
Risk management

THE BASIC PRINCIPLES OF RISK MANAGEMENT

The policies relating to risk taking and the processes for the management of the risks to which the Group is or could be exposed are approved by the Board of Directors of Intesa Sanpaolo as the Parent Company, with the support of the Risk Committee. The Management Control Committee, which is the body with control functions, supervises the adequacy, efficiency, functionality and reliability of the risk management process and of the Risk Appetite Framework.

The Managing Director and CEO has the power to submit proposals for the adoption of resolutions concerning the risk system and implements all the resolutions of the Board of Directors, with particular reference to the implementation of the strategic guidelines, the RAF and the risk governance policies.

The Corporate Bodies also benefit from the action of some Management Committees on risk management. These committees, which include the Steering Committee, operate in compliance with the primary responsibilities of the Corporate Bodies regarding internal control system and the prerogatives of corporate control functions, and in particular the risk control function.

Subject to the powers of the Corporate Bodies, the Chief Risk Officer Governance Area – reporting directly to the Managing Director and CEO – is responsible for: (i) governing the macro-process of definition, approval, control and implementation of the Group's Risk Appetite Framework with the support of the other corporate functions involved; (ii) cooperating with the Corporate Bodies in setting the Group's risk management guidelines and policies in accordance with the company strategies and objectives; (iii) coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, also within the various corporate departments; (iv) ensuring the management of the Group's overall risk profile by establishing methods and monitoring exposures to the various types of risk and reporting the situation periodically to the Corporate Bodies; and (v) carrying out level 2 controls on credit and other risks and ensuring the validation of internal risk measurement systems.

The Parent Company performs a guidance and coordination role with respect to the Group companies⁷, aimed at ensuring effective and efficient risk management at Group level, exercising responsibility in setting the guidelines and methodological rules for the risk management process, and pursuing, in particular, integrated information at Group level to the Bodies of the Parent Company, with regard to the completeness, adequacy, functioning and reliability of internal control system. For the corporate control functions in particular, there are two different types of models within the Group: (i) the centralised management model based on the centralisation of the activities at the Parent Company and (ii) the decentralised management model that involves the presence of locally established corporate control functions that conduct their activities under the direction and coordination of the same corporate control functions of the Parent Company, to which they report in functional terms.

Irrespective of the control model adopted within their company, the Corporate Bodies of the Group companies are aware of the choices made by the Parent Company and are responsible for the implementation, within their respective organisations, of the control strategies and policies pursued and promoting their integration within the Group controls.

With regard to the UBI Group, and, specifically, the activities pertaining to the risk control function, to translate the Parent Company's mentioned steering and coordination duties into practice, pending full integration, a decentralised management model has been applied, given the presence of local company functions with standing and resources that can definitely guarantee sound and prudent management of the subsidiary's risk. In particular, the risk management structures of the Parent Company and the subsidiary are expediting their sharing of approaches and tools to complete the integration of those frameworks, in order to best take advantage of possible synergies.

The risk measurement and management tools contribute to defining a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss the Group might incur over a year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted quarterly to the Steering Committee, the Risk Committee and the Board of Directors, as part of the Tableau de Bord of the Group Risks. Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

⁷ In this regard, it is specified that Intesa Sanpaolo does not exercise management and coordination over Risanamento S.p.A. and Autostrade Lombarde S.p.A. and their subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

THE BASEL 3 REGULATIONS

In view of compliance with the reforms of the previous accord by the Basel Committee (“Basel 3”), the Intesa Sanpaolo Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.

The Bank, in agreement with the Supervisory Authorities, is currently assessing the impacts of the decision both of the Basel Committee (27 March 2020) to postpone the implementation of the Basel III standards by one year (to 1 January 2023), and of the other regulatory measures, some of which are still being defined, designed to provide banks and Supervisory Authorities additional capacity to rapidly and effectively respond to the impact of COVID-19.

With regard to the acquisition of the UBI Group and the impacts on risk management and Pillar 1 internal models for credit, market, counterparty and operational risk, the Group has launched the appropriate analyses and measures, preparing, where necessary, a strategic plan to restore regulatory compliance (so-called Return to Compliance Strategic Plan), submitted to the Corporate Bodies and the Supervisory Authority for assessment.

With regard to credit risk, there were no changes with respect to the situation as at 31 December 2019. The periodic updating and alignment to changes in regulations governing IRB systems and their extension to international subsidiaries (according to the Group’s roll-out plan) continue in accordance with the Regulatory Roadmap agreed with the Supervisory Authorities.

There were no changes in the scope of application of the internal models concerning counterparty risk for OTC derivatives and Securities Financing Transactions (SFTs) or operational risks 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.

As part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled “Basel 3 - Pillar 3” or simply “Pillar 3”.

The document is published on the website (group.intesasanpaolo.com) on a quarterly basis.

CREDIT RISK

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk. In particular, with regard to loans to customers, risk measurement is performed by means of different internal rating models according to borrower segment (Corporate, Retail SME, Retail, Sovereigns, Italian Public Sector Entities and Banks). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a consistent scale of reference. Ratings and credit-risk mitigating factors (guarantees, loan types and covenants) play a key role in the loan granting and managing process.

Credit quality

Captions	(millions of euro)														
	30.09.2020									31.12.2019					
	Gross exposure			Total adjustments			Net exposure			Gross exposure	Total adjustments	Net exposure	Net exposure Change		
	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure (a)	Of which: UBI Group (b)	Consolidated figure net of UBI Group (c) = (a) - (b)	Consolidated figure	Consolidated figure	Consolidated figure	Consolidated figure	Of which: UBI Group	Consolidated figure net of UBI Group
Bad loans	20,383	3,345	17,038	-12,716	-1,809	-10,907	7,667	1,536	6,131	19,418	-12,678	6,740	927	1,536	-609
Unlikely to pay	14,236	3,195	11,041	-5,692	-983	-4,709	8,544	2,212	6,332	10,995	-4,257	6,738	1,806	2,212	-406
Past due loans	953	78	875	-152	-7	-145	801	71	730	886	-142	744	57	71	-14
Non-Performing Loans	35,572	6,618	28,954	-18,560	-2,799	-15,761	17,012	3,819	13,193	31,299	-17,077	14,222	2,790	3,819	-1,029
<i>Non-performing loans in Stage 3 (subject to impairment)</i>	35,312	6,435	28,877	-18,439	-2,701	-15,738	16,873	3,734	13,139	31,257	-17,062	14,195	2,678	3,734	-1,056
<i>Non-performing loans designated at fair value through profit or loss</i>	260	183	77	-121	-98	-23	139	85	54	42	-15	27	112	85	27
Performing loans	468,216	81,815	386,401	-2,667	-439	-2,228	465,549	81,376	384,173	376,839	-1,697	375,142	90,407	81,376	9,031
Stage 2	68,135	10,233	57,902	-1,752	-288	-1,464	66,383	9,945	56,438	41,146	-1,068	40,078	26,305	9,945	16,360
Stage 1	399,046	71,416	327,630	-915	-151	-764	398,131	71,265	326,866	334,973	-629	334,344	63,787	71,265	-7,478
<i>Performing loans designated at fair value through profit or loss</i>	1,035	166	869	-	-	-	1,035	166	869	720	-	720	315	166	149
Performing loans represented by securities	6,593	53	6,540	-27	-1	-26	6,566	52	6,514	5,875	-34	5,841	725	52	673
Stage 2	2,822	-	2,822	-20	-	-20	2,802	-	2,802	2,972	-30	2,942	-140	-	-140
Stage 1	3,771	53	3,718	-7	-1	-6	3,764	52	3,712	2,903	-4	2,899	865	52	813
Loans held for trading	21	-	21	-	-	-	21	-	21	24	-	24	-3	-	-3
Total loans to customers	510,402	88,486	421,916	-21,254	-3,239	-18,015	489,148	85,247	403,901	414,037	-18,808	395,229	93,919	85,247	8,672
<i>of which forborne performing</i>	5,821	1,302	4,519	-259	-60	-199	5,562	1,242	4,320	5,918	-255	5,663	-101	1,242	-1,343
<i>of which forborne non-performing</i>	9,556	2,864	6,692	-3,858	-982	-2,876	5,698	1,882	3,816	7,157	-3,119	4,038	1,660	1,882	-222
Loans to customers classified as discontinued operations (*)	671	-	671	-506	-	-506	165	-	165	475	-93	382	-217	-	-217

Figures restated, where necessary and material, considering the changes in the scope of consolidation and discontinued operations. The figures concerning UBI Group have not been restated.

As at 30 September 2020, this caption included the portfolio of bad loans/unlikely-to-pay loans and performing loans soon to be sold (gross exposure of 671 million euro, total adjustments of 506 million euro, net exposure of 165 million euro).

As at 30 September 2020, the Group's net non-performing loans, excluding the stock of 3.8 billion euro deriving from the UBI Group, amounted to 13.2 billion euro, which is a record low since 2008. The 7.2% reduction from the beginning of the year confirms the virtuous trend already recorded during 2019. Non-performing assets also decreased as a percentage of total net loans to customers, down to 3.3%, in line with the de-risking strategy set out in the Business Plan, while the coverage ratio for non-performing loans was strengthened further (54.4%, 52.2% including UBI).

In further detail, at the end of September 2020 bad loans came to 6.1 billion euro net of adjustments and excluding the UBI component of 1.5 billion euro (down by -609 million euro on the beginning of the year, or -9%), and represented 1.5% of total loans. During the same period, the coverage ratio stood at 64%. Loans included in the unlikely-to-pay category amounted to 6.3 billion euro (excluding the contribution of 2.2 billion euro from the UBI Group), down by 6%, accounting for 1.6% of total

loans to customers, with a coverage ratio of 42.7%. Past due loans, excluding the contribution of 71 million euro from the UBI Group, amounted to 730 million euro (-1.9%), with a coverage ratio of 16.6%. Within the non-performing loan category, forborne exposures, generated by forbearance measures for borrowers experiencing difficulty in meeting their financial obligations, amounted to 3.8 billion euro, with a coverage ratio of 43% (net of the UBI component of 1.9 billion euro), while forborne exposures in the performing loans category amounted to 4.3 billion euro (excluding 1.2 billion euro from the UBI Group).

The coverage ratio for performing loans remained stable at 0.6% as a result of approximately 820 million euro of prudential provisions due to the revision of the scenario. These were in addition to approximately 490 million euro of adjustments to non-performing loans, bringing the total provisions due to the revision of the scenario following the COVID-19 pandemic to over 1.3 billion euro.

MARKET RISKS

TRADING BOOK

During the third quarter of 2020, the managerial market risks generated by the Group, net of the UBI Group, decreased compared to the average values of the second quarter of 2020. These decreased from 363.5 million euro (second quarter average) to 277.6 million euro. This effect is mainly attributable to the “rolling scenario” as well as the merger by incorporation into the Parent Company of Banca IMI into the Intesa Sanpaolo Group, which resulted in a diversification of the Group managerial VaR (including the HTCS book) attributable to the methodology for calculation of managerial VaR at Group level: previously, the total managerial VaR was obtained as the sum of the managerial VaR of Intesa Sanpaolo and managerial VaR of Banca IMI, while following the merger, it is calculated on the single legal entity. Given the managerial risk drivers of the portfolio, this resulted in a decrease in managerial VaR.

Note that, following the incorporation of Banca IMI into the Parent Company and, in particular, with regard to the risk measures of the Group Treasury and Finance Department, the metrics described hereinafter include, up to the date of incorporation of Banca IMI into the Parent Company, several trading components (XVA management) recorded on behalf of the former Banca IMI on the books of Intesa Sanpaolo. These were subsequently migrated, integrating them into the book of the IMI C&IB Division.

The trend in that indicator was determined mainly by the IMI C&IB Division (Division which comprises the operations of Banca IMI), which recorded a decrease in total VaR from 325.6 million euro to 271.6 million euro.

The sole Trading Book component recorded a total reduction in risk from 85.6 million euro to 73.3 million euro.

Daily managerial VaR of the trading book ^(a)

	2020					2019				(millions of euro)
	average 3 rd quarter	minimum 3 rd quarter	maximum 3 rd quarter	average 2 nd quarter	average 1 st quarter	average 4 th quarter	average 3 rd quarter	average 2 nd quarter	average 1 st quarter	
Group Treasury and Finance Department	9.9	3.1	35.2	37.9	15.0	13.1	16.8	15.0	16.9	
IMI C&IB Division	271.6	222.8	322.6	325.6	159.8	107.2	128.5	149.0	160.1	
of which IMI C&IB Division Trading Book	59.6	42.9	69.1	47.7	26.1	27.8	28.4	27.9	34.2	
Total	277.6	221.0	358.8	363.5	174.8	120.2	145.3	164.0	177.0	
of which Group Trading Book ^(a)	73.3	65.0	82.2	85.6	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 historical quarterly time-series of the Group Treasury and Finance Department, the IMI C&IB Division and the Intesa Sanpaolo Group (including other subsidiaries) respectively.

(a) The Group Trading Book figure includes the managerial VaR of the Group Treasury and Finance Department, the IMI C&IB Division (Trading Book perimeter) and the other subsidiaries.

In the first nine months of 2020, net of the UBI Group, the Group's average managerial VaR was 273.1 million euro, up compared to 161.8 million euro in the same period of 2019. The performance of this indicator – mainly determined by the IMI C&IB Division (which, as previously indicated, comprises the operations of Banca IMI) – once again derives from an increase in the risk measures, mainly attributable to the health emergency caused by the COVID-19 pandemic.

	2020			2019			(millions of)
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09	
Group Treasury and Finance Department	20.9	3.1	42.6	16.2	13.4	19.0	
IMI C&IB Division	252.9	85.0	356.3	145.6	102.5	192.3	
of which IMI C&IB Division Trading Book	44.6	20.7	69.1	30.1	23.1	38.4	
Total	273.1	96.1	395.9	161.8	116.6	208.8	
of which Group Trading Book ^(b)	67.4	31.4	98.6	46.3	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 nine months of the year respectively of the Group Treasury and Finance Department, the IMI C&IB Division and the Intesa Sanpaolo Group (including other subsidiaries); minimum and maximum values for the overall perimeter 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 includes the managerial VaR of the Group Treasury and Finance Department, the IMI C&IB Division (Trading Book perimeter) and the other subsidiaries.

The breakdown of the Group's risk profile in the third quarter of 2020 (net of the UBI Group) with regard to the different risk factors shows the prevalence of credit spread risk, which accounted for 79% of the Group's total managerial VaR (of which 69% just for the Trading Book component). Instead, the single risk taking centres show a prevalence of foreign exchange risk and interest rate risk for the Group Treasury and Finance Head Office Department (46% and 38%, respectively), while the credit spread risk factor is prevalent for the IMI C&IB Division (80%).

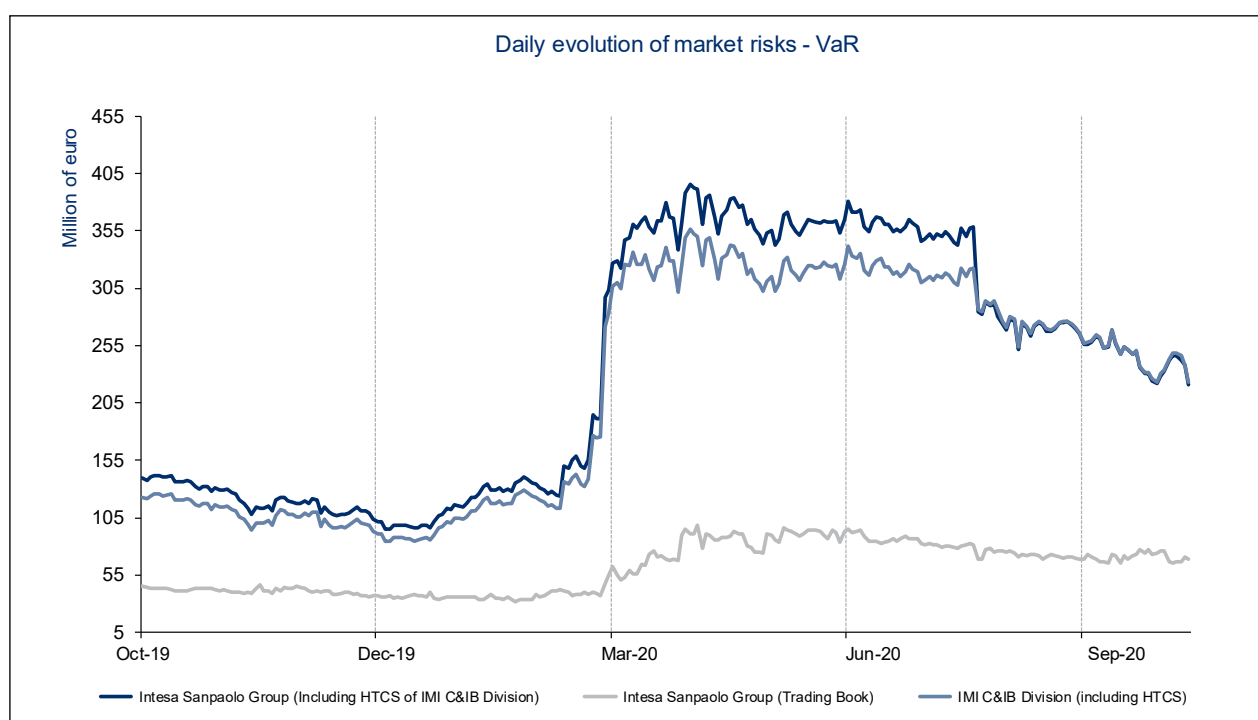
Contribution of risk factors to total managerial VaR^(a)

3rd quarter 2020	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Group Treasury and Finance Department	0%	0%	38%	16%	46%	0%	0%
IMI C&IB Division	3%	1%	14%	80%	0%	1%	1%
Total	3%	1%	14%	79%	1%	1%	1%

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the third quarter of 2020, broken down between the Group Treasury and Finance Department and IMI C&IB Division and indicating the distribution of the Group's overall capital at risk.

For the Intesa Sanpaolo Group (net of the UBI Group), up to June 2020 the trend in VaR in 2020 was mainly caused by the volatility on the financial markets due to the health emergency generated by the COVID-19 pandemic (the main effects were recorded on government securities in Banca IMI's HTCS book). In the third quarter, the measures decreased due to the following:

- the merger by incorporation of Banca IMI into the Parent Company, which resulted in diversification (in July) of the Group managerial VaR (including the HTCS book);
- "rolling scenario" effect in the following months: given the lower volatility of the markets, the most volatile scenarios were no longer part of the managerial VaR distributions.



Following the consolidation of the UBI Banca group into the ISP Group, the Financial and Market Risks Head Office Department estimated the managerial market risk of the HTCS securities portfolio (and related interest rate derivatives) as at 30 September 2020, using a customised calculation in accordance with the methodologies used by Intesa Sanpaolo. The estimate shows a risk for that segment of around 80 million euro.

Risk control with regard to the activity of the Intesa Sanpaolo Group also uses scenario analyses and stress tests. The shocks applied to the portfolio were subject to the usual annual assessment and updating. The impact of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices at the end of September is summarised in the following table (data net of the UBI Group):

	(millions of euro)									
	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-5%	+5%	Crash	Bullish
Total	16	-22	-270	170	833	-781	18	3	5	-3
of which HTCS of the IMI C&IB Division	0	0	-229	139	796	-759	0	0	0	0

More specifically:

- for stock market positions, there would be a loss of 22 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 -270 million euro in the event of an increase in rate curves of 40 bps (of which -229 million euro attributable to IMI C&IB Division's HTCS portfolio);
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 781 million euro (of which -759 million euro attributable to IMI C&IB Division's HTCS portfolio);
- for foreign exchange positions, there would be a profit in both the euro's appreciation and depreciation scenarios;
- finally, for positions in commodities, there would be a loss of 3 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:

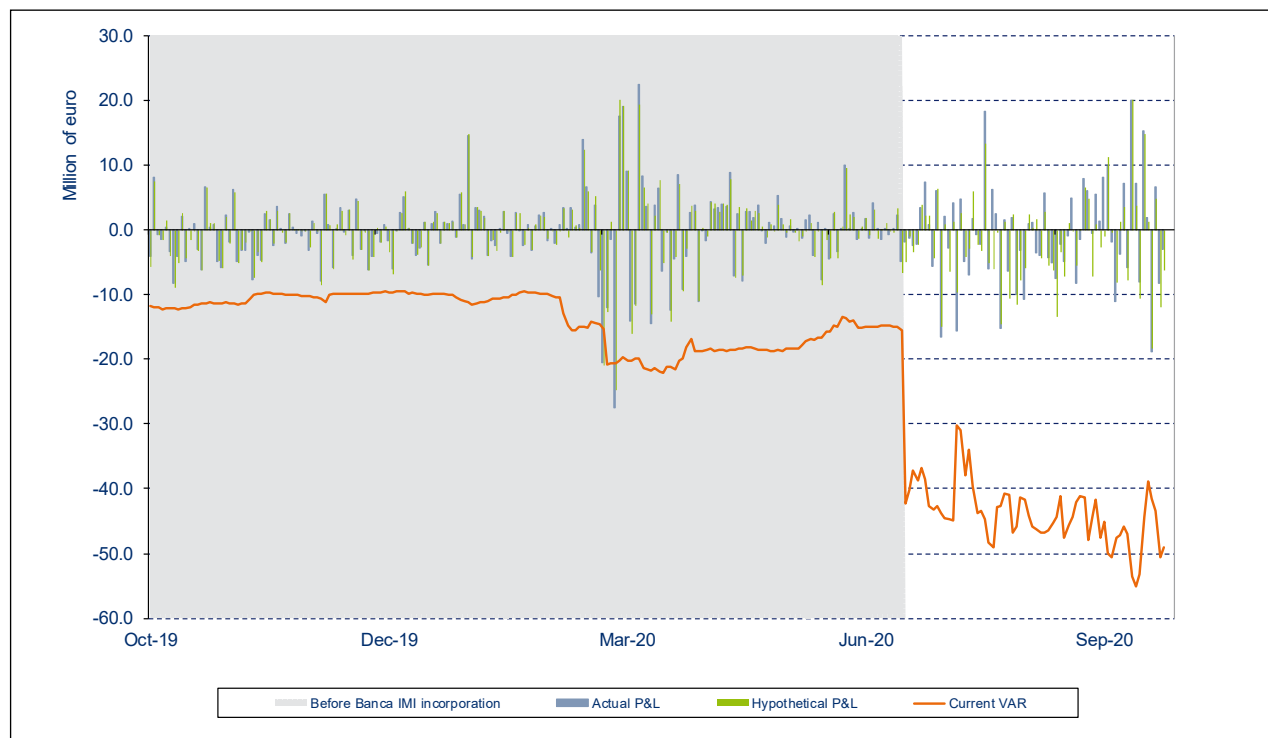
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by the individual desks. This measure therefore needs to be stripped of the products and/or components that are not relevant to the backtesting checks: these include, for example, fees, 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 (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.

At 30 September 2020, the Intesa Sanpaolo 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 Intesa Sanpaolo over the last twelve months.

The increase in the Parent Company's VaR shown in the graph below starting in July is attributable to the effects of the integration of the Banca IMI trading book.

During the quarter⁸, no backtesting exceptions were recorded. The two overshootings shown in the graph for the period October 2019 – July 2020 refer to the legal entity Intesa Sanpaolo before Banca IMI incorporation. During the same period, Banca IMI recorded three exceptions. The most recent breaches were linked to the turmoil on the markets as a result of the COVID-19 crisis.



⁸ The estimates do not include UBI's trading book.

BANKING BOOK

At the end of September 2020, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, amounted to -1.815 million euro.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 1,182 million euro, -982 million euro and 2,339 million euro, respectively, at the end of September 2020.

Interest rate risk, measured in terms of VaR, recorded a value of 680 million euro at the end of September 2020.

Price risk generated by minority stakes in listed companies, mostly held in the HTCS (Held to Collect and Sell) category, amounted to 159 million euro at the end of September 2020.

The table below shows the changes in the main risk measures during the third quarter of 2020 relating to the Intesa Sanpaolo Group.

	3rd quarter 2020			30.09.2020	(millions of euro) 31.12.2019
	average	minimum	maximum		
Shift Sensitivity of the Economic Value +100 bp	-926	-1,815	297	-1,815	394
Shift Sensitivity of Net Interest Income -50bp	-921	-999	-847	-982	-1,037
Shift Sensitivity of Net Interest Income +50bp	999	847	1,182	1,182	939
Shift Sensitivity of Net Interest Income +100bp	1,945	1,634	2,339	2,339	1,837
Value at Risk - Interest Rate	648	271	869	680	227

Exposures as at 30 September 2020 shown in the table include the metrics of the UBI Group harmonised using the methodologies applied by Intesa Sanpaolo, which provide a slight contribution to the overall risk of the Intesa Sanpaolo Group.

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

Price risk: impact on Shareholders' Equity

		1st quarter 2020	2nd quarter 2020	3rd quarter 2020	(millions of euro) Impact on
		impact on shareholders' equity at 31.03.2020	impact on shareholders' equity at 30.06.2020	impact on shareholders' equity at 30.09.2020	shareholders' equity at 31.12.2019
Price shock	10%	49	141	159	50
Price shock	-10%	-49	-141	-159	-50

LIQUIDITY RISK

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from stable customer deposits - remained within the risk limits set out in the current Group Liquidity Policy in the first nine months of 2020. Both regulatory indicators, LCR and NSFR, which also benefited from the positive contribution from the UBI Group from the end of August, were largely above 100%. Over the last 12 months, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) no. 2015/61, consolidating also the UBI Group in the last two months, has amounted to an average of 154.2%.

At the end of September 2020, the amount of total unencumbered HQLA reserves at the various Treasury Departments of the Group, considering cash and deposits held with Central Banks, totalled 162 billion euro (96 billion euro in December 2019). With the other marketable reserves and/or eligible Central Bank reserves, including retained self-securitisations, added in, the Group's unencumbered liquidity reserves totalled 182 billion euro (118 billion euro in December 2019).

The stress tests, in view of the high availability of liquidity reserves, yielded results in excess of the maximum threshold for the Intesa Sanpaolo Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period longer than 3 months.

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value hierarchy – Excluding insurance companies

Assets / liabilities at fair value	30.09.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
(millions of euro)						
1. Financial assets measured at fair value through profit or loss	26,268	32,462	3,807	17,934	28,658	2,822
a) Financial assets held for trading	25,039	31,488	555	17,161	27,622	369
<i>of which: Equities</i>	582	-	1	713	-	1
<i>of which: quotas of UCI</i>	415	2	20	661	2	24
b) Financial assets designated at fair value	-	1	-	-	195	-
c) Other financial assets mandatorily measured at fair value	1,229	973	3,252	773	841	2,453
<i>of which: Equities</i>	14	11	356	2	95	179
<i>of which: quotas of UCI</i>	1,213	301	1,615	771	127	1,410
2. Financial assets measured at fair value through other comprehensive income	72,283	8,156	506	63,815	8,173	422
<i>of which: Equities</i>	1,591	1,827	467	611	2,048	400
3. Hedging derivatives	-	1,323	15	8	3,008	13
4. Property and equipment	-	-	7,866	-	-	5,748
5. Intangible assets	-	-	-	-	-	-
Total	98,551	41,941	12,194	81,757	39,839	9,005
1. Financial liabilities held for trading	13,333	43,562	127	18,422	26,704	100
2. Financial liabilities designated at fair value	205	2,773	-	-	4	-
3. Hedging derivatives	-	8,001	3	-	9,284	4
Total	13,538	54,336	130	18,422	35,992	104

The Group's assets measured at fair value (excluding the insurance companies), which as at 30 September 2020 included the figures for the UBI Group, primarily consisted of level 1 instruments (around 65% as at 30 September 2020 compared to around 63% at the end of 2019), measured using market prices and therefore without any discretion by the valuator.

Level 3 assets, which are subject to greater discretion in determining fair value, made up approximately 8% of the total assets measured at fair value, with around two thirds consisting of property and equipment. The increase in the proportion compared to 31 December 2019 (6.9%) was due to the addition of the intangible assets of the UBI Group.

The increase in level 2 assets on 31 December 2019 was also driven by the growth in exposures to OTC derivative contracts, which had a similar effect on liabilities.

With regard to liabilities specifically, level 3 instruments remained at essentially insignificant levels (well below 1% of total liabilities), while level 2 instruments, mostly OTC derivatives, continued to predominate. As at September 2020, the level 2

liabilities included almost all the certificates issued that were classified at level 1 at the end of December 2019. In 2020, the liabilities designated at fair value also included the newly issued capital protected certificates.

Fair value hierarchy – Insurance companies

(millions of euro)

Assets / liabilities at fair value	30.09.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	342	28	46	284	22	46
<i>of which: Equities</i>	-	-	-	-	-	-
<i>of which: quotas of UCI</i>	117	-	46	119	-	46
2. Financial assets designated at fair value through profit or loss	83,016	157	368	83,816	141	308
<i>of which: Equities</i>	2,465	-	-	2,315	-	-
<i>of which: quotas of UCI</i>	75,562	109	-	76,521	99	-
3. Financial assets available for sale	79,475	4,554	2,115	79,315	2,162	1,902
<i>of which: Equities</i>	1,603	-	42	1,480	-	-
<i>of which: quotas of UCI</i>	9,542	22	2,042	9,917	-	1,902
4. Hedging derivatives	-	370	-	-	206	-
5. Property and equipment	-	-	9	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	162,833	5,109	2,538	163,415	2,531	2,256
1. Financial liabilities held for trading	7	51	-	-	45	-
2. Financial liabilities designated at fair value through profit or loss	-	73,902	-	-	75,886	-
3. Hedging derivatives	-	-	-	-	4	-
Total	7	73,953	-	-	75,935	-

For the insurance companies, over 95% of the financial assets measured at fair value – which as at 30 September 2020 also included the figures for the UBI Group – were measured using market prices (level 1 inputs), without any discretion by the valuator.

Level 3 instruments, which are subject to greater discretion in determining fair value, made up 1.5% of the total assets, essentially unchanged on 31 December 2019.

Liabilities at fair value were almost entirely measured using level 2 inputs.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure in structured credit products, equal to 3,794 million euro as at 31 December 2019, came to 2,854 million euro as at 30 September 2020, showing a net decrease of 940 million euro. The exposure includes investments in ABSs (asset-backed securities) of 1,481 million euro, in CLOs (collateralised loan obligations) of 1,299 million euro and, to a residual extent, in CDOs (collateralised debt obligations) of 74 million euro, for which there were essentially no additional transactions during the period.

Accounting categories	30.09.2020			31.12.2019		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%
Financial assets held for sale	354	503	-	857	1,514	-657	-43.4
Financial assets mandatorily measured at fair value	-	4	-	4	20	-16	-80.0
Financial assets measured at fair value through other comprehensive income	559	656	-	1,215	1,485	-270	-18.2
Financial assets measured at amortised cost	386	318	74	778	775	3	0.4
Total	1,299	1,481	74	2,854	3,794	-940	-24.8

In this disclosure, structured credit products include debt securities held by the Group divided into tranches upon issue consisting of various degrees of subordination and not issued within the framework of transactions originated by entities of the Intesa Sanpaolo Group or by public entities, in addition to transactions whereby the Group finances its corporate and financial institution customers (operations implemented by the Group through the subsidiary Duomo Funding Plc).

The strategy for transactions in structured credit products involved investments aimed at exploiting market opportunities, on the one hand, and continuous disposals of the portfolio, also referring to positions which at the time were affected by the financial crisis, on the other hand.

The exposure in ABSs and CLOs measured at fair value went from 3,019 million euro in December 2019 to 2,076 million euro in September 2020, a net decrease of 943 million euro, attributable to investments, which were significantly lower than disposals, mainly made on positions of the merged Banca IMI, now within the scope of the IMI Corporate & Investment Banking Division, in the financial assets held for trading portfolio and, to a lesser extent, in the assets measured at fair value through other comprehensive income portfolio.

The exposure to debt securities classified as assets measured at amortised cost amounted to 775 million euro in December 2019, compared with an exposure of 778 million euro in September 2020.

From profit or loss perspective, a loss of -17 million euro was posted for 2020, compared to +28 million euro for the first nine months of 2019.

This loss from trading activities – caption 80 of the income statement – of -18 million euro, due to net valuation losses (compared to a profit of +13 million euro in the first nine months of 2019) was due to exposures in ABSs amounting to -11 million euro and to exposures in CLOs amounting to -7 million euro.

That performance, pertaining to the unrealised component, marks a recovery on the negative impact of the previous quarters (-34 million euro as at 30 June 2020 and -39 million euro as at 31 March 2020), attributable to the downturn in the markets in the period due to the COVID-19 health emergency.

The loss from financial assets mandatorily measured at fair value was -1 million euro, compared to a profit of +14 million euro as at 30 September 2019.

The exposures to ABSs and CLOs of debt securities classified as assets measured at fair value through other comprehensive income recorded a decrease in fair value of -13 million euro in 2020 through a shareholders' equity reserve (from a positive reserve of +2 million euro in December 2019 to a negative reserve of -11 million euro in September 2020); there was also an impact of +4 million euro from sales during the period (+1 million euro in the first nine months of 2019).

Adjustments recognised on the debt securities classified as assets measured at amortised cost amounted -2 million euro as at 30 September 2020, compared to nil in the same period of 2019.

With regard to the monoline and non-monoline packages, in line with the situation as at the end of 2019, there were no positions held at the end of the first nine months of 2020.

Income statement results broken down by accounting category	30.09.2020				30.09.2019		(millions of euro) changes	
	Collateralized Loan Obligations	Asset Backed Securities	Collateralized Debt Obligations	Total		absolute	%	
Financial assets held for sale	-7	-11	-	-18	13	-31		
Financial assets mandatorily measured at fair value	-	-1	-	-1	14	-15		
Financial assets measured at fair value through other comprehensive income	-	4	-	4	1	3		
Financial assets measured at amortised cost	-	-2	-	-2	-	2	-	
Total	-7	-10	-	-17	28	-45		

Note that there are no structured credit products within the scope of the former UBI Group.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPES)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective (raising funds on the market, acquiring/selling/managing assets both for asset securitisations, acquisition of funding through self-securitisations and the issue of covered bonds, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity's portfolio) are considered Special Purpose Entities.

The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above.

For the SPE categories identified as not consolidated structured entities, no amendments are recorded to the criteria based on which the Intesa Sanpaolo Group decides on whether to include the companies in the scope of consolidation, compared to the information already provided in the 2019 financial statements.

No issues were carried out in the third quarter of 2020. As part of the covered bond issue programme guaranteed by ISP CB Pubblico, the notional amount of the 10th series was partially redeemed in July for an amount of 300 million euro, bringing the nominal amount to the current 250 million euro.

Under the covered bond issue programme guaranteed by ISP CB Ipotecario, the retained 20th series was redeemed early in August for a residual amount of 550 million euro. As regards the first six months of the year, reference is made to the Half-yearly Report as at 30 June 2020.

In the UBI Banca Group, two covered bond programmes are currently active, run by two special purpose vehicles named UBI Finance Srl and UBI Finance CB2 Srl, respectively.

The 1st Programme, UBI Finance, was launched by the UBI Banca Group in 2008 and still provides the Parent Company UBI Banca with the right to issue securities, targeted to institutional investors, for a maximum amount of 15 billion euro. The programme includes a portfolio of residential mortgage loans assigned by the Group's network banks. These banks participated in the programme as Originator Banks as well as Lending Banks.

Currently, UBI Banca and IWBank are participating in the programme.

During the first nine months of 2020, no new issues of securities or repayments of outstanding issues were carried out. Therefore, considering the various bonds issued in the previous years, the nominal value of the securities as at 30 September 2020 totalled 13.545 billion euro.

At the same date, those bonds were assigned an Aa3 rating from Moody's and AA from DBRS.

The 2nd Covered Bond Programme, UBI Finance CB2, was established in 2012 and aims at issuing new retained bonds, i.e. subscribed by UBI Banca itself and used as eligible securities for operations with the Eurosystem.

The ceiling set for this Covered Bond Programme is 5 billion euro.

During the first nine months of 2020, no new issues of securities or repayments of previous issues were carried out. Therefore, considering the bonds issued in the previous years, the nominal value of the securities outstanding as at 30 September 2020 totalled 1.825 billion euro.

At the same date, those bonds were assigned an "A high" rating from DBRS.

INFORMATION ON LEVERAGED TRANSACTIONS

In 2017, the ECB published specific Guidance on Leveraged Transactions, which applies to all significant entities subject to direct supervision by the ECB. The declared purpose of the regulations is to strengthen company controls over “leveraged” transactions, where such transactions increase globally and in the context of a highly competitive market, marked by a long period of low interest rates and the resulting search for yields.

The scope identified in the ECB Guidance includes exposures in which the borrower’s level of leverage, measured as the ratio of total financial debt to EBITDA, is greater than 4, in addition to exposures to parties whose majority of capital is held by one or more financial sponsors. Moreover, counterparties with Investment Grade ratings, individuals, credit institutions, financial institutions and companies in the financial sector in general, public entities, non-profit entities, as well as counterparties with credit facilities below a certain materiality threshold (5 million euro), Retail SME counterparties and Corporate SME counterparties if not owned by financial sponsors, are explicitly excluded from the scope of Leveraged Transactions. Specialised lending transactions (project finance, real estate and object financing) and certain other types of credit, such as trade finance operations, are also excluded.

As at 30 September 2020, for the Intesa Sanpaolo Group (net of the UBI Group), the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted to approximately 21 billion euro, relating to approximately 1,700 credit lines (as at 31 December 2019 the amount was 20.8 billion euro, relating to around 1,900 credit lines).

In accordance with the requirements of the ECB Guidance, a specific limit for the outstanding stock of leveraged transactions was submitted for approval to the Board of Directors, within the framework of the 2020 Credit Risk Appetite.

With regard to UBI Banca, the transactions that meet the definition of Leveraged Transactions in the ECB Guidance amounted approximately to 8 billion euro as at 30 September.

INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Fund portfolio as at 30 September 2020 amounted to 38 million euro in the trading book and 255 million euro in the banking book, compared to 115 million euro and 194 million euro respectively in December 2019.

The investments allocated to the banking book are recognised under financial assets mandatorily measured at fair value and consist of funds that adopt medium/long-term investment strategies and redemption times that are longer than those of UCITS (Undertakings for Collective Investment in Transferable Securities) funds.

During 2020, disposals of positions were made for 80 million euro in the trading books, which occurred in the first three months of the year as an action to reduce the intrinsic risk of this portfolio in a situation of extreme volatility and downturn in the markets, as a result of the COVID-19 health emergency, by using the greater dynamism allowed for trading books.

In the third quarter, new investments were made for 56 million euro (50 million euro in the banking book and the remaining 6 million euro in the trading book), considering a renewed stability of the international financial markets, due to both an economic recovery post-COVID and the robust support measures implemented by the various monetary and fiscal authorities and sales for 2 million in the trading book.

In terms of profit or loss effect, the profits (losses) on trading – caption 80 of the income statement (trading book) – showed a loss of 23 million euro at the end of September compared to a profit of +1 million euro in September 2019. The result for the period included valuation losses of 7 million euro and losses on disposals of 16 million euro, the latter relating to the de-risking decision adopted by the Investment Committee on 12 March 2020, which resulted in a reduction of the trading book.

The net profit (loss) on financial assets mandatorily measured at fair value – caption 110 of the income statement (banking book) – recorded a profit of approximately 8 million euro (compared to a profit of 3 million euro in September 2019), attributable to valuation components, marking a recovery from the valuations recorded for the first six months of the year.

There are no investments in hedge funds within the scope of the former UBI Group.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering relations with customers only, as at 30 September 2020, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 9,281 million euro which, net of the contribution of the UBI Group for 331 million euro, came to 8,950 million euro (7,694 million euro as at 31 December 2019). The notional value of these derivatives totalled 78,339 million euro which, net of the contribution of the UBI Group of 10,102 million euro, came to 68,297 million euro (62,528 million euro as at 31 December 2019). The positive fair value of contracts outstanding with the 10 customers with the highest exposures was 6,003 million euro (5,269 million euro as at 31 December 2019).

Conversely, the negative fair value referring to total contracts outstanding, determined with the same criteria, for the same types of contracts and with the same counterparties, was 1,521 million euro as at 30 September 2020 which, net of the contribution of the UBI Group of 11 million euro, came to 1,510 million euro (1,410 million euro as at 31 December 2019). The notional value of these derivatives totalled 19,723 million euro which, net of the contribution of the UBI Group of 1,526 million euro, came to 18,197 million euro (20,334 million euro as at 31 December 2019).

The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty (“Bilateral Credit Value Adjustment”). With regard to contracts outstanding as at 30 September 2020, this led to a negative effect of 63 million euro being recorded under “Profits (Losses) on trading” in the income statement which, net of the contribution of the UBI Group of -1 million euro, came to 62 million euro. As regards the methodologies used in determining the fair value of financial instruments, see the specific paragraphs of the section on accounting policies in the Notes to the 2019 Financial Statements and the Half-yearly Report 2020.

OPERATIONAL RISK

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events.

The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

To determine its capital requirements, the Group uses a combination of the methods allowed under applicable regulations (advanced measurement approach partially used along with the standardised approach and basic indicator approach). The capital absorption resulting from this process amounted to 2,103 million euro as at 30 September 2020. The increase compared to 1,781 million euro as at 30 June 2020 is due to the addition of the operational risk requirements of the UBI Group.

Legal risks

Legal risks are thoroughly analysed by the Parent Company and Group companies. Provisions are made to the allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.

There were no new significant legal disputes during the third quarter.

For the main pending disputes, the significant developments in the quarter are described below. For previous disputes and a detailed illustration of significant individual disputes, see the Notes to the 2019 Annual Report and the Half-yearly Report 2020 of the Intesa Sanpaolo Group.

Private banker (Sanpaolo Invest) – In relation to the serious violations committed by a private banker of Sanpaolo Invest, at the end of September the subsidiary had received a total of 272 complaints with a total remedy sought of approximately 59.8 million euro. Of those complaints, 63 relate to misappropriations (with a remedy sought of approximately 17 million euro, for which the internal checks conducted determined the lesser amount of 13 million euro) and other types of damages (11 million euro). A further 209 claims for a total remedy of around 31 million euro relate to false accounting and unauthorised transactions, as well as requests for reimbursement of fees.

So far, 26 of the compensation claims have been satisfied, for approximately 5.4 million euro, while 40 have been withdrawn by the petitioner, mostly as a result of commercial agreements. Therefore, to date 206 are pending, for a present value of around 52.4 million euro. At the same time, the Company is continuing out-of-court and legal actions against the unlawful beneficiaries for the recovery of the amounts misappropriated.

The residual risk of disbursement resulting from the illegal acts committed by the private banker is covered by a provision of approximately 9 million euro. This provision was determined on the basis of an assessment of the claims for the confirmed appropriations and the claims relating to incorrect reports and unauthorised transactions, without considering the discovery orders issued and the coverage provided by the insurance policy, which the Company promptly triggered.

Raulet Tirmant Dispute (formerly Dargent Morange Tirmant) – The bankruptcy receiver referred the dispute to the Court of Appeal of Metz and filed its brief at the end of July, through which it requested again the payment of 55.6 million euro (equal to the entire amount of insolvency liabilities, minus the amount obtained from the sale of the property whose purchase was financed by the Bank). In turn, the Bank filed its own reply brief, challenging the opposing party's claims. This will be followed by the exchange of additional briefs, a hearing for discussion will be scheduled thereafter, then the court will rule on the dispute (estimated within the first half of 2022).

Judgement of the Court of Council of the European Union on derivatives with local entities - By way of judgement no. 8770/2020, handed down by its Joint Sections on 12 May 2020, the Court of Cassation affirmed the nullity of several OTC derivative contracts (Interest Rate Swaps with upfront payments) entered into by an Italian bank and a Municipality, essentially establishing that: 1) the upfront payment was a type of new debt resulting in long-term expenditure borne by the entity and, therefore, derivative contracts that comprise an upfront payment require the authorisation of the Municipal Council (not the Municipal Executive Committee), which, if lacking, shall invalidate the derivatives; 2) swap contracts constitute a "legal bet", permitted only in the amount in which these contracts acquire the form of a "rational bet", concluded in terms which enable both parties to understand the risks underlying the contract, which thus, must indicate the mark to market, implicit costs and probabilistic scenario.

The judgement of the Court of Cassation was issued with regard to derivative contracts governed by Italian law. Thus, it should not have significant effects on derivative contracts governed pursuant to the ISDA general agreement (subject to UK law) and referred to the jurisdiction of UK courts (as regards the issues of index-linking the mark to market, implicit costs and probabilistic scenarios).

The decision has already been criticised by many authors and several lower courts have already deviated from the principles confirmed by the Court of Cassation.

Nonetheless, in September, two decisions unfavourable to the Bank in this sense were issued: 1) the Court of Pavia ordered the Bank to refund approximately 9.3 million euro, in addition to ancillary charges, to the Province of Pavia, stating the grounds for the ruling of the Court of Cassation, word-for-word; 2) the Court of Appeal of Milan rejected the appeal lodged by the Bank in the proceedings promoted by the Municipality of Mogliano Veneto. That ruling (which is only partially based on the arguments of the Court of Cassation) confirmed the first instance ruling which had ordered the Bank to refund the Municipality 5.8 million euro, a payment made in 2018. Both decisions are being challenged.

In light of the evolution of case-law, a specific reassessment was conducted of risks connected with the disputes regarding derivative contracts entered into with local entities and, where deemed appropriate, specific provisions were allocated.

With regard to the UBI Group, in referring to the 2019 Consolidated Financial Statements and the Interim Statements for 2020 of the acquired entity for a detailed illustration of the main disputes pending and their evolution, it is noted that no significant events occurred in the third quarter.

Tax litigation

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.

As at 30 September 2020, Intesa Sanpaolo had 639 pending litigation proceedings (612 as at 31 December 2019) for a total amount claimed (taxes, penalties and interest) of 138 million euro (111 million euro as at 31 December 2019), considering both administrative and judicial proceedings at various instances. Compared to the figures as at 30 June 2020, the main events that gave rise to significant changes almost exclusively comprised decreases in the amount claimed, due to the settlement of the former Centro Leasing dispute, discussed below.

During the quarter, no new cases of significant amounts arose.

In relation to these proceedings, the actual risks were quantified at 50 million euro as at 30 September 2020 (54 million euro as at 31 December 2019).

With regard to disputes settled during the period, after the Court of Cassation ruled against the notice of payment of registration tax issued against the merged company Centro Leasing in relation to the sale of a leased property in Rome, in Via Tuscolana, the position was closed using risk provisions of around 2 million euro, eliminating deferred tax assets provisionally paid in pending the ruling.

There were no significant evolutions at the other Group companies.

With regard to the former UBI Group, the tax payable litigation pending as at 30 September 2020 totalled 7.4 million euro, primarily deriving from the three "Good Banks" (remedy sought 4.9 million euro) acquired in 2017 (Nuova Banca dell'Etruria e del Lazio and subsidiary Banca Federico del Vecchio; Nuova Banca delle Marche and subsidiary Cassa di Risparmio di Loreto and Nuova Cassa di Risparmio di Chieti).

All the more significant disputes were settled in 2019 through the so-called "tax amnesty" set out in Law Decree no. 119/2018. As a result of that decision, the tax dispute of the UBI Group decreased substantially (-93% in terms of total value of tax risk) compared to the situation set out in the financial statements as at 31 December 2018. No measures refusing tax settlement were notified by 31 July 2020. Therefore, the disputes may be now concluded on a substantive basis.

INSURANCE RISKS

Investment portfolios

The investments of the insurance companies of the Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life, Fideuram Vita, Intesa Sanpaolo RBM Salute and BAP Vita e Previdenza) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.

BAP Vita e Previdenza joined the Group's insurance segment in the third quarter of 2020, with the acquisition of the UBI Group, and contributed an increase of 2,366 million euro in the total portfolio managed. This contribution was included in the analysis shown below.

As at 30 September 2020, the investment portfolios of Group companies, recorded at book value, amounted to 172,592 million euro. Of these, a part amounting to 89,062 million euro relates to traditional revaluable life policies (the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined), non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Unit-linked policies and pension funds and amounted to 83,530 million euro.

Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional revaluable life policies, non-life policies and free capital.

In terms of breakdown by asset class, net of derivative financial instruments, 84.5% of assets, i.e. 74,983 million euro, was bonds, whereas equity instruments represented 1.9% of the total and amounted to 1,646 million euro. The remainder (12,041 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (13.6%).

The carrying value of derivatives came to approximately 393 million euro, of which 370 million euro relating to effective management derivatives⁹, and the remaining portion (23 million euro) is attributable to hedging derivatives.

At the end of the first nine months of 2020, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 1.068 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 14 million euro.

The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 4,626 million euro.

The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 5.4% of total investments and A bonds approximately 6.5%. Low investment grade securities (BBB) were approximately 85.5% of the total and the portion of speculative grade or unrated was minimal (2.6%).

A considerable portion of the BBB area is made up of securities issued by the Italian Republic.

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central Banks approximately made up 80.3% of the total investments, while financial companies (mostly banks) contributed approximately 11.1% of exposure and industrial securities made up approximately 8.6%.

At the end of the third quarter of 2020, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was 4,231 million euro, with 3,958 million euro due to government issuers and 643 million euro to corporate issuers (financial institutions and industrial companies).

⁹ ISVAP Regulation 36 of 31 January 2011 on investments defines as "effective management derivatives" all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.