152.9	106.0	130.8	140.7	128.0	158.8
Banca IMI	147.5	119.7	206.1	147.2	154.7	165.3	150.7	217.4
Total	**281.2**	**218.2**	**359.0**	**253.2**	**285.5**	**306.0**	**278.7**	**376.2**

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 Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and all consolidated subsidiaries, including the Insurance Companies.
The "Rules for the Measurement of Equity Investments", drawn up by the Group M&A and Equity Investments Head Office Department, govern the fair value measurement of unlisted equities and financial instruments with unlisted equities as their underlying.
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 2019 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. bonds for which the Composite Bloomberg Bond Trader is available from the Information Provider Bloomberg, or, alternatively, a price on the EuroMTS circuit, or at least three prices available from the Information Provider Bloomberg), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds (covered by EU directives), spot exchange rates, derivatives for which prices are available on an active market (for example, exchange traded futures and options) and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and in which assets classified as level 1 predominate among the assets invested in by the fund, as a percentage of the NAV, provided the level 3 instruments do not exceed a set threshold.
Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.

When no listing on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.
Such techniques include:

- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2 inputs);
- valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3 inputs).

In case of level 2 inputs, the valuation is based on prices or credit spreads presumed from the official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (valuation model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final measurement.
The following are measured using level 2 input models:

- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products (ABSs, HY CLOs, CDOs, etc.) for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters that can be gathered from the market;
- non-contributed equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, or using the "relative" valuation models based on multipliers;
- hedge funds in which Level 2 assets predominate, as a percentage of the NAV, provided the Level 3 instruments do not exceed a set threshold.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:

- some transactions in derivatives, bonds, or complex structured credit instruments measured using level 3 inputs;
- hedge funds in which the level 3 assets are above a set limit;
- private equity funds and real estate funds valued at NAV, with possible discounts;
- shareholdings and other equities measured using models based on discounted cash flows or using equity methods;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- loans with underlying equity risk, whose fair value is calculated based on the discounting of expected contractual flows.

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 2019 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%.
Regulation (EU) 2016/101 specifies an aggregation approach for calculating total AVAs – Additional Valuation Adjustments at the category level based on the individual AVAs, which takes account of the overlap between the individual AVAs that occurs in the aggregation of these AVA categories. Commission Delegated Regulation (EU) 866/2020, published in the Official Journal on 25 June 2020, established that entities must apply a 66% aggregation factor from 30 June 2020 to 31 December 2020 in order to better manage the extreme volatility of market prices and the systemic shock tied to the COVID-19 pandemic.

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 2019 Annual Report and to which reference is made for further information.

BANKING BOOK

Market risk originated by the banking book arises primarily from the exposure to assets, liabilities and off-balance sheet transactions sensitive to interest rates (interest rate risk) assumed by the Parent Company and the other main Group companies involved in credit activity (retail and corporate banking). The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mainly held by the Parent Company.

The internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:

- repricing risk: risk arising from maturity mismatches (for fixed-rate positions) and interest rate revision date mismatches (for floating-rate positions) of financial items due to parallel movements in the yield curve;
- yield curve risk: risk arising from maturity mismatches and interest rate revision date mismatches due to changes in the inclination and shape of the yield curve;
- basis risk: risk arising from imperfect correlation in the adjustment of lending and deposit rates of floating-rate instruments which may differ according to indexing parameters, rate revision method, indexing algorithm, etc. This risk arises as a result of non-parallel changes in market rates;
- option risk: risk due to the presence of automatic options or options that depend on the behaviour of the counterparty to the assets, liabilities and off-balance sheet instruments of the Group.

Interest rate risk is managed by setting limits and an early warning level for the exposure, approved within the Risk Appetite Framework (RAF). In particular, the early warning level allows exposure to the risk of bends in the curve. The Financial and Market Risks Head Office Department performs monthly checks that the limits and early warning level approved in the Risk Appetite Framework (RAF) are observed at the consolidated and individual level.
In addition, the Group has adopted a specific internal policy document regarding interest rate risk (the IRRBB Guidelines) subject to approval by the BoD, which governs the Group's entire interest rate risk management framework and in particular the aspects of governance, methods of use and formulation of scenarios.

The following metrics are used to measure the interest rate risk generated by the banking book:

1. with regard to economic value:
   - fair value shift sensitivity (ΔEVE);
   - fair value basis risk (BR);
   - value at risk (VaR).
2. with regard to net interest income:
   - net interest income sensitivity (ΔNII);
   - net interest income basis risk.

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks. It reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet). The cash flows used to determine the present value are developed at the contractual rate, FTP (internal fund transfer price) or risk-free rate (Euribor/Libor) and discounted according to risk-free discount curves. When calculating the present value of loans, the expected loss component is considered; it represents the amount of cash flow that the bank does not expect to recover on a given exposure and that thus reduces the value of the loan. The present value of the loan adjusted for credit risk is calculated for this purpose by deducting the corresponding level of expected loss from expected cash flows according to the "cash flow adjustment" ("CFA") method.
To control the exposure and monitor the limits, the calculation involves determining the algebraic sum of the equivalent in euro of the shift sensitivities of the positions in the various currencies by applying a parallel shock of +100 bps to the interest rate curves in the various currencies. The calculation for non-parallel shocks for the purposes of controlling the exposure and monitoring the early warning level is performed similarly. The sensitivity of the relevant currencies is then corrected, according to a "currency aggregation" management technique, to take account of the imperfect correlation with the rates of the main currency (the euro).

The fair value basis risk (BR) is a risk measure designed to capture the effect on the floating-rate banking book caused by the imperfect correlation of changes in market indices. The method of estimating fair value basis risk is based on applying shocks, diversified by the curve of reference of the main risk factors. The specific shock level is calculated as a change in the base of each reference rate compared to a designated pivot rate in the same currency.

Value at Risk (VaR) measures the maximum loss that could occur within a given time horizon (holding period) and with a given confidence level. VaR is determined by adopting a 99% confidence level[6] and a holding period of ten days. VaR is estimated using a method based on the historical simulation of the risk factors, represented by the risk-free market interest rate curves, in which the bank's exposure is revalued (full evaluation) on the basis of the curves observed over the last 250 days prior to the evaluation date.

The sensitivity of net interest income quantifies the impact on interest income of shock to the interest rate curve. For managerial monitoring of the limits, the sensitivity of net income is measured over a short-term horizon (12 months), excluding potential effects due to new transactions and future changes in the mix of assets and liabilities, by applying parallel, instantaneous interest rate shocks. The method implicitly assumes that the principal amounts of transactions upon reaching maturity or repricing are reinvested or refinanced through transactions with the same financial characteristics as those that have reached maturity (constant balance sheet assumption), within 12 months of the date of the analysis (date of the end-of-month situation). In addition, for the purposes of prospective simulation of interest income, dynamic analyses are performed,

[6] Given the level of confidence chosen, the probability of losses greater than the VaR is 1% (1-level confidence).

involving a change in the composition and volumes of assets and liabilities, by also applying non-parallel, non-instantaneous shocks, over medium-term time horizons (up to 3 years).

In calculating the above risk measures, Intesa Sanpaolo adopts behavioural models for representing capital items based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding). The method developed estimates prepayment coefficients diversified according to the type of customer, financial characteristics of the transaction, such as the loan rate type (fixed or floating), the original term of the loan and the seasoning, understood as the age of the loan on the date of the prepayment event. The analysis refers to partial repayments, full repayments and refinancing. The prepayment model also examines the reasons that lead customers to make prepayments. With regard to this aspect, the phenomenon may be divided into a structural component ("Core Prepayment") and a scenario component ("Coupon Incentive"), primarily linked to market variations. Prepayment phenomena are monitored monthly and the prepayment coefficients to be applied to the model are re-estimated at least annually, in accordance with the specific model change document;
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise the value and net interest income both in absolute terms and in terms of variability over time.

In addition, within the framework of the dynamic simulation of net interest income, an additional behavioural model is adopted to simulate the effects of potential renegotiations of the contractual conditions of medium-/long-term assets. In terms of risks, renegotiations modify the duration of the portfolio of medium-/long-term loans and entail a decline in net interest income due to the revision of the contractual rates/spreads to include conditions more advantageous to customers. Specific models have been estimated to ensure a proper representation of the renegotiations phenomenon in terms of the percentages of mortgage loans renegotiated and their financial characteristics.

The scenarios underlying the measurement processes are defined in the IRRBB Guidelines and fall into the following categories:

- base scenarios: these are run on a monthly basis and involve:
  - fair value scenarios, which include different parallel and non-parallel parametric instantaneous shock scenarios. These scenarios, in addition to the base shock scenario expressed by a parallel increase or decrease of 100 bps at all maturities, include the non-parallel scenarios that highlight the risk arising from curve shifts (yield curve risk) that cannot be captured with parallel shocks alone. These scenarios are obtained in a manner consistent with the parameters for non-parallel shocks (steepener, flattener, short rate up and short rate down) set by the IRRBB Standards of the Basel Committee on Banking Supervision (below the BCBS shock) except for the proportionality coefficient applied to them in order to calibrate them to the management shock of 100 bps;
  - interest margin scenarios (shock +/-50 bps);
- management stress scenarios: run at least quarterly; the stress analyses used in the internal measurement system involve:
  - fair value stress scenarios (shock +/-200 bps, and a historical simulation of worst case shock);
  - net interest income stress scenarios (shock +/-100 bps);
  - dynamic net interest income stress scenarios (shock +/-200 bps, shock +/-100 bps and BCBS shock);
- regulatory scenarios: at the frequency required by the supervisory regulations or authorities. In particular, the results of the supervisory outlier test (SOT) – introduced by the EBA Guidelines in terms of change in economic value (EVE) – are communicated to the supervisory authority within the short term exercise (STE). In July 2018, the EBA issued the new Guidelines for the management of interest rate risk deriving from assets not included in the trading book, implementing the Standards on interest rate risk in the banking book published by the Basel Committee on Banking Supervision (BCBS) in April 2016 and introducing a new threshold of 15% of Tier 1 as an early warning calculated on the basis of the six BCBS scenarios in addition to the limit of 20% of own funds established in Article 98(5) of CRD IV calculated on the basis of the two +200 bps and -200 bps scenarios. The limit and early warning together constitute the supervisory outlier test (SOT), which is a supervisory instrument designed to inform supervisors of the exposure to interest rate risk of credit institutions.
  The SOT, as defined by EBA GL 2018/02, identifies the maximum loss resulting from:
  - application of the +/-200 bps shock to all currencies;
  - application of the six scenarios set out in the IRRBB Standards of the Basel Committee on Banking Supervision (below the BCBS scenarios) and implemented in the EBA Guidelines: these scenarios require the application of specific shocks for each currency:
    - parallel shock up;
    - parallel shock down;
    - steepener shock (decrease in short-term rates and increase in long-term rates);
    - flattener shock (increase in short-term rates and decrease in long-term rates);
    - short rates shock up;
    - short rates shock down.

With regard to the changes in net interest income and the changes in economic value calculated using the management metrics, Intesa Sanpaolo, on a monthly basis, defines and verifies compliance with the limits and early warning.
The scenarios used for the verification of the limits are:

- for the control of the exposure in terms of ΔEVE: instantaneous and parallel shock of +100 bps;
- for the control of the exposure in terms of ΔNII: instantaneous and parallel shock of ±50 bps.

The scenarios used for the verification of the early warning are:
- 2 instantaneous and parallel shocks of +/- 100 bps;
- 4 non-parallel shocks represented by the BCBS scenarios calibrated to the management shock of +100 bps.

The currencies monitored for the consolidated limits are the Euro and the US Dollar ("material currency") for the measurement of ΔEVE.

Interest rate risk hedging is undertaken with the aim of protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS), forward sales of debt securities and options on interest rates concluded with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets and liabilities (microhedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. In addition, in order to preserve the economic value of a portion of the HTCS portfolio, by protecting the price of the securities against adverse market movements, the Group negotiates forward sales of the debt securities held in portfolio on a fair value hedging basis. Finally, on the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macrohedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of variable-rate loans and on a portion of fixed-rate loans. For this last type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics. Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable-rate funding, to the extent that the latter finances fixed-rate investments, and on variable-rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Head Office Department of the Parent Company is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with the IAS/IFRS.
The table below shows the changes in the main interest rate risk measures during the first half of 2020.

(millions of euro)

	1st half 2020			30.06.2020	31.12.2019
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-554	-1,400	297	-1,400	394
Shift Sensitivity of Net Interest Income -50bp	-925	-999	-847	-847	-1,037
Shift Sensitivity of Net Interest Income +50bp	930	847	1,122	1,122	939
Shift Sensitivity of Net Interest Income +100bp	1,802	1,664	2,182	2,182	1,837
Value at Risk - Interest Rate	579	271	814	814	227

With regard to the fair value shift sensitivity, the change in the exposure compared to 31 December 2019 was due to banking book management measures to mitigate the potential negative impacts of COVID-19.

Price risk related to the FVOCI minority equity portfolio

The table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of ±10% for the quoted assets recorded in the HTCS category.

Price risk: impact on Shareholders' Equity

		1st quarter 2020 impact on shareholders' equity at 31.03.2020	2nd quarter 2020 impact on shareholders' equity at 30.06.2020	Impact on shareholders' equity at 31.12.2019
Price shock	10%	49	141	50
Price shock	-10%	-49	-141	-50

During 2020, no hedging activities have been performed to cover the price risk of the banking book.

Operational risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events. As far as the financial losses component is concerned, the Operational risk includes: legal and compliance risk, conduct risk, IT and Cyber risk, physical security risk, business continuity risk, financial crime and financial reporting risk, third party and model risk. Strategic and reputational risk are not included.

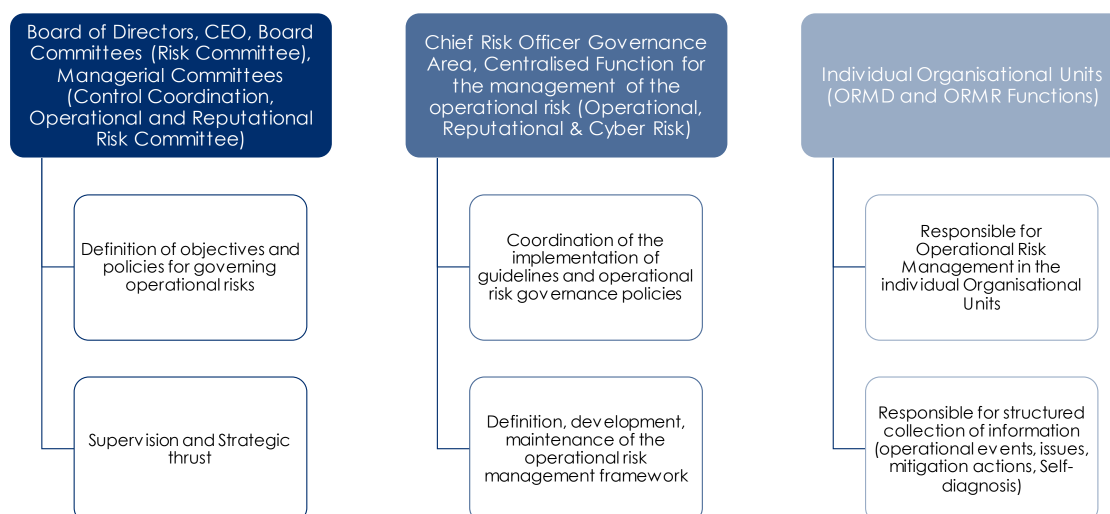
General operational risk management aspects

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 governance framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

Governance Model

The monitoring of the operational risks (including IT and cyber risks) involves Bodies, Committees and units that interact with different responsibilities and roles in order to create an effective governance system that is closely integrated into the decision-making processes and the management of company operations.



The Intesa Sanpaolo Group's operational risk governance process is divided into the following phases.

- Identification: the detection and description of potential operational risk areas (e.g. operational events, presence of issues, applicability of risk factors, significant risk scenarios);
- Assessment and measurement: determination of operational risk exposure;
- Monitoring and control: continuous management of changes in the operational risk exposure, also to prevent the occurrence of harmful events and to promote active risk management;
- Mitigation: operational risk containment through appropriate mitigation actions and suitable risk transfer strategies, based on a risk-driven approach;
- Reporting: preparation of information flows related to operational risk management, designed to ensure adequate knowledge of the exposure to this risk.

IT and cyber risk

The Intesa Sanpaolo Group considers its information system a tool of primary importance to the achievement of its strategic, business and social responsibility objectives, including in the light of the critical nature of the company processes that depend on it, and undertakes to create a resilient environment and to invest in assets and infrastructure designed to minimise the potential impact of ICT events and to protect its business, image, customers and employees.
The Group has therefore adopted a system of principles and rules intended to identify and measure the ICT risk to which company assets are exposed, assess the existing safeguards and identify adequate methods of managing such risks, planning appropriate mitigation measures to reduce their levels to within the pre-established limits, where necessary.

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 (internal and external operational losses and estimates deriving from the Scenario Analysis) and qualitative information (Business Environment Evaluation - VCO).

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 to both operational losses and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90% (equivalent to facing the worst 1,000 year annual loss). 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.

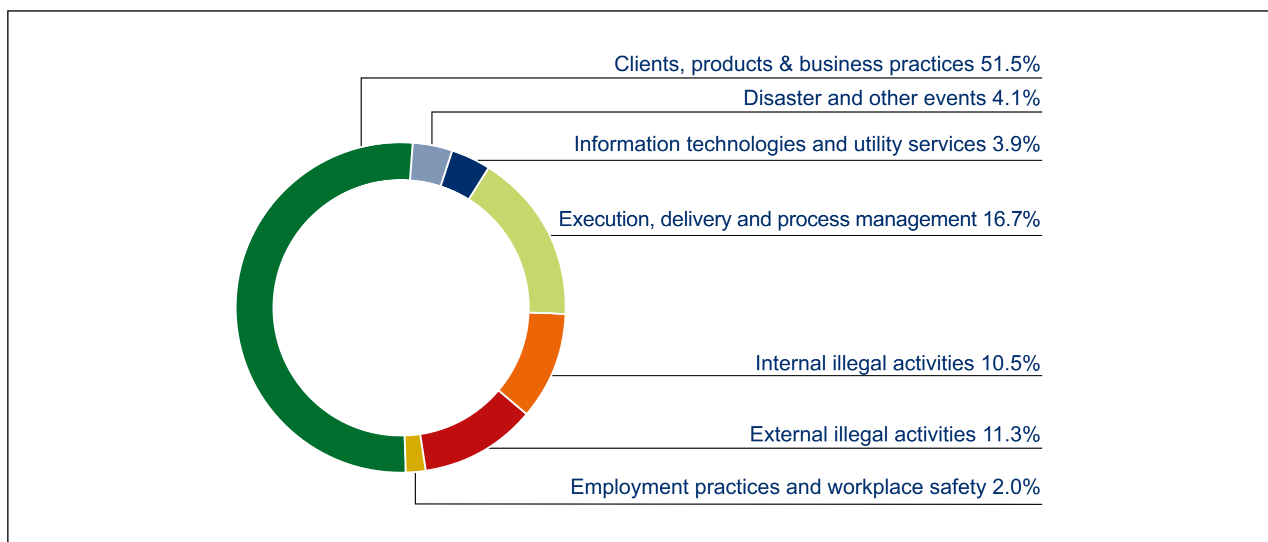
The internal model's insurance mitigation component was approved by the Competent Authority in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

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 S.p.A. and the main banks and companies in the Corporate and Investment Banking, Private Banking and Asset Management Divisions, as well as by VUB Banka, VUB Leasing and PBZ Banka.

The capital absorption resulting from this approach amounts to 1,781 million euro as at 30 June 2020, up modestly from 1,697 million euro as at 31 December 2019.

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



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 2020 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. More specifically:

- the increase in capital level (Tier 1 capital) was essentially attributable to the effects deriving from the allocation of the 2019 net income to reserves, in compliance with the European Central Bank Recommendation of 27 March 2020 in the context of the health crisis (ECB/2020/I9). 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 treated as sovereign issuers, exposures to corporates and supervised intermediaries, and the other assets of the trading book;
  b) an increase in off-balance sheet transactions and derivatives exposures.

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.

SFT 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 2020 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 2020 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)	**30.06.2020**	**31.12.2019**
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	628,455	581,331
2	(Asset amounts deducted in determining Tier 1 capital) - transitional regime	-9,990	-10,440
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**618,465**	**570,891**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	10,914	9,998
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	15,585	13,197
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)	-18,059	-16,311
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	73,387	55,625
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-70,606	-53,276
11	**Total derivatives exposures (sum of lines 4 to 10)**	**11,221**	**9,233**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	25,372	36,913
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-5,524	-9,173
14	Counterparty credit risk exposure for SFT assets	2,561	4,454
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)**	**22,409**	**32,194**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	257,866	236,495
18	(Adjustments for conversion to credit equivalent amounts)	-164,828	-166,032
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**93,038**	**70,463**
	(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**	**48,856**	**45,638**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**745,133**	**682,781**
	Leverage ratio		
22	**Leverage ratio**	**6.6%**	**6.7%**
	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	30.06.2020	31.12.2019
1	Total assets as per published financial statements	858,648	816,102
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-167,525	-167,852
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	-24,524	-20,198
5	Adjustment for securities financing transactions (SFTs)	-2,952	-4,634
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	93,038	70,463
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013 (CRR))	-	-
EU-6b	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013 (CRR))	-	-
7	Other adjustments (*)	-11,552	-11,100
8	**Leverage ratio total exposure measure**	**745,133**	**682,781**

(*) "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	
		30.06.2020	31.12.2019
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**628,455**	**581,331**
EU-2	Trading book exposures	24,679	18,064
EU-3	Banking book exposures, of which:	603,776	563,267
EU-4	*Covered bonds*	*2,609*	*3,406*
EU-5	*Exposures treated as sovereigns*	*139,563*	*115,617*
EU-6	*Exposures to regional governments, local authorities, MDB, international organisations and PSE not treated as Sovereigns*	*12,499*	*12,470*
EU-7	*Institutions*	*48,999*	*43,039*
EU-8	*Secured by mortgages of immovable properties*	*119,770*	*116,765*
EU-9	*Retail exposures*	*43,640*	*41,730*
EU-10	*Corporate*	*160,805*	*151,840*
EU-11	*Exposures in default*	*14,382*	*14,842*
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	*61,509*	*63,558*

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 2020” corresponds to the corporate records, books and accounts.

Milan, 4 August 2020

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

Attachment 1

Own Funds: Terms and conditions of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued during the period

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS2124979753
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	744
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	27/02/2020
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	27/02/2025 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 27/02/2025
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	3.75% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS2124980256
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	744
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	27/02/2020
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	27/02/2030 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 27/02/2030
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	4.125% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005412264
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	295
9	Nominal amount of instrument: original amount in currency of issuance (mln)	309
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	309
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	29/06/2020
12	Perpetual or dated	Dated
13	Original maturity date	29/06/2027
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	3.75% fixed
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005412256
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	562
9	Nominal amount of instrument: original amount in currency of issuance (mln)	591
	Nominal amount of instrument: original amount - currency of issuance	Eur
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	591
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	29/06/2020
12	Perpetual or dated	Dated
13	Original maturity date	29/06/2027
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3-month Euribor + 405 bps/4
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS2185883100
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	365
9	Nominal amount of instrument: original amount in currency of issuance (mln)	350
	Nominal amount of instrument: original amount - currency of issuance	GBP
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	393
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	10/06/2020
12	Perpetual or dated	Dated
13	Original maturity date	10/06/2030
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.148% fixed
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Except in case of bail-in, the loan shall be redeemed: i) only after fulfilment of the obligations towards all the Issuer's non-subordinated creditors (including the depositors) or those having a lower subordination level compared to the Bonds; ii) pari passu with the holders of all the Issuer's financial instruments having the same subordination level and with the Issuer's creditors having the same subordination level; iii) in any case, before the Issuer's shares and the other Tier 1 equity instruments.
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

Attachment 2

Own funds: own funds disclosure template

(millions of euro)

			30.06.2020	31.12.2019	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	34,164	34,161	26, paragraph 1, 27, 28, 29
		of which: instrument type 1	34,164	34,161	EBA list as per article 26 (3)
		of which: instrument type 2	-	-	EBA list as per article 26 (3)
		of which: instrument type 3	-	-	EBA list as per article 26 (3)
2		Retained earnings	20,651	16,511	26, paragraph 2(c)
3		Accumulated other comprehensive income (and other reserves)	-4,302	-2,918	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)	33	35	84
5a		Independently reviewed interim profits net of any foreseeable charge or dividend	546	731	26, paragraph 2
6		**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**51,092**	**48,520**	**Sum of rows from 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments					
7		Additional value adjustments (negative amount)	-247	-282	34, 105
8		Intangible assets (net of related tax liability) (negative amount)	-8,253	-8,012	36, paragraph 1(b), 37
9		Transitional adjustment related to IFRS 9	2,133	2,590	Articles 473 and 473a 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)	-1,348	-1,360	36, paragraph 1(c), 38
11		Fair value reserves related to gains or losses on cash flow hedges	855	862	33, paragraph 1(a)
12		Negative amounts resulting from the calculation of expected loss amounts	-346	-316	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	-111	61	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)	-240	-230	36, paragraph 1(f), 42
17		Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-	36, paragraph 1(g), 44
18		Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	36(1)(h), 43, 45, 46, 49 (2 and 3), 79
19		Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-	36(1)(i), 43, 45, 47, 48(1)(b), 49 (1,2 and 3), 79
20		Other CET1 deduction items based on instructions from the National Authority	-189	-149	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	-86	-142	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)	-86	-142	36, paragraph 1(k)(ii), 244 (1)(b), 245 (1)(b), 253
	20d	of which: free deliveries (negative amount)	-	-	36, paragraph 1(k)(iii), 379 (3)
21		Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	-	36, paragraph 1(c), 38, 48 (1)(a)
22		Amount exceeding the 17.65% threshold (negative amount)	-	-	48, paragraph 1
	23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	36(1)(i), 48(1)(b)
24		Empty field in the EU	-	-	
	25	of which: deferred tax assets arising from temporary differences	-	-	36, paragraph 1(c), 38, 48 (1)(a)
25a		Losses for the current financial year (negative amount)	-	-	36, paragraph 1(a)
25b		Foreseeable tax charges relating to CET1 items (negative amount)	-	-	36, paragraph 1(l)
27		Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-	36, paragraph 1(j)
28		**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**-7,832**	**-6,978**	**Sum of rows from 7 to 20a, 21, 22 and from 25a to 27**
29		**Common Equity Tier 1 capital (CET1)**	**43,260**	**41,542**	**Row 6 less row 28**

(millions of euro)

		30.06.2020	31.12.2019	Reference article of Regulation (EU) 575/2013
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	5,590	4,091	51, 52
31	of which: classified as equity under applicable accounting standards	5,590	4,091	
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	-	-	486, paragraph 3
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	6	5	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**	**5,596**	**4,096**	**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 (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**	**5,596**	**4,096**	**Row 36 less row 43**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**48,856**	**45,638**	**Sum of rows 29 and 44**
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	8,259	7,341	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	-	-	486, paragraph 4
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	3	3	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**	**8,262**	**7,344**	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-126	-100	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)	-204	-187	66 (d), 69, 79
56	Empty field in the EU	-	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-330**	**-287**	**Sum of rows from 52 to 56**
Tier 2 (T2) capital: regulatory adjustments				
58	**Tier 2 (T2) capital**	**7,932**	**7,057**	**Row 51 less row 57**
59	**Total capital (TC = T1 + T2)**	**56,788**	**52,695**	**Sum of rows 45 and 58**
60	**Total risk-weighted assets**	**295,973**	**298,524**	

(millions of euro)

		30.06.2020	31.12.2019	Reference article of Regulation (EU) 575/2013
Capital ratios and buffers				
61	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	14.62%	13.92%	92, paragraph 2(a)
62	Tier 1 capital (as a percentage of the risk exposure amount)	16.51%	15.29%	92, paragraph 2(b)
63	Total capital (as a percentage of the risk exposure amount)	19.19%	17.65%	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)	7.62%	7.46%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	2.50%	
66	of which: countercyclical buffer requirement	0.06%	0.08%	
67	of which: systemic risk buffer requirement	-	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.56%	0.38%	
68	Common Equity Tier 1 capital available to meet capital buffers (as a percentage of total risk exposure amount)	7.00%	6.46%	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)	2,269	1,394	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)	731	784	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)	2,026	1,626	36, paragraph 1(c), 38, 48
Applicable caps on the inclusion of provisions in T2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-	62
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	851	849	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	615	484 (4), 486 (3 and 5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	484 (4), 486 (3 and 5)
84	Current cap on T2 instruments subject to phase-out arrangements	1,418	1,418	484 (5), 486 (4 and 5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	484 (5), 486 (4 and 5)

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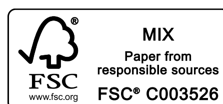

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