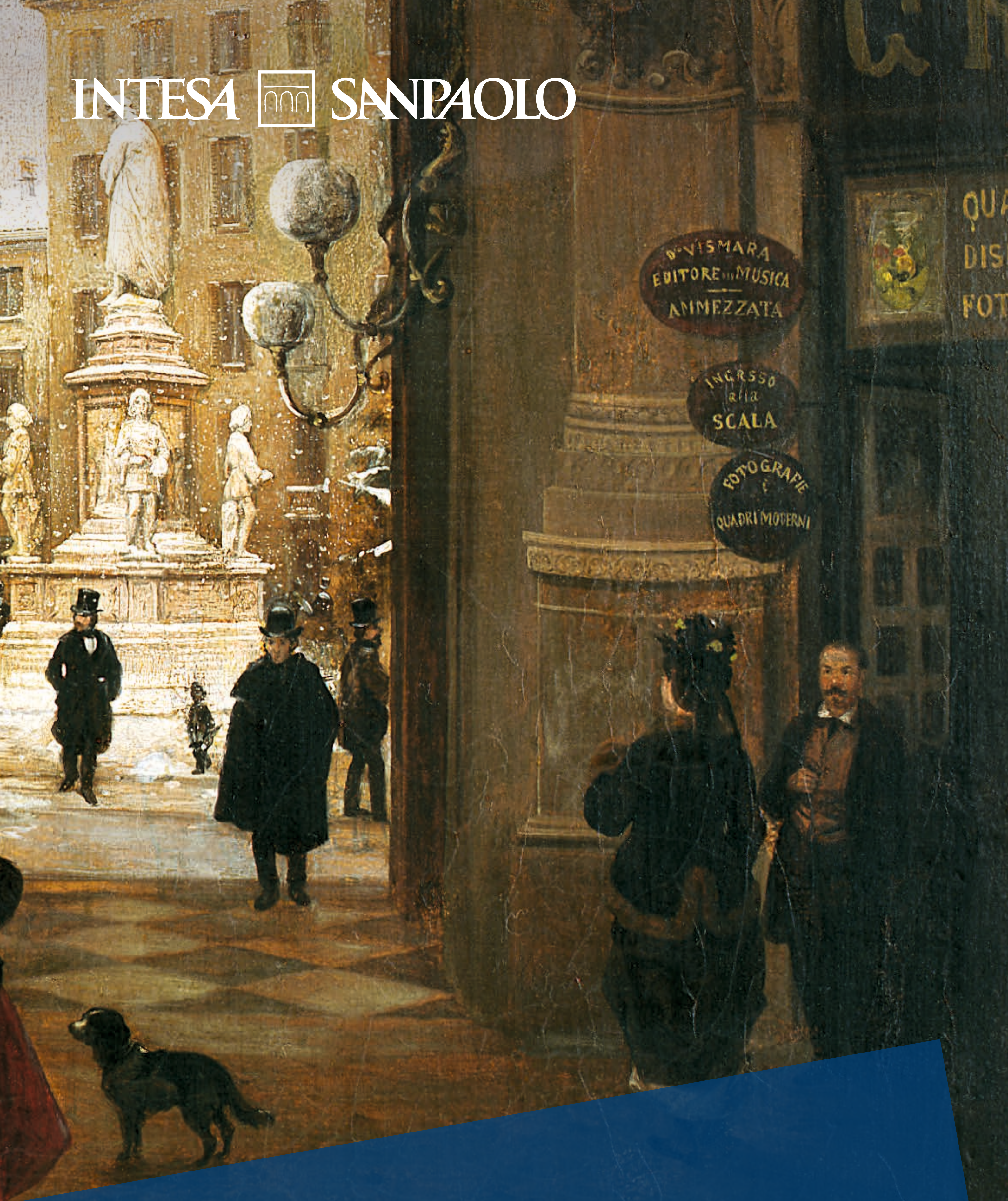

Basel 3 Pillar 3

Disclosure as at 31 December 2018

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa al pubblico al 31 dicembre 2018". In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on group.intesasanpaolo.com.

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

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

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

Basel 3 Pillar 3 Disclosure as at 31 December 2018

Intesa Sanpaolo S.p.A. Registered Office: Piazza S. Carlo, 156 10121 Torino Italy Secondary Registered Office: Via Monte di Pietà, 8 20121 Milano Italy Share Capital Euro 9,085,534,363.36 Torino Company Register and Fiscal Code No. 00799960158 "Intesa Sanpaolo" VAT Group representative Vat Code No. 11991500015 (IT11991500015) Included in the National Register of Banks No. 5361 ABI Code 3069.2 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund and Parent Company of the banking group "Intesa Sanpaolo" included in the National Register of Banking Groups

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Introduction

Notes to the Basel 3 Pillar 3 disclosure

With effect from 1 January 2014, the reforms of the accord by the Basel Committee ("Basel 3") were implemented in the EU legal framework. Their aim is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks' transparency and disclosures. In doing so, the Committee maintained the approach founded on three Pillars, which was at the basis of 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 were designed to introduce 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) No. 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 eserves.

EU legislation is complemented by the provisions issued by the Bank of Italy, in particular with Circular No. 285 of 17 December 2013, which contains the prudential supervision regulations applicable to Italian banks and banking groups, reviewed and updated to adjust the internal regulations to the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and taking into account the needs detected while supervising banks and other intermediaries.

The above Circular does not dictate specific rules for the preparation and disclosure of Pillar 3 reporting, but simply reports the list of provisions envisaged for that purpose by the CRR. Therefore, the issue is directly regulated by:
- the CRR, Part Eight "Disclosure by Institutions" (art. 431-455) and Part 10, Title I, Chapter 3, "Transitional provisions for disclosure of own funds" (Art. 492);
- the Regulations of the European Commission, whose preparation may be entrusted to the European Banking Authority (EBA), which draws up plans for regulatory or implementing technical standards;
- the Guidelines issued by the EBA - in line with the mandate entrusted to it by Regulation (EU) 1093/2010, which created it - for the purpose of establishing uniform templates for the publication of various types of information.

The issue of disclosure, handled for the first time in 2004, and subsequently revised in 2006 in the "Basel Framework" document, was the subject of an initial revision by the Basel Committee through its standard "Revised Pillar 3 disclosure requirements", published in January 2015. This document contains indications that the Supervisory Authorities should incorporate in the national regulations (in our case the EU) so that they come into force. At the end of March 2017, the Basel Committee published the standard "Pillar 3 disclosure requirements - consolidated and enhanced framework" which constitutes the second phase of the review of the regulatory framework concerning public disclosure, started with the abovementioned document issued in January 2015. This second review aims to further promote market regulations through the consolidation of all the requirements already introduced and the arrangement of a dashboard of a bank's key prudential metrics to support the market in the analysis of the data and achieve greater comparability.
The third phase of the review process initiated by the Basel Committee on Banking Supervision (BCBS) was completed in December 2018 - following the public consultation launched in February and concluded in May - with the publication of the final version of the document "Pillar 3 disclosure requirements - updated framework". This document, in line with the previous revision phases, aims to establish a single reference framework for disclosure, with a view to harmonising the market rules. The new updated framework covers the following areas:

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

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

Further information on Pillar 3 was provided by the EBA in December 2014 with a specific document regarding the guidelines on materiality, proprietary and confidentiality and on the frequency of disclosure to be provided in Pillar 3 (EBA/GL/2014/14 - Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No. 575/2013), which governs the following additional significant aspects of the preparation of Pillar 3 disclosure:
– application by the institutions of the materiality criterion;
– application by the institutions of the proprietary and confidentiality criteria;
– need to publish the disclosure more frequently than once a year.

In this regard, on 14 December 2016, the EBA published the first version of the "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No. 575/2013" (EBA/GL/2016/11), subsequently updated on 4 August 2017. These guidelines aim to increase and improve the consistency and comparability of the information to be provided for Pillar 3, requiring, from 31 December 2017, the publication of new tables in the Pillar 3 disclosure, for G-SIBs and O-SIIs banks, specifying their frequency of publication, with detailed information on credit and counterparty risk - including risk mitigation techniques and credit quality - as well as market risk. Likewise, these guidelines were also implemented in the proposed draft for the amendment of the CRR (CRR II) published in November 2016 and subject, from July 2018, to inter-institutional negotiations (trialogues) according to the usual approval procedure whose conclusion is expected by the end of the first quarter of 2019. As regards the disclosure on encumbered and unencumbered assets, said Guidelines refer to that set out in the EBA/GL/2014/03 Guidelines.

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

The EBA also supplemented the abovementioned guidelines with the publication, in June 2017, of the "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 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) No. 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds" (EBA/GL/2018/01) which establish the templates for the publication of information relating to the impacts on own funds resulting from the introduction of the regulation (EU) 2017/2395, containing "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds". As the Intesa Sanpaolo Group opted for the transitional arrangement through the "static" approach to mitigate this impact, it is also required to provide market disclosure on the amounts of its own funds, Common Equity Tier 1 Capital, Tier 1 Capital, CET1 ratio, Tier 1 ratio, Total ratio and fully loaded Leverage ratio, as if it had not adopted this transitional arrangement.

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

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

With specific reference to the information on the Leverage ratio, please note that in February 2016 Commission Implementing Regulation 2016/200 was published in the Official Journal of the European Union, laying down implementing technical standards with regard to the disclosure on the Leverage ratio, under Regulation (EU) No. 575/2013.
Therefore, starting from 31 March 2016, the Intesa Sanpaolo Group has been publishing the Leverage ratio on the basis of the provisions contained in the Delegated Act.

Starting from 1 January 2016, in application of Delegated Regulation 2015/1555 which sets out "regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440 of the CRR", the disclosure obligations concerning the countercyclical capital buffers have also been applied. With effect from 31 December 2016, the disclosure includes – in addition to the amount of the countercyclical capital buffer – details on the geographical distribution of relevant credit exposures for the purpose of calculating the countercyclical capital buffer according to the regulations.

* * * * * *

In accordance with the above provisions and in line with the approach described above, this document has been prepared on a consolidated basis with reference to a “prudential” scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes (as described in Section 2 - Scope of application - Qualitative disclosure).

Compared to 31 December 2017, the changes in the scope of prudential consolidation consisted of:

- the inclusion of Eximbank s.a. (Moldova), of which the acquisition of control by Intesa Sanpaolo was subject to the sale to Veneto Banca in compulsory administrative liquidation of the non-performing loans of the investee, as certified by the Panel of Experts following the due diligence envisaged by the contract of 26 June 2017. The deed of sale for these loans was formalised on 28 February 2018 and the transfer of the shares and the registration of Intesa Sanpaolo as a new shareholder was completed on 13 March 2018;
- the inclusion of Morval Vonwiller Holding S.A, a Swiss group engaged in wealth management and fund management, after the acquisition of the group, concluded in the second quarter of 2018;
- the exclusion of Imi Fondi Chiusi Sgr, which is now consolidated at equity, given that the investment is no longer material following the disposal of fund management operations;
- the exclusion of Intesa SEC and Intesa SEC NPL, which is now consolidated at equity;
- the exclusion of Sec Servizi Società Consortile S.p.A., which was sold.

With regard to the accounting scope of consolidation, it is noted that, with respect to 31 December 2017, it also includes Autostrade Lombarde S.p.A., solely with regard to the balance sheet figures, for which control in accordance with IFRS 10 was acquired at the end of the year. For further details on the scope and methods of the accounting consolidation, see the information provided in the Financial Statements – Part A – Section 3: Scope of consolidation and consolidation methods.

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

In relation to the scope of application of the provisions of the CRR, which refers - as previously indicated - to a “prudential” consolidation scope, and the provisions of the CRR, this document does not illustrate all the types of risk that the Intesa Sanpaolo Group is exposed to. Additional information about the risks is presented in the consolidated financial statements based on the provisions of IFRS 7 and the related explanatory instructions issued by the Bank of Italy (Circular 262 and related updates). In particular, the information on risks is set forth in Part E of the Notes to the consolidated financial statements. Part E also illustrates:

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

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

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

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

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

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

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

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

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

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

Approval, certification and publication of the Basel 3 Pillar 3 disclosure of Intesa Sanpaolo as at 31 December 2018

The Basel 3 Pillar 3 disclosure as at 31 December 2018 ("Pillar 3") of Intesa Sanpaolo has been prepared in accordance with Part Eight of Regulation (EU) 575/2013, considering the specific requirements introduced by the EBA "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013" of 14 December 2016.

The preparation of the Pillar 3 disclosure on capital adequacy, risk exposure and the general characteristics of the related management and control systems of Intesa Sanpaolo is governed, in compliance with the applicable regulations, by the "Guidelines on the disclosure of Financial information to the Market", approved by the Board of Directors. Under the governance of the Pillar 3 disclosure, the Manager responsible for preparing the Company's financial reports and the Chief Risk Officer, and the structures reporting to them, must ensure – within their respective areas of responsibility – that the disclosure contained in the document corresponds to the supporting documentation, ledgers and other accounting records the information provided is consistent with Group risk management guidelines and policies and with the measurement and control of the Group's exposure to the different risk categories.

The preparation of Financial disclosures to the Market is one of the processes subject to assessment under the Group "Guidelines for Administrative and Financial Governance", which were also approved by the Board of Directors and updated in 2017, as required by Art. 154-bis of the Consolidated Law on Finance, which has qualified by law the role of the Manager responsible for preparing the Company's financial reports, assigning to this role specific responsibilities aimed at guaranteeing the presentation of a true and fair view of the information on balance sheet, income statement and financial position of the Group.

The disclosure is prepared in accordance with the internal processes and control systems that have been adopted by the Bank.
Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the following objectives:
- the verification of the implementation of Company strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- the effectiveness and efficiency of the Bank processes;
- the reliability and security of Company information and IT procedures;
- the prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with special regard to those relating to money-laundering, usury and financing of terrorism);
- the compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

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

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

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

References to the regulatory disclosure requirements

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

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

"Section 7 - Credit risk: credit quality" incorporates the new disclosure requirements presented by the ECB GL "Guidance to banks on non-performing loans" (published in March 2017) through additions to several existing tables and the introduction of new specific tables, structured on the basis of those contained in the "Guidelines on disclosures of non-performing and forborne exposures", published in December 2018 by the EBA and applicable from 31 December 2019.

Reference to the CRR Part Eight regulatory requirements

CRR Article	Pillar 3 Section Reference	Reference to other company disclosures
435 - Risk management objectives and policies	▪ Introduction (specific reference also to the "Report on Corporate Governance and Ownership Structures") ▪ Section 1 - General requirements ▪ Section 5 - Liquidity risk ▪ Section 6 - Credit risk: general disclosure ▪ Section 11 - Counterparty risk ▪ Section 13 - Market risk ▪ Section 14 – Operational risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E ▪ Consolidated financial statements - Report on operations – Overview of 2018 ▪ Report on Corporate Governance and Ownership Structures
436 - Scope of application	▪ Section 2 - Scope of application	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part A ▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
437 - Own funds	▪ Section 3 - Own Funds ▪ Attachment 1 - Own funds: terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments ▪ Attachment 2 - Own funds: own funds disclosure template	-
438 - Capital Requirements	▪ Section 4 - Capital Requirements	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
439 - Exposure to counterparty credit risk	▪ Section 11 - Counterparty risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
440 - Capital buffers	▪ Section 4 - Capital Requirements	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part F
441 - Indicators of global systemic importance	▪ Introduction (specific reference to information published in the website)	▪ Website (Indicators of the assessment methodology to identify the global systemically important banks)
442 - Credit risk adjustments	▪ Section 6 - Credit risk: general disclosure ▪ Section 7 - Credit risk: credit quality	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part A ▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
443 - Unencumbered assets	▪ Section 17 - Encumbered and unencumbered assets	-
444 - Use of ECAIs	▪ Section 6 - Credit risk: general disclosure ▪ Section 8 - Credit risk: disclosures on portfolios subject to the standardised approach	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
445 - Exposure to market risk	▪ Section 13 - Market risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
446 - Operational risk	▪ Section 14 – Operational risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
447 - Exposures in equities not included in the trading book	▪ Section 15 - Equity Exposures: disclosures for positions not included in the trading book	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
448 - Exposure to interest rate risk on positions not included in the trading book	▪ Section 16 - Interest rate risk on positions not included in the trading book	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
449 - Exposure to securitisation positions	▪ Section 12 – Securitisations	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
450 - Remuneration policy	▪ Introduction (specific reference to the "Report on Remuneration")	▪ Consolidated Financial Statements: Report on operations - Corporate Governance and remuneration policies ▪ Report on Remuneration
451 - Leverage	▪ Section 18 - Leverage ratio	-
452 - Use of the IRB Approach to credit risk	▪ Section 6 - Credit risk: general disclosure ▪ Section 9 - Credit risk: disclosures on portfolios subject to IRB approaches	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E

453 - Use of credit risk mitigation techniques	▪ Section 6 - Credit risk: general disclosure ▪ Section 10 - Credit risk mitigation techniques	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
454 - Use of the Advanced Measurement Approaches to operational risk	▪ Section 14 – Operational risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
455 - Use of Internal Market Risk Models	▪ Section 13 - Market risk	▪ Consolidated Financial Statements: Notes to the consolidated financial statements - Part E
492 – Disclosure of own funds	▪ Section 3 - Own Funds ▪ Attachment 2 – Own funds: transitional own funds disclosure template	-

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

The table below shows the location within the Pillar 3 document of the disclosure requirements introduced by the EBA Guidelines (EBA/GL/2016/11 and EBA/GL/2017/01), in force from 31 December 2017. In addition, the requirement was implemented regarding the IFRS 9 transitional period requested by the EBA Guidelines (EBA/GL/2018/01), with first-time adoption on 31 March 2018. In addition, the requirements of the EBA RTS (EBA/RTS/2017/03), as endorsed by Regulation (EU) 2017/2295, have been supplemented with regard to encumbered and unencumbered assets.

EBA GL Table	Description of EBA GL Table	Pillar 3 Section
EU OVA	Institution risk management approach	Section 1 – General requirements
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Section 2 – Scope of application
EU LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	
EU LIA	Explanations of differences between accounting and regulatory exposure amounts	
EU OV1	Overview of RWAs	Section 4 - Capital Requirements
EU CR8	RWA flow statements of credit risk exposures under the IRB approach	
EU CCR7	RWA flow statements of CCR exposures under the IMM	
EU MR2-B	RWA flow statements of market risk exposures under the IMA	
EU INS1*	Non-deducted participations in insurance undertakings	
EU IFRS9-FL	Comparison of own funds, capital ratios and leverage ratio with and without the application of transitional provisions for IFRS 9	
EU LIQA	Qualitative information of liquidity risk	Section 5 – Liquidity Risk
EU LIQ1	LCR disclosure template and additional disclosure	
EU CRA	General information about credit risk	Section 6 – Credit risk: General disclosure
EU CRB-B	Total and average net amount of exposures	
EU CRB-C	Geographical breakdown of exposures	
EU CRB-D	Concentration of exposures by industry or counterparty types	
EU CRB-E	Breakdown of exposures by residual maturity	
EU CRB-A	Additional disclosure related to the credit quality of assets	Section 7 – Credit risk: Credit quality
EU CR1-A**	Credit quality of credit risk exposures by exposure class and instrument	
EU CR1-B**	Credit quality of credit risk exposures by industry or counterparty types	
EU CR1-C**	Credit quality of credit risk exposures by geography	
EU CR1-D**	Ageing of the gross values of past-due exposures	
EU CR1-E**	Non-performing and performing exposures by exposure class	
EU CR2-B	Changes in gross non-performing on-balance sheet exposures	
EU CR2-A	Changes in adjustments to non-performing on-balance sheet exposures	
EU CRD	Qualitative disclosure on the institution's use of external credit ratings under the standardised approach for credit risk	Section 8 – Credit risk: Disclosures on portfolios subject to the standardised approach
EU CR4	Standardised approach - Credit risk exposure and CRM effects	
EU CR5	Standardised approach - Exposures post CCF and CRM	
EU CR5 bis	Standardised approach - Exposures before CCF and CRM	
EU CRE	Qualitative disclosure on IRB models	Section 9 – Credit risk: Disclosures on portfolios subject to IRB approaches
EU CR7	IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques	
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	
EU CR10	IRB (specialised lending and equities)	
EU CR9	IRB approach – Backtesting of PD per exposure class	

EU CRC	Qualitative disclosure on CRM techniques	Section 10 – Risk mitigation techniques
EU CR3	CRM techniques – Overview	
EU CCRA	Qualitative disclosure on CCR	Section 11 – Counterparty risk
EU CCR1	Analysis of CCR exposure by approach	
EU CCR2	CVA capital charge	
EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk weighting	
EU CCR3 bis	Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation	
EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	
EU CCR6	Credit derivatives exposures	
EU CCR5-A	Impact of netting and collateral held on exposure values	
EU CCR5-B	Composition of collateral for exposures to CCR	
EU CCR8	Exposures to CCPs	
EU MRA	Qualitative disclosure on market risk	Section 13 – Market risk
EU MRB	Qualitative disclosure for institutions using the IMA	
EU MR1	Market risk under the standardised approach	
EU MR2-A	Market risk under the IMA	
EU MR3	IMA values for trading portfolios	
EU MR4	Comparison of VaR estimates with gains/losses	
Template A	Encumbered and unencumbered assets	Section 17 – Encumbered and unencumbered assets
Template B	Guarantees received	
Template C	Sources of encumbrance	
Template D	Accompanying descriptive information	

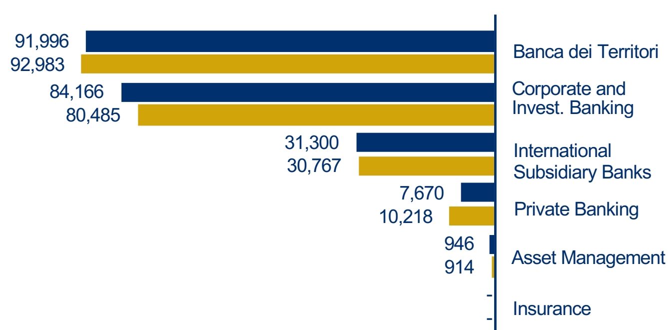
* Table not applicable to the Intesa Sanpaolo Group.
**Table supplemented to comply with the requirements of the “Guidance to banks on non-performing loans” (ECB, March 2017) – Attachment 7.

Section 1 – General requirements

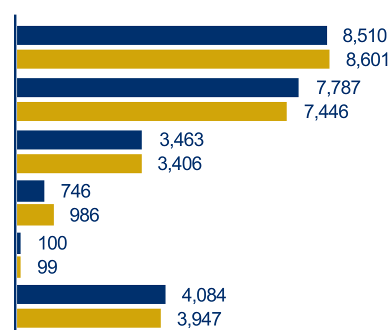
Group's risk profile: key indicators as at 31 December 2018

Consolidated capital ratios (%)	31.12.2018	31.12.2017
Common Equity Tier 1 capital (CET1) net of regulatory adjustments/ Risk-weighted assets (Common Equity Tier 1 capital ratio)	13.5	13.3
TIER 1 Capital / Risk-weighted assets	15.2	15.2
Total own funds / Risk-weighted assets	17.7	17.9
Own funds (millions of euro)	48,878	51,373
Risk-weighted assets (millions of euro)	276,446	286,825
Absorbed capital (millions of euro)	30,273	31,094

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



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



(*) Excluding Corporate Centre

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

Consolidated profitability ratios (%)	2018	2017 (Income statement figures) / 31.12.2017 (Balance sheet figures)
Cost / Income	53.0	52.9
Net income / Shareholders' equity (ROE) (a)	8.8	7.9
Net income / Total assets (ROA) (b)	0.5	0.5

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

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

(b) Ratio of net income, less non-recurring components, to total assets.

2018

2017 (Income statement figures)
31.12.2017 (Balance sheet figures)

Earnings per share (euro)	2018	2017
Basic earnings per share (basic EPS) (c)	0.24	0.44
Diluted earnings per share (diluted EPS) (d)	0.24	0.44

Consolidated risk ratios (%)	31.12.2018	01.01.2018
Net bad loans / Loans to customers	1.8	2.6
Cumulated adjustments on bad loans / Gross bad loans to customers	67.2	69.1

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

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

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

31.12.2018

2017 (Income statement figures)
01.01.2018 (Balance sheet figures)

The macroeconomic scenario and the high volatility of the financial markets require constant monitoring of the factors that make it possible to pursue sustainable profitability: high liquidity, funding capability, low leverage, adequate capital base, and prudent asset valuations.

Group liquidity remains high: as at 31 December 2018, both the regulatory indicators LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), also adopted as internal liquidity risk measurement metrics, were well above fully phased-in requirements established by Regulation 575/2013 and Directive 2013/36/EU. At the end of December, the Central Banks eligible liquidity reserves came to 175 billion euro (171 billion euro at the end of December 2017), of which 89 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017) and unused. The loan to deposit ratio at the end of December 2018, calculated as the ratio of loans to customers to direct deposits from banking business, came to 95%.

In terms of funding, the widespread branch network remains a stable, reliable source: 75% of direct deposits from banking business come from retail operations (313 billion euro). Moreover, over the year, 2.5 billion US dollars of unsecured senior bonds, 46.6 billion Yen of unsecured senior bonds, and 2.25 billion euro of unsecured senior bonds were placed, along with 1 billion in covered bonds.

With regard to the targeted refinancing operation TLTRO II, at the end of December 2018, the Group's participation amounted to 61 billion euro.
The Intesa Sanpaolo Group's leverage ratio was 6.3% as at 31 December 2018.
The capital base also remains high. Own funds, risk-weighted assets and the capital ratios at 31 December 2018 have been calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, which have transposed the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.
At the end of 2018, total Own Funds came to 48,878 million euro, against risk-weighted assets of 276,446 million euro, which reflected primarily the credit and counterparty risk and, to a lesser extent, the operational and market risk.
The Total Capital Ratio stood at 17.7%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 15.2%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 13.5%.
As the regulatory conditions for its inclusion (Art. 26, paragraph 2 of the CRR) were met, Common Equity Tier 1 capital includes net income for the year and, consequently, the related dividend proposed.
With regard to the insurance segment, consisting of the Intesa Sanpaolo Vita Insurance Group, including Fideuram Vita - which represent the same scope as the Insurance Division of the Parent Company Intesa Sanpaolo, in terms of entities - the quarterly regulatory Solvency Ratio as at 31 December 2018 was 215%.
The Group's risk profile remained within the limits approved by the Risk Appetite Framework, consistent with the intention to continue to privilege commercial banking operations.
In relation to market risk, the Group's average risk profile, measured in terms of annual average value of the daily VaR of the trading book, amounted to 74 million euro in 2018, compared to an average of around 69 million euro in 2017.

The macroeconomic environment and the persisting financial market volatility heighten the complexity of assessing credit risk and measuring financial assets.
Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of loans to customers and financial institutions, and of exposures subject to country risk.
With regard to performing loans to customers, the "collective" adjustments, equal to 2,105 million euro, provide a coverage ratio of 0.6%, which is sufficient for the intrinsic risk of the Stage 1 and Stage 2 portfolios.
The methods used to classify non-performing loans and to measure both non-performing and performing loans ensure that the impacts of the deteriorating economic environment on a debtor's position are promptly recognised. The economic crisis has called for constant review of the values of loans that had already shown problematic symptoms and of loans with no obvious signs of impairment. All categories of non-performing loans are carefully assessed. Bad loans and unlikely-to-pay loans had coverage levels of 67.2% and 36.2% respectively.
Constant attention has been paid to the valuation of financial items. The majority of the financial assets are measured at fair value or are represented by hedging derivatives.
Excluding the insurance segment whose financial assets are almost all measured using level 1 inputs, the fair value measurement of the remaining financial assets measured at fair value through profit and loss was carried out as follows: around 58% using level 1 inputs, around 34% using level 2 inputs and only around 8% using level 3 inputs.
Investment levels in structured credit products and hedge funds remained low. The former generated a positive contribution of 16 million euro during the year, compared to a positive result of 28 million euro for 2017. For the hedge funds, the investments in this segment in 2018 generated a loss of 21 million euro compared to a profit of 16 million euro in 2017.

As regards taxes, deferred tax assets were posted in the consolidated financial statements for 13,933 million euro, of which 8,281 million euro can be converted into tax credits, along with deferred tax liabilities for 2,270 million euro.
In compliance with IAS 12, the amount of deferred tax assets must be tested each year to determine whether there is a qualified probability that they will be recovered and, thus, to justify their recognition and maintenance in the financial statements ("probability test"). The analysis conducted indicated a taxable base that was more than sufficient and adequate to allow recovery of the deferred tax assets carried in the financial statements as at 31 December 2018.

In volatile market environments, measuring the recoverable amount of intangible assets is also particularly important.
Intangible assets with finite useful lives (insurance portfolio), the amounts of which (a total of 162 million euro) are being gradually amortised (with 25 million euro of amortisation recognised in the income statement for 2018) were analysed with respect to their volume, profitability and discount rates in order to detect any impairment indicators. These analyses did not identify any critical positions.
In 2018, as part of Fideuram's acquisition of the Morval Group, which operates in private banking and wealth management, intangible assets were recognised in the financial statements for an amount of 34 million euro, relating entirely to asset management relationships and allocated to the Private Banking CGU. Also in 2018, following the finalisation of the acquisition of the acquiring of transactions carried out using payment cards connected with international networks performed by Nexi for customers of the former Venetian banks, now customers of Intesa Sanpaolo, a new intangible asset was recognised in the financial statements, specifically connected with the value of the customer portfolio included in the business unit acquired, based on the contracts for special arrangements in force, for an amount of 21 million euro. This amount was allocated to a specific intangible asset attributable to the relationship with the acquired customers, fully allocated to the Banca dei Territori CGU.
Lastly, following the agreements reached with the Gavio Group, Intesa Sanpaolo acquired control of the Autostrade Lombarde Group. The difference between the purchase price and the fair value of the pro rata shareholders' equity was provisionally allocated to goodwill, for an amount of 107 million euro. Considering that Autostrade Lombarde operates in a sector extraneous to the Intesa Sanpaolo Group's operations, in addition to the fact that Intesa Sanpaolo will not exercise management and coordination on the company pursuant to Art. 2497 of the Italian Civil Code, Autostrade Lombarde was identified as a separate CGU in the Intesa Sanpaolo Group.

As regards intangible assets with an indefinite useful life, represented by goodwill (4,163 million euro) and brand name (1,882 million euro), for the 2018 Financial Statements, except for the Autostrade Lombarde CGU, for which reference was made to the fair value resulting from a specific appraisal by an independent third party, the method for determining the value was the same used in previous years, based on the calculation of the value in use, i.e. the current value of future cash flows that the Group can expect to generate. A period of five years was adopted as the forecasting period for this purpose, as in the previous Financial Statements, i.e. the five-year period 2019-2023. Specifically, for the first 3 years of that period, the detailed estimates set out in the 2018-2021 Business Plan, approved by the Board of Directors on 6 February 2018, were used. The flows for 2022 and 2023 were estimated through inertial tracking of the flows for 2021, based on the forecasts relating to the macroeconomic scenario, thus, without considering the effect of managerial leverage. Among various financial valuation techniques, such as that used for the estimate of the value in use, the value of a company at the end of the flow forecast period, the so-called terminal value, is normally determined by infinite compounding, at an appropriate "g" rate, of the cash flow achievable "at full capacity". With regard to the impairment test as at 31 December 2018, for the purposes of the Terminal Value, 2023, the last year of the analytical forecast, separating out the non-recurring components, was projected in perpetuity. The cash flows so determined have been discounted, net of the "g" long term growth rate, by applying a discount rate expressing the cost of capital and calculated as the sum of the returns on a risk-free investment and a risk premium, in turn dependent on the specific risks implicit in the business activities and in country risk. In defining the discount rates, given the extremely low market rates at present, associated with contingent expansionary monetary policies adopted by the ECB, for the purpose of the Terminal Value those rates were prudentially considered risk free and with country risk spreads globally higher by over 130 bps compared to the current year-end values used for the discounting of flows for the "explicit" horizon.
As this valuation method has yielded value in use for the various CGUs which are higher than their respective book values, no value adjustments have been made to intangible assets with indefinite useful life.
Since the value in use is determined by using estimates and assumptions that may contain some level of uncertainty, sensitivity analyses to verify the sensitivity of the results obtained to changes in the parameters and in the underlying hypotheses were carried out. In particular, the impact on the value in use of an increase in discounting rates of up to 50 bps or a decrease in the growth rate for Terminal Value purposes of 50 bps was verified. In addition, analyses were conducted of changes in the value in use resulting from a 10% decrease in Terminal Value flows. These analyses show that such changes would not result in a value in use lower than the book value for any of the CGUs.
In terms of market values, there was a fall in the price of the Intesa Sanpaolo stock over the course of 2018 (down 30%). The performance of the price of Intesa Sanpaolo stock in 2018 moved in line with that of the Italian banking securities index, whereas it performed worse than the FTSE MIB index during the same period (around -16%). The target prices published by the main investment firms were also down on the end of 2017 (-20%), but by less than the fall in the stock exchange price over the same period.
It is believed that impairment tests must be performed with the awareness of the fact that the current economic situation has a deep impact on expected short- and medium-term cash flows from operating activities, without however affecting the Intesa Sanpaolo Group's primary sources of income and competitive edges, as has also been demonstrated by the results of the past few years, with constant achievement of the forecast targets. In consideration of such factors, value in use is considered to be a better expression of the recoverable amount of the Group's operating activities in the current market situation.
Accordingly, in developing the valuation model, caution was applied both when estimating projected cash flows and choosing financial parameters:

- expected cash flows do not include the effects of future reorganisations, except for the effects of the actions already considered in the 2018-2021 Business Plan, or capital gains deriving from future sales of assets, but they do take account of the full allocation to the CGUs of the financial effects of the services provided by the Corporate Centre;
- the cost of capital was determined analytically, based on parameters taken from the markets for each CGU, depending on the different risk of the respective businesses, also considering analytically the various risk factors; furthermore, the cost of capital used for the purpose of the terminal value considers the effects of a return to "normalised" conditions of the general context of interest rates and considers risk-free rates and country-risk spreads of over 130 bps higher overall than the current values at year-end used to discount cash flows in the explicit forecast period;
- the "g" growth rate, for the purpose of terminal value for Italy, which represents the area where residual goodwill is still recognised, has been set at zero in real terms.

With regard to the significant transactions in which the Group was involved during the year 2018, see the 2018 Consolidated Financial Statements.

General risk management principles

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

- The Intesa Sanpaolo Banking Group is focused on a commercial business model in which domestic retail activity remains the Group's structural strength;
- the Group does not aim to eliminate risks, but rather attempts to understand and manage them so as to ensure an adequate return for the risks taken, while guaranteeing the Company's solidity and business continuity in the long term;
- Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, a sound liquidity position and a strong reputation are the key factors to protecting its current and prospective profitability;

- Intesa Sanpaolo aims at a capitalisation level in line with its main European peers;
- Intesa Sanpaolo intends to maintain strong management of the main specific risks (not necessarily associated with macroeconomic shocks) to which the Group may be exposed;
- the Group attaches great importance to the monitoring of non-financial risks, and in particular:
  - limits are set for operational risks (including specific treatment for IT, Cyber and Legal Risk);
  - for compliance risk, the Group aims for formal and substantive compliance with rules in order to avoid penalties and maintain a solid relationship of trust with all of its stakeholders;
  - for reputational risk, the Group strives to actively manage its image and aims to prevent and contain any negative effects on said image.

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

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are managed, with the establishment of general principles of risk appetite and the resulting structuring of the management of:
- the overall risk profile; and
- the Group's main specific risks.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even in case of severe stress, and also contains the non-financial risks with appropriate limits.
In detail, management of overall risk is aimed at maintaining adequate levels of:
- capitalisation, also in conditions of severe macroeconomic stress, in relation to both Pillar 1 and Pillar 2, by monitoring the Common Equity Ratio, the Total Capital Ratio, the Leverage Ratio and the Risk Bearing Capacity;
- liquidity, sufficient to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situations, by monitoring the internal limits of the Liquidity Coverage Ratio, Net Stable Funding Ratio, Loan/Deposit Ratio and Asset Encumbrance;
- earnings stability, by monitoring the adjusted net income and the adjusted operating costs on revenues, which represent the main potential causes for their instability;
- management of operational, compliance and reputational risk, in order to minimise the potential impact of negative events that jeopardise the Group's economic stability and image.

In compliance with the EBA guidelines (EBA/GL/2015/02) concerning the "Minimum list of quantitative and qualitative recovery plan indicators", the Group has also included new asset quality, market-based and macroeconomic indicators as early warning indicators in the RAF, to ensure consistency with its Recovery Plan.
Management of the specific risks is implemented by establishing specific limits and mitigation measures to be taken in order to limit the impact of especially severe future scenarios on the Group. These limits and measures seek to "steer" the most significant risk concentrations such as, for example, single name concentrations, sovereign risk and the public sector.

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

The limits set in the RAF are divided into two categories, hard limits and soft limits, which differ in the escalation process triggered by their breach. In particular, with regard to the Group limits, the responsibility for approving the remediation plan is assigned:
- to the Board of Directors for the hard limits, typically used for the main metrics used to control overall risk (e.g. Common Equity Tier 1 ratio, Liquidity Coverage ratio, etc.);
- to the Managing Director and CEO for the soft limits, set on the metrics used to monitor the main specific risks (e.g. single name concentration, concentration towards the Italian public sector, etc.).

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

Within the annual RAF update process, a number of key steps can be identified:
- Risk Assessment and RAF setting: this phase assesses the risk actually taken (Risk Profile) with respect to the maximum risk that can be taken on (Risk Capacity) and the appetite for the risk (Risk Appetite), identifying and investigating the main types of risk of the Group, including prospective risks, using both quantitative and qualitative techniques. In particular, in accordance with the principles of proportionality and materiality, the following are analysed in detail: the regulatory contexts, the situations of the reference market, the Group's position, and the nature of the potential threats, also with the aid of specific stress tests;
- Reconciliation between the RAF, Business Plan and Budget: consistency between the RAF and the Business Plan/Budget is sought in all phases of the related preparation procedures through a process of mutual consultation and dialogue that lasts for several months, involving not only the structures of the Chief Risk Officer Governance Area and the Chief Financial Officer Governance Area but also the Business Divisions/Structures;

[1] The competent Management Committee varies according to the RAF metrics considered:
- for capital adequacy, credit risk and profit stability metrics, the responsibility lies with the Steering Committee;
- for liquidity and financial risk metrics, the responsibility lies with the Group Financial Risks Committee;
- for non-financial risks metrics, the responsibility lies with the Group Control Coordination, Reputational and Operational Risk Committee.

- Approval of the RAF: in line with the provisions of the applicable regulations, the Board of Directors sets and approves the risk objectives, the tolerance threshold (where identified) and the risk management policies.

Defining the Risk Appetite Framework is a complex process headed by the Chief Risk Officer, which involves close interaction with the Chief Financial Officer and the Heads of the various Business Units, is developed in line with the ICAAP, ILAAP and Recovery Plan processes, and represents the risk framework in which the Budget and Business Plan are developed. Consistency between the risk-acceptance strategy and policy and the Plan and Budget process is thus guaranteed.
The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in loan management processes and controlling operational risk, the use of capital-at-risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Board of Directors along the Group's entire decision-making chain, down to the single operational units and to the single desks.
The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas, in a comprehensive framework of limits and procedures for governance and control.

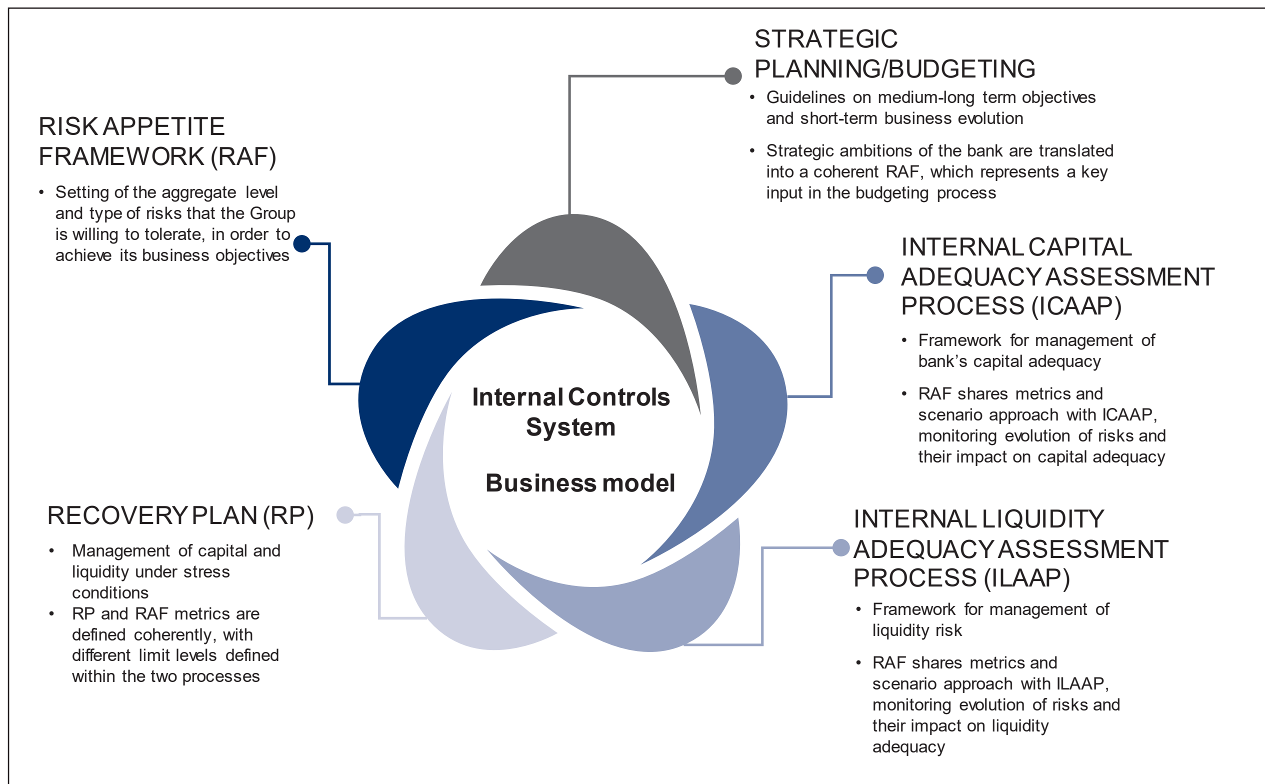
The assessment of the total Group risk profile is conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules, the results of which are then also discussed and analysed by the Supervisor.
In accordance with the ECB requirements, the ICAAP process incorporates two complementary perspectives, both of which are analysed from an actual perspective and, on a prospective basis, in a baseline scenario and an adverse scenario:
- Regulatory perspective, in which the regulatory metrics for the Pillar 1 risks over the short term (one year) and the medium term (four years, in line with the time-frame of the business plan) are represented for both these scenarios;
- Financial and operating perspective, in which the management measures and metrics covering all the risks, including the Pillar 2 risks, are presented, with a time horizon of one year in the adverse scenario, which is extended to four years for the baseline scenario.

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

The Group is required to provide a Recovery Plan according to indications received by Supervisory Authorities. The process that oversees the preparation of that plan is an integral part of the regulatory response to cross-border resolution for "too-big-to-fail" banks and financial institutions. The Recovery Plan (introduced by the Bank Recovery and Resolution Directive, transposed into Italian law by Legislative Decree 180 of 16 November 2015) establishes the methods and measures to be used when an institution comes under severe stress and in an early intervention phase, in order to restore financial strength and long-term viability.
Within the annual preparation process for the Recovery Plan, the Chief Risk Officer Governance Area identifies the stress scenarios suitable of highlighting the main vulnerabilities of the Group and its business model (e.g. significant exposure to the domestic market), as well as measuring their potential impacts on the Group's risk profile. The final results showed that the Group has a high level of resilience. Following the publication of the European Banking Authority's Final Report on Recommendation on the coverage of entities in a group recovery plan (EBA/Rec/2017/02), dated 1 November 2017, Intesa Sanpaolo has adopted specific criteria for the classification of Group companies among:
- Group-relevant;
- Locally relevant;
- Not relevant.

The application of these criteria to the Group scope has led to the Parent Company as well as Fideuram, the VUB Group, Banka Intesa Sanpaolo d.d., Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, CIB, the Privredna Banka Zagreb Group, Banca Intesa Beograd and Intesa Sanpaolo Romania, being classified among the Group-relevant entities. The remaining companies are included in the category of not relevant entities. The above breakdown is consistent with the scope covered by the 2017 Recovery Plan.

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



Stress Tests

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

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

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

With specific regard to the regulatory multi-risk exercises, in 2018 the Intesa Sanpaolo Group took part in the 2018 EU-Wide Stress Test, see Section 4 Capital requirements for more details on the results for the year.

Risk culture

The Group continues its strategic orientation towards a moderate risk profile, maintaining high levels of capital and liquidity, supported by ongoing attention to the internal control system and strengthened by operating limits and rules that favour compliance with the regulations. A culture based on widespread responsibility, balanced judgment aptitude and long-lasting sustainability of development initiatives is promoted, through extensive staff training aimed both at acquiring in-depth knowledge of the overall risk management framework (approaches, methods, internal models, rules and limits, controls) and at internalizing the Group's values (Code of Ethics, behaviour, rules of conduct and relations).
Particular attention is paid to full awareness of the principles and guidelines, by systematically updating the reference documents (Tableau de Bord, ICAAP, Risk Appetite Framework) and the information set for the exercise of activities, whose contents are clarified through structured training approaches (Risk Academy). Ongoing relations are maintained with the Chief Risk Officers of the Group companies, in order to share information on development plans and the progress of strategic

projects, with the examination of the specific operational and regulatory aspects of the local markets. The survey conducted in the two-year period 2017/2018 to obtain a picture of the risk culture throughout the entire Group examined, through questionnaires and interviews, the perceptions and opinions regarding a range of dimensions, including: awareness of the risks to be addressed, clarity on sustainable risk, compliance with the rules and the limits set, level and diffusion of responsibility, timeliness of response to difficulties, ability to learn from mistakes, quality of the reporting and communication processes, orientation towards cooperation and openness to dialogue, and willingness to nurture talent and experience.
The results were compared with the data obtained from the same survey on a sample of international peers. The survey identified widespread attention to the behavioural and value aspects, together with the positive perception, felt uniformly across the Group, regarding several distinct dimensions, such as risk awareness, trust, compliance with the rules, and openness to dialogue. In 2018 initiatives were implemented aimed at strengthening cooperation and internal communications, in order to promote a wider dissemination of working approaches strongly geared towards innovation and proactive problem-solving of the issues. This involved the following in particular:

- consultation and dialogue sessions on emerging issues, aimed at developing an appropriate tone at the top;
- frequent listening sessions and communication opportunities accessible to all the staff, to ensure a level of awareness at all organisational levels;
- workshops for broad management audiences to strengthen cross collaboration and change management, in line with the evolution of the environmental situation and the competitive dynamics;
- introduction of management development tools that provide easier access (digital content), free from physical and logistical constraints, to develop individual attitudes and professional interests. Lastly, continuing on from the staff training programmes already carried out in previous years, a major “on-the-job mentoring” initiative was implemented to guide operational conduct, assess the quality of organisational risk management approaches, and monitor the most significant and complex change processes, with particular attention to situations of corporate evolution (acquisition of new entities) and the internal remodulation of business lines, in order to ensure full business continuity and to preserve high and uniform quality control standards across the Group.

Risk governance organisation

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

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

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

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

  - the Integrated Internal Control System Session, with a reporting and advisory role, whose objective is to reinforce coordination and the interdepartmental cooperation mechanisms within the Group internal control system, thus promoting the integration of the risk management process;
  - the "Operational and Reputational Risk" session, with a decision-making, reporting and advisory role, which has the task of supervising the implementation of operational and reputational risk management guidelines and policies in accordance with indications formulated by the Board of Directors and periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving, in accordance with indications of the Board of Directors, operational risk transfer strategies.

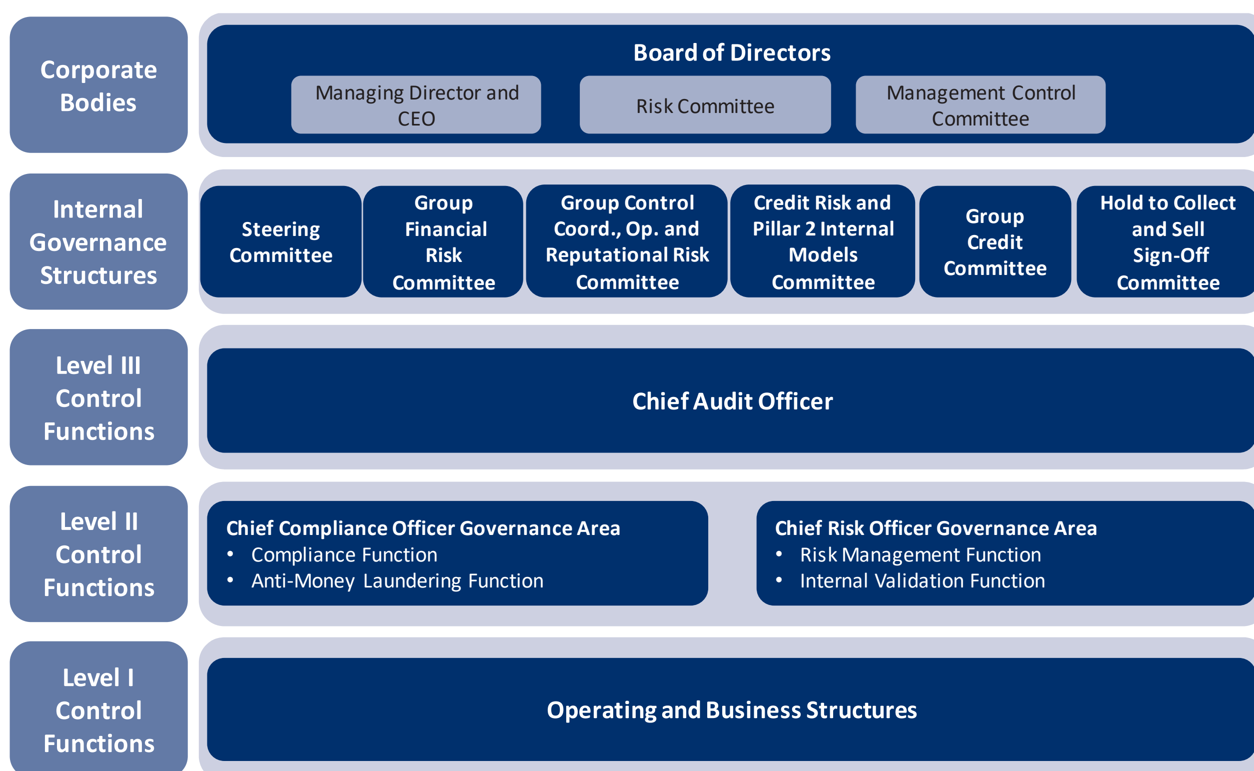
  The sessions of the Committee are attended by, among others, the Heads of Corporate control functions, as well as the Manager responsible for preparing the Company's financial reports as a permanent member. This contributes to fulfilling the assigned legal obligations and the responsibilities established in the Company Regulations on the supervision of the financial reporting process. It also enables the promotion of the inter-functional coordination and integration of control activities, within its area of responsibility.
- the Group Credit Committee is a technical body with a decision-making and advisory role that has the task of ensuring the coordinated management of issues relating to credit risk and the adoption of lending decisions and the granting of credit ceilings to the extent of its assigned powers.
- lastly, the Hold To Collect and Sell (HTCS) Sign-Off Group Committee is responsible for approving the assumption of market risks put forward by the business structures of the Corporate and Investment Banking Division on the HTCS shares required for Originate to Share transactions.

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

- Credit Risk Management Head Office Department;
- Financial and Market Risks Head Office Department;
- Enterprise Risk Management Head Office Department;
- Internal Validation and Controls Head Office Department;
- Foreign Banks Risk Governance
- Coordination of Risk Management Initiatives.

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

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



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

The internal control system

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

Further information on the Intesa Sanpaolo internal control system may be found in Part E of the Notes to the 2018 consolidated financial statements (available for consultation from the "Financial Reports" section of the website www.group.intesasanpaolo.com) and in the Report on Corporate Governance and Ownership Structures (available for consultation from the "Governance" section of the same Group website).

Scope of risks

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

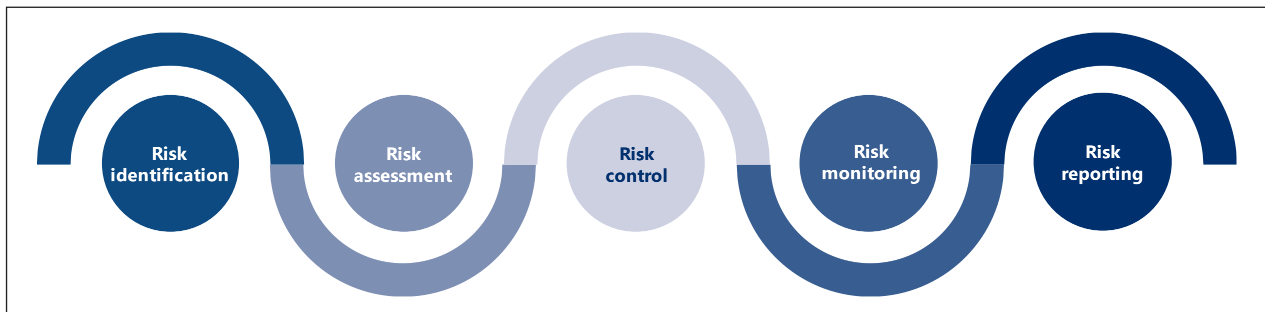
[3] In this regard, it is specified that Intesa Sanpaolo does not exercise management and coordination over Risanamento S.p.A. and Autostrade Lombarde S.p.A. and their subsidiaries pursuant to Article 2497 et seq. of the Italian Civil Code.

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

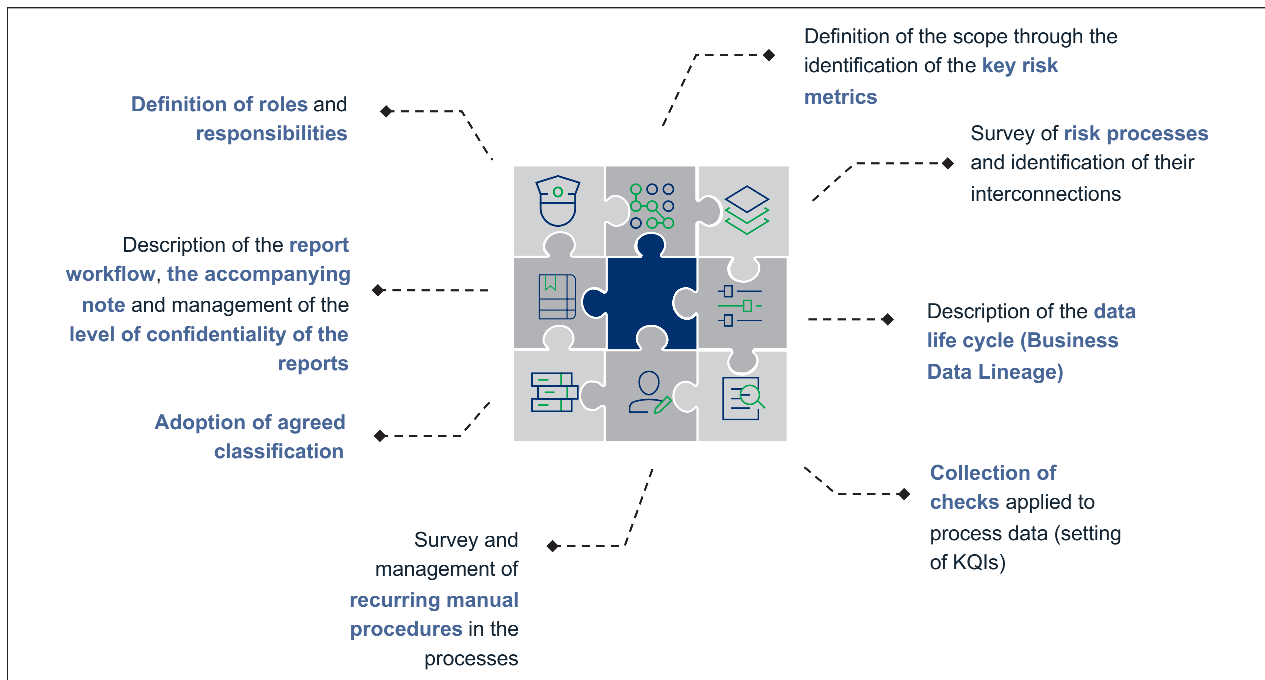
Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including stress tests.

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

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



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



The Group has also strengthened its focus on data quality control, defining processes, roles and responsibilities, reference classifications (quality dimensions) and identifying the related support instruments.
The types of risk included in the scope of the Data & Reporting Governance are: credit risk, market and counterparty risk, interest rate risk of the banking book, liquidity risk, operational risks and risk integration.
Assessments of each single type of risk for the Group are integrated in a summary amount – the Economic Capital – defined as the maximum "unexpected" loss the Group might incur over a year. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario. The assessment of capital is included in business reporting and is submitted

quarterly to the Steering Committee, the Risks Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord.
In addition to managing the risks described above, Intesa Sanpaolo pays close attention to the identification and monitoring of specific areas of emerging risk, which, in the medium term, could compromise the achievement of the Group's strategic objectives or significantly influence its financial position and results.

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

For the disclosure of the different types of risk governed by Basel 3 Pillar 3 Disclosure (credit, counterparty, market, interest rate, liquidity and operational risk), see the individual sections of this document.
With regard to insurance risk, outside the prudential scope, reference is made to Part E of the Notes to the 2018 Consolidated financial statements, available for consultation in the "Financial Reports" section of the Group website www.group.intesasanpaolo.com.

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

Strategic risk

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

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

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

Reputational risk

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

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

The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature are founded on trust.
In order to safeguard customers' interests and the Group's reputation, specific attention is also devoted to establishing and managing customers' risk appetite, pursued through the identification of the objective traits of each customer. The assessments of adequacy during the process of structuring products and rendering advisory services are supported by objective information, that considers the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.
More specifically, the marketing of financial products is also governed by specific advance risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and

the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).
The abovementioned Reputational Risk Management (RRM) processes are coordinated by the Chief Risk Officer Governance Area and involve control, specialist and business functions, for various purposes. These processes include:
- Reputational Risk Assessment, which seeks to identify the most significant reputational risk scenarios that the Intesa Sanpaolo Group is exposed to. This process is implemented annually and is aimed at gathering the opinion of Top Management regarding the potential impact of these scenarios on the Group's image, in order to identify appropriate communication strategies and specific mitigation actions, where necessary;
- Reputational Risk Clearing, which is aimed at the ex-ante identification and assessment of the potential reputational risks associated with the most significant business operations, the main capital budget projects and the selection of the Group's suppliers/partners;
- Reputational Risk Monitoring, aimed at monitoring the evolution of Intesa Sanpaolo's reputational positioning (on the web, for example) also with the aid of external analyses.

Risk on owned real-estate assets

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

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

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

Risk related to defined-benefit pension funds

The risk related to defined-benefit pension funds is attributable to the possibility of having to increase the reserve that the Parent Company Intesa Sanpaolo maintains to guarantee the benefits of those pension funds, based on an adverse change in the value of the assets and/or liabilities of the pension funds concerned. This risk is fully considered within the assessment of capital adequacy, measured and controlled both with respect to Economic Capital, using an econometric model for the main macroeconomic variables, and to prospective baseline and stress scenarios.
Following the result of the offer of capitalisation of the supplementary benefits on a voluntary basis in the second half of 2018 (as described in detail in the Financial Statements – Notes to the consolidated financial statements – Part B – Information on the balance sheet - Liabilities) the guarantee to be provided on those benefits, and the associated risk of increase, have been significantly reduced.

Model risk

Model risk is defined as the risk arising from the improper use of the results of the internal models or from errors in the development and/or implementation of the internal models.
In 2018, the Internal Validation and Controls Head Office Department further developed the framework for the identification, assessment and mitigation of this risk. In particular, in order to set a specific economic capital buffer (under baseline conditions), included in the 2018-2021 ICAAP Report, the assessment was updated for the "inherent" model risk (expressed synthetically through a score) of several Pillar 1 and Pillar 2 methodologies that contribute to the aforementioned economic capital calculation.

Emerging risks

The strengthening of the overall risk management system also involves the identification, understanding and monitoring of so-called emerging risks, i.e. risks characterised by components that are partly unknown but considered significant, even though their effects are uncertain and cannot yet be fully integrated into the more consolidated risk management frameworks. These risks could have a significant impact on the Group's financial position or business model in the medium term.
The identification of these types of risks derives primarily from the continuous analysis of the external environment and the main findings gathered by the risk management function during the identification and assessment processes, but also involves comparison with peers and with market best practices, as well as with the Bank's other control/business functions.
In this regard, Intesa Sanpaolo pays particular attention to cyber risks and risks associated with climate change.
Technological updating, the evolution of our information system and the numerous initiatives aimed at digital transformation are a fundamental part of the Group's development strategies, also in view of the evolution of the international competitive environment, which is seeing the entry of new types of competitors and deeply innovative solutions. Among the problems that have arisen with the digitisation and technological developments linked to the ever-increasing need to use and share data is cyber risk, which is particularly significant due to both the growth in the frequency and severity of attacks (against financial

institutions or other components of their value chain) and the confidentiality of company and customer data. In view of the changes in the internal and external situation, the ISP Group has decided to make cyber risk management an integral part of its management strategy, in order to support the development and implementation of cutting-edge cybersecurity solutions, providing the tools needed to identify and deal with possible threats and risk scenarios in the various company areas (processes, technologies, personnel and organisational culture). To this end, the Group is committed to developing strategic intelligence and cyber-readiness solutions, as well as creating a resilient environment, capable of promptly restoring the normal course of processes and services and mitigating operational and reputational impacts. The Group is also establishing a framework dedicated to the management of cyber risk that enables it to implement and maintain effective control of this risk over time and to protect its business, reputation, customers and employees.
The Intesa Sanpaolo Group is aware that it has a direct impact on the environment (due, for example, to its consumption of resources) and an indirect impact (through its business activities) and has long been attentive to climate change risk, i.e. all the risks associated with climate change caused by the accumulation of greenhouse gases in the atmosphere. For example, following the signing of the Paris agreement, it is likely that reducing greenhouse gases (GHG) could have concrete financial implications on the economy of certain sectors (e.g. reduction/abandonment of fossil fuels) with which the Group has business relations.
The Group is therefore interested in monitoring the effects of climate change and has decided to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), committing itself to the dissemination of transparent reporting on risks and opportunities related to this change. To this end, it has set up a cross-functional working group for the implementation of the TCFD recommendations and intends to assess the repercussions of this issue within the risk management framework, also looking at the impact on its lending activities.

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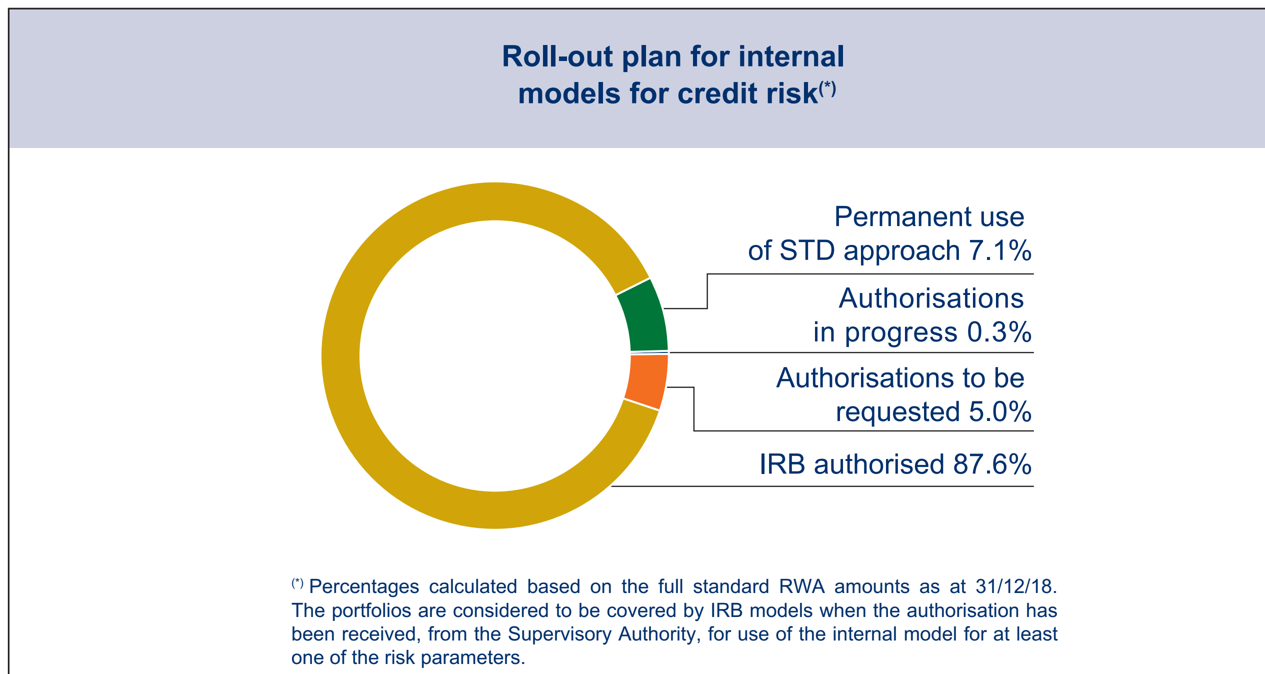
In addition to the above risks, the Intesa Sanpaolo Group is carefully assessing the risks that may arise from the United Kingdom's exit from the European Union, which are mainly linked to the regulatory and political uncertainties arising from Brexit. In order to best address these risks, the Intesa Sanpaolo Group has formulated its strategic and operational decisions, through a dedicated project, aimed at ensuring business continuity also in a Hard Brexit scenario. The Brexit plan has been defined in accordance with the external scenario and the relevant instructions from the competent Supervisory Authorities and the Regulators.
In particular, for the Corporate & Investment Banking Division, which has a presence in the United Kingdom with two branches, mitigation actions have been identified to guarantee business operations and customer coverage. In addition, particular focus has been placed on access to UK resident Central Counterparties (CCPs) for the centralised clearing of OTC derivatives.

The Basel 3 regulations

In view of compliance with the gradual reforms of the previous accord by the Basel Committee ("Basel 3"), the Intesa Sanpaolo Group undertakes adequate initiatives in order to continuously improve the measurement systems and the related risk management systems.
With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report at 31 December 2008 on the Corporate portfolio for a scope including the Parent Company, the banks in the Banca dei Territori Division and the main Italian product companies.
Subsequently, the scope of application has been gradually extended to include the SME Retail and Retail Mortgage portfolios, as well as other Italian and international Group companies.
Compared to 31 December 2017, the authorisation was received from the European Central Bank on 31 August 2018 for the use of the new internal rating model for the Retail segment consisting of Residential Mortgages (model change) and Other Retail (first adoption), with the extension of the model to the portfolio acquired from the former Banca Nuova. In addition, the use of the new Retail model has been extended to the former Banca Nuova portfolio and the Retail SME model has been extended to the portfolios acquired from the former Banca Popolare di Vicenza, Veneto Banca and Banca Nuova.
With regard to the progress of the roll-out plan for the internal models for credit risk, the share of exposures authorised for the IRB system is 87.6% of the portfolio. The pending authorisations, concerning the extension of the internal models to Banca Apulia, represent 0.3% of the portfolio, while requests to be made for the remaining portfolios of the Group's Italian and international banks represent 5% of the portfolio. For the remainder, equal to 7.1%, the permanent use of the Standardised approach has been authorised.



(*) Percentages calculated based on the full standard RWA amounts as at 31/12/18. The portfolios are considered to be covered by IRB models when the authorisation has been received, from the Supervisory Authority, for use of the internal model for at least one of the risk parameters.

For the construction of the above chart, in line with the instructions received periodically from the Supervisory Authorities, the total RWA of the exposures subject to credit risk has been calculated using the full standardised approach and therefore with the application of the standardised approach to all the regulatory portfolios, regardless of whether or not they have received authorisation to apply the IRB approaches.

With regard to counterparty risk, the Banking Group improved the measurement and monitoring of the risk, by refining the instruments required under Basel 3.
For reporting purposes, the Parent Company, the Banks of the Banca dei Territori Division and Banca IMI are authorised to use the internal models approach for the reporting of the requirement with respect to counterparty risk both for OTC derivatives and for SFTs (Securities Financing Transactions, i.e. repos and securities lending).
This authorisation was obtained for derivatives from the first quarter of 2014, and for SFTs from the report as at 31 December 2016.
The banks of the Banca dei Territori Division received the same authorisation for derivatives from the report as at 31 December 2016.
For management purposes, the advanced risk measurement approaches have been implemented for the OTC derivatives of the Parent Company and Banca IMI since 2010 and were subsequently extended in 2015 to the Banca dei Territori Division and to Securities Financing Transactions.
With regard to Operational Risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009.
The annual Internal Capital Adequacy Assessment Process 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 2018.

Section 2 - Scope of application

Qualitative disclosure

Name of the bank to which the disclosure requirement applies

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

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

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

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

The table below provides the list of companies fully consolidated or consolidated with the equity method in the financial statements, with details of the "prudential" treatment. The investments in associates and companies that appear in the "Neither consolidated nor deducted" column are weighted to determine the total risk-weighted assets. In addition, the investments in associates and companies that appear in the "Deducted" column are partly deducted from regulatory capital and partly weighted, in accordance with the provisions of Articles 36, 46 and 48 of the CRR.

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2018 *(Table 1 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportionate consolidation			
INTESA SANPAOLO S.P.A.	Full consolidation	x				BANK
ARGENTEA GESTIONI S.C.P.A.	Full consolidation			x		PRODUCTION COMPANIES
AUTOSTRADE LOMBARDE S.P.A.	Full consolidation			x		PRIVATE OPERATING HOLDING
BANCA 5 S.P.A.	Full consolidation	x				BANK
BANCA APULIA SPA	Full consolidation	x				BANK
BANCA COMERCIALA EXIMBANK S.A.	Full consolidation	x				BANK
BANCA CR FIRENZE SPA	Full consolidation	x				BANK
BANCA IMI SECURITIES CORP	Full consolidation	x				FINANCIAL COMPANY
BANCA IMI SPA	Full consolidation	x				BANK
BANCA INTESA AD BEOGRAD	Full consolidation	x				BANK
BANCA INTESA JOINT-STOCK COMPANY	Full consolidation	x				BANK
BANCA PROSSIMA SPA	Full consolidation	x				BANK
BANK OF ALEXANDRIA	Full consolidation	x				BANK
BANKA INTESA SANPAOLO D.D.	Full consolidation	x				BANK
BANQUE MORVAL SA	Full consolidation	x				BANK
CASSA DI RISPARMIO DI PISTOIA E DELLA LUCCHESIA SPA	Full consolidation	x				BANK
CASSA DI RISPARMIO IN BOLOGNA SPA	Full consolidation	x				BANK
CIB BANK LTD	Full consolidation	x				BANK
CIB FACTOR FINANCIAL SERVICES LTD. UNDER VOLUNTARY LIQUIDATION	Full consolidation	x				FINANCIAL COMPANY
CIB INSURANCE BROKER LTD	Full consolidation			x		EU NO EMU NON-FIN. COMP.
CIB INVESTMENT FUND MANAGEMENT LTD.	Full consolidation	x				FINANCIAL COMPANY
CIB LEASING LTD.	Full consolidation	x				FINANCIAL COMPANY
CIB RENT OPERATIVE LEASING LTD.	Full consolidation	x				FINANCIAL COMPANY
COMPAGNIA ITALIANA FINANZIARIA SRL – IN SHORT CIF	Full consolidation			x		PRIVATE OPERATING HOLDING
CONSUMER FINANCE HOLDING CESKA REPUBLIKA, A.S.	Full consolidation	x				FINANCIAL COMPANY
DUOMO FUNDING PLC	Full consolidation			x		OTHER EU EMU FIN. INTERMEDIARIES
EPSILON SGR S.P.A.	Full consolidation	x				FINANCIAL COMPANY
ETOILE ACTUALIS S.A.R.L.	Full consolidation			x		EU EMU NON FIN. COMPANIES
ETOILE FRANCOIS 1ER SARL	Full consolidation			x		EU EMU NON FIN. COMPANIES
ETOILE SAINT FLORENTIN S.A.R.L.	Full consolidation			x		EU EMU NON FIN. COMPANIES
EURIZON CAPITAL SA	Full consolidation	x				FINANCIAL COMPANY
EURIZON CAPITAL SGR SPA	Full consolidation	x				FINANCIAL COMPANY
EURIZON SLJ CAPITAL LIMITED	Full consolidation	x				FINANCIAL COMPANY
FIDEURAM - INTESA SANPAOLO PRIVATE BANKING SPA	Full consolidation	x				BANK
FIDEURAM ASSET MANAGEMENT (IRELAND) DAC	Full consolidation	x				FINANCIAL COMPANY
FIDEURAM BANK (LUXEMBOURG) SA	Full consolidation	x				BANK
FIDEURAM INVESTIMENTI - SOCIETA' DI GESTIONE DEL RISPARMIO SPA	Full consolidation	x				FINANCIAL COMPANY
FIDEURAM VITA SPA	Full consolidation				x	INSURANCE
FINANCIERE FIDEURAM SA	Full consolidation	x				FINANCIAL COMPANY
IMI CAPITAL MARKET USA CORP	Full consolidation	x				FINANCIAL COMPANY
IMI FINANCE LUXEMBOURG SA	Full consolidation	x				FINANCIAL COMPANY
IMI INVESTMENTS SA	Full consolidation	x				FINANCIAL COMPANY
IMMOBILIARE CASCINA RUBINA S.R.L	Full consolidation			x		PRODUCTION COMPANIES
IN.FRA - INVESTIRE NELLE INFRASTRUTTURE S.R.L.	Full consolidation			x		PRIVATE OPERATING HOLDING
INIZIATIVE LOGISTICHE S.r.l.	Full consolidation			x		PRIVATE OPERATING HOLDING

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2018 *(Table 2 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportional consolidation			
INTESA LEASING (CLOSED JOINT STOCK COMPANY)	Full consolidation	x				FINANCIAL COMPANY
INTESA LEASING D.O.O. BEOGRAD	Full consolidation	x				FINANCIAL COMPANY
INTESA SANPAOLO ASSICURA SPA	Full consolidation			x		INSURANCE
INTESA SANPAOLO BANK ALBANIA SH.A.	Full consolidation	x				BANK
INTESA SANPAOLO BANK IRELAND PLC	Full consolidation	x				BANK
INTESA SANPAOLO BANK LUXEMBOURG SA	Full consolidation	x				BANK
INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Full consolidation	x				BANK
INTESA SANPAOLO BRASIL S.A. - BANCO MULTIPLO	Full consolidation	x				BANK
INTESA SANPAOLO FUNDING LLC	Full consolidation	x				FINANCIAL COMPANY
INTESA SANPAOLO GROUP SERVICES SOCIETA' CONSORTILE PER AZIONI	Full consolidation	x				INSTRUMENTAL
INTESA SANPAOLO HARBOURMASTER III S.A.	Full consolidation	x				INSTRUMENTAL
INTESA SANPAOLO HOLDING INTERNATIONAL SA	Full consolidation	x				FINANCIAL COMPANY
INTESA SANPAOLO IMMOBILIERE S.A.	Full consolidation	x				INSTRUMENTAL
INTESA SANPAOLO INNOVATION CENTER SOCIETA' CONSORTILE PER AZIONI	Full consolidation	x				INSTRUMENTAL
INTESA SANPAOLO LIFE DAC	Full consolidation			x		INSURANCE
INTESA SANPAOLO PRIVATE BANK (SUISSE) SA	Full consolidation	x				BANK
INTESA SANPAOLO PRIVATE BANKING SPA	Full consolidation	x				BANK
INTESA SANPAOLO PROVIS S.P.A.	Full consolidation	x				FINANCIAL COMPANY
INTESA SANPAOLO RE.O.CO. S.P.A.	Full consolidation	x				INSTRUMENTAL
INTESA SANPAOLO REAL ESTATE S.A.	Full consolidation	x				INSTRUMENTAL
INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Full consolidation	x				BANK
INTESA SANPAOLO SEC SA	Full consolidation	x				FINANCIAL COMPANY
INTESA SANPAOLO SERVITIA S.A.	Full consolidation	x				INSTRUMENTAL
INTESA SANPAOLO SMART CARE S.R.L.	Full consolidation			x		PRODUCTION COMPANIES
INTESA SANPAOLO VITA SPA	Full consolidation				x	INSURANCE
INTESA SEC. 3 S.R.L.	Full consolidation	x				FINANCIAL COMPANY
ISP CB IPOTECARIO S.R.L.	Full consolidation	x				FINANCIAL COMPANY
ISP CB PUBBLICO S.R.L.	Full consolidation	x				FINANCIAL COMPANY
ISP OBG S.R.L.	Full consolidation	x				FINANCIAL COMPANY
LUX GEST ASSET MANAGEMENT S.A.	Full consolidation	x				FINANCIAL COMPANY
MEDIOCREDITO ITALIANO S.P.A.	Full consolidation	x				BANK
MILANO SANTA GIULIA S.P.A.	Full consolidation			x		PRODUCTION COMPANIES
MORVAL BANK & TRUST CAYMAN LTD	Full consolidation	x				BANK
MORVAL GESTION SAM MONACO	Full consolidation	x				FINANCIAL COMPANY
MORVAL SOCIETA' DI INTERMEDIAZIONE MOBILIARE S.P.A.	Full consolidation	x				FINANCIAL COMPANY
MORVAL VONWILLER ADVISOR	Full consolidation	x				FINANCIAL COMPANY
MORVAL VONWILLER ASSET MANAGEMENT CO. LTD IN LIQUIDATION	Full consolidation	x				FINANCIAL COMPANY
MORVAL VONWILLER HOLDING S.A.	Full consolidation	x				FINANCIAL COMPANY
MSG COMPARTO QUARTO SRL	Full consolidation			x		PRODUCTION COMPANIES
MSG COMPARTO SECONDO S.R.L.	Full consolidation			x		PRODUCTION COMPANIES
MSG COMPARTO TERZO SRL	Full consolidation			x		PRODUCTION COMPANIES
MSG RESIDENZE SRL	Full consolidation			x		PRODUCTION COMPANIES
NEVA FINVENTURES S.P.A.	Full consolidation	x				FINANCIAL COMPANY
PBZ CARD D.O.O.	Full consolidation	x				FINANCIAL COMPANY
PBZ INVEST D.O.O.	Full consolidation	x				FINANCIAL COMPANY
PBZ LEASING D.O.O.	Full consolidation	x				FINANCIAL COMPANY
PBZ NEKRETNINE D.O.O.	Full consolidation	x				INSTRUMENTAL
PBZ STAMBENA STEDIONICA DD	Full consolidation	x				BANK
PRAVEX BANK JOINT-STOCK COMPANY	Full consolidation	x				BANK
PRIVATE EQUITY INTERNATIONAL S.A.	Full consolidation	x				FINANCIAL COMPANY
PRIVREDNA BANKA ZAGREB DD	Full consolidation	x				BANK

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2018

(Table 3 of 5)

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportional consolidation			
QINGDAO YICAI WEALTH MANAGEMENT CO. LTD.	Full consolidation	x				FINANCIAL COMPANY
RECOVERY PROPERTY UTILISATION AND SERVICECS ZRT.	Full consolidation			x		EU NO EMU NON-FIN. COMP.
RI. RENTAL S.R.L.	Full consolidation			x		PRODUCTION COMPANIES
RISANAMENTO EUROPA S.R.L.	Full consolidation			x		PRIVATE OPERATING HOLDING
RISANAMENTO SPA	Full consolidation			x		PRODUCTION COMPANIES
ROMULUS FUNDING CORP.	Full consolidation			x		OTHER NON-EU FIN. COMPANIES
SANPAOLO INVEST SOCIETA' D'INTERMEDIAZIONE MOBILIARE S.P.A.	Full consolidation	x				FINANCIAL COMPANY
SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO SPA	Full consolidation			x		PRODUCTION COMPANIES
SOCIETA' ITALIANA DI REVISIONE E FIDUCIARIA S.I.RE.F. S.p.A.	Full consolidation	x				FINANCIAL COMPANY
SVILUPPO COMPARTO 3 SRL	Full consolidation			x		PRODUCTION COMPANIES
TRADE RECEIVABLES INVESTMENT VEHICLE SARL	Full consolidation			x		EU EMU VEHICLE COMPANY
VSEOBECNA UVEROVA BANKA A.S.	Full consolidation	x				BANK
VUB ASSET MANAGEMENT, SPRAV. SPOL., A.S.	Full consolidation	x				FINANCIAL COMPANY
VUB LEASING A.S.	Full consolidation	x				FINANCIAL COMPANY
ADRIANO LEASE SEC S.R.L.	Equity method				x	FINANCIAL COMPANY
AM INVESTCO ITALY SPA	Equity method			x		PRODUCTION COMPANIES
APULIA FINANCE N. 2 S.R.L. IN LIQUIDATION	Equity method				x	FINANCIAL COMPANY
APULIA FINANCE N. 4 S.R.L.	Equity method				x	FINANCIAL COMPANY
APULIA MORTGAGES FINANCE N. 3 S.R.L. IN LIQUIDATION	Equity method				x	FINANCIAL COMPANY
ASSOCIAZIONE STUDI E RICERCHE MEZZOGIORNO	Equity method			x		SOC. SEC./CHAR./TRAD. UN./POLIT. INST./ENTITIES
AUGUSTO SRL	Equity method				x	FINANCIAL COMPANY
AUTOSTRADA PEDEMONTANA LOMBARDA SPA	Equity method			x		COMP. UNDER LOCAL ADMIN. CONTROL
AUTOSTRADE BERGAMASCHE SPA	Equity method			x		PRODUCTION COMPANIES
BANCOMAT SPA	Equity method			x		INSTRUMENTAL
BERICA 10 RESIDENTIAL MBS S.R.L.	Equity method				x	FINANCIAL COMPANY
BERICA 5 RESIDENTIAL MBS S.R.L. IN LIQUIDATION	Equity method				x	FINANCIAL COMPANY
BERICA 6 RESIDENTIAL MBS S.R.L. IN LIQUIDATION	Equity method				x	FINANCIAL COMPANY
BERICA 8 RESIDENTIAL MBS S.R.L. IN LIQUIDATION	Equity method				x	FINANCIAL COMPANY
BERICA 9 RESIDENTIAL MBS SRL IN LIQUIDATION	Equity method				x	FINANCIAL COMPANY
BERICA ABS 2 S.R.L.	Equity method				x	FINANCIAL COMPANY
BERICA ABS 3 S.R.L.	Equity method				x	FINANCIAL COMPANY
BERICA ABS SRL IN LIQUIDATION	Equity method				x	FINANCIAL COMPANY
BERICA RESIDENTIAL MBS 1 S.R.L. IN LIQUIDATION	Equity method				x	FINANCIAL COMPANY
BRERA SEC S.R.L.	Equity method				x	FINANCIAL COMPANY
CAF S.P.A.	Equity method			x		PRODUCTION COMPANIES
CASSA DI RISPARMIO DI FERMO SPA	Equity method				x	BANK
CLARIS FINANCE 2005 S.R.L.	Equity method				x	FINANCIAL COMPANY
COLOMBO SRL	Equity method				x	FINANCIAL COMPANY
COMPAGNIA AEREA ITALIANA SPA	Equity method			x		PRODUCTION COMPANIES
CONSORZIO BANCARIO SIR S.P.A. (IN LIQUIDATION)	Equity method			x		PRIVATE OPERATING HOLDING
CONSORZIO STUDI E RICERCHE FISCALI GRUPPO INTESA SANPAOLO	Equity method			x		INSTRUMENTAL
CR FIRENZE MUTUI SRL	Equity method				x	FINANCIAL COMPANY
DESTINATION ITALIA S.P.A.	Equity method			x		PRODUCTION COMPANIES
DIOCLEZIANO SRL	Equity method				x	FINANCIAL COMPANY

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2018 *(Table 4 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportional consolidation			
DJ INVERSIONES S.A.	Equity method			x		OTHER NON-EU FIN. COMPANIES
EMISYS CAPITAL S.G.R. SPA	Equity method				x	FINANCIAL COMPANY
EQUITER SPA	Equity method				x	FINANCIAL COMPANY
EURIZON CAPITAL (HK) LIMITED	Equity method				x	FINANCIAL COMPANY
EUROMILANO SPA	Equity method			x		PRODUCTION COMPANIES
EUROPROGETTI & FINANZA S.R.L. IN LIQUIDATION	Equity method				x	FINANCIAL COMPANY
EUROTLX SOCIETA' DI INTERMEDIAZIONE MOBILIARE SPA	Equity method				x	FINANCIAL COMPANY
EUSEBI HOLDINGS B.V.	Equity method			x		EU EMU NON FIN. COMPANIES
EXELIA SRL	Equity method			x		INSTRUMENTAL
EXPERIENTIA GLOBAL S.A.	Equity method			x		NON-EU NON FIN. COMPANIES
FIDUCIARIA GENERALE E DI REVISIONI CONTABILI FI.GE.	Equity method				x	FINANCIAL COMPANY
FOCUS INVESTMENTS SPA	Equity method			x		PRODUCTION COMPANIES
FONDO DI RIGENERAZIONE URBANA SICILIA S.R.L.	Equity method			x		PRIVATE OPERATING HOLDING
FONDO PER LA RICERCA E L'INNOVAZIONE S.r.l. - RIF	Equity method			x		OTHER ACCESSORY FINANCIAL COMP.
FONDO SARDEGNA ENERGIA S.R.L.	Equity method			x		PRIVATE OPERATING HOLDING
GEXTRA SRL	Equity method			x		PRODUCTION COMPANIES
IDEAMI S.p.A.	Equity method			x		OTHER FINANCIAL COMP.
IMI FONDI CHIUSI SGR S.P.A.	Equity method				x	FINANCIAL COMPANY
IMMIT - IMMOBILI ITALIANI SRL	Equity method			x		PRODUCTION COMPANIES
IMMOBILIARE NOVOLI S.P.A.	Equity method			x		PRODUCTION COMPANIES
IMPRESOL S.R.L. IN LIQUIDATION	Equity method			x		PRODUCTION COMPANIES
INDACO VENTURE PARTNERS SGR SPA	Equity method				x	FINANCIAL COMPANY
INIZIATIVE IMMOBILIARI INDUSTRIALI S.P.A. - IN LIQUIDATION	Equity method			x		COMP. UNDER LOCAL ADMIN. CONTROL
INTESA INVEST AD BEOGRAD	Equity method				x	FINANCIAL COMPANY
INTESA SANPAOLO AGENTS4YOU S.P.A.	Equity method				x	FINANCIAL COMPANY
INTESA SANPAOLO CASA S.P.A	Equity method			x		PRODUCTION COMPANIES
INTESA SANPAOLO EXPO INSTITUTIONAL CONTACT S.R.L.	Equity method			x		PRODUCTION COMPANIES
INTESA SANPAOLO FORMAZIONE SOCIETA' CONSORTILE PER AZIONI	Equity method			x		PRODUCTION COMPANIES
INTESA SANPAOLO FORVALUE S.P.A	Equity method			x		PRODUCTION COMPANIES
INTESA SANPAOLO HIGHLINE SRL	Equity method			x		PRODUCTION COMPANIES
INTESA SANPAOLO HOUSE IMMO S.A.	Equity method			x		INSTRUMENTAL
INTESA SANPAOLO SERVICOS E EMPRENDIMENTOS LTDA EM LIQUIDACAO	Equity method				x	FINANCIAL COMPANY
INTESA SEC. NPL S.P.A.	Equity method				x	FINANCIAL COMPANY
INTESA SEC. SRL	Equity method				x	FINANCIAL COMPANY
INTOWN SRL	Equity method			x		PRODUCTION COMPANIES
INTRUM ITALY S.P.A.	Equity method			x		PRODUCTION COMPANIES
ISM INVESTIMENTI SPA	Equity method			x		NON-FIN- GROUPS HOLDING
ITALCONSULT SPA	Equity method			x		PRODUCTION COMPANIES
LEONARDO TECHNOLOGY S.R.L.	Equity method			x		PRIVATE OPERATING HOLDING
MANDARIN CAPITAL MANAGEMENT S.A.	Equity method				x	FINANCIAL COMPANY
MARKETWALL SRL	Equity method			x		PRODUCTION COMPANIES
MIR CAPITAL MANAGEMENT SA	Equity method				x	FINANCIAL COMPANY
MIR CAPITAL S.C.A. SICAR	Equity method			x		OTHER EU EMU FIN. INTERMEDIARIES

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity) as at 31 December 2018 *(Table 5 of 5)*

NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	METHOD OF REGULATORY CONSOLIDATION		NEITHER CONSOLIDATED NOR DEDUCTED	DEDUCTED	DESCRIPTION OF THE ENTITY
		Full consolidation	Proportional consolidation			
MISR INTERNATIONAL TOWERS CO.	Equity method			x		NON-EU NON FIN. COMPANIES
NETWORK IMPRESA S.P.A UNDER ARRANGEMENT WITH CREDITORS	Equity method			x		PRODUCTION COMPANIES
OOO INTESA REALTY RUSSIA	Equity method			x		NON-EU NON FIN. COMPANIES
PBZ CROATIA OSIGURANJE PUBLIC LIMITED COMPANY COMPULSORY PENSION	Equity method		x			FINANCIAL COMPANY
PENGHUA FUND MANAGEMENT CO. LTD	Equity method				x	FINANCIAL COMPANY
PIETRA S.R.L.	Equity method			x		PRIVATE OPERATING HOLDING
PORTOCITTA' SRL	Equity method			x		PRODUCTION COMPANIES
RAINBOW	Equity method			x		REAL ESTATE
RCN FINANZIARIA S.p.A.	Equity method			x		NON-FIN- GROUPS HOLDING
SICILY INVESTMENTS S.A.R.L.	Equity method			x		EU EMU NON FIN. COMPANIES
SLOVAK BANKING CREDIT BUREAU, S.R.O.	Equity method			x		EU EMU NON FIN. COMPANIES
SOLAR EXPRESS S.R.L.	Equity method			x		PRODUCTION COMPANIES
SVILUPPO INDUSTRIALE S.P.A. IN LIQUIDATION AND UNDER ARRANGEMENT WITH CREDITORS	Equity method				x	FINANCIAL COMPANY
THEMYS INVESTIMENTI S.P.A.	Equity method			x		FINANCIAL OPERATING HOLDING
TRINACRIA CAPITAL S.A.R.L.	Equity method			x		EU EMU NON FIN. COMPANIES
VUB GENERALI DOCHODKOVA SPRAVCOVSKA SPOLOCNOST, A.S.	Equity method		x			FINANCIAL COMPANY

The table below (LI1) contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet as at 31 December 2018, as well as the allocation of the entries among the regulatory risk categories. The second table below (EU LI2) presents the reconciliation between the total amount based on the regulatory scope of consolidation (book values) and the exposure value subject to capital requirements, for each type of risk.

EU LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories as at 31 December 2018 *(Table 1 of 2)*

(millions of euro)

		Carrying values as reported in published financial statements	Carrying values under the scope of regulatory consolidation	CARRYING VALUES OF ITEMS						
				Subject to credit risk framework	Subject to counterparty risk framework	*of which: Subject to the CRR framework SFT*	*of which: Subject to the CRR framework Derivatives*	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	Assets									
10.	Cash and cash equivalents	10,350	10,347	10,347	-	-	-	-	-	-
20.	Financial assets measured at fair value through profit or loss	42,115	42,670	2,754	26,061	-	26,061	799	38,941	176
	a) financial assets held for trading	38,806	38,970	-	26,061	-	26,061	-	38,941	29
	b) financial assets designated at fair value	208	208	208	-	-	-	-	-	-
	c) other financial assets mandatorily measured at fair value	3,101	3,492	2,546	-	-	-	799	-	147
30.	Financial assets measured at fair value through other comprehensive income	60,469	60,452	59,698	-	-	-	753	-	1
35.	Financial assets pertaining to insurance companies, measured at fair value pursuant to IAS 39	149,546	-	-	-	-	-	-	-	-
40.	Financial assets measured at amortised cost	476,503	479,645	422,290	44,193	44,193	-	12,375	-	838
	a) due from banks	69,307	69,191	58,639	10,552	10,552	-	-	-	-
	b) loans to customers	407,196	410,454	363,651	33,641	33,641	-	12,375	-	838
45.	Financial assets pertaining to insurance companies measured at amortised cost pursuant to IAS 39	952	-	-	-	-	-	-	-	-
50.	Hedging derivatives	2,993	2,993	-	2,993	-	2,993	-	-	-
60.	Fair value change of financial assets in hedged portfolios (+/-)	124	124	124	-	-	-	-	-	-
70.	Investments in associates and companies subject to joint control	943	6,286	4,189	-	-	-	-	-	2,097
80.	Technical insurance reserves reassured with third parties	20	-	-	-	-	-	-	-	-
90.	Property and equipment	7,372	6,599	6,599	-	-	-	-	-	-
100.	Intangible assets	9,077	7,334	-	-	-	-	-	-	7,334
	of which:	-	-	-	-	-	-	-	-	-
	- goodwill	4,163	3,561	-	-	-	-	-	-	3,561
110.	Tax assets	17,253	16,622	14,527	-	-	-	-	-	2,095
	a) current	3,320	3,273	3,273	-	-	-	-	-	-
	b) deferred	13,933	13,349	11,254	-	-	-	-	-	2,095
120.	Non-current assets held for sale and discontinued operations	1,297	1,019	1,019	-	-	-	-	-	-
130.	Other assets	8,707	4,976	4,976	-	-	-	-	-	-
Total Assets		**787,721**	**639,067**	**526,523**	**73,247**	**44,193**	**29,054**	**13,927**	**38,941**	**12,541**

EU LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories as at 31 December 2018 *(Table 2 of 2)*

(millions of euro)

		Carrying values as reported in published financial statements	Carrying values under the scope of regulatory consolidation	CARRYING VALUES OF ITEMS						
				Subject to credit risk framework	Subject to counterparty risk framework	*of which: Subject to the CRR framework SFT*	*of which: Subject to the CRR framework Derivatives*	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	Liabilities and Shareholders' Equity									
10.	Financial liabilities measured at amortised cost	513,775	517,948	-	50,039	50,039	-	-	-	467,909
	a) due to banks	107,815	106,463	-	25,934	25,934	-	-	-	80,529
	b) due to customers	323,900	327,097	-	24,105	24,105	-	-	-	302,992
	c) securities issued	82,060	84,388	-	-	-	-	-	-	84,388
15.	Financial liabilities pertaining to insurance companies measured at amortised cost pursuant to IAS 39	810	-	-	-	-	-	-	-	-
20.	Financial liabilities held for trading	41,895	42,051	-	31,007	-	31,007	-	42,051	-
30.	Financial liabilities designated at fair value	4	4	-	-	-	-	-	-	4
35.	Financial liabilities pertaining to insurance companies measured at fair value pursuant to IAS 39	67,800	-	-	-	-	-	-	-	-
40.	Hedging derivatives	7,221	6,890	-	6,890	-	6,890	-	-	-
50.	Fair value change of financial liabilities in hedged portfolios (+/-)	398	398	-	-	-	-	-	-	398
60.	Tax liabilities	2,433	1,837	-	-	-	-	-	-	1,837
	a) current	163	128	-	-	-	-	-	-	128
	b) deferred	2,270	1,709	-	-	-	-	-	-	1,709
70.	Liabilities associated with non-current assets held for sale and discontinued operations	258	-	-	-	-	-	-	-	-
80.	Other liabilities	11,645	9,633	-	-	-	-	-	-	9,633
90.	Employee termination indemnities	1,190	1,181	-	-	-	-	-	-	1,181
100.	Allowances for risks and charges	5,064	4,872	-	-	-	-	-	-	4,872
	a) commitments and guarantees given	510	447	-	-	-	-	-	-	447
	b) post-employment benefits	261	260	-	-	-	-	-	-	260
	c) other allowances for risks and charges	4,293	4,165	-	-	-	-	-	-	4,165
110.	Technical reserves	80,797	-	-	-	-	-	-	-	-
120.	Valuation reserves	-913	-913	-	-	-	-	-	-	-913
125.	Valuation reserves pertaining to insurance companies	9	9	-	-	-	-	-	-	9
130.	Redeemable shares	-	-	-	-	-	-	-	-	-
140.	Equity instruments	4,103	4,103	-	-	-	-	-	-	4,103
150.	Reserves	13,006	13,006	-	-	-	-	-	-	13,006
160.	Share premium reserve	24,768	24,768	-	-	-	-	-	-	24,768
170.	Share capital	9,085	9,085	-	-	-	-	-	-	9,085
180.	Treasury shares (-)	-84	-84	-	-	-	-	-	-	-84
190.	Minority interests (+/-)	407	229	-	-	-	-	-	-	229
200.	Net income (loss) (+/-)	4,050	4,050	-	-	-	-	-	-	4,050
Total liabilities and shareholders' equity		**787,721**	**639,067**	**-**	**87,936**	**50,039**	**37,897**	**-**	**42,051**	**540,087**

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

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements as at 31 December 2018

(millions of euro)

	Subject to credit risk framework	Subject to counterparty risk (*)	*of which: Subject to the CRR framework (SFT)*	*of which: Subject to the CRR framework (Derivatives)*	Subject to the securitization framework	Subject to the market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	**526,523**	**73,247**	***44,193***	***29,054***	**13,927**	**38,941**
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	**-**	**87,936**	***50,039***	***37,897***	**-**	**42,051**
Total net amount under the regulatory scope of consolidation	**526,523**	**123,286**	***94,232***	***29,054***	**13,927**	**80,992**
Off-balance-sheet amounts (post CCF)	45,088	394	*394*	-	3,094	-
Differences due to the treatment of adjustments (exposures subject to IRB approaches - on-balance sheet only)	19,385	-	-	-	-	-
Differences due to the treatment of positions subject to advanced EPE approaches (incl. effect of collateral and netting)	-	-112,519	*-84,213*	*-28,306*	-	-
Effect of collateral (exposures subject to the Standardised Approach)	-5,487	-1,090	*-870*	*-220*	-	-
Reclassification of initial margins and variation margins included in counterparty risk (EPE approach)	-16,827	16,827	-	*16,827*	-	-
Other	-7,212	-	-	-	-844	-
EXPOSURE AMOUNTS CONSIDERED FOR REGULATORY PURPOSES	**561,470**	**26,898**	***9,543***	***17,355***	**16,177**	**-**

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

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

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

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

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

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

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

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

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

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

The exposures relating to positions not covered by the internal model (EPE) are determined using standardised approaches (Mark-to-Market approach for Derivatives and Comprehensive Approach for SFTs); however, these positions are residual with respect to the total exposures subject to counterparty risk.

Section 3 - Own Funds

Qualitative disclosure

Introduction

The harmonised rules for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation No. 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) into European Union laws, became applicable from 1 January 2014.

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

The harmonised reporting requirements contained in Circulars 286 and 154 will now be gradually repealed by those established by Commission Implementing Regulation (EU) No. 680/2014 and by its subsequent amendments and additions, which includes implementing technical standards regarding the supervisory reporting of institutions for supervisory purposes in compliance with the provisions of the CRR.
This regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:
- Tier 1 capital, in turn composed of:
  - Common Equity Tier 1 Capital (CET1);
  - Additional Tier 1 Capital (AT1);
- Tier 2 capital (T2).

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

At present, with reference to the Intesa Sanpaolo Group, no equity instrument other than ordinary shares is eligible for inclusion in Common Equity.

A number of prudential filters are also envisaged with effects on Common Equity:
- filter on profits associated with future margins deriving from securitisations;
- filter on cash flow hedge (CFH) reserves;
- filter on profits or losses on liabilities designated at fair value (derivatives or otherwise) associated with changes in own credit risk (DVA);
- adjustments to fair value assets associated with the "prudent valuation".

The regulation also envisages a series of elements to be deducted from Common Equity Tier 1:
- losses for the current year;
- goodwill, intangible assets and residual intangible assets;
- deferred tax assets (DTA) associated with future income not deriving from temporary differences (e.g. DTA on losses carried forward);
- expected losses exceeding total credit risk adjustments (the shortfall reserve) for exposures weighted according to IRB approaches;
- net assets deriving from defined benefit plans;
- direct, indirect or synthetic holdings of the entity in Common Equity Tier 1 Capital instruments;
- exposures for which it is decided to opt for deduction rather than a 1.250% weighting among RWA;
- non-significant investments in CET instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations);
- deferred tax assets (DTA) that rely on future profitability and arise from temporary differences (deducted for the amount exceeding the thresholds envisaged in the regulation);
- significant investments in CET1 instruments issued by companies operating in the financial sector (deducted for the amount exceeding the thresholds envisaged in the regulation).

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

Tier 2 capital is mainly composed of items such as eligible subordinated liabilities and any excess of credit risk adjustments over and above expected losses (the excess reserve) for exposures weighted according to IRB approaches, once the deductions of items and exemptions provided for in Regulation (EU) 575/2013 (CRR) have been applied.

With regard to the transitional period for the introduction of the “Basel 3” regulatory framework, which moreover expired on 31 December 2017 and provided for the partial inclusion within or deduction from Own Funds of certain items to enable a gradual impact of the new regulatory requirements, in accordance with the provisions of Directive 2013/36/EU (CRD IV) and the CRR, the exemption period established by Regulation (EU) 575/2013 (CRR), regarding the amendments to be applied to IAS 19, also expired at the end of 2018.
Specific transitional rules (i.e. Grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period that will end in 2021).
The transitional period (2018-2022), aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. The Intesa Sanpaolo Group has exercised the option provided in EU Regulation 2395/2017 of adopting the “static” approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 solely for the FTA component of the impairment.
In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any shortfall reserve – is re-included in the capital according to phase-in percentages of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, and 25% in 2022. During the transitional period, the Group may also elect to change this approach once only, subject to authorisation from the Supervisory Authority, moving from the “static” approach to the “dynamic” approach or suspending the application of the transitional treatment in favour of the fully loaded regime. During 2018, two EBA Q&As were published (2018_3784, 2018_4113) which specified that, during the transitional period, any Deferred Tax Assets (DTAs) connected to IFRS 9 FTA-related adjustments should not be considered as deductions from CET 1 as envisaged by the CRR.
Considering that the approval of Law 145 of 30 December 2018 (2019 Budget Act) led to the recognition of DTAs linked to the deferred deductibility, over 10 financial years starting from 2018, of the value adjustments recognised in shareholders’ equity because they are related to the first-time adoption of IFRS 9, as envisaged by the aforementioned Regulation and the subsequent EBA Q&As, those DTAs have been neutralised for the purposes of CET 1 Capital during the transitional period established for the IFRS 9 impact (which extends until 2022) limited to the complementary portion of the phase-in percentages detailed above.

For information on Group and Third-Party Consolidated Shareholders’ Equity reference is made to paragraph B1 of Part F of the Notes to the 2018 consolidated financial statements.

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

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

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

As at 31 December 2018, there were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements.

Quantitative disclosure

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 31 December 2018 is summarised in the table below.

(millions of euro)

	31.12.2018	31.12.2017
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**46,466**	**48,219**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**376**	**756**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**46,842**	**48,975**
D. Items to be deducted from CET 1	**-13,870**	**-12,204**
E. Transitional period - Impact on CET1 (+/-)	**4,269**	**1,280**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**37,241**	**38,051**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**4,856**	**5,640**
of which AT1 instruments subject to transitional adjustments	731	1,025
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-)	**-**	**-226**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**4,856**	**5,414**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**8,419**	**8,776**
of which T2 instruments subject to transitional adjustments	12	541
N. Items to be deducted from T2	**-788**	**-821**
O. Transitional period - Impact on T2 (+ / -)	**-850**	**-47**
P. Total Tier 2 (T2) (M - N +/- O)	**6,781**	**7,908**
Q. Total own funds (F + L + P)	**48,878**	**51,373**

The tables below provide a detailed summary of the various capital levels before regulatory adjustments and transitional regime adjustments, together with the reconciliation between Common Equity Tier 1 and net book value. With regard to transitional regime adjustments, please note that for the eligibility of:

- grandfathered instruments;
- IAS 19 filter on valuation reserves for actuarial gains or losses on defined benefit plans;
- IFRS 9 FTA filter (pursuant to Article 473 bis amending Regulation (EU) 575/2013);
- other minor captions;

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

In particular, consolidated own funds benefited from the regulation which permits the gradual recognition in the regulatory capital of the effects deriving from application of IAS 19 from 1 January 2013 and which expires on 31 December 2018. The amount of the "prudential filter" under the actuarial profits (losses) reserve on the defined benefit pension plans, negative for about 374 million euro, equals around 58 million euro.

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

The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments are reported in Attachment 1 to this disclosure. Attachment 2, on the other hand, reports the General Own Funds Disclosure Template envisaged in Implementing Regulation (EU) 1423/2013.

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	31.12.2018	31.12.2017
Group Shareholders' equity	54,024	56,205
Minority interests	407	399
Shareholders' equity as per the Balance Sheet	**54,431**	**56,604**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Capital of savings shares eligible for inclusion in AT1	-	-485
- Other equity instruments eligible for inclusion in AT1	-4,121	-4,121
- Minority interests eligible for inclusion in AT1	-4	-9
- Minority interests eligible for inclusion in T2	-4	-5
- Ineligible minority interests on full phase-in	-372	-335
- Ineligible net income for the period (a)	-3,534	-3,500
- Treasury shares included under regulatory adjustments	204	94
- Other ineligible components on full phase-in	-134	-24
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**46,466**	**48,219**
Regulatory adjustments (including transitional adjustments) (b)	**-9,225**	**-10,168**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**37,241**	**38,051**

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

(b) Adjustments for the transitional period as at 31 December 2018 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (95% in 2018) set to decrease progressively until 2022.

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

Common Equity Tier 1 Capital (CET1)

(millions of euro)

Information	31.12.2018	31.12.2017
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	9,085	8,247
Share premium reserve	24,767	26,006
Reserves [a]	12,975	10,890
Accumulated other comprehensive income [b]	-904	-790
Net income (loss) for the period	4,050	7,316
Net income (loss) for the period not eligible	-	-
Dividends and other foreseeable charges [c]	-3,534	-3,500
Minority interests	27	50
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**46,466**	**48,219**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-204	-94
Goodwill	-4,477	-4,079
Other intangible assets	-3,297	-3,103
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,456	-1,417
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-208	-530
Defined benefit pension funds assets	-	-
Prudential filters	376	756
- of which Cash Flow Hedge Reserve	*814*	*1,000*
- of which Gains or Losses due to changes in own credit risk (DVA)	*-201*	*-36*
- of which Prudent valuation adjustments	*-237*	*-208*
- of which Other prudential filters	-	-
Exposures to securitisations deducted rather than risk weighted at 1250%	-227	-252
CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically, which exceed the threshold of 10% of Common Equity	-	-
Deductions with 10% threshold [d]	-1,727	-1,776
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	-	-
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	*-1,727*	*-1,776*
Deductions with threshold of 17.65% [e]	-1,955	-560
Positive or negative elements - other	-319	-393
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-13,494**	**-11,448**
Total adjustments in the transitional period (CET1)	**4,269**	**1,280**
Common Equity Tier 1 (CET1) - Total	**37,241**	**38,051**

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

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

(c) As at 31 December 2018, the figure considers the dividends on 2018 results, the portion of the remuneration of the AT1 instruments issued at the date and the portion of 2018 income allocated to charity, net of the tax effect.

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

(e) The deductions shown refer only to DTA and Significant investments for which 10% was not deducted.

As the regulatory conditions for its inclusion (Art. 26, paragraph 2 of the CRR) were met, Common Equity Tier 1 capital includes net income for the year and, consequently, the related pro-rata dividend proposed.
You are also reminded that the Board of Directors has proposed to the Shareholders' Meeting a distribution on the net income for 2018 of 19.7 euro cents for each ordinary share, for a total dividend of 3,449 million euro.

As envisaged by Article 36(1)k)ii) of Regulation (EU) no. 575/2013 which governs this circumstance, instead 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 Own Funds.
The amount of such deduction as at 31 December 2018 is equal to 227 million euro.

The "Negative elements – other" mainly include the sterilisation in common equity of deferred tax assets (DTA) associated with tax realignment of a single item of goodwill.
The amount of the filter as at 31 December 2018 is equal to 177 million euro.

Adjustments to CET 1 during the transitional period

Greater details on the impact of the transitional arrangements on CET 1 at the end of the year is provided below:

(millions of euro)

Caption	ADJUSTMENTS TO CET1		
	Amounts eligible /deductible on full phase-in	Adjustments to CET1	Net effect on CET1 at the date
Adjustments in the transitional period	**-4,056**	**1,432**	**-2,624**
- of which IAS 19 Reserves	-374	58	-316
- Related deductions with 10% threshold	-1,727	6	-1,721
- Related deductions with 17,65% threshold	-1,955	1,368	-587
Adjustments due to IFRS 9 transitional provisons	**-2,986**	**2,837**	**-149**
Total adjustments in the transitional period	**-7,042**	**4,269**	**-2,773**

Additional Tier 1 Capital (AT1)

(millions of euro)

Information	31.12.2018	31.12.2017
Additional Tier 1 capital (AT1)		
Saving shares	-	485
Other AT1 instruments	4,121	4,121
Minority interests	4	9
Additional Tier 1 capital (AT1) before regulatory adjustments	**4,125**	**4,615**
Additional Tier 1 capital (AT1): Regulatory adjustments		
AT1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
AT1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-	-
Positive or negative items - other	-	-
Total regulatory adjustments to Additional Tier 1 (AT1)	**-**	**-**
Total adjustments in the transitional period, including minority interests (AT1)	**-**	**-226**
AT1 instruments eligible for grandfathering	**731**	**1,025**
Additional Tier 1 (AT1) - Total	**4,856**	**5,414**

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

Additional Tier 1 Capital (AT1) equity instruments eligible for grandfathering and other AT1 instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfather-ing	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	up to 14/10/2019: 8.375% fixed rate; thereafter 3-month Euribor + 687 bps/year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	731
Total Additional Tier 1 instruments subject to transitional provisions									**731**
Intesa Sanpaolo	6.25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	750
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	NO	1,250,000,000	1,250
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	NO	1,250,000,000	1,250
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	NO	1,000,000,000	871
Total Additional Tier 1 instruments not subject to transitional provisions									**4,121**
Total Additional Tier 1 equity instruments									**4,852**

Tier 2 Capital (T2)

(millions of euro)

	31.12.2018	31.12.2017
Tier 2 Capital (T2)		
T2 Instruments	7,553	8,105
Minority interests	4	5
Excess of provisions over expected losses eligible (excess reserve)	850	125
Tier 2 capital before regulatory adjustments	**8,407**	**8,235**
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	-788	-821
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-788**	**-821**
Total adjustments in the transitional period, including minority interests (T2)	**-850**	**-47**
T2 instruments eligible for grandfathering	**12**	**541**
Tier 2 Capital (T2) - Total	**6,781**	**7,908**

Tier 2 (T2) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfather-ing	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	up to 18/3/2019 excluded: 5.625% p.a.; thereafter: 3-month Sterling Libor + 1.125 p.a.	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gbp	YES	165,000,000	12
Total Tier 2 instruments subject to transitional provisions									**12**
Intesa Sanpaolo	3-month Euribor + 190 bps/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	724
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,715
Intesa Sanpaolo	6.6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,360
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,311
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	980
Intesa Sanpaolo	3-month Euribor + 237 bps/4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	547
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	284
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	152
Intesa Sanpaolo	2.855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	480
Total Tier 2 instruments not subject to transitional provisions									**7,553**
Total Tier 2 instruments									**7,565**

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

(millions of euro)

	31.12.2018	31.12.2017
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,665	3,912
B. Threshold of 10% for CET1 instruments of financial sector entities where the institution has a significant investment and for DTA that rely on future profitability and arise from temporary differences	3,665	3,912
C. Threshold of 17.65% for significant investments and DTA not deducted in the threshold described under point B	4,947	5,517

The regulations envisage that for certain regulatory adjustments, such as those for DTAs based on future income and deriving from temporary differences, and for significant and minor investments in CET1 instruments issued by companies in the financial sector, certain thresholds or “deductibles” are specified, calculated on Common Equity estimated using different approaches.
For minor investments in CET1 instruments issued by companies in the financial sector the deduction of amounts exceeding 10% of CET1 prior to deductions deriving from exceeding the thresholds is envisaged.
For significant investments in CET1 instruments and DTAs, however, an initial threshold on deductions is envisaged, still calculated as 10% of CET1 prior to deductions deriving from exceeding the thresholds, adjusted to take into account any excess over the threshold described in the previous point. A further threshold is indicated, calculated on 17.65% of Common Equity adjusted for the above 10% threshold, to be applied in aggregate on amounts not deducted using the first threshold.
All amounts not deducted are weighted among risk-weighted assets at 250%.
In the third quarter, the EBA published a Q&A which resulted in the exclusion - during the transitional period (2018-2022) - from the basis of calculation of CET 1 used to determine the “thresholds”, as described above, of the gradually decreasing amount of the CET 1 adjustment due to the adoption of the “static” approach to mitigate the capital impacts linked to the introduction of IFRS 9.

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

(millions of euro)

ACCOUNTING DATA			Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
Total Accounting data			**50,858**	
ASSETS	**Financial statements scope**	**Prudential scope**		
70. Investments in associates and companies subject to joint control	943	6,286	-2,464	8, 19
of which: implicit goodwill in associated companies IAS 28-31	*369*	*863*	*-369*	*8, 19*
100. Intangible assets	9,077	7,334	-7,936	8
of which: goodwill	*4,163*	*3,562*	*-4,163*	*8*
of which: other intangible assets	*4,914*	*3,665*	*-3,773*	*8*
110. Tax assets	17,253	16,622	-1,668	10
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*1,456*	*1,456*	*-1,668*	*10*
LIABILITIES				
10. Securities issued	82,060	84,388	8,295	33, 46, 47, 52
of which: subordinated instruments subject to transitional arrangements	*0*	*743*	*743*	*33, 47*
of which: subordinated instruments not subject to transitional arrangements	*0*	*7,552*	*7,552*	*46, 52*
60. Tax liabilities	2,433	1,837	530	8
a) Current tax liabilities	163	128	N.A.	
b) Deferred tax liabilities	2,270	1,709	N.A.	
of which: tax liabilities related to goodwill and other intangible assets	*0*	*0*	*530*	*8*
120. Valuation reserves	-904	-904	-32	3, 9, 11
of which: valuation reserves on securities available for sale	*9*	*0*	*9*	
of which: valuation reserves on cash flow hedges	*-814*	*-812*	*0*	*11*
of which: foreign exchange differences	*-989*	*-989*	*-989*	*3*
of which: legally-required revaluations	*1,564*	*1,564*	*1,564*	*3*
of which: valuation reserves on net actuarial losses	*-374*	*-374*	*-316*	*9*
of which: other	*0*	*0*	*0*	
140 Equity instruments	4,103	4,103	4,121	
150. Reserves	13,006	13,006	15,811	2
of which: impact of the adoption of IFRS9 net of transitional arrangements	*0*	*0*	*2,837*	
160. Share premium reserve	24,768	24,768	24,768	1
170. Share capital	9,085	9,085	9,085	1, 30
of which: ordinary shares	*9,085*	*9,085*	*9,085*	*1*
of which: savings shares	*0*	*0*	*0*	*30*
180. Treasury shares (-)	-84	-84	-204	16
190. Minority interests (+/-)	407	229	36	5, 34, 48
of which CET1 compliant		*0*	*28*	*5*
of which AT1 compliant		*0*	*4*	*34*
of which T2 compliant		*0*	*4*	*48*
200. Net income (loss) for the period (+/-)	4,050	4,050	516	5a
of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period		*0*	*516*	*5a*

OTHER COMPONENTS OF OWN FUNDS	Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
Total other components, of which:	-1,980	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-201	14
Value adjustments due to the requirements for prudent valuation	-237	7
Exposures to securitisations deducted rather than risk weighted at 1250%	-227	20a, 20c
IRB shortfall of credit risk adjustments to expected losses	-208	12
IRB Excess of provisions over expected losses eligible	0	50
Filter on unrealised capital gains on real properties	-30	26
Filter on double tax realignment	-177	26
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment	-788	55
Indirect investments	-112	26
Total own funds as at 31 December 2018	**48,878**	

Section 4 - Capital Requirements

Qualitative disclosure

Assessment of the adequacy of the Bank's internal capital

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

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

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

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

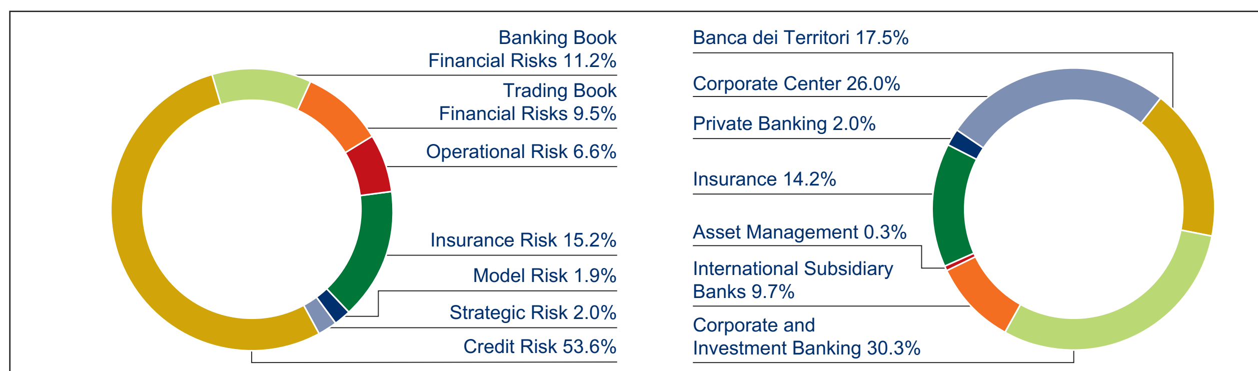
As already mentioned, the Intesa Sanpaolo Group attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk.

The Economic Capital, defined as the maximum "unexpected" loss that the Group may incur over a period of one year, is a key measure for determining the Group's financial structure and risk tolerance and for guiding its operations, ensuring the balance between risks assumed and shareholder return.
The level of absorption of Economic Capital is estimated on the basis of the current situation and also at a forecast level, according to the definition of Risk Appetite approved by the Group, based on the budget assumptions and the projected economic scenario.

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

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

Absorption of Economic Capital by type of risk and Business Unit



The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.
The majority of risk is concentrated in the "Corporate & Investment Banking" Business Unit (30.3% of the total Economic Capital): this is attributable to the type of customers served (Corporate and Financial Institutions) and Capital Market activities. This Business Unit is assigned a significant share of credit risk and trading book risk.
The "Banca dei Territori" Business Unit (17.5% of the total Economic Capital) is a significant source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of credit risk and operational risk.
Most of the insurance risk is assigned to the "Insurance" Business Unit (14.2% of the total Economic Capital).
The "International Subsidiary Banks" Business Unit is assigned 9.7% of the total risk, predominantly credit risk.
In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, the risks pertaining to the Capital Light Bank, the Banking Book interest rate and exchange rate risk, the risks arising from the management of the Parent Company's AFS portfolio, and the residual portion of insurance risk (26.0% of the overall Economic Capital).
Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (2.0% and 0.3%, respectively) due to the nature of their business, which is predominantly aimed at asset management activities.

In accordance with the provisions established by the new rules on capital adequacy, the Group has completed the actions aimed at meeting the Pillar 2 requirements, by preparing and sending the ICAAP Reports to the Supervisory Authority - on approval by the Corporate Bodies - with the figures for the previous year on a consolidated basis.
The Group has also substantially completed the ICAAP Report on the figures as at 31 December 2018 and the forecasts over a three-year period, and the final document is due to be sent to the Supervisor by 30 April 2019. The results of the ICAAP process confirm the Group's capital adequacy: the financial resources available ensure, with adequate margins, coverage of all current and prospective risks, also in stress conditions.

In 2018, the Intesa Sanpaolo Group took part in the 2018 EU-Wide Stress Test, the exercise conducted by the European Banking Authority (EBA), in collaboration with the Bank of Italy, the European Central Bank (ECB) and the European Committee for Systemic Risk (ESRB) on the financial statements of European banks as at 31 December 2017. As usual, the exercise consisted of the estimation of the impacts on the Group's financial position and results arising from the application of two scenarios – baseline and adverse – and covered a time horizon of three years (2018-2020). The EU-Wide Stress Test is an important source of information for the purposes of the SREP as the results are useful to the competent authorities in assessing Intesa Sanpaolo's ability to comply with the related prudential requirements in stress scenarios. Intesa Sanpaolo acknowledges the results of the 2018 EU-Wide Stress Test announced by the EBA on 2 November 2018, which were extremely positive for the Group. The Common Equity Tier 1 ratio (CET1 ratio) resulting from the stress test for 2020, the final year considered in the exercise, for Intesa Sanpaolo is:

- 13.04% on a phased-in basis, in accordance with the transitional arrangements for 2020 and 12.28% on a fully-loaded basis, under the baseline scenario;
- 10.40% on a phased-in basis, in accordance with the transitional arrangements for 2020 and 9.66% on a fully-loaded basis, under the adverse scenario;

Compared to the starting figure, recorded as at 31 December 2017 taking into account the impact of the first-time adoption of IFRS 9, of 13.24% on a phased-in basis and 11.85% on a fully-loaded basis. The CET1 ratio resulting from the stress test for 2020 under the adverse scenario would be 10.99% on a phased-in basis and 10.26% on a fully-loaded basis, taking into account the capital increase executed on 11 July 2018 to serve the 2018-2021 LECOIP 2.0 Long-term Incentive Plan and the conversion of savings shares into ordinary shares finalised on 7 August 2018, other things being equal.

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 11.625% 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 1.875% under the transitional arrangements in force for 2018, the additional O-SII Buffer (Other Systemically Important Institutions Buffer) of 0.19% under the transitional arrangements in force for 2018, and the institution-specific countercyclical capital buffer of 0.06% in the fourth quarter of 2018) 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.

Starting from 1 January 2018 (ECB decision of 22 December 2017) the Common Equity Tier 1 ratio to be met was set at 8.065% under the transitional arrangements for 2018, and at 9.25% on a fully loaded basis.
This was the result of: a) the SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio; b) the additional requirement relating to a Capital Conservation Buffer of 1.875% under the transitional arrangements for 2018 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0.19% under the transitional arrangements for 2018 and 0.75% on a fully loaded basis in 2021.
Considering the additional requirement consisting of the Institution-specific Countercyclical Capital Buffer, based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.125% under the transitional arrangements in force for 2018 and 9.33% on a fully loaded basis.

On 8 February 2019, Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that the Bank has to meet, as of 1 March 2019. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 8.88% under the transitional arrangements for 2019 and 9.25% on a fully loaded basis.
This is the result of:

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

Considering the additional requirement consisting of the Institution-specific Countercyclical Capital Buffer equal to 0.08%[4], based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.96% under the transitional arrangements in force for 2019 and 9.33% on a fully loaded basis.

[4] Calculated taking into account the exposures as at 31 December 2018 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities and relating either to 2019-2020, where available, or to the latest update of the reference period (requirement was set at zero per cent in Italy for the first quarter of 2019).

EU OV1 – Overview of RWAs

(millions of euro)

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			31.12.2018	30.09.2018	31.12.2018
	1	**Credit risk (excluding CCR)**	**210,773**	**215,343**	**16,862**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*69,487*	*72,034*	*5,559*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*1,008*	*1,184*	*81*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*134,767*	*137,131*	*10,781*
Article 438(d)	*5*	*Of which equity with simple risk-weighted approach or PD/LGD*	*5,511*	*4,994*	*441*
Article 107 Article 438(c)(d)	**6**	**CCR**	**7,991**	**7,129**	**639**
Article 438(c)(d)	*7*	*Of which mark to market*	*2,264*	*2,052*	*181*
Article 438(c)(d)	*8*	*Of which original exposure*	*-*	*-*	*-*
	9	*Of which the standardised approach*	*-*	*-*	*-*
	10	*Of which internal model method (IMM)*	*4,571*	*3,991*	*366*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*248*	*340*	*20*
Article 438(c)(d)	*12*	*Of which CVA*	*908*	*746*	*72*
Article 438(e)	**13**	**Settlement risk**	**-**	**-**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**5,961**	**3,535**	**477**
	15	*Of which IRB approach*	*926*	*157*	*74*
	16	*Of which IRB supervisory formula approach (SFA)*	*2,287*	*1,209*	*183*
	17	*Of which internal assessment approach (IAA)*	*-*	*-*	*-*
	18	*Of which standardised approach*	*2,748*	*2,169*	*220*
Article 438 (e)	**19**	**Market risk**	**21,147**	**19,120**	**1,692**
	20	*Of which the standardised approach*	*1,702*	*2,458*	*136*
	21	*Of which IMA*	*19,445*	*16,662*	*1,556*
Article 438(e)	**22**	**Large exposures**	**-**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**17,671**	**17,962**	**1,414**
	24	*Of which basic indicator approach*	*645*	*779*	*52*
	25	*Of which standardised approach*	*2,117*	*2,325*	*169*
	26	*Of which advanced measurement approach*	*14,909*	*14,858*	*1,193*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**12,903**	**12,855**	**1,032**
Article 500	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**TOTAL**	**276,446**	**275,944**	**22,116**

The total amount of risk-weighted exposures recorded as at 31 December 2018 was around 276.4 billion euro, with a change of approximately +0.5 billion euro compared to September 2018. In particular please note the following:

- for credit risk (excluding counterparty risk), there was a significant decrease attributable to both the standardised component, mainly due to the reduction in Retail exposures and exposures to Central Governments, and the IRB component. In the latter, the increase in the weighted value due to the annual update of the risk parameters following the ex-ante notifications sent to the ECB on 31 October 2018 and the introduction of RWAs on the defaulted assets for the Retail SME portfolio was more than offset by the sale of a portfolio of bad loans, the conclusion of several synthetic securitisations on performing loans and the decrease in volumes and improvement in credit quality;
- for counterparty risk, there was a slight increase in the weighted value;
- for the banking book securitisations, there was an increase mainly due to the new originated synthetic and traditional securitisations;
- for market risk, there was an increase mainly due to higher exposures and market volatility;

– for operational risk, there was a slight reduction linked to the basic (BIA) and standardised components (TSA).

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

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

(millions of euro)

		RWA AMOUNTS	CAPITAL REQUIREMENTS
1	**RWAs as at 30 September 2018**	**150,864**	**12,069**
2	Asset size	-473	-38
3	Asset quality	-600	-48
4	Model updates	5,586	447
5	Methodology and policy	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	202	16
8	Other	-6,504	-520
9	**RWAs as at 31 December 2018 (*)**	**149,075**	**11,926**

(*) As at 31 December 2018, the RWA relating to IRB models amounted to 149,075 million euro and was attributable to the Foundation IRB approach for 1,008 million euro (Row 3 EU OV1), to the Advanced IRB approach for 134,767 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 5,511 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 7,789 million euro (Row 27 EU OV1).

With regard to the changes in RWAs related to the exposures subject to credit risk measured using advanced or foundation IRB approaches[5], for which the value of the aggregate was identified as 150,864 million euro in September 2018 and 149,075 million euro in December 2018, the negative change of -1,789 million euro between the two periods mainly consisted of the following effects:

- +5,586 million euro deriving from the updating of the time series for the Corporate (+4,754 million euro) and Institutions (-94 million euro) models and the application of a prudential margin on the defaulted assets component of the Retail SME portfolio (+926 million euro), in implementation of the instructions from the Supervisor;
- +202 million euro attributable to foreign currency exposures due to changes in exchange rates, in particular for the exposures denominated in US dollars;
- -473 million euro from a decrease in volumes, net of the sales in the quarter as a result of a securitisation;
- -600 million euro attributable to an improvement in the credit rating of the counterparties in the portfolio.

The remaining reduction of 6,504 million euro was attributable to the sale of a portfolio of bad loans and the completion of several of synthetic securitisations with an underlying of performing loans, relating to the Large Corporate, Corporate and Corporate SME regulatory segments, and part of that reduction has been restated within the securitised exposures[6].

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

[6] These exposures are not included in template 23 because they comply with the instructions of the CRR, Part Three, Title II, Chapter 5.

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

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 30 September 2018**	**3,991**	**319**
2	Asset size	408	33
3	Credit quality of counterparties	39	3
4	Model updates (IMM only)	76	6
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	1	-
8	Other	56	5
9	**RWAs as at 31 December 2018**	**4,571**	**366**

With regard to the changes in RWAs related to CCR exposures (derivatives and SFTs, determined based on the IMM, in accordance with part three, title II, chapter 6 of the CRR) the value of the aggregate was identified as 3,991 million euro at the end of September 2018 and 4,571 million euro at the end of December 2018. The overall increase of 580 million euro between the two periods was mainly due to the following effects: +408 million due to the increase in operating volumes; +39 million euro due to the deterioration in the credit quality of counterparties; and +76 million euro due to the updating of the time series of the Corporate and Institutions models.

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

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 30 September 2018**	**4,053**	**9,950**	**2,578**	**-**	**81**	**16,662**	**1,333**
1a	*Regulatory adjustment*	-	-	-	-	-	-	-
1b	*RWAs at the previous quarter-end (end of the day)*	*4,056*	*8,822*	*2,578*	-	*79*	*15,535*	*1,243*
2	Movement in risk levels	342	-646	1,000	-	5	701	56
3	Model updates/changes	-	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	519	1,150	413	-	-	2,082	167
8a	*RWAs at the end of the reporting period (end of the day)*	*5,260*	*9,840*	*3,991*	-	*72*	*19,163*	*1,533*
8b	*Regulatory adjustment*	-	-	-	-	-	-	-
8	**RWAs as at 31 December 2018**	**4,914**	**10,454**	**3,991**	**-**	**86**	**19,445**	**1,556**

The changes in the levels of market risk resulted in an increase in RWAs of 701 million euro compared to the third quarter. The decrease was partly driven by the higher volatility of the markets, mainly reflected in the VaR (+342 million euro), and partly by the composition of the portfolio, which weighed on the IRC. In terms of risk, however, there was a decrease in the Stressed VaR (-646 million euro). The prudential multiplier linked to the backtesting exceptions (Caption “Other”) also had an influence.

Institution-specific Countercyclical Capital Buffer

Below is the information relating to the “Countercyclical capital buffer”, prepared based on the ratios applicable at 31 December 2018 and Delegated Regulation (EU) 2015/1555 of the Commission of 28 May 2015 which integrates regulation (EU) No. 575/2013 of the European Parliament and of the Council (so-called CRR) regarding the regulatory technical standards pertaining to the publication of information in relation to the compliance of the institutions’ obligation to hold a countercyclical capital buffer pursuant to Article 440 of the CRR. As established by Article 140, paragraph 1, of directive 2013/36/EU (so-called CRD IV), the institution-specific countercyclical capital buffer is the weighted average of the countercyclical ratios which are applied in the countries where the relevant credit exposures of the institutions are located.
CRD IV establishes the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical buffer ratio (for exposures towards Italian counterparties) at 0% also for the first three months of 2019.

The relevant credit exposures include all the classes of exposure other than those under Article 112, letters from a) to f), of regulation (EU) No. 575/2013. The following portfolios are excluded: exposures to central administrations or central banks; exposures to regional administrations or local authorities; exposures to public-sector entities; exposures to multilateral development banks; exposures to international organisations; exposures to institutions.

In reference to 31 December 2018:

- the countercyclical capital ratios at individual country level were set, with the methods summarised above, generally equal to 0%, with the exception of the following countries: Sweden (2.00%), Norway (2.00%), Hong Kong (1.875%), Iceland (1.25%), Czech Republic (1.00%), Slovakia (1.25%), the United Kingdom (1.00%) and Lithuania (0.50%);
- at consolidated level, Intesa Sanpaolo's specific countercyclical ratio amounts to 0.061%.

Amount of the Institution-specific Countercyclical Capital Buffer

(millions of euro)

Total risk exposure	276,446
Specific countercyclical ratio of the institution (%)	0.061%
Specific countercyclical capital buffer requirement of the institution	169

The table below shows the geographic distribution of the relevant credit exposures for the purpose of calculating the institution-specific countercyclical capital buffer as at 31 December 2018.

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

(millions of euro)

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approcach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
ITALY	49,806	267,319	677	396	3,068	12,928	*11,154*	*89*	*470*	11,713	72.42	-
ABU DHABI	48	1,113	-	-	-	-	*31*	-	-	31	0.19	-
ALBANIA	491	6	-	-	-	-	*39*	-	-	39	0.24	-
ALGERIA	7	1	-	-	-	-	*1*	-	-	1	0.00	-
SAUDI ARABIA	34	162	-	-	-	-	*11*	-	-	11	0.07	-
ARGENTINA	64	14	-	-	-	-	*5*	-	-	5	0.03	-
AUSTRALIA	4	537	-	-	-	-	*18*	-	-	18	0.11	-
AUSTRIA	47	575	-	2	-	-	*21*	-	-	21	0.13	-
AZERBAIJAN	1	308	-	-	-	-	*21*	-	-	21	0.13	-
BAHAMA ISLAN	117	60	-	-	-	-	*7*	-	-	7	0.04	-
BAHREIN	1	-	-	-	-	-	-	-	-	-	0.00	-
BELGIUM	44	1,149	-	8	-	-	*42*	-	-	42	0.26	-
BELIZE	-	3	-	-	-	-	-	-	-	-	0.00	-
BERMUDA	2	313	-	-	-	-	*19*	-	-	19	0.12	-
BOLIVIA	3	-	-	-	-	-	-	-	-	-	0.00	-
BOSNIA AND H	815	1	-	-	-	-	*65*	-	-	65	0.40	-
BRAZIL	172	294	-	2	-	-	*24*	*1*	-	25	0.16	-
BULGARIA	3	26	-	-	-	-	*2*	-	-	2	0.01	-
CANADA	147	133	1	-	-	-	*7*	-	-	7	0.05	-
CAYMAN ISLAN	225	412	-	-	-	-	*38*	-	-	38	0.24	-
CZECH REPUBL	303	741	-	-	-	-	*67*	-	-	67	0.42	1.00
CHILE	2	205	-	-	-	-	*9*	-	-	9	0.06	-
CHINA	175	708	-	-	-	-	*104*	-	-	104	0.64	-
CYPRUS	63	264	-	-	-	-	*14*	-	-	14	0.09	-
COLOMBIA	1	61	-	-	-	-	*3*	-	-	3	0.02	-
CONGO	-	1	-	-	-	-	-	-	-	-	0.00	-
SOUTH KOREA	16	16	-	3	-	-	*2*	-	-	2	0.01	-
COSTA RICA	1	-	-	-	-	-	-	-	-	-	0.00	-
CROATIA	8,104	205	-	-	-	-	*540*	-	-	540	3.34	-
DENMARK	21	13	-	5	-	-	*2*	*1*	-	3	0.02	-
DOMINICAN RE	-	14	-	-	-	-	*1*	-	-	1	0.01	-
ECUADOR	2	448	-	-	-	-	*11*	-	-	11	0.07	-
EGYPT	2,303	3	-	-	-	-	*145*	-	-	145	0.89	-
ESTONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
ETHIOPIA	114	-	-	-	-	-	-	-	-	-	0.00	-
FINLAND	52	232	5	5	-	10	*11*	-	-	11	0.07	-
FRANCE	539	3,275	19	64	-	5	*128*	*8*	-	136	0.84	-
GABON	37	-	-	-	-	-	*3*	-	-	3	0.02	-
GERMANY	465	2,459	20	57	-	-	*130*	*12*	-	142	0.88	-
GHANA	-	88	-	-	-	-	*6*	-	-	6	0.04	-
JAPAN	6	907	-	36	-	-	*37*	*1*	-	38	0.23	-
JORDAN	1	-	-	-	-	-	-	-	-	-	0.00	-

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

(millions of euro)

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approcach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
GREECE	15	31	-	2	-	-	2	-	-	2	0.01	-
GUATEMALA	1	-	-	-	-	-	-	-	-	-	0.00	-
HONG KONG	57	241	-	5	-	-	*10*	*1*	-	11	0.06	1.88
INDIA	3	184	-	-	-	-	*10*	-	-	10	0.06	-
INDONESIA	36	55	-	-	-	-	*5*	-	-	5	0.03	-
IRELAND	379	230	130	1	-	65	*36*	*10*	-	46	0.29	-
ISRAEL	6	30	-	1	-	-	*2*	-	-	2	0.02	-
JERSEY	-	110	-	-	-	-	*6*	-	-	6	0.04	-
KAZAKHSTAN	14	13	-	-	-	-	*1*	-	-	1	0.01	-
KENYA	1	1	-	-	-	-	-	-	-	-	0.00	-
KUWAIT	1	212	-	-	-	-	*7*	-	-	7	0.04	-
LEBANON	-	1	-	-	-	-	-	-	-	-	0.00	-
LIBERIA	9	14	-	-	-	-	*3*	-	-	3	0.02	-
LITHUANIA	10	-	-	-	-	-	*1*	-	-	1	0.00	0.50
LUXEMBOURG	2,286	2,568	46	92	-	-	*269*	*13*	-	282	1.74	-
MACAO	-	10	-	-	-	-	-	-	-	-	0.00	-
MACEDONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
MALAYSIA	-	181	-	-	-	-	*2*	-	-	2	0.01	-
MALTA	2	40	-	-	-	-	*2*	-	-	2	0.01	-
MOROCCO	1	-	-	-	-	-	-	-	-	-	0.00	-
MARSHALL ISL	20	173	-	-	-	-	*16*	-	-	16	0.10	-
MEXICO	97	966	-	37	-	-	*43*	*1*	-	44	0.27	-
MOLDOVA	61	-	-	-	-	-	*3*	-	-	3	0.02	-
MONGOLIA	-	127	-	-	-	-	*16*	-	-	16	0.10	-
MONTENEGRO	1	-	-	-	-	-	-	-	-	-	0.00	-
NICARAGUA	1	-	-	-	-	-	-	-	-	-	0.00	-
NIGERIA	9	9	-	-	-	-	*1*	-	-	1	0.00	-
NORWAY	115	93	-	2	-	-	*5*	-	-	5	0.03	2.00
NEW ZEALAND	2	-	-	-	-	-	-	-	-	-	0.00	-
OMAN	32	86	-	-	-	-	*5*	-	-	5	0.03	-
NETHERLANDS	413	2,454	27	135	-	45	*141*	*11*	-	152	0.94	-
PANAMA	6	117	-	-	-	-	*7*	-	-	7	0.04	-
PARAGUAY	4	-	-	-	-	-	-	-	-	-	0.00	-
PERU	1	114	-	-	-	-	*4*	-	-	4	0.03	-
POLAND	647	568	-	-	-	-	*73*	-	-	73	0.45	-
PORTUGAL	130	132	51	2	-	6	*10*	*2*	-	12	0.07	-
MONACO, PRIN	2	10	-	-	-	-	-	-	-	-	0.00	-
PUERTO RICO	-	30	-	-	-	-	*5*	-	-	5	0.03	-
QATAR	57	318	-	-	-	-	*6*	-	-	6	0.04	-
UNITED KINGD	756	3,873	21	53	-	-	*212*	*15*	-	227	1.41	1.00
ROMANIA	973	66	-	-	-	-	*64*	-	-	64	0.39	-
RUSSIA	2,228	2,068	-	-	-	-	*162*	-	-	162	1.00	-
SAN MARINO	3	18	-	-	-	-	*1*	-	-	1	0.00	-
SERBIA	3,491	230	-	-	-	-	*227*	-	-	227	1.41	-
SINGAPORE	1	440	-	-	-	-	*12*	-	-	12	0.08	-
SLOVAKIA	3,008	11,204	-	-	-	-	*518*	-	-	518	3.20	1.25

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		
SLOVENIA	1,252	651	-	-	-	-	112	-	-	112	0.69	-
SPAIN	190	3,502	5	81	-	22	*143*	*1*	*2*	146	0.90	-
U.S.A.	532	6,912	2	60	-	78	*284*	*9*	*3*	296	1.83	-
SOUTH AFRICA	1	333	-	-	-	-	*18*	-	-	18	0.11	-
SWEDEN	61	143	-	9	-	-	*10*	-	-	10	0.07	2.00
SWITZERLAND	404	848	-	47	-	-	*51*	*6*	-	57	0.35	-
TANZANIA	1	-	-	-	-	-	-	-	-	-	0.00	-
THAILAND	-	5	-	-	-	-	-	-	-	-	0.00	-
TUNISIA	2	2	-	-	-	-	-	-	-	-	0.00	-
TURKEY	282	1,011	-	-	-	-	*75*	-	-	75	0.46	-
UKRAINE	76	13	-	-	-	-	*4*	-	-	4	0.03	-
HUNGARY	2,936	315	-	-	-	-	*205*	-	-	205	1.27	-
URUGUAY	5	71	-	-	-	-	*1*	-	-	1	0.01	-
VENEZUELA	1	3	-	-	-	-	-	-	-	-	0.00	-
BRITISH VIRG	-	176	-	-	-	-	*8*	-	-	8	0.05	-
VIET-NAM	-	6	-	-	-	-	-	-	-	-	0.00	-
TOTAL	**84,860**	**323,074**	**1,004**	**1,105**	**3,068**	**13,159**	**15,516**	**181**	**475**	**16,172**	**100.00**	

Non-deducted participations in insurance undertakings

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

THE CAPITAL ADEQUACY OF THE FINANCIAL CONGLOMERATE

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

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

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

(millions of euro)

	Amounts
A. Financial conglomerate amount	52,592
B. Capital requirements for banking elements	31,603
C. Solvency margins for insurance elements	3,275
D. Total capital requirements of the financial conglomerate (B+C)	**34,878**
E. Financial conglomerate surplus (defincit) (A-D)	**17,714**
F. Adequacy ratio of the financial conglomerate (A / D)	**151%**

In detail, as at 31 December 2018, the capital of the Intesa Sanpaolo financial conglomerate exceeded its capital requirements, defined as the conglomerate's capital needs, by 17,714 million euro. For the purpose of calculating the capital requirements of the banks, a Total Capital Ratio of 11.63% was considered, as taken from the outcomes of the Supervisory Review and Evaluation Process (SREP) for 2018.

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

For 2018, the Group's insurance companies implemented all the new obligations required in that regard by the calendar for sending data reports to the Supervisory Authority IVASS. The main data included in these reports concerned Eligible Own Funds, the Solvency Capital Requirement (SCR) and the Solvency Ratio.

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

As at 31 December 2018, the Intesa Sanpaolo Vita Group had a solvency ratio of 215%, understood as the ratio of Group eligible own funds to the solvency capital requirement, both calculated according to Solvency II. The figure corresponds to what is expected to be sent to the Supervisory Authority with reference to the fulfilment relating to the fourth quarter of 2018.

Lastly, on 19 December 2018, the Ordinary Shareholders' Meeting of Intesa Sanpaolo Vita resolved to distribute a portion of other shareholders' equity reserves in the amount of around 452 million euro. The dividends were paid on 21 December 2018, according to the approved terms.

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

(millions of euro)

	Available capital (amounts)	31.12.2018	30.09.2018	30.06.2018	31.03.2018
1	Common Equity Tier 1 capital (CET1)	37,241	37,189	36,012	37,509
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	33,072	34,219	32,833	34,330
3	Tier 1 capital	42,097	42,044	41,354	42,941
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	37,928	39,074	38,175	39,762
5	Total capital	48,878	48,957	48,337	50,667
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	45,560	46,850	45,977	48,393
	Risk-weighted assets (amounts)				
7	Total risk-weighted assets	276,446	275,944	282,383	282,430
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	275,533	275,424	280,464	280,504
	Capital ratios				
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	13.5%	13.5%	12.8%	13.3%
10	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.0%	12.4%	11.7%	12.2%
11	Tier 1 capital (as a percentage of the risk exposure amount)	15.2%	15.2%	14.6%	15.2%
12	Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.8%	14.2%	13.6%	14.2%
13	Total capital (as a percentage of the risk exposure amount)	17.7%	17.7%	17.1%	17.9%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.5%	17.0%	16.4%	17.3%
	Leverage ratio				
15	Leverage ratio total exposure measure	668,562	675,453	665,393	681,623
16	Leverage ratio	6.3%	6.2%	6.2%	6.3%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.7%	5.8%	5.7%	5.9%

As described in the chapter "Own Funds", the first-time adoption of IFRS 9 and the adoption of the "static" approach during the transitional period (2018-2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios as at 31 December 2018 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;
- an increase in the DTAs to be deducted from CET1 limited to 5% of nine-tenths of the amount of the DTAs arising from the higher adjustments to loans resulting from the IFRS 9 FTA, on which to apply the thresholds set in Article 48 of the CRR, with the deduction of the part exceeding the prudential thresholds established, as described in the Introduction to Section 3 - Own funds;
- 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.

Section 5 - Liquidity Risk

LIQUIDITY RISK

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

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

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

The provisions on liquidity - introduced in the European Union in June 2013 with the publication of Regulation (EU) 575/2013 and Directive 2013/36/EU - were updated in early 2015 with the publication in the Official Journal of the European Union of Commission Delegated Regulation (EU) 2015/61 with regard to liquidity coverage requirements (Liquidity Coverage Ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation (EU) 2015/61, as supplemented and amended, from 1 October 2015 banks are required to comply with the short-term indicator provided for in Article 38 (100% from 1 January 2018).

Since March 2015, the Intesa Sanpaolo Group Liquidity Risk Management Guidelines, which already referred to Bank of Italy Circulars 263 and 285, and Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), have reflected the above-mentioned additional regulations, which revised the composition of the liquid assets eligible for liquidity reserves and the definition of the 30-day liquidity flows valid for the calculation of the LCR. With respect to structural liquidity, the most recent regulatory provisions of the Basel Committee concerning the Net Stable Funding Ratio (NSFR) have been adopted.

In June 2017, the EBA also issued the specific "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013" (EBA/GL/2017/01), with additional disclosure requirements for liquidity risk measured through the Liquidity Coverage Ratio.

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

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

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

The Group Liquidity Risk Management Guidelines set out the task assigned to the Corporate Bodies and allocate several important responsibilities to senior management, including the approval of measurement methods, the definition of the main assumptions underlying the 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 corporate functions of the Parent Company responsible for ensuring the correct application of the Guidelines and the sufficiency of the Group's liquidity position are the Group Treasury and Finance Department and the Group Planning and Control Department, responsible, within the Chief Financial Officer (CFO) Area, for liquidity management, and the Financial and Market Risks Head Office Department, which is directly responsible, within the Chief Risk Officer (CRO) Area, for measuring liquidity risk on a consolidated basis.

The Group's liquidity is managed by the aforesaid structures of the CFO area through continuous liaison with the Business Units, within the framework of the relevant business plans drawn up in accordance with the following guidelines:
- constant attention to the level of customer loyalty, aimed at maintaining a high stock of stable deposits;
- monitoring of the deposit-lending gap of the Business Units, with respect to plan and budget targets;
- balanced use of the institutional market, with particular attention to diversification of segments and instruments;
- selective use of refinancing operations by Central Banks.

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

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

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

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

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

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: 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. Early warning indicators have been established for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years). NSFR's regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on the CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU).

The Group Liquidity Risk Management Guidelines also envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions. Within this framework, the Treasury and Finance Department was officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term. These actions must be updated periodically to verify their compatibility with the market conditions and the stress scenario adopted.
The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Financial and Market Risks Department.

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for all of 2018: both regulatory indicators, LCR and NSFR, were met, already reaching a level well above the limits provided for by the Regulations under normal conditions. In 2018, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 163%. The LCR indicator also takes account of the prudential estimate of the "additional outflows for other products and services", assessed based on the provisions of EU Regulation 2015/61 (Article 23).

At the end of December 2018, the Central Banks eligible and liquid reserves, mainly under centralised management by the Treasury Head Office Department of the Parent Company, including the reserves held with Central Banks (Cash and Deposits), amounted to a total of 175 billion euro (171 billion euro at December 2017), of which 89 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017). At the end of 2018, the HQLA component represented 60% of the own portfolio and 95% of the unencumbered. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Bonds Own Portfolio		Unencumbered (net of haircut)	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Cash and Deposits held with Central Banks (HQLA)	40,156	43,343	40,156	43,343
Other High Quality Liquid Assets (HQLA)	64,805	62,663	44,190	42,821
Other eligible and/or marketable reserves	69,843	65,215	4,251	11,710
Total Group Liquidity Buffer	**174,804**	**171,221**	**88,597**	**97,874**

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

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

The corporate assessment on the adequacy of Intesa Sanpaolo's position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group's Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group's culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.
The table below contains the quantitative information on the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured in accordance with the EU regulations (CRR and CRD IV) and subject to periodic reporting to the competent Supervisory Authority. The figures shown refer to the simple average of the last 12 months of monthly observations starting from the LCR recorded at the end of 2018.

EU LIQ1 - LCR disclosure template and additional disclosure

(millions of euro)

SCOPE OF CONSOLIDATION		TOTAL UNWEIGHTED VALUE (AVERAGE)	TOTAL WEIGHTED VALUE (AVERAGE)
	Quarter ending	December 31st 2018	December 31st 2018
	Number of data points used in the calculation of averages	12	12
HIGH-QUALITY LIQUIDIT ASSETS			
1	**Total high-quality liquid assets (HQLA) (a)**		**75,133**
CASH-OUTFLOWS			
2	**Retail deposits and deposits from small business customers, of which:**	**190,401**	**13,343**
3	*Stable deposits*	*137,067*	*6,853*
4	*Less stable deposits*	*53,334*	*6,490*
5	**Unsecured wholesale funding**	**97,685**	**45,586**
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*31,798*	*7,947*
7	*Non operational deposits (all counterparties)*	*63,181*	*34,933*
8	*Unsecured debt*	*2,706*	*2,706*
9	**Secured wholesale funding**		**993**
10	**Additional requirements**	**46,680**	**9,371**
11	*Outflows related to derivative exposure and other collateral requirements*	*2,326*	*1,834*
12	*Outflos related to loss of funding on debt products*	*2*	*2*
13	*Credit and liquidity facilities*	*44,352*	*7,535*
14	**Other contractual funding obligations**	**421**	**416**
15	**Other contingent funding obligations**	**114,045**	**233**
16	**TOTAL CASH OUTFLOWS**		**69,942**
CASH-INFLOWS			
17	Secured lending (e.g. reverse repos)	32,457	2,171
18	Inflows from fully performing exposures	20,745	13,278
19	Other cash inflows	22,788	8,459
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**	**75,990**	**23,908**
20a	*Fully exempt inflows*	*-*	*-*
20b	*Inflows subject to 90% cap*	*-*	*-*
20c	*Inflows subject to 75% cap*	*75,991*	*23,907*
21	**LIQUIDITY BUFFER**		**75,133**
22	**TOTAL NET CASH OUTFLOWS**		**46,034**
23	**LIQUIDITY COVERAGE RATIO (%)**		**163%**

(a) Only the portion of reserves held by affiliates based in a third country subject to capital controls that is intended to cover cash outflows in that same third country is recognised (all excess amounts are therefore excluded from consolidation)

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 all the Italian banks of the Group.

Intesa Sanpaolo is therefore required to comply with the provisions of Part 6 of the CRR, on a consolidated basis and at Italian liquidity sub-group level (see Bank of Italy Circular no. 285 of 17 December 2013 – Part II, Chapter 11, Section III), and at individual level for the international affiliates based in the European Union.

All the international subsidiary banks of the Group comply with the individual LCR requirements, as they were above the minimum regulatory amounts required at the end of 2018. To this end, and based on the particular characteristics of each international jurisdiction, adequate liquid reserves are maintained that are readily available at local level. For affiliates resident in a third country subject to restrictions on the free transferability of funds, the calculation of the Group LCR can only include the reserves held there to meet liquidity outflows in that third country (accordingly, all surplus amounts are excluded from the consolidation).

Currency mismatch in the Liquidity Coverage Ratio
The Intesa Sanpaolo Group operates primarily in euro. The EU regulations require the monitoring and reporting of the “LCR in foreign currency” when the aggregate liabilities held in a foreign currency are “material”, i.e. equal to or greater than 5% of the total liabilities held by the institution.
As at 31 December 2018, the material currency at consolidated level for the Group was the US dollar (USD). Intesa Sanpaolo has an LCR position in USD of over 100% and has ample highly liquid US dollar (EHQLA) liquidity reserves, mainly consisting of unrestricted deposits held at the Federal Reserve.

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

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

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

Section 6 - Credit risk: general disclosure

Risk management strategies and processes

The Group's strategies, Risk Appetite Framework, and Powers and Rules for credit granting and management are aimed at:

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

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

The 2018-2021 Business Plan includes - among other things - the ambition to excel in asset quality and a pillar of "significant de-risking at no cost to shareholders" in which the effective management of non-performing loans is one of the first priorities. The main contents of these strategies and the results for the year are described in the paragraph "2018-2021 Business Plan" of the 2018 Annual Report.

Structure and organisation of the associated risk management function

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:

- Chief Lending Officer Governance Area
- Chief Risk Officer Governance Area
- Chief Financial Officer Governance Area

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

The Chief Lending Officer Governance Area, with the aid of its structures (BdT Credit Head Office Department, CIB Credit Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Transformation Head Office Department and Capital Light Bank Head Office Department):

- assesses the creditworthiness of the credit proposals received and approves or issues a compliance opinion, where applicable;
- ensures the proactive management of credit and the management and the monitoring of non-performing loans, for its area of responsibility;
- innovatively manages the corporate crisis situations of its customers, through business and financial restructuring instruments;
- analyses the loan portfolio and the evolution of the cost of credit within the Group;
- sets the rules for credit granting and for non-performing loans;
- ensures the correct valuation for financial reporting purposes of positions under its responsibility that are classified as non-performing loans;
- assigns ratings to positions requiring specialist valuations and assesses proposals for improvement overrides made by the competent structures;
- defines the operational processes for credit, also on proposal from the various functions/structures of the Group, in collaboration with the Transformation Center;
- optimises the non-core assets for the bank in line with the Group's objectives, with a view to progressive reduction and disposal, also in collaboration with the other functions involved;
- performs a contact and monitoring role with respect to the external servicer Intrum Italy, and ensures the overall coordination of the subsidiaries Intesa Sanpaolo RE.O.CO. and Intesa Sanpaolo Provis.

The Chief Risk Officer Governance Area is responsible for adapting the Risk Appetite Framework for the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures. Specifically, the Chief Risk Officer Governance Area:

- establishes the metrics for the measurement of credit risk - also with regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis;
- provides risk-adjusted pricing models and guidance on Expected Loss, Economic Capital (ECAP) and RWAs;
- monitors the absorption of capital relating to credit risk, supporting the Chief Financial Officer Governance Area in the active management of capital;
- makes proposals for the allocation of the Credit Granting and Management Powers;

– validates internal risk measurement systems;
– performs level 2 controls for credit risk.

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

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

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

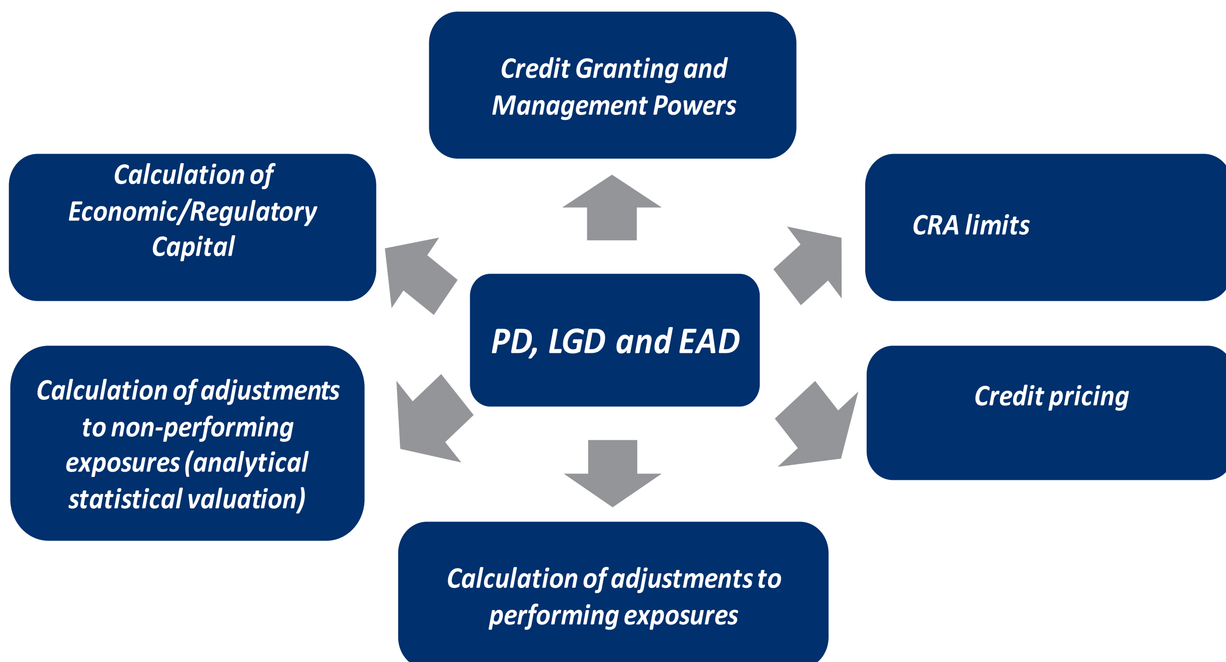
Lastly, as is the case for all the risk areas and above all for credit risk, the Internal Auditing Head Office Department performs internal audits aimed at identifying breaches of the procedures and regulations and periodically assessing the completeness, adequacy, functioning (in terms of efficiency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

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

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

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

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



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

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

The capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group's capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.
The levels of Powers set in terms of RWA delimit the decision-making power in the granting phase, specifying the authorised professional profiles and the decision-making procedures for the loans for the individual counterparties. In particular, where the granting of loans by the Group's subsidiaries exceeds certain thresholds, a request for a "Compliance Opinion" is made to the competent bodies of the Parent Company.
The credit granting phase is also regulated by metrics that are complementary to the RWAs, which define coordination mechanisms and support tools for the ongoing exercise of guidance, coordination and control responsibilities, in implementation of the corporate governance provisions. In particular, the company rules include the Granting and Management Rules, which specify the methods for taking on credit risk with customers, and the Rules on Credit Strategies, which are designed to direct the development and composition of the loan portfolio towards a risk/return profile that is recognised as optimal over the medium/long-term.
The credit risk management processes also envisage the periodic review of all the credit positions by the relevant head office or local structures and the assessment of customers not only at the initial lending stage, but also on a continuous basis, by means of a monthly monitoring process that interacts with credit management and control processes and procedures to ensure timely assessment of any signs of impairment, with an impact on the level of risk of the exposures. An Early Warning System is in place for the Corporate, Retail SME, Retail and Institutions portfolios, with adaptations introduced alongside the updates to the internal rating models. The system was developed on the basis of the indicators identified in the Asset Quality Review and consists of a statistical component and a qualitative component, plus manual triggers by event. The indicators are updated on a daily basis and, when they confirm a potential anomaly in the management of the relationship the related positions are detected and reported in the Proactive Management Process.
The valuation of the adjustments to the performing and non-performing exposures[7] is based on methods consistent with IFRS 9, which introduced a model based on the concept of expected loss instead of the incurred loss envisaged by IAS 39, in order to recognise losses in a more timely manner. IFRS 9 requires that entities recognise expected credit losses over the next 12 months (stage 1) starting from initial recognition of the financial instrument. The time horizon for calculating expected losses is the entire residual life of the asset being measured if credit risk has increased "significantly" since initial recognition (stage 2) or if it is impaired (stage 3).
The methodological choices adopted by the Group in applying the new financial reporting standard are described in detail in the 2018 Consolidated Financial Statements ("Transition to IFRS 9" and "Part A – Accounting Policies"), and, with regard to the impairment of performing and non-performing exposures, in "Section 7 – Credit Risk" of this document.
In order to meet the requirements of the standard, the Group has developed specific models for calculating the expected loss that make use of the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") parameters used for regulatory purposes and to which specific adjustments have been made in order to ensure full consistency with the accounting rules. In addition, the calculation of the ECL includes forward-looking information, which also consists of information on the evolution of the macroeconomic scenario.
The internal systems used for regulatory purposes are described in Section 9.
As noted in the first Section of this document (paragraph "Basel 3 Regulations"), the Group adopted these systems for the purposes of the capital requirements for 88% of the Risk-Weighted Assets as at 31 December 2018 and plans to roll out the authorised models or to submit applications for the remaining Italian and international portfolios for a further 5.3%.
For management purposes, parameters have been developed and are being used for the Sovereign segment or for the Non-Financial Banking Institutions (which are not included in the roll-out plan because the option of Permanent Partial Use has been adopted for regulatory purposes) and for the main portfolios that have not yet been authorised, such as the portfolios of the International Subsidiary Banks using the Standardised approach. The latter use models derived from the Parent Company with adaptations to the local situation or models developed entirely by the subsidiaries concerned in order to capture the specific features of the risk of the local counterparties.

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

Counterparty risk is a particular kind of credit risk associated with OTC derivative contracts that refers to the possibility that a counterparty may default before the contract matures. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, were the counterparty to default, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).
With regard to counterparty risk, the Banking Group has an internal model for measuring this risk both for operational and regulatory purposes.

[7] The analytical statistical valuation of the non-performing exposures applies to positions below 2 million euro

Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the purposes of operational measurement of uses of credit lines for derivatives. The Financial and Market Risks Head Office Department produces daily estimates for the counterparty risk measurements, for the measurement of the uses of credit lines for OTC derivatives and SFTs for the Parent Company and Banca IMI. It also does this for the OTC derivatives for the banks of the Banca dei Territori division. It should be noted that the PFE method, in simplified form, is adopted for the banks of the International Subsidiary Banks Division, through the use of internally estimated add-ons.

In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:
- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of wrong-way risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives and SFTs with margining agreements (CSA, GMRA and similar);
- periodic reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk;
- definition and periodic calculation of back-testing analyses to monitor the predictive performance over time of the model with respect to the movements of the risk factors underlying the transactions in the portfolio.

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

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

The Group's lending activity is focused on Italian customers (82% of the total) and is primarily aimed at households and small and medium enterprises.

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

Policies for hedging and mitigating risk

The risk mitigation techniques include the instruments that contribute to reducing the loss the Bank would incur in the event of counterparty default, i.e. the LGD described in the paragraph above. In particular, they include guarantees and certain types of contracts that result in a reduction in credit risk.
The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual exposure, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.
During the credit granting and managing process, the acquisition of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium/long-term transactions.
The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.
The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.
Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.
The set of internal regulations and organisational and procedural controls is aimed at ensuring that:
- all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
- for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
- the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

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

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

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into ISDA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
The Group also establishes collateral agreements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

In 2018 the Parent Company continued its activities relating to the “GARC” (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit.
The guarantees obtained provide hedging of default risk (past due, unlikely to pay and bad loan) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (including Regulation (EU) 575/2013 and Bank of Italy Circular 285/2013).
The transactions completed during the year included the tranched cover synthetic securitisation, supported by the Central Guarantee Fund, which allows businesses to access the benefits provided for by Law no. 662/96, aimed at facilitating access to new credit for Italian SMEs. In particular, admission to the Fund’s guarantee was obtained for 4 portfolios of 300 million euro of new loans, for which the disbursements to SMEs and Mid-Caps were initiated in 2018 and will be completed by the second half of 2019.

In order to optimise capital absorption, a transaction was also completed with the counterparty SACE to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Albania, Bosnia, Serbia and Egypt.

In addition, in recent years, the Bank has been heavily involved in the implementation of two integrated asset and guarantee management systems (PGA - Active Guarantees Portal and ABS - System Assets Archive) in order to improve the efficiency of collateral management. This has been accompanied by the development of a specific system for managing bad loans, to track the main legal actions and particularly those relating to the enforcement of real estate collateral (EPC - Ex Parte Creditoris).
A project was started for International Subsidiary Banks with the aim of guaranteeing a consistent approach at Group level to the use of the credit risk mitigation techniques. In further detail, the gap analysis of seven International Subsidiary Banks was completed for the main types of guarantees. For five of these, an action plan was drawn up and is now being implemented. With regard to the Covenant project in particular, the management through a dedicated application is now fully operational.

EU CRB-B – Total and average of net amount of on-balance sheet and off-balance sheet exposures

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2018 and the average net amount for the period (financial year), with a breakdown by exposure classes, for the IRB and Standardised approaches.

(millions of euro)

		Net value of exposures as at 31 December 2018	Average net exposures over the period
1	**Central governments or central banks**	-	-
2	**Institutions**	62,716	62,859
3	**Corporates**	294,839	304,117
4	*Of which: Specialised lending*	13,804	13,526
5	*Of which: SMEs*	70,938	75,775
6	**Retail**	135,877	123,662
7	*Secured by real estate property*	96,071	95,131
8	*SMEs*	5,331	5,361
9	*Non-SMEs*	90,740	89,770
10	*Qualifying revolving*	-	-
11	*Other retail*	39,806	28,531
12	*SMEs*	18,513	18,097
13	*Non-SMEs*	21,293	10,434
14	**Equity**	4,533	4,648
15	**Total IRB approach**	497,965	495,286
16	**Central governments or central banks**	126,681	128,123
17	**Regional governments or local authorities**	920	930
18	**Public sector entities**	1,651	1,627
19	**Multilateral development banks**	490	474
20	**International organisations**	101	193
21	**Institutions**	8,212	7,934
22	**Corporates**	41,875	42,012
23	*Of which: SMEs*	10,809	10,934
24	**Retail**	18,725	28,834
25	*Of which: SMEs*	3,531	4,598
26	**Secured by mortgages on immovable property**	6,147	7,045
27	*Of which: SMEs*	1,258	1,610
28	**Exposures in default**	2,079	2,598
29	**Items associated with particularly high risk**	1,239	1,360
30	**Covered bonds**	877	684
31	**Claims on institutions and corporates with a short-term credit rating**	-	-
32	**Collective investments undertakings**	2,533	2,572
33	**Equity exposures**	2,449	2,451
34	**Other exposures**	15,647	14,901
35	**Total standardised approach**	229,626	241,738
36	**TOTAL**	727,591	737,024

The table respectively shows the value as at 31 December 2018 and the average value for 2018 of the on- and off-balance sheet exposures, with details of the calculation method and the breakdown by exposure class. The adoption of advanced models for exposures pertaining the “Retail” and “Equity” classes required a corresponding restatement of the relative values in the section concerned. With regard to the changes in the aggregates, there was a reduction in the value of the portfolio at the end of the period (-4%), which was also attributable to a major transaction involving the sale of exposures in default completed on 1 December 2018, reflected in the year-end values, which were lower than the average figure for the year. Considering the overall contraction of the portfolio, the distribution by exposure class remained substantially unchanged, with a slight realignment between the “Retail” class (+1.5%) and the “Corporates” class (-1.5%).

EU CRB-C – Geographical breakdown of on-balance sheet and off-balance sheet exposures *(Table 1 of 2)*

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2018, with a breakdown by exposure classes and by geographical areas, for the IRB and Standardised approaches.

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2018											
		EUROPE	*of which: France*	*of which: United Kingdom*	*of which: the Netherlands*	*of which: Spain*	*of which: Turkey*	*of which: Hungary*	*of which: Italy*	*of which: Luxembourg*	*of which: Germany*	*of which: Croatia*	*of which: Slovakia*
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	41,075	*2,708*	*2,703*	*832*	*685*	*4,091*	*16*	*24,748*	*190*	*1,206*	*16*	*8*
3	Corporates	258,218	*8,014*	*6,139*	*4,924*	*5,660*	*1,536*	*177*	*200,904*	*4,490*	*5,496*	*285*	*4,949*
4	Retail	135,772	*17*	*95*	*14*	*7*	*1*	*1*	*128,414*	*8*	*22*	-	*6,995*
5	Equity	4,149	-	-	-	-	-	-	*4,095*	*44*	-	-	-
6	**Total IRB Approach**	**439,214**	***10,739***	***8,937***	***5,770***	***6,352***	***5,628***	***194***	***358,161***	***4,732***	***6,724***	***301***	***11,952***
7	Central governments or central banks	107,083	*3,232*	*819*	*378*	*11,378*	*334*	*1,767*	*79,924*	*274*	*1,150*	*2,095*	*1,020*
8	Regional governments or local authorities	920	*118*	-	-	*31*	-	*9*	*61*	-	*66*	*131*	*151*
9	Public sector entities	1,508	*25*	-	-	*27*	*279*	-	*450*	-	*19*	*574*	*7*
10	Multilateral development banks	2	-	-	-	-	-	-	-	-	-	-	-
11	International organisations	1	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	6,736	*623*	*386*	*221*	*116*	*1*	*137*	*1,922*	*833*	*818*	*133*	*41*
13	Corporates	38,841	*410*	*667*	*379*	*149*	*132*	*2,360*	*18,955*	*1,904*	*613*	*6,101*	*691*
14	Retail	17,396	*3*	*6*	-	*2*	-	*646*	*11,014*	*214*	*3*	*1*	*2,097*
15	Secured by mortgages on immovable property	6,143	*2*	*9*	-	-	-	*558*	*3,853*	-	*3*	*901*	-
16	Exposures in default	2,001	-	-	-	-	-	*73*	*1,267*	*19*	-	*334*	*89*
17	Items associated with particularly high risk	1,238	-	-	-	-	-	*11*	*1,213*	-	-	-	-
18	Covered bonds	818	*185*	*10*	*44*	*27*	-	*153*	*211*	*13*	-	-	-
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	2,425	*4*	*59*	-	-	-	*8*	*1,635*	*654*	-	-	-
21	Equity exposures	2,328	-	*4*	-	-	-	*3*	*2,201*	*106*	-	*2*	-
22	Other exposures	15,361	-	*1*	-	-	-	*131*	*12,422*	*202*	-	*1,735*	*324*
23	**Total Standardised Approach**	**202,801**	***4,602***	***1,961***	***1,022***	***11,730***	***746***	***5,856***	***135,128***	***4,219***	***2,672***	***12,007***	***4,420***
24	**TOTAL**	**642,015**	***15,341***	***10,898***	***6,792***	***18,082***	***6,374***	***6,050***	***493,289***	***8,951***	***9,396***	***12,308***	***16,372***

EU CRB-C – Geographical breakdown of on-balance sheet and off-balance sheet exposures *(Table 2 of 2)*

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2018							
		of which: Serbia	*of which: Russia*	AMERICA	*of which: United States*	A S I A	REST OF THE WORLD	*of which: Egypt*	Total
1	Central governments or central banks	-	-	-	-	-	-	-	-
2	Institutions	*7*	*675*	7,892	*1,885*	11,360	2,389	*648*	62,716
3	Corporates	*249*	*5,333*	25,474	*19,843*	9,521	1,626	*144*	294,839
4	Retail	*10*	*14*	47	*32*	42	16	*2*	135,877
5	Equity	-	-	52	*50*	332	-	-	4,533
6	**Total IRB Approach**	***266***	***6,022***	**33,465**	***21,810***	**21,255**	**4,031**	***794***	**497,965**
7	Central governments or central banks	*1,441*	*186*	12,693	*12,219*	3,007	3,898	*2,240*	126,681
8	Regional governments or local authorities	*70*	-	-	-	-	-	-	920
9	Public sector entities	*4*	-	-	-	5	138	*138*	1,651
10	Multilateral development banks	-	-	-	-	-	488	-	490
11	International organisations	-	-	-	-	-	100	-	101
12	Institutions	*45*	*68*	1,008	*793*	228	240	*209*	8,212
13	Corporates	*1,642*	*639*	873	*390*	488	1,673	*1,581*	41,875
14	Retail	*1,733*	*62*	13	*11*	6	1,310	*1,307*	18,725
15	Secured by mortgages on immovable property	*630*	*6*	2	*2*	2	-	-	6,147
16	Exposures in default	*97*	*35*	-	-	-	78	*69*	2,079
17	Items associated with particularly high risk	*14*	-	1	*1*	-	-	-	1,239
18	Covered bonds	-	-	59	-	-	-	-	877
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	104	*36*	-	4	*4*	2,533
21	Equity exposures	*1*	-	17	*17*	81	23	*23*	2,449
22	Other exposures	*197*	*28*	16	*15*	2	268	*268*	15,647
23	**Total Standardised Approach**	***5,874***	***1,024***	**14,786**	***13,484***	**3,819**	**8,220**	***5,839***	**229,626**
24	**TOTAL**	***6,140***	***7,046***	**48,251**	***35,294***	**25,074**	**12,251**	***6,633***	**727,591**

This table shows the value as at 31 December 2018 of the on- and off-balance sheet exposures, with details of the calculation method and the breakdown by exposure class and geographical area. With regard to the breakdown by geographical area, in addition to the aggregate value of exposures by macro-area, the table identifies the countries to which the exposure is greater than 6 billion euro, which together represent more than 90% of the total portfolio. The most significant countries that are not specifically identified are:

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

Compared to the previous year, there were no significant changes in the composition of the portfolio.

EU CRB-D – Concentration of on-balance sheet and off-balance sheet exposures by industry or counterparty types *(Table 1 of 2)*

This table reports the net amount of the on-balance sheet and off-balance sheet exposures as at 31 December 2018, with a breakdown by exposure classes and by industry, for the IRB and Standardised approaches.

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2018										
		Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply; sewage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of vehicles and motorcycles	Transport and storage	Accommodation and food service activities	Information and communications	Financial Institutions
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	-	1	-	-	-	-	2	45,406
3	Corporates	3,824	8,741	81,225	17,653	2,311	23,660	37,252	11,617	3,949	12,197	10,722
4	Retail	3,199	44	5,490	64	104	3,868	7,212	934	2,094	582	-
5	Equity	1	-	173	14	-	169	6	66	1	13	3,600
6	**Total IRB Approach**	**7,024**	**8,785**	**86,888**	**17,731**	**2,416**	**27,697**	**44,470**	**12,617**	**6,044**	**12,794**	**59,728**
7	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
9	Public sector entities	2	5	69	60	6	509	-	20	-	8	-
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	490
11	International organisations	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	-	-	-	-	-	-	-	-	-	-	8,212
13	Corporates	672	377	4,126	711	210	1,812	2,498	659	729	758	16,650
14	Retail	205	8	780	34	25	457	1,211	250	178	83	-
15	Secured by mortgages on immovable property	131	-	302	8	4	111	328	55	155	32	-
16	Exposures in default	32	3	389	6	5	271	269	83	103	16	29
17	Items associated with particularly high risk	-	-	-	-	-	21	-	-	14	-	1,190
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	877
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	2,360
21	Equity exposures	-	-	-	-	-	-	14	1	-	46	294
22	Other exposures	-	-	61	-	-	1	1	-	-	1	-
23	**Total Standardised Approach (*)**	**1,042**	**393**	**5,727**	**819**	**250**	**3,182**	**4,321**	**1,068**	**1,179**	**944**	**30,102**
24	**TOTAL**	**8,066**	**9,178**	**92,615**	**18,550**	**2,666**	**30,879**	**48,791**	**13,685**	**7,223**	**13,738**	**89,830**

(*) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 11,505 million euro.

EU CRB-D – Concentration of on-balance sheet and off-balance sheet exposures by industry or counterparty types *(Table 2 of 2)*

(millions of euro)

		NET VALUE AS AT 31 DECEMBER 2018										
		Governments and Central Banks	Households	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Total
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	33	-	15,638	-	1,623	13	-	62,716
3	Corporates	-	-	14,754	22,201	5,274	7	267	2,640	1,173	35,372	294,839
4	Retail	-	104,122	1,306	3,040	670	3	256	1,449	382	1,058	135,877
5	Equity	-	-	178	280	11	-	-	21	-	-	4,533
6	**Total IRB Approach**	**-**	**104,122**	**16,238**	**25,554**	**5,955**	**15,648**	**523**	**5,733**	**1,568**	**36,430**	**497,965**
7	Central governments or central banks	126,681	-	-	-	-	-	-	-	-	-	126,681
8	Regional governments or local authorities	920	-	-	-	-	-	-	-	-	-	920
9	Public sector entities	-	-	1	27	76	581	171	51	33	32	1,651
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	490
11	International organisations	-	-	-	-	-	-	-	-	-	101	101
12	Institutions	-	-	-	-	-	-	-	-	-	-	8,212
13	Corporates	-	7,171	1,702	1,013	820	55	45	149	83	1,635	41,875
14	Retail	-	14,200	453	377	93	2	19	82	33	235	18,725
15	Secured by mortgages on immovable property	-	4,649	91	124	33	2	5	39	13	65	6,147
16	Exposures in default	4	337	415	32	22	-	3	5	10	45	2,079
17	Items associated with particularly high risk	-	-	13	1	-	-	-	-	-	-	1,239
18	Covered bonds	-	-	-	-	-	-	-	-	-	-	877
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	173	2,533
21	Equity exposures	1,878	-	5	132	7	-	-	-	-	72	2,449
22	Other exposures	-	-	-	-	-	6	-	-	-	4,072	4,142
23	**Total Standardised Approach (*)**	**129,483**	**26,357**	**2,680**	**1,706**	**1,051**	**646**	**243**	**326**	**172**	**6,430**	**218,121**
24	**TOTAL**	**129,483**	**130,479**	**18,918**	**27,260**	**7,006**	**16,294**	**766**	**6,059**	**1,740**	**42,860**	**716,086**

(*) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 11,505 million euro.

Considering the sharp drop in the overall aggregate (-4.5%), mainly attributable to the “Corporates” class - primarily in the Manufacturing, Construction, Communications, Professional and Scientific Activities and Other Services sectors - the breakdown of the exposures by product sector remained essentially stable, with a marginal re-composition of the portfolio consisting of a decrease in the level of exposures to Financial Institutions (-1.1%) offset by a higher level of exposures to the Public Administration (+1.4%). This trend reflects a selective approach to lending during the year aimed at containing the overall risk profile, together with the completion of a major sale of exposures in default designed to structurally rebalance the capital parameters. The set of policies implemented has further strengthened the quality of the portfolio, which is mainly concentrated towards counterparty types with the lowest risk exposure.

EU CRB-E – Breakdown of on-balance sheet exposures by residual maturity

This table reports the net amount of the on-balance sheet exposures as at 31 December 2018, with a breakdown by exposure classes and by residual maturity, for the IRB and Standardised approaches.

(millions of euro)

		NET EXPOSURE VALUE AS AT 31 DECEMBER 2017					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks	-	-	-	-	-	-
2	Institutions	2,231	8,483	3,349	9,499	25	23,587
3	Corporates	8,316	41,178	53,487	40,572	-	143,553
4	Retail	4,251	4,413	12,394	104,147	-	125,205
5	Equity	-	-	922	-	3,505	4,427
6	**Total IRB approach**	**14,798**	**54,074**	**70,152**	**154,218**	**3,530**	**296,772**
7	Central governments or central banks	5,746	9,925	37,042	28,064	42,504	123,281
8	Regional governments or local authorities	4	75	216	425	3	723
9	Public sector entities	63	107	314	836	-	1,320
10	Multilateral development banks	1	-	115	234	-	350
11	International organisations	1	-	100	-	-	101
12	Institutions	1,494	1,966	1,628	407	412	5,907
13	Corporates	3,783	8,416	12,690	5,285	163	30,337
14	Retail	3,506	3,741	3,473	3,627	133	14,480
15	Secured by mortgages on immovable property	6	95	590	5,404	-	6,095
16	Exposures in default	149	495	547	698	65	1,954
17	Items associated with particularly high risk	6	237	271	465	-	979
18	Covered bonds	-	-	379	498	-	877
19	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-
20	Collective investments undertakings	262	77	829	-	141	1,309
21	Equity exposures	-	-	-	-	2,397	2,397
22	Other exposures	232	2,165	5,230	11	8,009	15,647
23	**Total standardised approach**	**15,253**	**27,299**	**63,424**	**45,954**	**53,827**	**205,757**
24	**TOTAL**	**30,051**	**81,373**	**133,576**	**200,172**	**57,357**	**502,529**

This table shows the value of the on-balance sheet exposures as at 31 December 2018, with details of the calculation method and the breakdown by residual maturity. Considering the decrease in the overall aggregate (-3.1%), mainly attributable to the “Corporates” class, the distribution of exposures by residual duration shifted slightly towards the “greater than 5 years” class (39.8%), with an increase over the period of around 2 percentage points, which reflected a slight extension of the average maturity.

Section 7 - Credit risk: credit quality

Qualitative disclosure

Definitions of “non-performing” loans

Non-performing financial assets include loans classified as bad, unlikely-to-pay or past due by over ninety days according to the rules issued by the Bank of Italy, in line with the IAS/IFRS and the EU Supervisory Regulations.
The definition of non-performing loans as established by the Bank of Italy in Circular 272 of 2008 (and subsequent amendments) also coincides with the definition of “impaired” financial assets contained in IFRS 9, with the consequent recognition of all non-performing loans within Stage 3.
On 9 January 2015, on the proposal of the European Banking Authority (EBA), the European Commission approved the "final" version of the “Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013”.
Following this decision, the Bank of Italy issued an update to its corpus of regulations that, in line with the previous representation of the risk statuses of non-performing loans, fully reflects the new Community regulations with effect from 1 January 2015.
Based on the regulatory framework, supplemented by internal implementing rules, non-performing financial assets are therefore classified into three categories, based on their level of severity: “bad loans”, “unlikely to pay” and “non-performing past due exposures”.
The type “exposures subject to concessions - forbearance” has also been established. These are exposures subject to renegotiation and/or refinancing due to financial difficulties (evident or in the process of becoming evident) of the debtor, which effectively constitute a subgroup of both non-performing exposures (non-performing exposures with forbearance measures) and performing exposures (other forborne exposures).
Non-performing exposures with forbearance measures do not represent a separate category of non-performing assets, rather, they are a sub-set of the above categories of non-performing assets.
The process of managing such exposures, in close accordance with regulatory provisions concerning classification times and methods, is assisted by an IT tool that ensures pre-established, autonomous and independent management procedures.
The Intesa Sanpaolo Group adopts a “per borrower” approach in identifying non-performing exposures. Accordingly, the entire counterparty in the credit relationship is assessed and subsequently classified, rather than the individual credit lines granted to that counterparty.
Non-performing assets are subject to an individual measurement process or calculation of the expected loss for uniform categories (identified based on the risk status, duration of non-performance and significance of the exposure represented), which results in the allocation of the value adjustment for each position.

Non-performing loans are measured using two methods:

- analytical-statistical measurement: for exposures equal to or lower than given thresholds, based on the use of specific LGD grids;
- analytical measurement: for exposures above certain thresholds based on write-down estimates allocated by the relationship manager, following analyses and valuations based on pre-established criteria.

In addition to the valuation component determined through analytical-statistical valuation models or through individual expert evaluation, an add-on component is used to take into account both the future macroeconomic scenarios and the incremental risk of the counterparty as long as it remains in the specific risk status (vintage), as well as the sales prospects if present.

The measurements are carried out upon classification of the exposures as non-performing loans or upon the occurrence of significant events and are reviewed periodically.
With reference to non-performing past-due loans and unlikely to pay loans, the local organisational units (at regional level) that perform specialist activities, or the Head Office Department structures which are responsible for the overall management and coordination of these matters, are identified as the structures responsible for their management, based on pre-determined thresholds of increasing materiality.
With regard to bad loans, during 2018 the Group adopted a new organisational configuration. Until November 2018, in continuity with previous years, the organisational model envisaged:

- the assignment to the Loan Recovery Department of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo and all banks in the Banca dei Territori Division) of all positions that it manages and customers classified to the bad loan category from May 2015 (with the exception of a portion of loans with individual exposures below a given threshold, collectively representing an insignificant percentage in terms of exposure with respect to total bad loans, which are assigned for management to new external servicers under a specific agreement and with pre-defined limits);
- the suspension (with limited exceptions) from May 2015 of assignment to Italfondiario S.p.A. of new bad loan flows, without prejudice to its management of the bad positions assigned to it until 30 April 2015;
- for bad positions of limited amounts, routine factoring without recourse to third-party companies on a monthly basis when they are classified as bad loans, with some specific exceptions.

The Loan Recovery Department relied on its own specialist units throughout the country to manage the recovery for loans entrusted directly to it. As part of these activities, in order to identify the optimal strategies to be implemented for each position, judicial and non-judicial solutions are examined in terms of costs and benefits, also considering the financial impact of the estimated recovery times.

From December 2018, the organisational model envisages the outsourcing of recovery activities to a specialist external servicer, a leading international operator, with whom a partnership has been established with the aim of further improving recovery activities and achieving future value creation through the development of a best-in-class platform in Italy, which is one of the largest European markets for NPL servicing.
The positions classified by the ISP Group as sensitive are managed by an internal recovery unit. Within the CLO area, the Capital Light Bank Head Office Department has the task of liaising with the Servicer in the operational management and monitoring of performance levels.
The Servicer, for the positions assigned under its management, is required to comply with the valuation rules adopted by the ISP Group.

The measurement of the loans is reviewed whenever a new event occurs that could affect the prospects for recovery (e.g. change in the value of assets on which collateral has been acquired, developments in ongoing litigation, etc.).
In order to identify such events rapidly, the information set relative to borrowers and guarantors is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly monitored.
The activity performed by the external servicers is monitored by the designated internal units of the Group.
The classification of positions within non-performing financial assets is undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of the monitoring and recovery of non-performing loans. Classification also involves the use of automatic mechanisms when given objective default conditions arise. This refers, for example, to past-due loans continuously above certain thresholds for certain periods, and to forborne performing positions that have not yet completed their probation period, if the conditions apply for the reallocation of those exposures to non-performing loans.
Furthermore, automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group’s various intermediaries are subject to the required uniform convergence of management decisions. Materiality is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.
Automatic mechanisms within the system also ensure that positions are allocated to the risk status most representative of their creditworthiness (bad loans excluded) as material default continues.

The return to performing status of non-performing exposures is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the Structures responsible for their management, upon verification that the critical conditions or state of default no longer exist.
Exposures classified amongst “past-due loans” automatically become performing when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as unlikely to pay when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.

The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area performs the level two control on the individual counterparties with non-performing loans, to verify their correct classification and/or adequate provisioning. Checks were also conducted on bad loans to which adjustments were allocated on a lump-sum basis, also in accordance with the framework for the validation of accounting LGDs applied to bad loan positions (LGD defaulted assets).

The paragraphs below contain the definitions of the various categories of “non-performing” loans.

Bad loans

On- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the Bank. This is irrespective, therefore, of whether any collateral or guarantees have been established to cover the exposures. Exposures whose anomalous situation may be attributed to Country risk are excluded from this category;

Unlikely to pay

On- and off-balance sheet exposures for which - according to the judgement of the creditor bank - full repayment is unlikely (in terms of capital or interest, and without considering recourse to actions such as enforcement of collateral arrangements). This assessment is conducted regardless of the presence of any amounts (or instalments) due and unpaid. As the assessment of unlikelihood of repayment is at the discretion of the Bank, it is not necessary to await an explicit symptom of anomaly (non-repayment), when there are elements that imply a risk of non-compliance by the borrower (for example, a crisis in the industrial sector in which the borrower operates). The set of on- and off-balance sheet exposures toward the same borrower in said situation is therefore classified under the category "unlikely to pay" (unless the conditions for classification of the borrower among bad loans exist). Loans classified as “unlikely to pay” include the following, unless they meet the conditions for classification as bad loans:

- the set of exposures to parties that meet the conditions for classification as unlikely-to-pay and that have one or more credit lines that meet the definition of “Non-performing exposures with forbearance measures”;
- the set of exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital and/or interest) relating to listed debt securities. To this end the “grace period” established by the contract is recognised or, in its absence, the period recognised by the market listing the security.

The Intesa Sanpaolo Group's policy - in addition to what is expressly and specifically indicated by Circular 272 - envisages that exposures classified as “unlikely to pay” also include non-performing past due or overdrawn loans subject to restructuring and which, following restructuring, no longer have past due days[8]. As envisaged by the reference regulations, classification in the non-performing category is maintained for twelve months following completion of restructuring;

Past due exposures
On- and off-balance sheet exposures, other than those classified as bad loans or unlikely to pay that, as at the reporting date, are past due or overdrawn by over 90 days on a continuous basis.
This is irrespective of whether any collateral or guarantees have been established to cover the exposures.

Forborne exposures

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

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

The identification of “forborne assets” or “forborne exposures”, in line with the provisions of the EBA regulations and unlike the “per borrower” approach used by the Intesa Sanpaolo Group for the classification of non-performing exposures, necessarily takes place on a “per transaction” basis. The term “exposure” in this context refers to the renegotiated contract, rather than all the exposures to the same borrower.
More generally, the Intesa Sanpaolo Group’s policy, based on the instructions provided by the Supervisory Authorities, contains components for the identification of the financial difficulty (of the performing borrower) which, in the event of renegotiation/refinancing, entails the classification of one (or more) credit line(s) among those being granted:
- a significant deterioration in the borrower’s rating during the period prior to the renegotiation (e.g. three months);
- the presence of exposures past due by thirty days or more in the three months prior to the renegotiation;
- the inclusion of exposures pertaining to the borrower in a watch list that indicates a particular level of risk.

The definition of forborne exposure applies transversally to the loan classification macro-categories (performing and non-performing). Forborne assets can therefore be included in both the stage 3 exposures (non-performing forborne loans or non-performing transactions subject to forbearance measures) and the stage 2 exposures. According to the Intesa Sanpaolo Group’s interpretations, the identification of an exposure as forborne necessarily implies the existence of a “significant increase” in risk since the origination of the loan (and, therefore, a classification in stages 2 or 3, at the time of assignment of the forborne status).

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

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

Description of the methods adopted to calculate the adjustments

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

If there is evidence of impairment, these financial assets – in line with any other assets pertaining to the counterparty – are considered impaired and are included in stage 3. For these exposures, consisting of financial assets classified – in accordance with the provisions of Bank of Italy Circular 262/2005 – in the categories of bad loans, unlikely-to-pay loans and exposures past due by more than ninety days, value adjustments must be recognised equal to their lifetime expected credit losses.

Impairment of performing financial assets

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

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

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

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

Focusing on the main trigger out of those referred to above (i.e. the change in the lifetime probability of default), the significant increase in credit risk ("SICR") is determined by comparing the relative change in the lifetime probability of default recorded between the initial recognition date of the relationship and the observation date (Lifetime PD Change) with predetermined significance thresholds. The assignment of a counterparty Lifetime PD, both from the initial recognition date and the observation date of the individual relationships, is carried out by allocating the ratings for each segment according to the masterscale. Ratings are determined based on internal models, where available, or on business models. If there are no ratings, the average PDs for the segment are assigned to the type of counterparty being assessed.

The significant deterioration is therefore based on the increase in the lifetime PD caused by downgrades of the position from its origination to the reporting (observation) date, as well as the change in the forecast of the future macro-economic factors.

The above-mentioned "relative" change in lifetime PD is an indicator of the increase or decrease in credit risk during the reporting period. To establish whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and therefore entail a transition between stages), it is necessary to set specific thresholds. Increases in lifetime PD below these thresholds are not considered significant and, consequently, do not result in the transfer of individual credit lines/tranches of debt securities from stage 1 to stage 2. However, this transfer is required if there are relative increases in PD above these thresholds. The thresholds used have been estimated based on a process of simulations and optimisations of forecast performance, carried out using granular historical portfolio data. Specific thresholds are set for the Corporate, Retail, Large Corporate and Retail SME models and extended to the other models based on methodological affinity. The thresholds differ in terms of residual maturity, annual granularity and rating class.

The determination of the thresholds has been calibrated to find a suitable balance between the performance indicators relating to the ability of the thresholds to:

- detect stage 2 positions before their transition to default;
- identify positions for which a return to stage 1 is due to an actual improvement in credit rating.

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

Once the allocation of the exposures to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, using the IRB/Business models, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), to which appropriate corrections are made to ensure compliance with the specific requirements of IFRS 9.

The following definitions apply for PD, LGD and EAD:
- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In the Intesa Sanpaolo Group, the PD values are derived from internal rating models where available, supplemented by external ratings or segment/portfolio average figures;
- LGD (Loss Given Default): percentage loss in the event of default. In the models consistent with supervisory provisions, it is quantified through the historical experience of discounted recoveries on exposures that have become non-performing;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

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

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

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. IFRS 9, also based on the guidance from the international regulators, gives particular importance to information on future macroeconomic scenarios in which the Bank may find itself and which clearly influence the situation of the debtors, with regard both to the “risk” of migration of exposures to lower quality classes (and therefore concerning the staging) and to the recoverable amounts (and therefore concerning the determination of the expected loss on the exposures). In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Intesa Sanpaolo Group has decided to adopt the “Most likely scenario+Add-on” approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario (“Most Likely”, in line with the approach used for other business purposes such as, for example, the budget and business plans) and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Bank’s Internal Research Department using forecasting models that are disclosed to the market to determine the consensus. Alternative upside and downside scenarios are determined through stress tests of the input variables of the forecasting models.

In particular, the most likely scenario and alternative scenarios are determined using a set of analytical and stand-alone forecasting instruments that determine the forecast path for several blocks of variables, namely:
- national accounts and inflation of the top 6 Eurozone countries, the United States and Japan;
- official rates (ECB, Fed, BoJ), EUR and USD swap rate curves, and several points of the government curves;
- exchange rates for EUR, USD, JPY and GBP;
- stock market indices (DJ Eurostoxx 50 and S&P 500);
- some specific data for the Italian economy (industrial production, employment, public finance balances).

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

The alternative paths are selected using external information. Among these:
- average annual GDP growth rates of several countries: this is the key driver for the simulation and the deviations are determined to replicate the dispersion of the growth estimates published by Consensus Economics in the most recent report available at the date of the simulation, considering the minimum and maximum forecasts (after applying a filter to identify and eliminate possible outliers). If there are outliers, these are discarded and the remaining maximum and minimum values are considered. Since consensus estimates are only available for the first two years of the simulation period, an extrapolation of the deviations identified for the first two years is used for the third year;
- stock market indices (DJ Eurostoxx 50, S&P500) and US residential real estate prices: the minimum and maximum forecasts of the Thomson Reuters panel are used as a reference;
- Italian residential real estate prices: since no consensus estimates are currently available, the alternative paths are based on the distribution of the historical quarterly changes available from 1980 to the current quarter.

The percentile value identified is used, for the most likely scenario, to determine the variations corresponding to a probability gap, calculated through statistical analysis of the historical distribution of the observations. The two (positive and negative) changes with respect to the most-likely scenario are then used to calculate the level of the individual identified indices, reconstructing the two alternative paths (one positive and one negative) for each of them that represent the input for the determination of the Add-On. The probability gap used is identified based on the variability characteristics of the series, to obtain a significant deviation from the most-likely scenario.

In addition to defining the alternative paths, a map of possible additional factors is maintained, i.e., adverse idiosyncratic events or scenarios (e.g., Brexit, etc.), not explicitly incorporated in the time series used for the construction of the most-likely scenario or in the alternative paths, which can generate further significant effects on expected losses.
The following is assessed for these events/scenarios:
- the possible time frame;
- the degree of inclusion in the most-likely scenario or the alternative paths;
- the potential impact, assessed in qualitative terms.

The map of additional factors also draws on the list of risk factors contained in the forecast reports of the IMF (World Economic Outlook) and the European Commission and may change over time.
Within the assessment of the time frame for the additional factors, note is made if the factor cannot be placed within a specific time period, which makes its incorporation into the most-likely scenario or alternative paths unfeasible.
The assessments made take account of the fact that the consensus estimates may include forecasts that already incorporate the total or partial realisation of one or more risk factors in their estimates, which means that the alternative paths may already incorporate these additional factors to some extent.

The above macroeconomic scenarios (most likely and alternative scenarios) are used in internal models to determine the point-in-time (PIT) parameters.
Specifically, the historical series of decay rates acquired from the Bank of Italy are differentiated over the main economic macro-sectors (e.g. consumer households, family businesses, construction) and, for each of these, specific satellite models establish the relationships with the macroeconomic variables in order to obtain the forecast decay rates. In turn, these impact the TTC transition matrices between rating classes and thus provide the PIT transition matrices for each scenario (most likely and alternative scenarios). These give rise to the lifetime conditional PD. A similar process is used to determine the PIT LGD grids.

Taking account of the repayment plans of the individual loans, their conditional PD and LGD, residual maturity and staging, the impairment of performing financial assets is determined.

Impairment of non-performing financial assets

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

Non-performing loans classified as bad loans are subject to the following measurement methods:
- analytical-statistical measurement, which is used for exposures of less than 2 million euro and is based on the use of specific LGD grids, plus an Add-On to take account of forward looking-information, and in particular information relating to the impact of future macroeconomic scenarios (as described in the previous paragraphs);
- analytical-specific measurement, which is used for customers with exposures exceeding 2 million euro and is based on the impairment percentages allocated by the manager, following specific analysis and measurements, plus an Add-On to take account of forward-looking information, and in particular information relating to the impact of future macroeconomic scenarios (except for bad loans with mortgage collateral, for which the impact of future scenarios is included through the method used to determine the haircuts to the value of the properties pledged as collateral).

The measurement of unlikely-to-pay loans (UTPs) is also performed based on different approaches:
- analytical-statistical measurement, for exposures of less than 2 million euro, based on the use of specific LGD grids, plus an Add-On to include the impacts of future macroeconomic scenarios (as described in the previous paragraphs) and of continuation in the risk status, in order to penalise positions with greater vintage or which have no movements and/or recoveries for a particular period of time;
- analytical-specific measurement, for on-balance sheet exposures of more than 2 million euro, based on the impairment percentages allocated by the manager, plus an Add-On to take account, also in this case, of the impacts of future macroeconomic scenarios and of continuation in the risk status.

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

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

A brief description is provided below of the methods used for the analytical-specific and analytical-statistical measurement:

- the analytical-specific measurement of bad loans and unlikely-to-pay loans above 2 million euro is a measurement performed by the managers of the individual positions based on a qualitative and quantitative analysis of the borrower's financial position, the riskiness of the credit relationship, possible mitigating factors (collateral) and taking into account the financial impact of the estimated recovery time.
  For bad loans in particular, a series of elements are relevant, which differ according to the characteristics of the positions, and must be thoroughly and prudently assessed, including the following, listed merely as examples:
  - nature of the credit, whether preferential or unsecured;
  - net asset value of the borrowers/third party collateral providers;
  - complexity of existing or potential litigation and/or the underlying legal issues;
  - exposure of the borrowers to the banking system and other creditors;
  - last available financial statements;
  - legal status of the borrowers and any pending insolvency and/or individual proceedings.

  In order to determine the estimated realisable value of loans secured by real estate, and to take into account both the time series of recoveries and the forward-looking information in accordance with IFRS 9, an approach is applied focused on the valuation of real estate based on the expected average auction price and the related reduction in the observed price, with the calculation of average haircuts that differ according to the type of real estate collateral (residential, commercial, industrial and land). Accordingly, to avoid redundancies, a macroeconomic Add-On is not used in the analytical-specific measurement for bad mortgage loans, because the forward-looking component is already taken into account through the haircut.
  For unlikely-to-pay loans, the measurement is based on a qualitative and quantitative analysis of the borrower's financial position and on precise assessment of the risk situation.
  The calculation of the impairment loss involves the valuation of the future cash flows that the borrower is considered to be able to generate and that will also be used to service the financial debt. This estimate must be made based on two alternative approaches:
  - the going concern approach: the operating cash flows of the borrower (or the beneficial owner) continue to be generated and are used to repay the financial debts contracted. The going concern assumption does not rule out the realisation of collateral, but only to the extent that this can take place without affecting the borrower's ability to generate future cash flows. The going concern approach is also used in cases where the recoverability of the exposure is based on the possible sale of assets by the borrower or on extraordinary transactions;
  - the gone concern approach: applicable in cases when it is believed that the borrower's cash flows will cease. This is a scenario that can apply to positions that are expected to be classified as bad loans. In this context, assuming that shareholders' interventions and/or extraordinary operations to restructure debt in turnaround situations are not reasonably feasible, recovery of the credit is essentially based on the value of the collateral that secures the Bank's credit claim, net of the application of a haircut and, alternatively, on the realisable value of the assets, taking into account the liabilities and possible pre-emptive claims;
- the analytical-statistical measurement, performed for bad loans and unlikely-to-pay loans of less than 2 million euro and for past-due loans has specific features according to the type of exposure involved.
  With regard to bad loans, the analytical-statistical measurement is based on the Bad Loan LGD grids, where the LGD Defaulted Asset model is mainly characterised by the differentiation of the loss rates that, in addition to the regulatory segment, is based on the continuation in the risk status ("vintage") and the possible activation of legal recovery proceedings. The grids are also differentiated for the other significant analysis axes used in the model estimation (e.g. product type, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are mainly broken down by regulatory segment and by additional significant analysis axes used in the modelling (e.g. recovery procedures, exposure band, product type).
  For unlikely-to-pay loans, the measurement is performed using statistical LGD grids estimated specifically for positions classified as unlikely-to-pay loans, in line with the estimated LGD grids for bad loans. The estimation model for the LGD grid for unlikely-to-pay loans is similar to the one described above for bad loans and calculates the expected loss rate of the relationship being valued according to its characteristics. The LGD for unlikely-to-pay loans is obtained by recalibrating the bad loan LGD using the Danger Rate module. The Danger Rate is a multiplying correction factor, used to recalibrate the bad loan LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution.
  In addition, for the two subclasses of the "Unlikely-to-Pay Loans" risk status ("Non-Forborne Unlikely-to-Pay Loans" and "Forborne Unlikely-to-Pay Loans"), differentiated grids are estimated to take into account the characteristics of the Forborne loans, which, in addition to having lower average loss levels due to the effect of the Forbearance Measures, are also affected by the regulatory constraints that prevent their return to performing loan status before 12 months from the date of the renegotiation.
  For past-due loans, the methods used to determine the grids are the same as those described for the unlikely-to-pay loans (Framework Danger Rate). In this case, the vintage factor is captured by the introduction of a differentiation based on the duration of the past-due period (Past Due at 90 days/180 days) which produces a significant variation in the loss

rates of the grids, which are also differentiated according to regulatory segment and additional analysis axes (e.g. product type, type of guarantee, geographical area, exposure band, etc.) common to the other non-performing loan categories.
Also in the LGD estimation models used in the analytical-statistical measurement of non-performing exposures, several additional components specifically included for regulatory models were removed, similar to that illustrated for performing exposures.

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

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

With regard to the alternative recovery scenarios, the Intesa Sanpaolo Group, in relation to the objectives of reducing the stock of outstanding non-performing loans, included in its business plans, and the commitments made to the Supervisory Authorities, with specific regard to the NPL Strategy, considers the sale of particular portfolios as the strategy that, in certain conditions, can maximise the cash flow recovery, also considering the recovery times.
In particular, in its "NPL Guidance" published in March 2017, the ECB requested banks with non-performing loans above the average of European banks to establish a strategy aimed at achieving a progressive reduction in those loans. In 2017, Intesa Sanpaolo submitted a plan to the ECB for the reduction of its non-performing loans, mainly focused on recovery through internal management and with a target of reaching an NPL ratio of 10.5% at the end of 2019.
Towards the end of 2017 – following the regulatory developments, with the publication, in October, of the draft Addendum to the NPL Guidance aimed at establishing minimum levels of prudential provisioning for non-performing loans, and the guidance provided by the Supervisory Authority to banks with above-average levels of non-performing exposures on the need to more effectively implement the process of reducing non-performing loans – Intesa Sanpaolo, in its 2018-2021 Business Plan, approved by the Board of Directors, identified significant de-risking as one of its key priorities, also by selling a portfolio of bad loans.
Consequently, the "ordinary" scenario, which assumes a recovery strategy based on the collection of credit, typically through legal actions, mandates to credit recovery companies and the realisation of mortgage collateral, has also been accompanied by the scenario of the sale of the loan as a strategy.
In compliance with the "NPL Guidance" the business strategies regarding NPL reduction are illustrated in the "NPL plan", a document approved by the Board of Directors to be sent to the Supervisory Authority and updated annually.
Where said document identifies disposal objectives and strategies and, as a result, a portfolio of non-performing loans that may be disposed of, until the disposal objectives are reached, the loans and receivables included in that portfolio shall be measured taking account of both the amount recoverable through operating activities and market valuations (based on external appraisals) and/or sales prices, if already defined.

Where the "NPL plan" specifically identifies the positions to be sold, those positions shall be measured exclusively taking account of the market values established by external experts, based on a specific fairness opinion or, if already defined through a binding agreement with the buyer, the sales price.
Where the "NPL plan" identifies a larger loan portfolio that may be sold represented by loans that are disposable (thus, for example, positions that are not involved in disputes, are not securitised or are not a portion of syndicated loans), in relation to the sales objectives, the book value of said portfolio is determined by weighting the amount recoverable through operating activities with the amount recoverable through sale.
In particular, the recoverable amount of disposable non-performing loans is quantified as the average between (i) the value in the event of sale (fair value) and (ii) the collection amount, weighted on the basis of the percentage of the loans eligible for sale that the Group expects to sell and the percentage that management expects to keep in the portfolio. The "collection amount" was determined according to the ordinary methods adopted by the Group for the impairment of non-performing loans, i.e. based on the individual measurement of the exposures exceeding a defined threshold (2 million euro) and based on an analytical-statistical measurement for the others. The analytical-statistical measurement of the "below-threshold" exposures involves grouping them into similar clusters of credit risk. As explained above, the measurement of the value in the event of sale is carried out by an external expert.

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

Lastly, with regard to non-performing loans, it is highlighted that the Intesa Sanpaolo Group uses the write-off/derecognition of unrecoverable accounting positions and, in the following cases, the consequent allocation to loss of the remainder that has not yet been adjusted:
- uncollectability of the debt, as a result of definite and precise elements (such as, for example, untraceability and indigence of the debtor, lack of recovery from realisation of securities and real estate, negative foreclosures, bankruptcy proceedings closed with no full compensation for the Bank, if there are no further guarantees that can be enforced etc.);
- disposal of the loan;
- waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
- no waiver of the credit claim. With regard to the full or partial write-offs without waiver of the credit claim, in order to avoid maintaining loans on the balance sheet that have a very low possibility of recovery, despite continuing to be managed by the recovery structures, they are fully or partially written off due to uncollectability even if the legal proceedings have not been closed. The write-off can only involve the portion of the loan covered by provisions and, therefore, each loan can only be written off up to the amount of its net book value.

In order to accelerate the write-off of loans whose possibility of recovery is deemed marginal, on a periodic basis (at least every six months) portfolios of bad loans are defined to be subject to total or partial write-offs with the following macro-characteristics:
- percentage coverage > 95%;
- vintage (understood as the period of time in “bad loan” status) > 5 years or > 8 years, respectively, for non-mortgage and mortgage loans.

Non-Performing Exposure (NPE) disclosure

This section contains quantitative information supplemented to reflect the new requirements, introduced by the ECB guidelines published in March 2017, for non-performing exposures, forborne exposures and the valuation of collateral.

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.

EU CR1-A – Credit quality of on-balance sheet and off-balance sheet credit risk exposures by exposure class and instrument as at 31 December 2018

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Write-offs on NPE during the reporting period (**)	TOTAL	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD (***)			NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)						on non-performing exposures	on performing exposures	of which due to write-offs	(a+ b -c-d)
1	**Central governments or central banks**	-	-	-	-	-	-	-	-	-	-	-
2	**Institutions**	399	62,496	179	-	16	-	26	7	19	-	62,716
3	**Corporates**	26,171	282,654	13,986	-	4,366	485	1,026	1,142	-116	-40	294,839
4	*Of which: Specialised lending*	*1,784*	*13,001*	*981*	-	*52*	*7*	*46*	*56*	*-10*	*1*	*13,804*
5	*Of which: SMEs*	*14,931*	*64,570*	*8,563*	-	*2,637*	*276*	*625*	*639*	*-14*	*-17*	*70,938*
6	**Retail**	**9,185**	**132,268**	**5,576**	**-**	**701**	**104**	**389**	**348**	**41**	**4**	**135,877**
7	Secured by real estate property	2,906	94,243	1,078	-	33	6	86	65	21	-	96,071
8	*- SMEs*	866	4,807	342	-	21	3	13	22	-9	-	5,331
9	*- Non-SMEs*	2,040	89,436	736	-	12	3	73	43	30	-	90,740
10	Qualifying revolving	-	-	-	-	-	-	-	-	-	-	-
11	Other retail	6,279	38,025	4,498	-	668	98	303	283	20	4	39,806
12	*- SMEs*	3,924	17,449	2,860	-	332	59	178	171	7	2	18,513
13	*- Non-SMEs*	2,355	20,576	1,638	-	336	39	125	112	13	2	21,293
14	**Equity**	**97**	**4,436**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,533**
15	**Total IRB approach**	**35,852**	**481,854**	**19,741**	**-**	**5,083**	**589**	**1,441**	**1,497**	**-56**	**-36**	**497,965**
16	Central governments or central banks	-	126,749	68	-	-	-	-12	-	-12	-	126,681
17	Regional governments or local authorities	-	924	4	-	-	-	-1	-	-1	-	920
18	Public sector entities	-	1,663	12	-	-	-	1	-	1	-	1,651
19	Multilateral development banks	-	490	-	-	-	-	-	-	-	-	490
20	International organisations	-	101	-	-	-	-	-	-	-	-	101
21	Institutions	-	8,254	42	-	-	11	8	-	8	-	8,212
22	Corporates	-	42,160	285	-	-	40	23	-	23	4	41,875
23	*Of which: SMEs*	-	10,900	91	-	-	-	13	-	13	-	10,809
24	Retail	-	18,911	186	-	-	15	8	-	8	-	18,725
25	*Of which: SMEs*	-	3,581	50	-	-	-	2	-	2	-	3,531
26	Secured by mortgages on immovable property	-	6,199	52	-	-	-	10	-	10	-	6,147
27	*Of which: SMEs*	-	1,285	27	-	-	-	3	-	3	-	1,258
28	Exposures in default (****)	4,094	-	2,015	-	224	105	172	172	-	37	2,079
29	Items associated with particularly high risk	-	1,345	106	-	-	-	1	-	1	-	1,239
30	Covered bonds	-	878	1	-	-	-	-	-	-	-	877
31	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-
32	Collective investments undertakings	-	2,533	-	-	-	-	-16	-	-16	-	2,533
33	Equity exposures	-	2,449	-	-	-	-	5	-	5	-	2,449
34	Other exposures	-	15,671	24	-	-	-	29	-	29	-	15,647
35	**Total standardised approach**	**4,094**	**228,327**	**2,795**	**-**	**224**	**171**	**228**	**172**	**56**	**41**	**229,626**
36	**Total**	**39,946**	**710,181**	**22,536**	**-**	**5,307**	**760**	**1,669**	**1,669**	**0**	**5**	**727,591**
37	Of which: Loans (*****)	37,242	406,796	21,948	-	5,307	760	1,637	1,631	6	5	422,090
38	Of which: Debt securities	51	73,700	132	-	-	-	20	-	20	-	73,619
39	Of which: Off-balance-sheet exposures	2,557	222,957	452	-	-	-	12	38	-26	-	225,062

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

(**) The reference period is the second half of 2018.

(***) Net adjustments (+) or recoveries (-) referring to the second half of 2018

(****) 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): 8 million euro attributable to the Central governments and central banks portfolio, 14 million euro attributable to the Public sector entities portfolio, 775 million euro attributable to the Exposures secured by real estate property portfolio, 2,232 million euro attributable to the Corporates portfolio, 1,059 million euro attributable to the Retail portfolio, 4 million euro attributable to the Other exposures portfolio and 2 million euro attributable to the Institutions portfolio.

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

The portfolio contracted significantly during the period (-2.3% in gross values and -1.2% in net values). This reduction is attributable to a lesser extent to Debt Securities (-1.5%) and to a more significant extent to Loans (-2.5%), also in relation to

the sharp reduction in exposures in default (approximately -12.8 billion euro), as a result of a major disposal operation and the continued positive trend of recovery of the financial stability of the borrower counterparties. The breakdown of the portfolio shows a slight shift between "Corporate Exposures" and "Retail Exposures", reflecting the changes in volumes. With regard to the valuation methods, the use of advanced approaches (67.9% of the aggregate) showed an appreciable increase also during the second half (+2.3%), consolidating the positive trend recorded during the year (+3.2%), confirming the Group's constant orientation towards the adoption of advanced credit risk management valuation approaches. It is noted in particular that the adoption of the advanced Retail model involves the restatement of the values indicated in the "Retail" caption in the IRB section.

EU CR1-B – Credit quality of on-balance sheet and off-balance sheet exposures to credit risk by industry or counterparty types as at 31 December 2018

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Write-offs on NPE during the reporting period (**)	TOTAL	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD (***)			NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)						on non-performing exposures	on performing exposures	of which: due to write-offs	(a+ b -c-d)
1	Agriculture, forestry and fishing	1,187	7,571	692	-	105	20	44	48	-4	2	8,066
2	Mining and quarrying	229	9,094	145	-	11	1	9	9	-	-	9,178
3	Manufacturing	8,076	89,245	4,706	-	2,064	215	349	370	-21	8	92,615
4	Electricity, gas, steam and air conditioning supply	513	18,358	321	-	49	5	-26	22	-48	-1	18,550
5	Water supply; sewerage, waste management and remediation activities	206	2,603	143	-	49	4	4	5	-1	-	2,666
6	Construction	8,443	26,754	4,318	-	897	146	361	369	-8	-12	30,879
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	4,563	47,210	2,982	-	743	147	250	248	2	8	48,791
8	Transport and storage	1,675	13,049	1,039	-	169	49	13	22	-9	-33	13,685
9	Accommodation and food service activities	1,331	6,551	659	-	57	9	59	60	-1	-3	7,223
10	Information and communication	395	13,588	245	-	59	4	13	11	2	-	13,738
11	Financial Institutions	477	89,880	527	-	118	34	85	31	54	4	89,830
12	Governments and Central Banks	8	129,551	76	-	-	-	-15	-2	-13	-	129,483
13	Households	4,455	128,653	2,629	-	280	57	223	170	53	-6	130,479
14	Real estate activities	4,915	16,098	2,095	-	448	49	79	108	-29	35	18,918
15	Professional, scientific and technical activities	1,354	26,665	759	-	108	10	138	144	-6	1	27,260
16	Administrative and support service activities	606	6,764	364	-	90	5	25	25	-	-	7,006
17	Public administration and defence, compulsory social security	347	16,066	119	-	10	-	21	3	18	-	16,294
18	Education	59	742	35	-	6	-	-	-	-	-	766
19	Human health services and social work activities	195	5,981	117	-	4	1	-2	9	-11	-	6,059
20	Arts, entertainment and recreation	291	1,600	151	-	29	2	12	13	-1	-	1,740
21	Other services activities	621	42,650	411	-	11	2	27	4	23	2	42,860
22	**TOTAL (***)**	**39,946**	**698,673**	**22,533**	**-**	**5,307**	**760**	**1,669**	**1,669**	**0**	**5**	**716,086**

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

(**) The reference period is the second half of 2018.

(***) Net adjustments (+) or recoveries (-) referring to the first half of 2018.

(****) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 11.505 million euro.

Within the context of a moderate decrease in the overall aggregate, which consolidated the trend already seen in the first half, the breakdown of exposures by industry remained substantially stable, with a marginal re-composition of the portfolio, mainly due to the completion of a major sale of exposures in default and, to a lesser extent, to the performance of operations during the period. As a result of these changes, the portfolio's focus, already concentrated towards counterparty types with a lower risk exposure, was further strengthened in terms of credit quality. There was a marginal increase in the level of exposures to institutional entities such as "Governments and Central Banks" (+0.6%) and "Public Administrations" (+0.3%), as well as, in the Private sector, in the relative weight of "Households" (+0.8%), offset by a similar reduction in exposures to "Manufacturing" (-0.8%).

EU CR1-C – Credit quality of on-balance sheet and off-balance sheet credit risk exposures by geography as at 31 December 2018

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Write-offs on NPE during the reporting period (**)	TOTAL	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD (***)			NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)						on non-performing exposures	on performing exposures	of which: due to write-offs	(a+ b -c-d)
1	**EUROPE**	**39,571**	**624,680**	**22,236**	**-**	**5,285**	**741**	**1,682**	**1,656**	**26**	**5**	**642,015**
2	*of which: France*	*6*	*15,353*	*18*	*-*	*15*	*7*	*-*	*-1*	*1*	*-*	*15,341*
3	*of which: United Kingdom*	*3*	*10,904*	*9*	*-*	*3*	*-*	*1*	*-*	*1*	*-*	*10,898*
4	*of which: Netherlands*	*2*	*6,795*	*5*	*-*	*-*	*-*	*3*	*-*	*3*	*-*	*6,792*
5	*of which: Spain*	*33*	*18,070*	*21*	*-*	*-*	*-*	*2*	*2*	*-*	*-*	*18,082*
6	*of which: Turkey*	*1*	*6,385*	*12*	*-*	*-*	*-*	*6*	*-*	*6*	*-*	*6,374*
7	*of which: Italy*	*37,577*	*476,358*	*20,646*	*-*	*5,085*	*608*	*1,566*	*1,586*	*-20*	*9*	*493,289*
8	*of which: Luxembourg*	*70*	*8,930*	*49*	*-*	*19*	*-*	*1*	*1*	*-*	*-*	*8,951*
9	*of which: Germany*	*104*	*9,364*	*72*	*-*	*1*	*-*	*3*	*2*	*1*	*-*	*9,396*
10	*of which: Croatia*	*646*	*12,074*	*412*	*-*	*1*	*48*	*17*	*21*	*-4*	*-2*	*12,308*
11	*of which: Slovakia*	*333*	*16,412*	*373*	*-*	*-*	*17*	*29*	*11*	*18*	*4*	*16,372*
12	*of which: Hungary*	*158*	*6,030*	*138*	*-*	*-*	*8*	*8*	*7*	*1*	*-*	*6,050*
13	*of which: Serbia*	*174*	*6,086*	*120*	*-*	*3*	*20*	*17*	*4*	*13*	*-*	*6,140*
14	*of which: Russia*	*71*	*7,023*	*48*	*-*	*-*	*11*	*3*	*-*	*3*	*-*	*7,046*
15	**AMERICA**	**173**	**48,218**	**140**	**-**	**3**	**-**	**-2**	**5**	**-7**	**-**	**48,251**
16	*Of which: United States*	*42*	*35,282*	*30*	*-*	*2*	*-*	*-2*	*-*	*-2*	*-*	*35,294*
17	**ASIA**	**49**	**25,051**	**26**	**-**	**19**	**-**	**-12**	**1**	**-13**	**-**	**25,074**
18	**REST OF THE WORLD**	**153**	**12,232**	**134**	**-**	**-**	**19**	**1**	**7**	**-6**	**-**	**12,251**
19	*Of which: Egypt*	*142*	*6,617*	*126*	*-*	*-*	*19*	*11*	*12*	*-1*	*-*	*6,633*
20	**TOTAL**	**39,946**	**710,181**	**22,536**	**-**	**5,307**	**760**	**1,669**	**1,669**	**0**	**5**	**727,591**

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

(**) The reference period is the second half of 2018.

(***) Net adjustments (+) or recoveries (-) referring to the first half of 2018.

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

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

The breakdown of exposures by geography remained substantially stable, with a presence concentrated in Europe (88%), in which the domestic market is largely predominant (77%), with continued consolidated exposure to the traditional trading partners (around 9% of the total aggregate in Spain, France, England and Germany) and an appreciable, albeit marginal, increase in the penetration towards the set of geographically neighbouring countries of Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia-Herzegovina, Albania and Romania) and towards the Russian Federation. With regard to the other countries bordering the Mediterranean, overall dealing was limited, with a relatively larger presence in Egypt and Turkey. The exposure to the main world economies was significant in the USA (around 5%), while it remained limited towards China, Brazil and the Arab countries. During the half year there was a moderate re-composition of the portfolio, with a decline in the Italian and German markets and an increase in exposures to the USA and the Russian Federation. The credit quality of the portfolio confirmed the appreciable improvement already seen in the first half, which was reflected in the significant acceleration in the reduction in exposures in default and net adjustments.

Ageing of non-performing exposures written off during the period

The table below shows the write-offs made in the second half of 2018 on non-performing exposures, broken down by age.

(millions of euro)

		≤ 1 year	1 / 3 years	3 / 5 years	> 5 years
1	Write-offs on NPE during the reporting period	33	64	80	583

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

EU CR1-D – Ageing of the gross values of on-balance sheet past-due exposures as at 31 December 2018

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

(millions of euro)

		GROSS CARRYING VALUES										
		TOTAL PERFORMING	PERFORMING EXPOSURES				TOTAL NON-PERFORMING	NON-PERFORMING EXPOSURES				
			Not past due	Past due ≤ 30 days	Past due > 30 days ≤ 60 days	Past due > 60 days ≤ 90 days		Unlikely to pay that are not past due or past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year	*Of which defaulted*
1	**Loans**	**406,659**	**401,793**	**2,504**	**524**	**1,838**	**37,880**	**7,503**	**682**	**2,132**	**27,563**	***37,880***
2	Central banks	43,754	43,717	37	-	-	-	-	-	-	-	-
3	General governments	15,123	14,900	23	9	191	382	83	-	21	278	*382*
4	Credit institutions	21,036	20,949	87	-	-	4	-	-	-	4	*4*
5	Other financial corporations	31,606	31,436	118	9	43	885	263	105	82	435	*885*
6	Non-financial corporations	158,613	156,621	1,061	171	760	29,495	6,255	378	1,198	21,664	*29,495*
7	Households	136,527	134,170	1,178	335	844	7,114	902	199	831	5,182	*7,114*
8	**Debt securities**	**80,109**	**80,056**	**51**	**-**	**2**	**111**	**56**	**-**	**-**	**55**	***111***
9	Central banks	144	125	19	-	-	-	-	-	-	-	-
10	General governments	62,997	62,963	32	-	2	28	21	-	-	7	*28*
11	Credit institutions	3,913	3,913	-	-	-	-	-	-	-	-	-
12	Other financial corporations	10,896	10,896	-	-	-	23	9	-	-	14	*23*
13	Non-financial corporations	2,159	2,159	-	-	-	60	26	-	-	34	*60*
14	**TOTAL**	**486,768**	**481,849**	**2,555**	**524**	**1,840**	**37,991**	**7,559**	**682**	**2,132**	**27,618**	***37,991***

The breakdown of the gross values of the Loans, by past-due bands, showed a decrease during the period in non-performing exposures past due more than one year, mainly due to the sale to Intrum of the "Savoy" portfolio of bad loans. The breakdown by past-due band for the Debt Securities was essentially in line with the previous period.

EU CR1-E – Non-performing and performing exposures by exposure class as at 31 December 2018
(Table 1 of 2)

(millions of euro)

		GROSS CARRYING VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES				
		TOTAL PERFORMING AND NON-PERFORMING	TOTAL PERFORMING	PERFORMING		NON-PERFORMING
				Stage 1	Stage 2	Stage 3
1	**Debt securities**	**80,220**	**80,109**	**75,625**	**4,484**	**111**
2	Central banks	144	144	104	40	-
3	General governments	63,025	62,997	59,077	3,920	28
4	Credit institutions	3,913	3,913	3,780	133	-
5	Other financial corporations	10,919	10,896	10,712	184	23
6	Non-financial corporations	2,219	2,159	1,952	207	60
7	**Loans and advances**	**444,539**	**406,659**	**360,985**	**45,674**	**37,880**
8	Central banks	43,754	43,754	43,478	276	-
9	General governments	15,505	15,123	11,774	3,349	382
10	Credit institutions	21,040	21,036	19,937	1,099	4
11	Other financial corporations	32,491	31,606	28,008	3,598	885
12	Non-financial corporations	188,108	158,613	137,467	21,146	29,495
13	Households	143,641	136,527	120,321	16,206	7,114
14	**Off-balance-sheet exposures**	**237,562**	**235,046**	**220,279**	**14,767**	**2,516**
15	Central banks	1,865	1,865	1,865	-	-
16	General governments	9,661	9,653	8,362	1,291	8
17	Credit institutions	36,414	36,414	35,600	814	-
18	Other financial corporations	19,879	19,806	17,109	2,697	73
19	Non-financial corporations	158,631	156,243	147,245	8,998	2,388
20	Households	11,112	11,065	10,098	967	47
21	**TOTAL**	**762,321**	**721,814**	**656,889**	**64,925**	**40,507**

EU CR1-E – Non-performing and performing exposures by exposure class as at 31 December 2018
(Table 2 of 2)

(millions of euro)

		ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
		TOTAL ON PERFORMING	ON PERFORMING		ON NON-PERFORMING	On performing exposures	On non-performing exposures
			Stage 1	Stage 2	Stage 3		
1	**Debt securities**	**160**	**105**	**55**	**43**	**201**	**-**
2	Central banks	5	2	3	-	-	-
3	General governments	83	45	38	2	-	-
4	Credit institutions	50	49	1	-	-	-
5	Other financial corporations	12	5	7	18	201	-
6	Non-financial corporations	10	4	6	23	-	-
7	**Loans and advances**	**2,157**	**796**	**1,361**	**20,210**	**194,270**	**13,370**
8	Central banks	7	6	1	-	-	-
9	General governments	59	23	36	120	2,044	1
10	Credit institutions	13	11	2	4	397	-
11	Other financial corporations	105	47	58	488	11,236	308
12	Non-financial corporations	1,256	464	792	16,084	71,746	10,169
13	Households	717	245	472	3,514	108,847	2,892
14	**Off-balance-sheet exposures**	**164**	**93**	**71**	**283**	**39,375**	**784**
15	Central banks	-	-	-	-	3	-
16	General governments	2	1	1	5	1,626	-
17	Credit institutions	2	2	-	-	3,351	-
18	Other financial corporations	13	6	7	2	4,907	45
19	Non-financial corporations	122	70	52	267	25,726	728
20	Households	25	14	11	9	3,762	11
21	**TOTAL**	**2,481**	**994**	**1,487**	**20,536**	**233,846**	**14,154**

Gross values and adjustment allowances for Debt Securities were substantially in line with the end of the previous half year. With regard to Loans, the main decrease, both in gross values and in adjustment allowances, was attributable to the sale to Intrum of the “Savoy” portfolio of bad loans.

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

EU CR1-E Bis – Non-performing and performing exposures by industry as at 31 December 2018 *(Table 1 of 2)*

(millions of euro)

		GROSS CARRYING VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES				
		TOTAL PERFORMING AND NON-PERFORMING	TOTAL PERFORMING	PERFORMING		NON-PERFORMING
				Stage 1	Stage 2	Stage 3
1	Agriculture, forestry and fishing	4,169	3,524	**3,002**	**522**	**645**
2	Mining and quarrying	5,718	5,491	5,394	97	227
3	Manufacturing	59,798	52,549	48,388	4,161	7,249
4	Electricity, gas, steam and air conditioning supply	13,386	12,947	11,754	1,193	439
5	Water supply; sewerage, waste management and remediation activities	1,928	1,736	1,534	202	192
6	Construction	24,448	17,086	12,259	4,827	7,362
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	33,202	29,341	**26,321**	**3,020**	**3,861**
8	Transport and storage	9,886	8,351	7,434	917	1,535
9	Accommodation and food service activities	6,065	4,971	4,010	961	1,094
10	Information and communication	8,095	7,726	7,286	440	369
11	Financial Institutions	130,240	129,060	120,433	8,627	1,180
12	Governments and Central Banks	130,895	130,511	121,747	8,764	384
13	Households	153,155	146,125	129,105	17,020	7,030
14	Real estate activities	18,838	14,233	10,333	3,900	4,605
15	Administrative and support service activities	13,525	12,376	11,641	735	1,149
16	Rental and lease activities, travel agencies and business support activities	5,017	4,486	3,802	684	531
17	Public administration and defence, compulsory social security	198	197	193	4	1
18	Education	276	242	216	26	34
19	Human health services and social work activities	1,824	1,675	1,461	214	149
20	Arts, entertainment and recreation	1,154	919	784	135	235
21	Other services	140,504	138,268	129,792	8,476	2,236
22	**TOTAL**	**762,321**	**721,814**	**656,889**	**64,925**	**40,507**

EU CR1-E Bis – Non-performing and performing exposures by industry as at 31 December 2018 *(Table 2 of 2)*

(millions of euro)

		GROSS CARRYING VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES				
		TOTAL PERFORMING AND NON-PERFORMING	TOTAL PERFORMING	PERFORMING		NON-PERFORMING
				Stage 1	Stage 2	Stage 3
1	Agriculture, forestry and fishing	4,169	3,524	**3,002**	**522**	**645**
2	Mining and quarrying	5,718	5,491	5,394	97	227
3	Manufacturing	59,798	52,549	48,388	4,161	7,249
4	Electricity, gas, steam and air conditioning supply	13,386	12,947	11,754	1,193	439
5	Water supply; sewerage, waste management and remediation activities	1,928	1,736	1,534	202	192
6	Construction	24,448	17,086	12,259	4,827	7,362
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	33,202	29,341	**26,321**	**3,020**	**3,861**
8	Transport and storage	9,886	8,351	7,434	917	1,535
9	Accommodation and food service activities	6,065	4,971	4,010	961	1,094
10	Information and communication	8,095	7,726	7,286	440	369
11	Financial Institutions	130,240	129,060	120,433	8,627	1,180
12	Governments and Central Banks	130,895	130,511	121,747	8,764	384
13	Households	153,155	146,125	129,105	17,020	7,030
14	Real estate activities	18,838	14,233	10,333	3,900	4,605
15	Administrative and support service activities	13,525	12,376	11,641	735	1,149
16	Rental and lease activities, travel agencies and business support activities	5,017	4,486	3,802	684	531
17	Public administration and defence, compulsory social security	198	197	193	4	1
18	Education	276	242	216	26	34
19	Human health services and social work activities	1,824	1,675	1,461	214	149
20	Arts, entertainment and recreation	1,154	919	784	135	235
21	Other services	140,504	138,268	129,792	8,476	2,236
22	**TOTAL**	**762,321**	**721,814**	**656,889**	**64,925**	**40,507**

EU CR1-E Ter – Non-performing and performing exposures by geography as at 31 December 2018
(Table 1 of 2)

(millions of euro)

		GROSS CARRYING VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES				
		TOTAL PERFORMING AND NON-PERFORMING	TOTAL PERFORMING	PERFORMING		NON-PERFORMING
				Stage 1	Stage 2	Stage 3
1	**EUROPE**	**672,885**	**632,766**	**570,743**	**62,023**	**40,119**
2	*of which: France*	16,321	16,315	16,033	282	6
3	*of which: United Kingdom*	25,363	25,362	24,188	1,174	1
4	*of which: Netherlands*	6,952	6,950	6,731	219	2
5	*of which: Spain*	18,032	17,999	17,807	192	33
6	*of which: Turkey*	5,419	5,418	4,418	1,000	1
7	*of which: Italy*	500,844	462,802	409,272	53,530	38,042
8	*of which: Luxembourg*	9,237	9,167	8,494	673	70
9	*of which: Germany*	11,558	11,455	10,456	999	103
10	*of which: Croatia*	12,083	11,508	10,542	966	575
11	*of which: Slovakia*	16,368	15,904	14,832	1,072	464
12	*of which: Hungary*	5,869	5,699	5,321	378	170
13	*of which: Serbia*	6,064	5,892	5,593	299	172
14	*of which: Russia*	7,143	7,072	7,047	25	71
15	**AMERICA**	**52,968**	**52,774**	**51,198**	**1,576**	**194**
16	*of which: United States*	40,754	40,698	39,911	787	56
17	**ASIA**	**24,641**	**24,595**	**23,668**	**927**	**46**
18	**REST OF THE WORLD**	**11,827**	**11,679**	**11,280**	**399**	**148**
19	*of which: Egypt*	5,813	5,676	5,454	222	137
20	**TOTAL**	**762,321**	**721,814**	**656,889**	**64,925**	**40,507**

EU CR1-E Ter – Non-performing and performing exposures by geography as at 31 December 2018
(Table 2 of 2)

(millions of euro)

		ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
		TOTAL ON PERFORMING	ON PERFORMING		ON NON-PERFORMING	On performing exposures	On non-performing exposures
			Stage 1	Stage 2	Stage 3		
1	**EUROPE**	**2,348**	**910**	**1,438**	**20,313**	**225,466**	**14,094**
2	*of which: France*	4	3	1	4	1,861	-
3	*of which: United Kingdom*	17	9	8	-	4,726	1
4	*of which: Netherlands*	7	4	3	-	713	-
5	*of which: Spain*	13	6	7	11	426	1
6	*of which: Turkey*	11	9	2	-	463	-
7	*of which: Italy*	1,793	609	1,184	19,127	197,063	13,540
8	*of which: Luxembourg*	13	8	5	40	1,457	11
9	*of which: Germany*	6	4	2	67	588	6
10	*of which: Croatia*	141	77	64	322	35	232
11	*of which: Slovakia*	113	45	68	289	7,711	79
12	*of which: Hungary*	43	22	21	95	1,704	63
13	*of which: Serbia*	59	31	28	98	28	51
14	*of which: Russia*	12	11	1	41	4,984	21
15	**AMERICA**	**44**	**22**	**22**	**111**	**3,481**	**19**
16	*of which: United States*	18	10	8	16	1,504	19
17	**ASIA**	**11**	**7**	**4**	**18**	**2,774**	**25**
18	**REST OF THE WORLD**	**78**	**55**	**23**	**94**	**2,125**	**16**
19	*of which: Egypt*	67	50	17	93	145	7
20	**TOTAL**	**2,481**	**994**	**1,487**	**20,536**	**233,846**	**14,154**

EU CR2-B – Changes in gross non-performing on-balance sheet exposures as at 31 December 2018

(millions of euro)

		Gross carrying value defaulted exposures
1	**Opening balance as at 1 January 2018**	**52,615**
2	Transfers from performing exposures categories	4,691
3	Return to non-defaulted status	-2,332
4	Amounts written off	-3,436
5	Other changes	-13,547
6	**Closing balance as at 31 December 2018**	**37,991**

EU CR2-A - Changes in adjustments to non-performing on-balance sheet exposures as at 31 December 2018

(millions of euro)

		Accumulated specific credt risk adjustments	Accumulated general credit risk adjustments
1	**Opening balance as at 1 January 2018**	**29,669**	**-**
2	Increases due to credit risk adjustments	5,570	-
3	Decreases due to recoveries on valuation/collection	-2,886	-
4	Decreases due to sale/write-off	-3,473	-
5	Transfers from other non-performing exposures categories	-	-
6	Impact of exchange rate differences	6	-
7	Business combinations	-	-
8	Other adjustments	-8,633	-
9	**Closing balance as at 31 December 2018**	**20,253**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	74	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-250	-

With regard to the tables CR2-B and CR2-A, the opening balances show the opening values as at 1 January 2018 following the adoption of the new IFRS 9.
The “Other changes” include the effects of the sale to Intrum of the “Savoy” portfolio of bad loans. The following are also allocated to this caption:
- in CR2 - B, the increases in the amounts for charges;
- in CR2 – A, the collections of overdue interest applied in previous years and the losses on disposal not covered by the allowance.

Credit quality of forborne exposures as at 31 December 2018

(millions of euro)

		GROSS CARRYING VALUE OF FORBORNE EXPOSURES			ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE CHANGES IN FAIR VALUE DUE TO CREDIT RISK AND PROVISIONS				COLLATERALS RECEIVED AND FINANCIAL GUARANTEES RECEIVED ON FORBORNE EXPOSURES
		TOTAL	Of which performing past due	Of which non performing past due	On performing forborne exposures		On non-performing forborne exposures		
						Of which value adjustment		*Of which value adjustment*	
1	**Debt Securities (including at amortised cost and fair value)**	**82**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2	Central banks	-	-	-	-	-	-	-	-
3	General governments	72	-	-	-	-	-	-	-
4	Credit institutions	-	-	-	-	-	-	-	-
5	Other financial corporations	10	-	-	-	-	-	-	-
6	Non-financial corporations	-	-	-	-	-	-	-	-
7	**Loans and advances (including at amortised cost and fair value)**	**18,294**	**516**	**9,745**	**424**	**2**	**3,862**	**15**	**10,503**
8	Central banks	-	-	-	-	-	-	-	-
9	General governments	508	66	61	11	-	53	-	2
10	Credit institutions	100	-	-	1	-	-	-	-
11	Other financial corporations	649	1	445	5	-	235	-	314
12	Non-financial corporations	14,249	171	8,046	346	2	3,247	15	8,044
13	Households	2,788	278	1,193	61	-	327	-	2,143
14	**Debt instruments other than HFT**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
15	**Loan commitments given**	**1,063**	**-**	**354**	**3**	**-**	**10**	**-**	**406**
16	**Total exposures with forbearance measures**	**19,439**	**516**	**10,099**	**427**	**2**	**3,872**	**15**	**10,909**

Quality of forborne exposures as at 31 December 2018

This table shows the Loans included in financial assets measured at amortised cost and subject to more than one forbearance measure, as well as the amount of the re-defaulted exposures over the last 12 months.

(millions of euro)

		GROSS CARRYING AMOUNT OF FORBORNE EXPOSURES
1	Having been forborne more than once	8,370
2	Having been forborne more than twice	2,212
3	Having redefaulted in the past 12 months	75

Forborne exposures by credit category as at 31 December 2018

The ageing of the Loans included under the financial assets measured at amortised cost subject to forbearance measures, based on the time that has elapsed since the recognition of the measures, is shown below.

(millions of euro)

		<3 months	3-6 months	6-12 months	>12 months
1	**TOTAL EXPOSURES WITH FORBEARANCE MEASURES**	**1,650**	**964**	**2,298**	**12,848**
2	of which: performing exposures	1,242	462	1,381	5,303
3	of which: non-performing exposures	408	502	917	7,545

Impact on the Net Present Value (NPV) of forborne exposures in the last 6/12 months as at 31 December 2018

(millions of euro)

		Past 6 months	Past 12 months
1	Net present value of original contract cash flows	419	610
2	Net present value of forborne contract cash flows	412	599

The present value of the cash flows of the original contract has been determined by discounting the future instalments of the related repayment schedule at the forbearance date, at the effective rate of the contract, whereas the present value of the cash flows of the contract subject to forbearance has been determined by discounting the future instalments of the repayment schedule resulting after the forbearance at the rate of the original contract.

Valuations of collateral as at 31 December 2018

The information provided below refers to the Loans included under financial assets measured at amortised cost.

(millions of euro)

		NON PERFORMING					
					PAST DUE > 90 DAYS		
		TOTAL NON PERFORMING	Unlikely to pay that are not past due or past due ≤ 90 days	TOTAL PAST DUE > 90 DAYS	of which: Past due > 90 days ≤ 180 days	of which: Past due > 180 days ≤ 1 year	of which: Past due > 1 year
1	Gross carrying amount	36,588	7,039	29,549	661	1,679	27,209
2	*Of which: secured*	25,218	4,389	20,829	380	1,070	19,379
3	Accumulated impairment for secured assets	12,288	1,222	11,066	95	273	10,698
4	Collateral	10,270	2,539	7,731	210	617	6,904
5	*Of which: Immovable property*	8,122	2,078	6,044	151	509	5,384
6	Personal guarantees received (*)	2,325	516	1,809	70	159	1,580

(*) The value of the guarantees is shown up to the value of the secured net exposure.

Collateral obtained through enforcement - breakdown by age as at 31 December 2018

(millions of euro)

		TOTAL COLLATERAL OBTAINED BY TAKING POSSESSION		Foreclosed ≤ 2 years		Foreclosed >2 years ≤ 5 years		Foreclosed >5 years	
		Value at initial recognition	Accumulated impairment, accumulated negative changes	Value at initial recognition	Accumulated impairment, accumulated negative changes	Value at initial recognition	Accumulated impairment, accumulated negative changes	Value at initial recognition	Accumulated impairment, accumulated negative changes
1	Value of the assets resulting from the enforcement of guarantees classified as Property, plant and equipment (PP&E)	-	-	-	-	-	-	-	-
2	Value of the assets resulting from the enforcement of guarantees other than Property, plant and equipment (PP&E)	315	56	149	21	128	19	38	16
3	*Residential properties*	*18*	*1*	7	-	8	-	3	1
4	*Commercial properties*	*291*	*53*	139	20	120	19	32	14
5	*Movable assets (vehicles, boats, etc.)*	-	-	-	-	-	-	-	-
6	*Equity and debt instruments*	*3*	*1*	-	-	-	-	3	1
7	*Other*	*3*	*1*	3	1	-	-	-	-
8	**TOTAL**	**315**	**56**	**149**	**21**	**128**	**19**	**38**	**16**

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

Qualitative disclosure

External agencies used

For the determination of the risk weightings under the standardised approach, the Intesa Sanpaolo Group uses the ratings of the following external rating agencies (ECAI) for all of its portfolios subject to the reporting: Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and DBRS Ratings. These agencies are valid for all Group banks and are the same as those used at the end of 2017.

In compliance with the regulations, if there are two ratings for the same customer, the most prudential of the two is used to determine its capital requirements; when three ratings are available, the middle rating is adopted, and when all ratings are available, the second-best is taken.

List of the external Rating Agencies

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

(*) Ratings characteristics: solicited/unsolicited.

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

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

Quantitative disclosure

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

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

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

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

EU CR4 – Standardised approach - Credit risk exposure and CRM effects as at 31 December 2018

(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	123,281	3,400	139,549	1,261	18,316	13%
2	Regional government or local authorities	723	197	842	148	272	27%
3	Public sector entities	1,320	331	748	134	730	83%
4	Multilateral development banks	350	140	417	1	-	0%
5	International organisations	101	-	101	-	-	0%
6	Institutions	5,907	2,305	6,066	267	2,856	45%
7	Corporates	30,337	11,538	21,268	3,155	23,564	96%
8	Retail	14,479	4,246	12,090	696	9,065	71%
9	Secured by mortgages on immovable property	6,095	52	6,093	29	2,211	36%
10	Exposures in default	1,954	125	1,881	31	1,986	104%
11	Exposures associated with particularly high risk	979	260	932	120	1,578	150%
12	Covered bonds	877	-	877	-	111	13%
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	0%
14	Collective investment undertaking	1,309	1,224	1,180	569	1,730	99%
15	Equity	2,397	52	2,397	52	2,719	111%
16	Other items	15,647	-	15,647	-	9,318	60%
17	**TOTAL**	**205,756**	**23,870**	**210,088**	**6,463**	**74,456**	**34%**
	TOTAL ON- AND OFF-BALANCE SHEET AMOUNTS	**229,626**		**216,551**			

In the second half of 2018 there was a reduction in this aggregate (around 18.2 billion euro), mainly due to the adoption of the Retail advanced model, which led to the reclassification of exposures, previously recognised in the "Retail" class and subject to standard valuation approaches, into the "Retail" class subject to advanced valuation approaches, with the same re-exposure also for the portion of default exposures relating to this class. The restatement of the values, together with other more marginal changes in operating volumes, resulted in a sizeable reduction in the level of RWAs (from 39% to 34.4%) for exposures valued using the standardised approach.

EU CR5 – Standardised approach - Exposures post CCF and CRM as at 31 December 2018 *(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	123,482	-	27	387	1,140	-	1,100	-	-
2	Regional government or local authorities	-	-	-	-	897	-	1	-	-
3	Public sector entities	40	-	-	-	117	-	36	-	-
4	Multilateral development banks	416	-	-	-	2	-	-	-	-
5	International organisations	101	-	-	-	-	-	-	-	-
6	Institutions	-	329	-	-	2,431	-	2,483	-	-
7	Corporates	-	-	-	-	615	-	174	56	-
8	Retail	-	-	-	-	-	-	-	-	12,786
9	Secured by mortgages on immovable property	-	-	-	-	-	4,904	1,218	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	642	235	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	4,953	-	-	-	1,730	-	-	-	-
17	**TOTAL**	**128,992**	**329**	**27**	**1,029**	**7,167**	**4,904**	**5,012**	**56**	**12,786**

EU CR5 – Standardised approach - Exposures post CCF and CRM as at 31 December 2018 *(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	12,755	54	1,865	-	-	-	1,668	**140,810**	*16,665*
2	Regional government or local authorities	92	-	-	-	-	-	-	**990**	*622*
3	Public sector entities	689	-	-	-	-	-	-	**882**	*94*
4	Multilateral development banks	-	-	-	-	-	-	-	**418**	*291*
5	International organisations	-	-	-	-	-	-	-	**101**	*81*
6	Institutions	1,010	80	-	-	-	-	-	**6,333**	*2,085*
7	Corporates	23,450	128	-	-	-	-	788	**24,423**	*10,268*
8	Retail	-	-	-	-	-	-	-	**12,786**	*12,786*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**6,122**	*5,632*
10	Exposures in default	1,766	146	-	-	-	-	-	**1,912**	*1,912*
11	Exposures associated with particularly high risk	-	1,052	-	-	-	-	-	**1,052**	*1,052*
12	Covered bonds	-	-	-	-	-	-	-	**877**	*153*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	-
14	Collective investment undertakings	1,491	49	32	-	-	177	-	**1,749**	*1,749*
15	Equity	2,269	-	180	-	-	-	2,097	**2,449**	*2,449*
16	Other items	8,959	-	5	-	-	-	-	**15,647**	*15,647*
17	**TOTAL**	**52,481**	**1,509**	**2,082**	**-**	**-**	**177**	**4,553**	**216,551**	**71,486**

In the second half of 2018, within a sharp reduction in exposures (-18.2 billion euro, representing a decrease of 7.76%) mainly due to the adoption of the Retail advanced model, which led to the reclassification of exposures, previously recognised in the "Retail" class and subject to standard valuation approaches, into the "Retail" class subject to advanced valuation approaches, the breakdown by risk weight showed an overall more favourable balancing, with a relative increase for the 0% weighting class and a reduction of the same amount for the 75% class.

EU CR5 bis – Standardised approach - Exposures before CCF and CRM as at 31 December 2018 *(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	107,352	-	27	355	1,033	-	595	-	-
2	Regional government or local authorities	-	-	-	-	822	-	1	-	-
3	Public sector entities	53	-	-	-	190	-	117	-	-
4	Multilateral development banks	488	-	-	-	2	-	-	-	-
5	International organisations	101	-	-	-	-	-	-	-	-
6	Institutions	-	338	-	-	3,859	-	3,010	-	-
7	Corporates	-	-	-	-	450	-	193	-	-
8	Retail	-	-	-	-	-	-	-	-	18,725
9	Secured by mortgages on immovable property	-	-	-	-	-	4,920	1,227	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	642	235	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	4,953	-	-	-	1,730	-	-	-	-
17	**TOTAL**	**112,947**	**338**	**27**	**997**	**8,321**	**4,920**	**5,143**	**-**	**18,725**

EU CR5 bis – Standardised approach - Exposures before CCF and CRM as at 31 December 2018 *(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	15,400	54	1,865	-	-	-	1,668	**126,681**	*16,066*
2	Regional government or local authorities	97	-	-	-	-	-	-	**920**	*693*
3	Public sector entities	1,291	-	-	-	-	-	-	**1,651**	*254*
4	Multilateral development banks	-	-	-	-	-	-	-	**490**	*314*
5	International organisations	-	-	-	-	-	-	-	**101**	*81*
6	Institutions	913	92	-	-	-	-	-	**8,212**	*3,004*
7	Corporates	41,102	130	-	-	-	-	788	**41,875**	*18,411*
8	Retail	-	-	-	-	-	-	-	**18,725**	*18,725*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**6,147**	*5,650*
10	Exposures in default	1,910	169	-	-	-	-	-	**2,079**	*1,997*
11	Exposures associated with particularly high risk	-	1,239	-	-	-	-	-	**1,239**	*1,239*
12	Covered bonds	-	-	-	-	-	-	-	**877**	*153*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	-
14	Collective investment undertakings	2,275	49	32	-	-	177	-	**2,533**	*2,533*
15	Equity	2,269	-	180	-	-	-	2,097	**2,449**	*2,449*
16	Other items	8,959	-	5	-	-	-	-	**15,647**	*15,647*
17	**TOTAL**	**74,216**	**1,733**	**2,082**	**-**	**-**	**177**	**4,553**	**229,626**	**87,216**

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

Qualitative disclosure

Credit risk – disclosures on portfolios subject to IRB approaches

The rollout plan for the internal models

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

As illustrated in the first Section of this document (paragraph “Basel 3 regulations”), the Group is also proceeding with development of the rating models for the various segments and the extension of the scope of companies for their application are continuing in accordance with the gradual roll-out plan for the advanced approaches presented to the Supervisory Authority.

However, the rollout plan does not include certain exposures, which are the subject of a request for authorisation for the permanent partial use of the standardised approach. These relate to the following in particular:
- exposures to central governments and central banks;
- exposures to the Banking Group;
- exposures to minor operational units;
- non-significant exposure classes in terms of size and level of risk (this category includes loans to non-banking financial institutions).

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

Structure of the internal rating systems (PD)

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

– the rating is reviewed at least once a year, in conjunction with the review of the loan; Intesa Sanpaolo has established procedures that increase the frequency of update when there are signs of deterioration of credit quality.

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

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

Correspondence between internal rating classes and ratings by the major agencies

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

Structure of the internal rating systems (LGD)

The LGD models are based on the concept of “Economic LGD”, namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:

- estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio, namely “Workout LGD”, determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
- application of the Danger Rate, a multiplying correction factor, used to recalibrate the Bad Loan LGD with the information available on the other default statuses, in order to calculate an LGD representative of all the possible default statuses and their evolution;
- application of an additional correction factor, known as “Final Settlement Component”: this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Bad Loan status (Unlikely to pay or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail, Factoring, Leasing, Banks and Public Entities).
In 2018, the model parameters were updated to include the latest available defaults.

Use of the rating systems (PD, LGD, and EAD)

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

Credit Granting and Management Powers

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

Credit Risk Appetite

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

Credit monitoring and management

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

Pricing

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

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

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

Calculation of economic capital and value governance
The capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. The calculation is made with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios. Risk capital is a fundamental element in the assessment of the Group's capital adequacy and is calculated within the ICAAP process both with regard to the regulatory parameters and from a management perspective.

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

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

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

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

The implementation and validation phase consists of the following steps:

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

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

Control and auditing of the rating systems

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

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

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

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

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

The macro process of adoption, extension, management and control of the Internal Systems involves a series of structured phases shared within the Group and arranged as follows:
- definition of the Internal System and activation of the strategic management for the adoption of the Internal Systems and roll-out plans;
- initial development and adoption of the Internal System;
- monitoring and modification of the Internal System;
- internal verifications, consisting of periodic validation and internal auditing.

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

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

The Corporate model

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

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

The Large Corporate model

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

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

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

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

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

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

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

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

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

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

The Corporate models used by VUB

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

b) The Small and Medium Enterprises (SME) model

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

c) The Specialised Lending models

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

The Corporate model used by Banka Intesa Sanpaolo d.d.

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

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

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

VUB Retail Mortgage PD Model

The PD and LGD models for the Slovak residential mortgage market have been developed by the company VUB, in collaboration with the Parent Company, as part of the specific Project.
The PD model was updated during 2015, to include a more recent time series and a wider central trend. It basically consists of two statistical modules. The acceptance module processes the socio-demographic characteristics of customers, such as educational qualification, marital status and home address. The behavioural module integrates, for each of the four retail products (mortgages, personal loans, credit cards and credit facilities), behavioural information including operations, non-payment, use of credit lines and duration of relationship with the Bank.
These modules are subsequently integrated statistically with additional information on the customer's risk status. Finally, the model assigns a rating based on an internal scale related to that of the Parent Company.

Description of the regulatory Retail SME segment internal rating systems (PD)

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

The process for assignment of the Small Business Core rating envisages that, after calculation of the integrated rating, the relationship manager expresses an overall assessment of the customer risk under the override procedure, determining the final rating.
The rating assignment process for Micro counterparties, on the other hand, ends by answering an additional question of the Qualitative Questionnaire regarding the presence of any negative information identified at the granting process level, which applies a cap to the final rating in the event of higher risk.

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

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

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

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

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

LGD model for the VUB mortgage segment

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

Description of the EAD models

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

Quantitative disclosure

The table below shows the scope of companies for which the Group, as at 31 December 2018, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the Institutions, Corporate and Retail portfolios and for the Banking Book equity exposures (IRB).

Scope of companies for application of the IRB approaches

Portfolio	PD - Model Type	LGD - Model Type	EAD - Model Type	Status
Institutions	Default model (Banks) (4)	Market model (Banks)	Regulatory parameters (Banks)	AIRB authorised since June 2017
Institutions	Default model (Municipalities and Provinces) Shadow model (Regions) (4)	Workout model (Municipalities, Provinces, Regions)	Regulatory parameters (Municipalities, Provinces, Regions)	AIRB authorised since June 2017
Corporate	Default model (Corporate)	Workout model (Corporate; Leases and Factoring)	CCF/K factor model (Corporate)	FIRB authorised since December 2009, AIRB LGD authorised since December 2010, EAD authorised since September 2017 (1)
Corporate	Simulation models (Specialised Lending)	Simulation models (Specialised Lending)	Regulatory parameters (Specialised Lending)	AIRB authorised since June 2012
Corporate	Expert-Based Model (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Regulatory parameters (Non-Banking Fin. Inst.)	Used for management purposes only; Standardised approach for reporting purposes
Retail	Default model (Retail)	Workout model (Retail)	CCF/K factor model (Retail)	AIRB Retail since September 2018 (2)
Retail	Default model (Retail SME)	Workout model (Retail SME)	Regulatory parameters (Retail SME)	AIRB authorised since December 2012 (3)

1) Banca dei Territori: FIRB authorised since December 2008, LGD AIRB since December 2010 and AIRB since 2017 (EAD model authorisation). Banca Prossima since December 2013 and Mediocredito Italiano since December 2009. Banca Imi (2012), ISP Ireland (2010), VUB (2010), Banka Intesa dd (2017), and ISP Luxembourg (2017). Since 2017, the Corporate model has also been used to calculate the risk on the banking book equity portfolio with LGD 65%/90%
2) The authorisation for the IRB Retail model received in 2018 represented a model change for the Retail Mortgage component, already authorised in 2010, and a new validation for the Other Retail component. VUB has been authorised since June 2012 for the PD and LGD Retail Mortgage models.
3) Banca Prossima has been authorised since December 2013. VUB has been authorised since June 2014.
4) Banca dei Territori, Banca Prossima, Mediocredito Italiano and Banca Imi authorised since 2017.

As at 31 December 2018, the Group EAD value for the components subject to credit and counterparty risk* within the IRB models was 61.41% (60.41% Advanced IRB and 1% Foundation IRB).

The breakdown of the percentages by exposure class is shown below.

	Advanced IRB approach (60.41%)
4.53%	Supervised intermediaries, public sector and local authorities and other entities
2.11%	Specialised lending
10.06%	SMEs
20.31%	Other corporates
16.26%	Exposures secured by properties: individuals
1.00%	Exposures secured by properties: SMEs
3.65%	Other retail exposures: Individuals
2.49%	Other retail exposures: SMEs

	Basic IRB approach (1.00%)
0.08%	SMEs
0.12%	Other corporates
0.80%	Equity

	Standardised Approach (38.59%)
25.08%	Central governments or central banks
0.18%	Regional governments or local authorities
0.16%	Public sector entities
0.07%	Multilateral development banks
0.02%	International organisations
4.35%	Corporates
1.13%	Institutions
2.28%	Retail
1.09%	Secured by mortgages on immovable property
0.34%	Exposures in default
0.19%	Exposures associated with particularly high risk
0.16%	Covered bonds
0.44%	Equity instruments
0.31%	Units or shares of collective investment undertakings
2.79%	Other exposures

	Exposure classes involved ina roll-out plan (5.74%)
1.48%	Institutions
0.04%	Regional governments or local authorities
1.53%	Corporates
1.01%	Retail
0.22%	Units or shares of collective investment undertakings
0.62%	Secured by mortgages on immovable property
0.12%	Covered bonds
0.11%	Exposures associated with particularly high risk
0.00%	Public sector entities
0.27%	Exposures in default
0.00%	Equity instruments
0.34%	Other exposures

(*) The percentages shown in the table relating to the exposure classes involved in a roll-out plan refer to both the Credit Risk component and the Counterparty Risk component.

The EAD values of exposures as at 31 December 2018 for the various IRB approaches (IRB, Foundation IRB and Advanced IRB) are shown in the tables below.

Exposure values by regulatory portfolio (Foundation IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2018	31.12.2017
Exposures to or secured by corporates:		
- Specialised lending	-	-
- SMEs (Small and Medium Enterprises)	451	459
- Other corporates	664	1,210
Total credit risk (IRB)	**1,115**	**1,669**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2018	31.12.2017
Exposures to or secured by corporates:		
- Specialised lending	11,339	12,072
- SMEs (Small and Medium Enterprises)	56,865	67,828
- Other corporates	116,770	128,966
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities:	32,805	36,545
Total credit risk (Advanced IRB approach)	**217,779**	**245,411**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2018	31.12.2017
Retail exposures:		
- Exposures secured by residential property: SMEs	5,639	5,565
- Exposures secured by residential property: private individuals	91,307	85,791
- Other retail exposures: SMEs	13,989	14,398
- Other retail exposures: private individuals	20,503	-
Total credit risk (IRB)	**131,438**	**105,754**

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2018	31.12.2017
Exposures in equity instruments subject to the PD/LGD approach	967	742
Total credit risk (IRB)	**967**	**742**

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitizations	Exposure value	
	31.12.2018	31.12.2017
Exposures to securitisations (RBA - SFA)	12,976	6,473
Total credit risk (IRB)	**12,976**	**6,473**

For detailed information on exposures to securitisations, see the specific section.

The exposure value shown in the tables set forth in this Section is expressed gross of adjustments and takes into account (for guarantees given and commitments to disburse funds) credit conversion factors. Conversely, the exposure value does not

consider the risk mitigation techniques which – for exposures assessed using internal models – are directly incorporated in the weightings applied to said exposure.

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

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

(millions of euro)

	31.12.2018			31.12.2017
Regulatory portfolio	**Exposure value**	**Weighted average PD (*) (%)**	**Weighted average LGD (%)**	**Exposure value**
- Retail exposures	**131,438**			**105,754**
1. Italy	123,947	8.47	22.7	99,275
2. United States of America	32	3.28	16.5	21
3. Slovakia	7,025	1.52	23.3	6,132
4. France	18	9.52	20.2	14
5. Netherlands	14	2.66	15.3	13
6. United Kingdom	94	4.22	17.5	69
7. Germany	22	9.89	19.5	17
8. Spain	7	8.76	18.3	5
9. Turkey	1	0.43	23.4	-
10. Brasil	-	-	-	1
11. Luxembourg	8	2.09	15.3	-
12. Russia	14	3.79	17.4	-
13. Other countries	256	x	x	207
- Exposures to or secured by corporates	**186,089**			**210,535**
1. Italy	139,327	18.37	35.4	164,386
2. United States of America	6,837	1.30	34.0	6,707
3. Slovakia	3,344	2.93	39.2	4,045
4. France	3,229	0.71	31.7	2,746
5. Netherlands	2,444	0.84	33.3	3,393
6. United Kingdom	3,764	0.70	33.3	7,951
7. Germany	2,428	4.88	34.5	3,272
8. Spain	3,457	1.49	32.4	1,978
9. Turkey	1,009	2.35	32.5	1,428
10. Brasil	-	-	-	324
11. Luxembourg	2,519	2.07	33.2	-
12. Russia	2,052	0.38	32.6	-
13. Other countries	15,679	x	x	14,305
- Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities	**32,805**			**36,545**
1. Italy	18,849	3.09	21.5	18,850
2. United States of America	690	0.06	62.0	623
3. Slovakia	-	-	-	6
4. France	1,807	0.11	34.9	4,301
5. Netherlands	228	0.08	37.5	254
6. United Kingdom	3,288	0.11	32.2	3,269
7. Germany	560	0.18	33.5	895
8. Spain	107	0.27	36.3	352
9. Turkey	2,022	1.81	48.3	1,449
10. Brasil	-	-	-	2,468
11. Luxembourg	138	0.13	34.0	-
12. Russia	82	0.52	45.9	-
13. Other countries	5,034	x	x	4,078
- Equity exposures	**967**			**742**
1. Italy	967	5.37	90.0	741
2. United States of America	-	-	-	-
3. Slovakia	-	-	-	-
4. France	-	-	-	-
5. Netherlands	-	-	-	-
6. United Kingdom	-	-	-	-
7. Germany	-	-	-	-
8. Spain	-	-	-	-
9. Turkey	-	-	-	-
10. Brasil	-	-	-	-
11. Luxembourg	-	-	-	-
12. Russia	-	-	-	-
13. Other countries	-	x	x	1

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

EU CR7 - IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques as at 31 December 2018

(millions of euro)

		PRE-CREDIT DERIVATIVES RWAs	ACTUAL RWAs
1	**Exposures under FIRB**	**1,008**	**1,008**
2	Central governments and central banks	-	-
3	Institutions	-	-
4	Corporates – SMEs	372	372
5	Corporates – Specialised lending	-	-
6	Corporates – Other	636	636
7	**Exposures under AIRB**	**148,067**	**148,067**
8	Central governments and central banks	-	-
9	Institutions	12,546	12,546
10	Corporates – SMEs	31,229	31,229
11	Corporates – Specialised lending	7,266	7,266
12	Corporates – Other	57,556	57,556
13	Retail – Secured by real estate SMEs	1,422	1,422
14	Retail – Secured by real estate non-SMEs	15,484	15,484
15	Retail – Qualifying revolving	-	-
16	Retail – Other SMEs	3,131	3,131
17	Retail – Other non-SMEs	6,133	6,133
18	Equity IRB	13,300	13,300
19	Other non credit obligation assets	-	-
20	**TOTAL**	**149,075**	**149,075**

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

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2018 *(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	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	3,773	15,224	4%	4,368	0.06	689	43.8	736	1,120	26%	1	
0.15 to <0.25	4,024	4,639	6%	4,306	0.19	486	30.7	657	1,316	31%	3	
0.25 to <0.50	4,056	4,913	8%	4,501	0.32	878	21.6	1,316	1,531	34%	3	
0.50 to <0.75	2,398	3,170	4%	2,553	0.71	459	24.9	1,057	1,255	49%	5	
0.75 to <1.25	1,878	1,512	1%	1,887	1.04	465	12.4	1,642	646	34%	3	
1.25 to <2.50	5,878	6,283	2%	6,039	1.76	836	33.4	869	5,377	89%	37	
2.50 to <5.00	546	1,768	6%	619	3.53	349	23.9	1,161	492	79%	5	
5.00 to <10.00	711	1,470	1%	687	5.99	231	21.6	1,352	622	91%	9	
10.00 to <20.00	84	133	0%	85	12.97	123	15.2	1,594	70	82%	2	
20.00 to <100.00	25	12	0%	25	31.99	35	13.3	1,582	20	80%	1	
100.00 (default)	389	9	6%	390	100.00	209	44.9	690	97	25%	167	
Subtotal	23,762	39,133	4%	25,460	2.52	4,760	29.8	986	12,546	49%	236	179
Exposures to or secured by corporates:												
- Specialised lending												
0.00 to <0.15	-	-	-	-	-	-	-	-	-	-	-	
0.15 to <0.25	275	17	16%	278	0.23	31	25.8	817	85	30%	-	
0.25 to <0.50	372	642	15%	349	0.35	77	20.2	1,456	120	34%	-	
0.50 to <0.75	1,716	437	19%	1,796	0.54	179	23.5	1,494	883	49%	2	
0.75 to <1.25	898	649	18%	1,017	0.82	233	21.9	1,675	555	55%	2	
1.25 to <2.50	2,633	762	19%	2,763	1.58	779	21.5	1,443	1,642	59%	9	
2.50 to <5.00	1,760	496	16%	1,820	3.70	723	20.2	1,271	1,152	63%	13	
5.00 to <10.00	127	61	15%	136	8.54	105	27.8	1,814	162	119%	3	
10.00 to <20.00	601	89	15%	597	15.59	255	23.1	1,271	688	115%	23	
20.00 to <100.00	356	72	14%	365	35.79	235	27.4	1,309	515	141%	37	
100.00 (default)	1,647	124	99%	1,740	100.00	729	37.9	1,131	404	23%	627	
Subtotal	10,385	3,349	20%	10,861	19.39	3,346	24.7	1,369	6,206	57%	716	930
- SMEs (small and medium enterprises)												
0.00 to <0.15	1,003	1,424	20%	1,295	0.13	4,340	35.5	844	256	20%	1	
0.15 to <0.25	1,826	2,024	25%	2,273	0.21	8,985	36.1	847	599	26%	2	
0.25 to <0.50	6,891	6,237	23%	7,731	0.40	30,075	37.6	804	2,995	39%	12	
0.50 to <0.75	4,728	3,518	24%	5,139	0.64	18,887	37.4	830	2,501	49%	12	
0.75 to <1.25	5,099	3,082	24%	5,273	1.12	17,729	37.9	802	3,239	61%	22	
1.25 to <2.50	8,741	3,862	24%	8,737	1.79	28,847	36.9	924	6,179	71%	58	
2.50 to <5.00	4,544	1,450	26%	4,415	3.30	14,271	36.1	981	3,603	82%	53	
5.00 to <10.00	5,848	1,365	20%	5,499	7.12	16,882	35.4	1,052	5,595	102%	138	
10.00 to <20.00	1,792	326	31%	1,735	15.33	4,736	34.3	1,185	2,357	136%	91	
20.00 to <100.00	718	92	29%	905	29.64	2,650	32.4	1,277	1,357	150%	88	
100.00 (default)	14,389	542	83%	13,943	100.00	22,166	52.9	842	2,920	21%	7,148	
Subtotal	55,579	23,922	25%	56,945	26.87	169,568	40.7	893	31,601	55%	7,625	8,563
- Other corporates												
0.00 to <0.15	11,308	33,853	22%	18,422	0.09	2,056	33.0	812	3,803	21%	6	
0.15 to <0.25	11,342	26,959	19%	16,191	0.22	2,819	33.0	680	5,099	31%	13	
0.25 to <0.50	19,390	29,124	20%	24,959	0.36	6,886	32.9	840	10,851	43%	33	
0.50 to <0.75	11,205	14,119	28%	14,479	0.58	4,087	33.7	893	8,002	55%	27	
0.75 to <1.25	7,733	6,456	22%	9,075	0.98	3,777	32.0	798	5,914	65%	29	
1.25 to <2.50	12,164	7,934	25%	13,538	1.73	5,035	32.4	818	10,906	81%	76	
2.50 to <5.00	3,797	1,529	27%	4,164	3.28	1,643	31.7	886	4,067	98%	44	
5.00 to <10.00	3,988	2,070	39%	3,950	6.80	1,366	30.9	931	4,747	120%	83	
10.00 to <20.00	638	228	18%	740	15.47	327	29.4	1,123	1,165	157%	34	
20.00 to <100.00	1,024	223	17%	1,140	28.84	415	28.4	808	1,870	164%	93	
100.00 (default)	7,820	1,635	52%	8,050	100.00	2,778	40.3	735	1,768	22%	3,158	
Subtotal	90,409	124,130	22%	114,708	8.24	31,189	33.3	813	58,192	51%	3,596	4,442

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2018 *(Table 2 of 3)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Retail exposures: (*)												
- Exposures secured by residential properties: SMEs												
0.00 to <0.15	472	10	50%	477	0.12	2,742	22.0	-	23	5%	-	
0.15 to <0.25	561	9	51%	566	0.16	4,432	22.1	-	33	6%	-	
0.25 to <0.50	1,086	13	53%	1,093	0.32	8,890	22.0	-	109	10%	1	
0.50 to <0.75	424	8	52%	428	0.68	3,473	22.2	-	74	17%	1	
0.75 to <1.25	482	4	52%	484	1.12	4,072	22.2	-	117	24%	1	
1.25 to <2.50	584	7	53%	588	1.87	5,381	22.5	-	200	34%	2	
2.50 to <5.00	483	6	52%	486	3.12	4,484	22.7	-	227	47%	3	
5.00 to <10.00	287	5	52%	289	5.41	2,850	22.4	-	179	62%	4	
10.00 to <20.00	249	4	51%	251	14.68	2,363	22.4	-	231	92%	8	
20.00 to <100.00	111	3	50%	113	45.16	1,108	22.6	-	106	94%	11	
100.00 (default)	861	4	52%	864	100.00	7,242	33.4	-	123	14%	279	
Subtotal	5,600	73	52%	5,639	17.85	47,037	24.0	-	1,422	25%	310	342
- Exposures secured by residential properties: individuals												
0.00 to <0.15	24,462	494	88%	24,898	0.08	333,011	15.6	-	846	3%	3	
0.15 to <0.25	11,221	33	12%	11,225	0.17	126,669	15.2	-	645	6%	3	
0.25 to <0.50	14,731	107	72%	14,809	0.29	168,853	16.2	-	1,341	9%	7	
0.50 to <0.75	8,349	55	72%	8,389	0.50	93,670	16.3	-	1,131	13%	7	
0.75 to <1.25	11,685	38	54%	11,705	0.77	137,038	16.1	-	2,107	18%	15	
1.25 to <2.50	9,224	35	74%	9,250	1.83	115,182	15.7	-	2,843	31%	27	
2.50 to <5.00	3,258	22	83%	3,276	3.78	39,271	16.3	-	1,603	49%	20	
5.00 to <10.00	3,659	14	64%	3,668	6.38	45,871	15.8	-	2,267	62%	37	
10.00 to <20.00	1,020	1	19%	1,020	14.67	11,955	15.5	-	875	86%	23	
20.00 to <100.00	1,027	1	40%	1,027	25.69	12,639	15.6	-	983	96%	41	
100.00 (default)	2,039	1	100%	2,040	100.00	25,993	34.6	-	843	41%	639	
Subtotal	90,675	801	79%	91,307	3.50	1,110,152	16.2	-	15,484	17%	822	736
- Other retail exposures: SMEs												
0.00 to <0.15	1,437	1,264	8%	1,372	0.12	38,264	32.1	-	101	7%	1	
0.15 to <0.25	1,405	1,137	7%	1,340	0.15	72,352	33.2	-	122	9%	1	
0.25 to <0.50	2,631	1,861	5%	2,437	0.32	121,966	33.9	-	362	15%	3	
0.50 to <0.75	920	455	7%	869	0.68	44,638	35.1	-	208	24%	2	
0.75 to <1.25	1,048	436	7%	971	1.11	45,635	35.6	-	297	31%	4	
1.25 to <2.50	1,247	445	9%	1,154	1.86	67,357	37.0	-	436	38%	8	
2.50 to <5.00	1,162	342	8%	1,063	3.14	56,963	37.5	-	454	43%	13	
5.00 to <10.00	617	160	10%	541	5.54	45,479	38.5	-	254	47%	12	
10.00 to <20.00	537	126	9%	449	14.05	35,453	38.2	-	267	60%	24	
20.00 to <100.00	164	55	11%	130	41.44	20,847	40.0	-	107	82%	21	
100.00 (default)	3,860	64	23%	3,639	100.00	98,281	65.5	-	523	14%	2,341	
Subtotal	15,028	6,345	7%	13,965	27.70	647,235	43.0	-	3,131	22%	2,430	2,860
- Altre esposizioni al dettaglio: persone fisiche												
0.00 to <0.15	1,901	1,532	58%	2,763	0.07	885,402	32.3	-	182	7%	1	
0.15 to <0.25	1,408	401	61%	1,618	0.17	371,787	32.0	-	199	12%	1	
0.25 to <0.50	2,116	406	64%	2,316	0.29	423,769	32.3	-	411	18%	2	
0.50 to <0.75	1,752	235	67%	1,857	0.50	298,256	33.2	-	470	25%	3	
0.75 to <1.25	2,851	351	72%	2,984	0.77	446,170	33.8	-	969	32%	8	
1.25 to <2.50	2,615	286	70%	2,696	1.84	423,719	31.7	-	1,159	43%	16	
2.50 to <5.00	1,589	112	74%	1,592	3.82	266,425	33.6	-	829	52%	20	
5.00 to <10.00	1,852	114	74%	1,731	6.42	343,802	33.5	-	970	56%	37	
10.00 to <20.00	497	15	81%	412	14.67	74,477	32.3	-	296	72%	20	
20.00 to <100.00	525	18	64%	400	25.05	74,245	33.6	-	368	92%	34	
100.00 (default)	2,344	11	96%	2,133	100.00	206,210	73.9	-	280	13%	1,554	
Subtotal	19,450	3,481	63%	20,502	12.48	3,814,262	37.1	-	6,133	30%	1,696	1,638

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 31 December 2018
(Table 3 of 3)

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Exposures in equity instruments subject to the PD/LGD approach												
0.00 to <0.15	-	-	0%	-	-	-	-	-	-	0%	-	
0.15 to <0.25	-	-	0%	-	-	-	-	-	-	0%	-	
0.25 to <0.50	-	-	0%	-	-	-	-	-	-	0%	-	
0.50 to <0.75	-	-	0%	-	-	-	-	-	-	0%	-	
0.75 to <1.25	13	-	100%	13	0.85	-	90.0	1,825	34	251%	-	
1.25 to <2.50	228	11	100%	239	1.35	-	90.0	1,825	674	282%	3	
2.50 to <5.00	115	29	100%	144	3.22	-	90.0	1,825	492	343%	4	
5.00 to <10.00	1	-	100%	1	6.17	-	90.0	1,825	2	325%	-	
10.00 to <20.00	168	4	100%	172	18.49	-	90.0	1,825	944	549%	29	
20.00 to <100.00	301	-	100%	301	27.54	-	90.0	1,825	1,716	570%	75	
100.00 (default)	97	-	100%	97	100.00	-	90.0	1,825	-	0%	87	
Subtotal	923	44	100%	967	22.69	-	90.0	1,825	3,862	399%	198	-

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

In the second half of 2018, the aggregate of the credit risk exposures, measured using advanced approaches, showed an overall slight decrease (-0.8%, or -2.8 billion euro). The expansion of the Other Retail portfolio (+6%, or 20.5 billion euro) was mainly due to the adoption of the new Retail models, which involved an extension of the scope of application, whereas the increase in volumes had a more marginal impact. Conversely, there was a reduction in the SME (-3.2%, or -10.9 billion euro), Other Corporates (-3.2%, or -11 billion euro) and the Banks/Public Entities portfolios (-0.4%, or -1.6 billion euro). This decrease was attributable to the Savoy transaction, through which the sale of a portfolio of bad loans was completed, and several synthetic securitisations (GARC SME-7 and GARC Corp-1) with performing loans as underlying assets. The authorisation for the use of the new risk parameters for the calculation of the RWAs for regulatory purposes, which incorporate the updating of the new time series for the Corporate (SME and Other Corporates), Banks/Public Entities and Specialised Lending portfolios, led to a modest increase in the average riskiness of the performing exposures (from 173 bps to 177 bps).

EU CR10 - IRB (specialised lending and equities) as at 31 December 2018

(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	281	25	70%	299	210	1
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	Equal to or more than 2.5 years	256	89	90%	323	291	3
Category 3	Less than 2.5 years	192	91	115%	260	300	7
	Equal to or more than 2.5 years	-	-	115%	-	-	-
Category 4	Less than 2.5 years	103	1	250%	104	259	8
	Equal to or more than 2.5 years	-	-	250%	-	-	-
Category 5	Less than 2.5 years	13	-	-	13	-	7
	Equal to or more than 2.5 years	-	-	-	-	-	-
Total	**Less than 2.5 years**	**308**	**92**		**377**	**559**	**22**
	Equal to or more than 2.5 years	**537**	**114**		**622**	**501**	**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	21	-	290%	21	62	5
Other equity exposures	368	61	370%	429	1,587	127
TOTAL	**389**	**61**		**450**	**1,649**	**132**

There was also an amount of 3,116 million euro (EAD) relating to the equity exposures subject to fixed weighting factors.

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

Actual losses and comparison with expected losses

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

Actual losses by regulatory portfolio

(millions of euro)

Regulatory portfolio	**Actual losses**		
	2018	**2017**	**2016**
Exposures to or secured by corporates (Corporate)	-1,389	-2,135	-2,223
Exposures secured by residential property (Retail mortgages)	-107	-118	-82
Exposures to SMEs (SME retail)	-311	-255	-256

During the 2016-2018 period, expected losses for performing Corporate counterparties (determined based on prior year-end data) amounted to a total of 3,546 million euro.

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

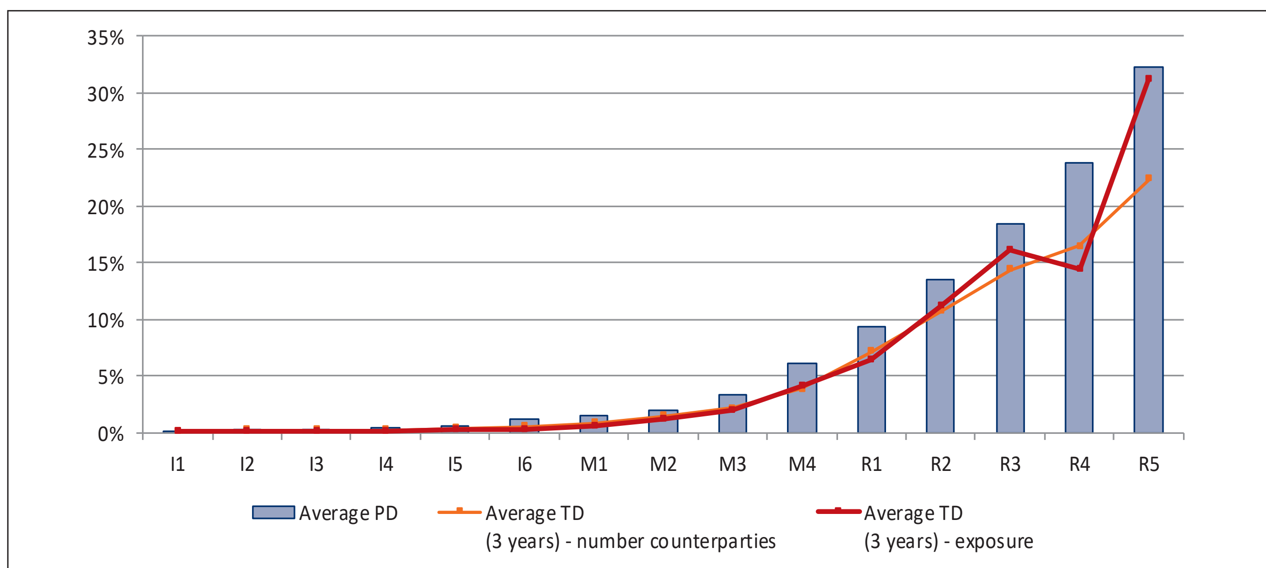
It should be noted that, in recent years, there has been an increase in negative movements within the non-performing loan category: in particular, over the entire period of observation - compared to the previous periods - there were increases towards the bad loans category (albeit with a slowdown in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

For the Retail portfolio (Residential mortgages), the expected losses in 2016-2018 amounted to a total of 450 million euro, above the actual loss figure.

Finally, the Retail SME asset class showed an expected loss of 392 million euro which, as already recorded for the Corporate area, was below the actual losses.

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

As part of its ongoing validation work, the Internal Validation - Credit Risk Internal Systems Unit periodically (on a half-yearly basis) compares the default rates[9] recorded on the models validated for IRB purposes with the average PDs by individual rating class. For the Corporate Domestic regulatory segment, the chart below shows the comparison by individual rating class between PD and default rates (calculated in terms of number of counterparties and exposure). The values were obtained from rating calculation simulations using the new model for the first two reference dates (December 2015 and December 2016) and production dates for the most recent date considered (December 2017): the model was authorised by the Regulator in April 2017 and used, for regulatory purposes, from June 2017.

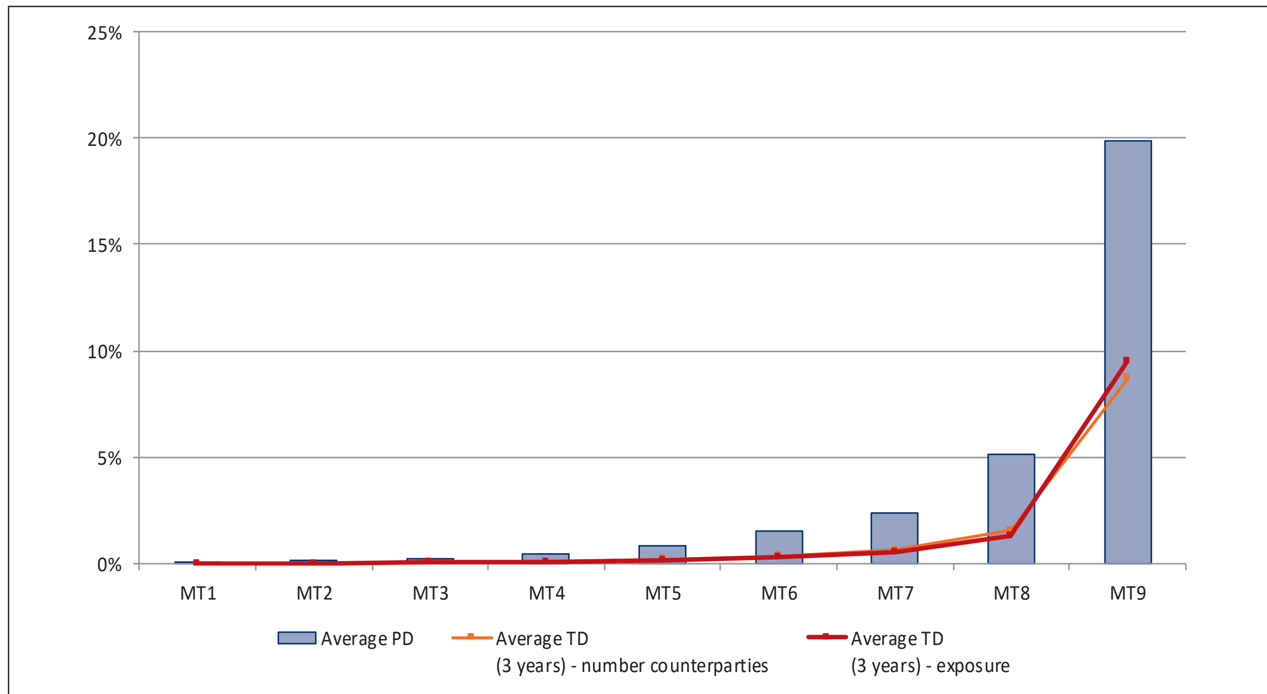


The default rate curves, calculated as the simple average on the performing reference dates of December 2015 – 2016 – 2017 (2016, 2017, 2018 default windows[10]), showed a substantially monotonic increase as the rating class worsens, however with values that are never higher than the respective PD values for each rating class.
The default rates by exposure, in the final part of the curve, are higher than the default rates by number of counterparties, with a slightly more irregular trend ("interruption" of the monotonicity for the R4 rating class).
The performance of the model in terms of discriminating power is satisfactory, with an accuracy ratio for the last year of just over 68%.

[9] The definition of default, considered for the population of the charts and the EU CR9 table below, is not the same for all the models. Indeed, the definition of default used for the portfolio estimation and recalibration is considered: also including 180-day and 90-day past due loans (for Corporate), only including bad loans and substandard loans (for Retail SME and Residential Mortgages to Private Individuals).
[10] The performing reference date is the date on which the scope for comparison between PD and DR is defined; the observation window for the default event, for the definition, is one year (i.e. January 2018 - December 2018 for the reference date December 2017).

Comparison of PD and DR figures by rating class for the Residential Mortgages to Private Individuals regulatory segment

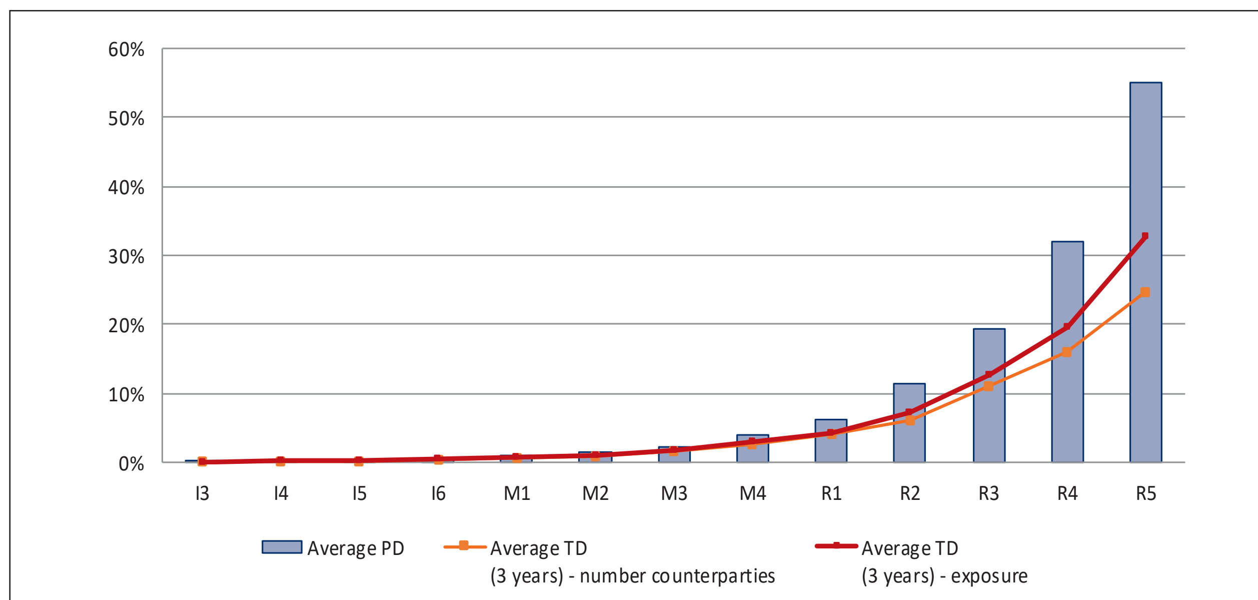
For the Residential Mortgages to Private Individuals segment, the same distribution by rating class as that shown for the Performance portfolio is presented, using the same time periods as described above for the Corporate segment: the scope also includes performing mortgage relationships within the IRB validated scope and with a valid Performance rating. It is should be noted that, in 2018, the new Retail model was approved by the Regulator and will replace the Residential Mortgages to Private Individuals model, introducing new elements such as the transition to a borrower-based approach (rather than product-based) and the differentiation of the modules considered for the assessment of the customer based on customer type. However, for the chart below, in order to provide a more robust representation of the trend between PD and DR of the Residential Mortgages to Private Individuals regulatory segment, the ratings obtained on the three reference dates considered through the Residential Mortgages to Private Individuals model (in operation on the dates considered) have been used.



There is a monotonic increase in the default rate as the rating class worsens, with similar values among the two default rate curves. The class PDs are higher, for all the classes, than the respective default rates.

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

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



The default rates are slightly lower than the average PDs obtained in the I and M bands[11], and much lower in the R band; they also show a monotonic trend that increases along the rating scale. The two default rate curves have very similar values in the I and M bands (the two curves in the chart practically overlap each other), whereas in the R band the default rates by exposure are several percentage points higher than the default rates by number of counterparties. The performance of the models in terms of discriminating power is overall satisfactory. Accuracy ratio levels fall between 55% and 72% by customer type and the duration of the relationship with the Bank (with an overall value of almost 70%).

Comparison of PD and DR figures by exposure class

The table below "EU CR9 – IRB approach – Backtesting of PD per exposure class" compares the PD and default rates, breaking down the portfolio by exposure class and PD scale as at the reporting date considered (31 December 2017).
The breakdown between the following portfolio models was considered for the exposure classes:

- Corporate (in this case, also including Large counterparties[12]);
- Retail SME (Small Business + Micro Business);
- Residential Mortgages to Private Individuals.

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

- Banks and Public Entities, subject to a recent internal re-estimate and consequent model change (pre-application package sent in December 2018);
- Structured Finance and RED, because their small number would not have provided significant data for the PD and default rate comparison.

The analysis therefore considered the most significant exposure classes or those that have not been recently re-estimated, for which consistent historical average default rates are available.
The table below shows the breakdown, in terms of RWAs as at 31 December 2018[13], of the exposure classes considered in the analysis:

Exposure class	RWA
Corporate (including Large Corporate)	59.73%
Sme Retail (Small Business + Micro Business)	2.70%
Retail - Exposures secured by real estate assets	10.30%
Other (including defaulted exposures)	27.27%

Although it is numerically less significant, the Corporate exposure class is the most impacted class in terms of RWAs. As at 31 December 2018, the "Retail - Exposures secured by real estate assets" exposure class replaced the "Residential Mortgages to Private Individuals" exposure class applicable up to the previous year. However, as already mentioned above, in order to have consistent historical average default rates values, the data obtained from the "Residential Mortgages to Private Individuals" model (still in force as at 31 December 2017) have been used.

[11] I, M and R bands means the combination, respectively, of the rating classes from I3 to I6 - from M1 to M4 - from R1 to R5.
[12] Given their small number, the Large Corporate counterparties have been considered together with the Corporate model.
[13] Figures taken from the reporting source at the reporting date 31/12/2018.

For the PD scale for the table "EU CR9 – IRB approach – Backtesting of PD per exposure class", on the other hand, the PD classes obtained from the allocation of the counterparties to the specific rating classes of each regulatory segment have been aggregated in accordance with the EBA guidelines[14]. The classes of the PD scale shown in the table, which are therefore unique for each exposure class, include seven classes for performing counterparties and one class for non-performing counterparties as at the reporting date. Only counterparties with an available rating have been considered for the comparison between PD and DR: as already noted, the samples considered for the Corporate exposure class were obtained from calculation simulations or from partial extractions of development samples used in the estimation of the respective models.
The external rating equivalent column is not populated because these exposure classes do not refer to shadow rating models and therefore do not allow an unequivocal association between the rating classes of the "original" master scales and the agency external rating.
The comparison between the PD and DR for each exposure class considers the average PDs (arithmetic and weighted through EAD) as at the reporting date of 31 December 2017 and the average historical default rate (in terms of number of counterparties), obtained as an average over the last five years (2014, 2015, 2016, 2017 and 2018).

Looking at the comparison per individual exposure class, we can see that:
- for Corporate, the PD values (both simple and weighted) per individual PD class and the total PD values are in line with (sometimes, slightly lower or higher than) the historical average DR (influenced by the high risk values, also close to 6% in 2014 and 2015)[15];
- for Retail SME, both at total level and for the individual classes, the arithmetic and weighted average PDs are higher than the historical average DR, due to the lower risk level in recent years[16] and a re-distribution of the portfolio for the new PD values adopted for the Micro Business sub-portfolio;
- for Residential Mortgages to Private Individuals, as already shown in the chart above, the PD values (both simple and weighted) per individual PD class and the total PD values are higher than the historical average DR.

[14] Reference to "EBA/GL/2016/11, version 2".
[15] The comparison between PD and the default rate for the last three years (2016-2017-2018), as illustrated in the chart above, shows PD values that are on average higher than the average default rates.
[16] In 2013, the overall default rate was 3.61% (significantly higher than the overall average of the last five years - i.e. 2.01%).

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EU CR9 – IRB approach – Backtesting of PD per exposure class

(millions of euro)

Exposure class	PD range	External rating equivalent (*)	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
Corporate (including Large Corporate)	0,00 to <0,15	-	0.09	0.13	3,492	3,645	4	3	0.27
	0,15 to <0,25	-	0.20	0.21	5,972	6,298	13	4	0.31
	0,25 to <0,50	-	0.40	0.40	17,848	19,404	44	5	0.38
	0,50 to <0,75	-	0.65	0.65	10,222	10,889	41	5	0.65
	0,75 to <2,50	-	1.44	1.52	24,350	26,614	300	62	1.29
	2,50 to <10,00	-	5.27	5.48	16,485	16,607	791	120	4.86
	10,00 to <100,00	-	19.97	18.49	3,296	3,002	515	58	15.87
	100,00 (default)	-	100.00	100.00	94	70	103	17	76.06
	Total	**-**	**1.92**	**2.61**	**81,759**	**86,529**	**1,811**	**274**	**3.08**
Sme Retail (Core + Micro)	0,00 to <0,15	-	0.12	0.12	23,456	27,379	10	1	0.04
	0,15 to <0,25	-	0.15	0.17	46,636	52,699	41	8	0.10
	0,25 to <0,50	-	0.31	0.35	72,028	82,305	179	16	0.28
	0,50 to <0,75	-	0.68	0.68	26,846	30,173	162	21	0.60
	0,75 to <2,50	-	1.53	1.61	67,182	76,276	796	90	1.22
	2,50 to <10,00	-	3.94	4.46	63,374	70,366	2,044	204	3.11
	10,00 to <100,00	-	19.81	19.60	20,747	23,361	2,477	212	11.07
	100,00 (default)	-	100.00	100.00	40	28	38	3	73.75
	Total	**-**	**2.34**	**2.67**	**320,309**	**362,587**	**5,747**	**555**	**2.01**
Retail Mortgage	0,00 to <0,15	-	0.09	0.09	167,423	215,526	37	16	0.02
	0,15 to <0,25	-	0.24	0.24	117,681	170,201	58	28	0.05
	0,25 to <0,50	-	0.45	0.45	268,397	335,434	475	212	0.14
	0,50 to <0,75	-	0.00	0.00	0	0	0	0	0.00
	0,75 to <2,50	-	1.20	1.24	148,480	189,274	777	364	0.41
	2,50 to <10,00	-	5.16	5.16	27,332	34,445	639	238	2.21
	10,00 to <100,00	-	19.84	19.84	16,603	22,156	1,489	196	11.16
	100,00 (default)	-	100.00	100.00	90	82	60	3	61.51
	Total	**-**	**1.20**	**1.11**	**746,006**	**967,118**	**3,535**	**1,057**	**0.62**

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

Section 10 - Credit risk mitigation techniques

Qualitative disclosure

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

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

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

The Group establishes margin agreements to mitigate the risk relating to transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Master Repurchase Agreement/OSLA/GMSLA) with bilateral counterparties.
In particular, for non-centrally cleared OTC derivatives, from 1 March 2017, the EMIR regulations require daily margining with Financial counterparties and above threshold Non-Financial counterparties (so-called NFCs+).
In addition, for transactions in non-centrally cleared OTC derivatives concluded from 1 September 2019, the Group entities that are obligated will be subject to bilateral exchange of initial margins, which will further mitigate counterparty risk.
Approximately 50% of the OTC derivatives deals are covered by margin agreements (bilateral or with central counterparties).

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

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

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

Policies and processes for collateral evaluation and management

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

The guarantees received with the highest impact include:

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

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

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

The value of properties under construction is monitored on an ongoing basis by experts who perform inspections, verify the progress of the works and prepare technical reports for loan disbursement.
The valuation is duly updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, every three years for major exposures.
To cover the residual risks, the borrower is required to provide an insurance policy against damage. The insurable value is determined by a survey, on the basis of the property's reconstruction cost.

Main types of guarantor and credit derivative counterparty and their creditworthiness

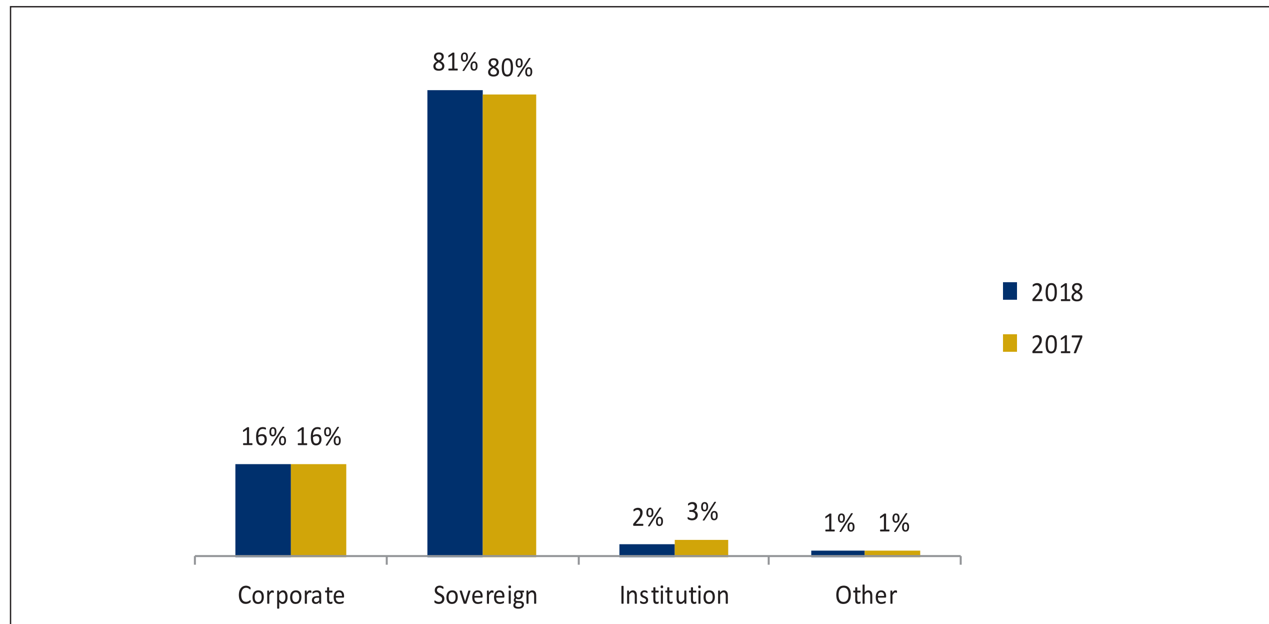
With regard to the transactions in credit derivatives, there were no transactions to report as at 31 December 2018. Credit derivatives received as collateral, although present, were immaterial.

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

Personal guarantees

Personal guarantees, as noted in the quantitative disclosure, cover a limited amount of the overall credit exposure. Compared to the previous period, there were no significant changes in the types of guarantor.
The share associated with Sovereign guarantors (primarily the Italian government) accounts for 81% of the total amount (80% in December 2017), while the Corporate and Bank/Public Entity guarantors represent 16% and 2% respectively (16% and 3% in December 2017).

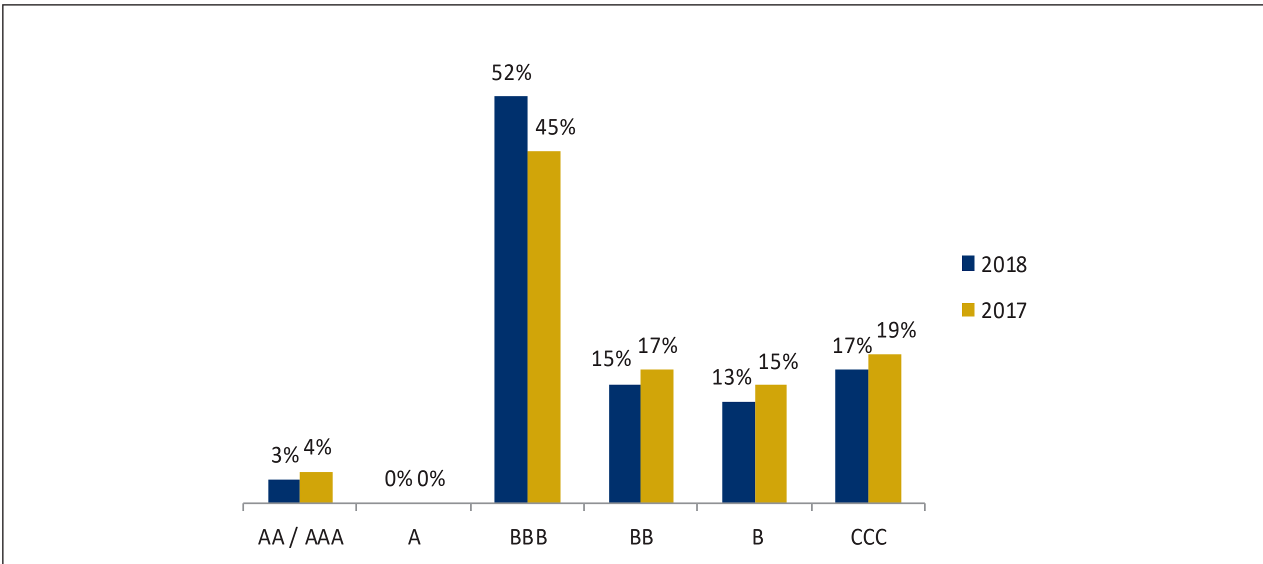
Personal guarantees by type of guarantor



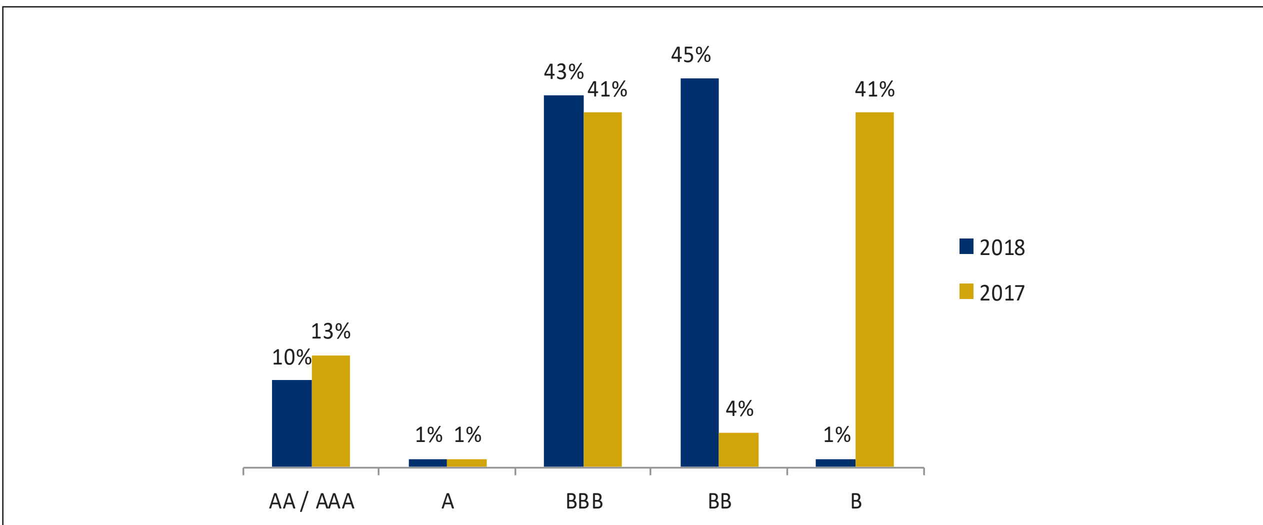
Personal guarantees by guarantor rating classes

By type of personal guarantee, guarantors show a high credit quality, with 92% investment-grade.
The breakdown by rating class shows Corporate guarantors classified as investment-grade with a share of 55% (49% in December 2017) and Bank/Public Entity guarantors classified as investment-grade with a share of 54% (55% in December 2017).
With regard to other segment personal guarantees, the breakdown by rating class shows guarantors classified as investment grade with a share equal to 100%, in line with the figures of December 2017.
Corporate and Bank/Public Entity guarantors are assigned ratings from the internal model, while guarantors of other segments are assigned agency ratings.

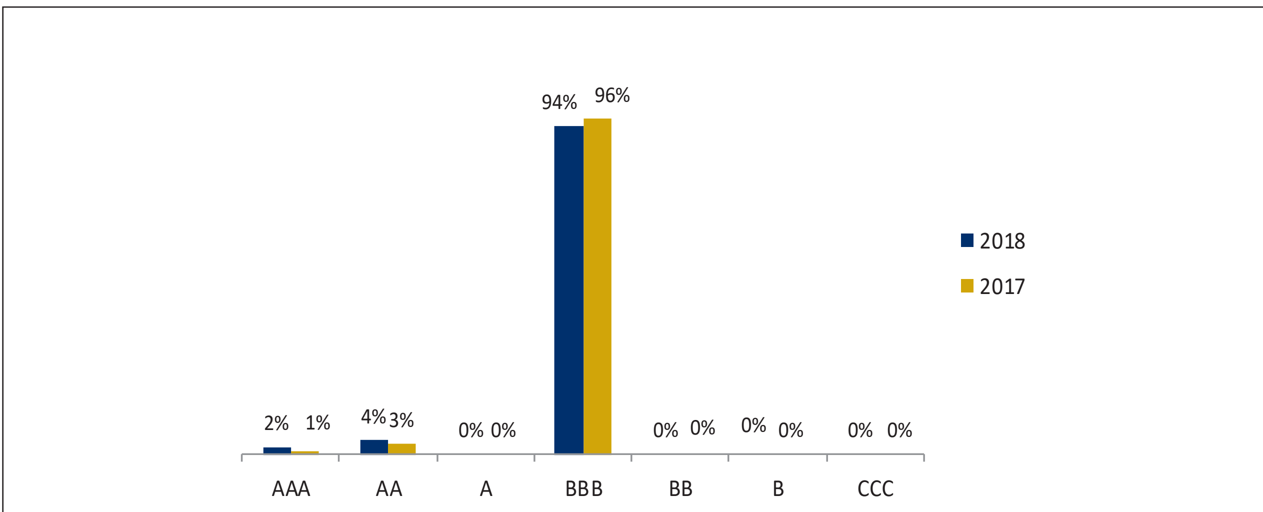
Corporate personal guarantees by guarantor rating classes



Bank/Public Entity personal guarantees by guarantor rating classes



Other segment personal guarantees by guarantor rating classes



Financial collateral

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

Other collateral

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

Quantitative disclosure

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

EU CR3 – CRM techniques – Overview

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

(millions of euro)

		Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by personal guarantees	Exposures secured by credit derivatives
1	Total loans (*)	267,293	154,797	132,966	21,831	-
2	Total debt securities	73,618	1	-	1	-
3	**Total exposures as at 31 December 2018 (**)**	**567,577**	**160,014**	**135,991**	**24,023**	**-**
4	*Of which defaulted*	*9,832*	*10,415*	*8,276*	*2,139*	-

(*) 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.

Considering the reduction in the aggregate (-1.2% at net values), the level of secured exposures shows a more favourable trend, already seen in the first half of the year. The positive shift of the portfolio towards higher levels of protection and risk mitigation (+0.7%), together with the sharp reduction, attributable to the sale carried out, in the net book value of the exposures in default (around -4.2 billion euro), confirmed the significant improvement in the portfolio's risk profile.

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

Value of the guarantees subject to the standardised approach

(millions of euro)

Regulatory portfolio	31.12.2018		31.12.2017	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by governments and central banks	-	19,232	10	17,195
Exposures to or secured by regional or local authorities	-	137	-	152
Exposures to or secured by public sector organisations	34	12	1	8
Exposures to or secured by multilateral development banks	-	74	-	31
Exposures to or secured by international organisations	-	-	-	6
Exposures to or secured by supervised institutions	1,251	286	141	528
Exposures to or secured by corporates and other entities	3,257	254	1,618	197
Retail exposures	2,280	-	929	-
Exposures secured by real estate	-	-	-	-
Defaulted exposures	9	-	42	-
High-risk exposures	5	-	3	-
Exposures in the form of covered bonds	-	-	-	-
Short-term exposures to corporates and other entities or supervised institutions	-	-	-	-
Exposures to UCI	128	-	191	-
Other exposures	-	-	-	-
Securitisations	-	-	-	-
Total	**6,964**	**19,995**	**2,935**	**18,117**

Under the current regulations, when the comprehensive method is adopted (as Intesa Sanpaolo does in the majority of cases), collateral (e.g. cash collateral or securities received as pledges) reduces risk exposure, whereas personal guarantees (and the remaining collateral - simplified method) transfer the related risk to the guarantor's regulatory portfolio; consequently, the representation of personal guarantees included in the table above is the guarantor's responsibility.
With regard to the increase in the value of collateral compared to 2017, a new application for the management of the financial collateral received was implemented in 2018. This made it possible to value and specifically contribute the underlying assets (financial and collateral instruments) acquired as collateral from portfolio management schemes, with consequent benefits on the prudential requirements, which were more marked for Fideuram – Intesa Sanpaolo Private Banking. In order to optimise capital absorption, a transaction was also completed with the counterparty SACE to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Albania, Bosnia and Serbia.
It is also noted that the column "Personal guarantees or credit derivatives" consists almost exclusively of guarantees received in the form of personal guarantees, as credit derivatives represent an insignificant proportion of the total guarantees of the Intesa Sanpaolo Group.
With regard to the exposures secured by properties, the value of the mortgage collateral is not shown, because – in accordance with the applicable regulations – these exposures are subject to preferential weighting factors. If there is any other collateral, this is shown in the above table.

Value of the guarantees subject to the Foundation IRB approach

(millions of euro)

Regulatory portfolio	31.12.2018		31.12.2017	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by corporates				
Specialised lending	-	-	-	-
SMEs	6	-	11	-
Other corporates	-	-	1	-
Specialised lending - slotting criteria	-	-	-	-
Total	**6**	**-**	**12**	**-**

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

Section 11 - Counterparty risk

Qualitative disclosure

Counterparty risk, in accordance with the Regulatory provisions, is a specific type of credit risk and represents the risk of a counterparty in a transaction defaulting before the final settlement of the cash flows involved in the transaction. The regulations lay down specific rules for the quantification of the amount of the exposures while referring to those governing credit risk for the determination of risk weightings.
In accordance with these regulations, counterparty risk is calculated for the following categories of transactions:

- over-the-counter (OTC) financial and credit derivatives;
- SFTs – Securities Financial Transactions (repurchase agreements and securities lending);
- transactions with medium to long-term settlement.

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

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

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

The organisational functions involved, as described in the Bank's internal regulations, are:

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

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

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

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

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

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

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

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

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

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

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

Counterparty risk is a particular kind of credit risk associated with OTC derivative contracts that refers to the possibility that a counterparty may default before the contract matures. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, were the counterparty to default, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).
In 2010 a specific project was launched to ensure that the Banking Group has an internal model for measuring counterparty risk, both for operational and regulatory purposes. The organisational functions involved, as described in the Bank's internal regulations, are:
- the Chief Risk Officer Governance Area, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
- the Level I and Level II control functions that use the measurements produced to monitor the assumed positions;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of the credit lines.

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

Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the purposes of operational measurement of uses of credit lines for derivatives. The Financial and Market Risks Head Office Department produces daily risk measurement estimates for counterparty risk, for the measurement of the uses of credit lines for OTC derivatives for the Parent Company, Banca IMI and the banks of the Banca dei Territori Division. It should be noted that the PFE method, in simplified form, is used for the banks of the International Subsidiary Banks Division.

In addition, the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:

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

Policies for hedging and mitigating risk

In order to mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow the netting of claims and obligations if a counterparty defaults.
This is achieved by entering into ISDA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the Group establishes collateral agreements, also to comply with the EMIR clearing requirements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

Quantitative disclosure

EU CCR1 – Analysis of CCR exposure by approach as at 31 December 2018

(millions of euro)

		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		540	155			404	271
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				13,862	1.54	21,347	4,571
5	*Of which securities financing transactions*				*2,855*	*1.54*	*4,396*	*370*
6	*Of which derivatives and long settlement transactions*				*11,007*	*1.54*	*16,951*	*4,201*
7	*Of which from contractual cross-product netting*				*-*	*-*	*-*	*-*
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						5,147	1,993
10	VaR for SFTs						-	-
11	**TOTAL**							**6,835**

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

As already illustrated, the Parent Company, Banca IMI and the banks of the Banca dei Territori Division were 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 derivative portfolio (as shown in the table, as at 31 December 2018 approximately 98% of the total EAD of financial and credit derivatives is measured using EPE models). At consolidated level, derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2018 accounting for approximately 2% of overall EAD) and refer to:
- residual contracts of Banca IMI, Intesa Sanpaolo and banks of the Banca dei Territori Division to which EPE is not applied (in compliance with the insignificance of the EBA thresholds);
- EAD generated by all other banks and companies in the Group which report using the mark-to-market approach.

The EPE internal model considers the collateral collected to mitigate credit exposure and any excess collateral paid. The value of the guarantees received and included in the calculation of the EAD amounts to more than 3 billion euro for the Parent Company, Banca IMI and the banks of the Banca dei Territori Division, while the collateral paid equals 14 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 16.7 million euro for Banca IMI (of which 14.8 million euro to vehicles) and 3.8 billion euro for the Parent Company (all to vehicles of the Group), linked to contractual clauses that would be activated following this event.

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

EU CCR2 – CVA capital charge as at 31 December 2018

(millions of euro)

		Exposure value	RWAs
1	**Total portfolios subject to the advanced method**	**1,259**	**836**
2	VaR component (including the 3× multiplier)		164
3	SVaR component (including the 3× multiplier)		672
4	**All portfolios subject to the standardised method**	**162**	**72**
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**1,421**	**908**

The requirement in terms of RWAs was broadly in line with that of the previous half-year.

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk weighting as at 31 December 2018

(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	6,567	-	-	-	-	-	-	-	10	-	-	6,577	6,567
2	Regional government or local authorities	-	-	-	-	19	-	-	-	-	-	-	19	19
3	Public sector entities	-	-	-	-	-	-	-	-	18	-	-	18	-
4	Multilateral development banks	1,662	-	-	-	-	-	-	-	-	-	-	1,662	8
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	6,845	-	-	52	20	-	-	2	-	-	6,919	6,896
7	Corporates	-	-	-	-	1	128	-	-	522	-	-	651	66
8	Retail	-	-	-	-	-	-	-	26	-	-	-	26	26
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
11	**TOTAL**	**8,229**	**6,845**	**-**	**-**	**72**	**148**	**-**	**26**	**552**	**-**	**-**	**15,872**	**13,582**

EU CCR3 bis – Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation as at 31 December 2018

(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	6,567	-	-	-	-	-	-	-	10	-	-	6,577	6,567
2	Regional government or local authorities	-	-	-	-	19	-	-	-	-	-	-	19	19
3	Public sector entities	-	-	-	-	-	-	-	-	50	-	-	50	-
4	Multilateral development banks	1,662	-	-	-	-	-	-	-	-	-	-	1,662	8
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	7,571	-	-	85	395	-	-	5	-	-	8,056	7,658
7	Corporates	-	-	-	-	1	145	-	-	564	-	-	710	93
8	Retail	-	-	-	-	-	-	-	58	-	-	-	58	58
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
11	**TOTAL**	**8,229**	**7,571**	**-**	**-**	**105**	**540**	**-**	**58**	**629**	**-**	**-**	**17,132**	**14,403**

EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale as at 31 December 2018 *(Table 1 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity	RWAs	RWA density
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities							
da 0,00 a <0,15	2,839	0.07	145	34.1	360	478	17%
da 0,15 a <0,25	1,021	0.16	42	32.0	227	234	23%
da 0,25 a <0,50	528	0.33	53	30.3	845	215	41%
da 0,50 a <0,75	345	0.72	26	27.5	355	161	47%
da 0,75 a <1,25	167	1.04	5	25.6	1,822	126	76%
da 1,25 a <2,50	1,315	1.99	37	20.3	641	985	75%
da 2,50 a <5,00	214	3.55	14	30.1	425	181	84%
da 5,00 a <10,00	881	5.37	11	29.5	275	807	92%
da 10,00 a <20,00	15	18.12	1	25.6	1,825	23	156%
da 20,00 a <100,00	4	42.00	2	25.6	1,802	6	152%
100,00 (default)	16	100.00	2	24.6	1,245	4	25%
Subtotal	7,345	1.51	338	29.9	457	3,220	44%
Exposures to or secured by corporates:							
- Specialised lending							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	91	0.23	2	32.2	1,825	49	54%
0.25 to <0.50	16	0.35	3	16.5	1,407	4	28%
0.50 to <0.75	165	0.54	19	15.7	1,609	58	35%
0.75 to <1.25	53	0.82	13	16.1	1,472	20	38%
1.25 to <2.50	96	1.42	44	17.8	1,460	48	51%
2.50 to <5.00	14	3.57	16	18.3	954	8	54%
5.00 to <10.00	15	8.54	2	30.8	1,414	21	141%
10.00 to <20.00	13	18.75	5	56.2	1,237	43	328%
20.00 to <100.00	11	35.79	3	18.5	787	12	106%
100.00 (default)	4	100.00	6	59.7	851	1	24%
Subtotal	478	3.25	113	21.5	1,536	264	55%
- SMEs (small and medium enterprises)							
0.00 to <0.15	6	0.12	141	46.8	730	2	25%
0.15 to <0.25	9	0.21	345	46.9	744	3	35%
0.25 to <0.50	41	0.40	1,333	46.9	718	21	50%
0.50 to <0.75	28	0.65	920	47.1	800	18	65%
0.75 to <1.25	36	1.14	899	46.9	823	30	85%
1.25 to <2.50	88	1.88	1,447	46.9	1,046	92	105%
2.50 to <5.00	38	3.28	632	46.7	936	42	110%
5.00 to <10.00	61	7.70	725	47.0	983	89	147%
10.00 to <20.00	16	14.74	175	47.1	975	30	188%
20.00 to <100.00	16	28.77	77	47.2	1,006	36	222%
100.00 (default)	32	100.00	245	49.0	864	8	24%
Subtotal	371	12.82	6,939	47.1	915	371	100%
- Other corporates							
0.00 to <0.15	334	0.09	92	38.1	1,127	92	28%
0.15 to <0.25	584	0.22	148	37.9	1,405	308	53%
0.25 to <0.50	445	0.35	485	38.1	812	223	50%
0.50 to <0.75	400	0.55	330	37.8	1,146	285	71%
0.75 to <1.25	144	1.02	287	37.8	822	114	80%
1.25 to <2.50	258	1.86	411	38.1	940	262	101%
2.50 to <5.00	279	3.32	132	38.2	1,623	392	141%
5.00 to <10.00	246	7.02	91	38.2	833	366	149%
10.00 to <20.00	3	15.18	16	37.8	991	6	199%
20.00 to <100.00	16	21.32	12	38.3	1,218	35	224%
100.00 (default)	17	100.00	42	38.7	784	4	24%
Subtotal	2,726	2.18	2,046	38.0	1,125	2,087	77%

EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale as at 31 December 2018 *(Table 2 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD (%)	Number of obligors	Average LGD (%)	Average maturity	RWAs	RWA density
Retail exposures: (*)							
- Other retail exposures: SMEs							
0.00 to <0.15	3	0.12	377	49.1	-	-	0%
0.15 to <0.25	2	0.15	301	48.7	-	-	0%
0.25 to <0.50	5	0.32	561	48.3	-	1	21%
0.50 to <0.75	3	0.68	196	47.8	-	1	33%
0.75 to <1.25	3	1.12	196	47.7	-	1	41%
1.25 to <2.50	2	1.86	205	48.5	-	1	50%
2.50 to <5.00	2	3.08	208	47.8	-	1	54%
5.00 to <10.00	1	5.10	88	48.6	-	-	0%
10.00 to <20.00	1	14.76	62	47.9	-	1	77%
20.00 to <100.00	-	0.00	-	0.0	-	-	0%
100.00 (default)	2	100.00	105	47.5	-	-	0%
Subtotal	24	8.85	2,299	48.2	-	6	33%
- Other retail exposures: private individuals							
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	1	0.29	1	35.3	-	-	0%
0.50 to <0.75	-	0.00	-	0.0	-	-	0%
0.75 to <1.25	-	0.00	-	0.0	-	-	0%
1.25 to <2.50	-	0.00	-	0.0	-	-	0%
2.50 to <5.00	-	0.00	-	0.0	-	-	0%
5.00 to <10.00	-	0.00	-	0.0	-	-	0%
10.00 to <20.00	-	0.00	-	0.0	-	-	0%
20.00 to <100.00	-	0.00	-	0.0	-	-	0%
100.00 (default)	-	0.00	-	0.0	-	-	0%
Subtotal	1	0.29	1	35.3	-	-	0%

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

In the second half of 2018, the aggregate of the exposures subject to counterparty risk, measured using advanced approaches, showed a moderate increase (3.9%, or 0.4 billion euro), mainly attributable to the Banks/Public Entities and Other Companies portfolios.

EU CCR6 – Credit derivatives exposures as at 31 December 2018

(millions of euro)

	CREDIT DERIVATIVE HEDGES		OTHER CREDIT DERIVATIVES
	Protection bought	**Protection sold**	
Notionals			
Credit default products - On single counterparty	-	-	15,779
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)	-	-	89,068
Credit spread products - On more counterparties (basket)	-	-	-
Total rate of return swap - On more counterparties (basket)	-	-	-
Other - On more counterparties (basket)	-	-	-
Total notionals	**-**	**-**	**104,847**
Fair values			
Positive fair value (asset)	-	-	*703*
Negative fair value (liability)	-	-	*784*

The transactions in credit derivatives related to the own credit portfolio with a notional value of 71 billion euro (of which 35 billion euro relating to protection sales), whereas the dealing on behalf of customers had a notional value of 34 billion euro (of which 17 billion euro relating to protection sales).

EU CCR5-A – Impact of netting and collateral held on exposure values as at 31 December 2018

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

(millions of euro)

		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	43,184	33,871	9,313	8,004	1,309
2	SFTs	50,506	7,916	42,590	42,260	330
3	Cross-product netting	-	-	-	-	-
4	**TOTAL**	**93,690**	**41,787**	**51,903**	**50,264**	**1,639**

EU CCR5-B – Composition of collateral for exposures to CCR as at 31 December 2018

(millions of euro)

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS		COLLATERAL USED IN SFTS	
	Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received	Fair value of posted collateral
Cash	3,003	12,690	884	566
Debt Securities	303	1,357	312	142
TOTAL	**3,306**	**14,047**	**1,196**	**708**

Collateral received/paid for OTC derivatives was stable compared to the previous half year. Collateral received in the form of cash decreased as a result of SFT transactions.

EU CCR8 – Exposures to CCPs as at 31 December 2018

(millions of euro)

		EAD POST CRM	RWAs
1	**Exposures to QCCPs (total)**		391
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	821	16
3	i) OTC derivatives	221	4
4	ii) Exchange-traded derivatives	162	3
5	iii) SFTs	438	9
6	iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	6,340	127
9	Prefunded default fund contributions	1,249	248
10	Alternative calculation of own funds requirements for exposures		-
11	**Exposures to non-QCCPs (total)**		-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	i) OTC derivatives	-	-
14	ii) Exchange-traded derivatives	-	-
15	iii) SFTs	-	-
16	iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

The EAD towards central counterparties was mainly generated by initial margins paid by Banca IMI respectively to LCH (SFTs and OTC), Cassa di Compensazione e Garanzia (SFT and ETD) and Eurex (ETD).
Intesa Sanpaolo had a direct position with CCPs solely for SFT operations. For OTC derivatives, the Parent Company operates with CCPs through Banca IMI, which acts as a clearing broker.
Compared to the previous half year, there was a reduction in RWAs in terms of lower default funds paid, of around 100 million euro.

Section 12 – Securitisations

Qualitative disclosure

Securitisations: objectives and the roles undertaken by the Bank

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

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

Standard securitisations
The securitisations in this category are as follows:

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

- ***Intesa Sec Npl***
  This transaction, completed in 2001, involved the securitisation of bad loans relating to 6,997 positions represented by residential and commercial mortgages originating from the Cariplo loan portfolio, acquired by IntesaBci through the merger at the end of 2000. Around 53% of the loans related to corporate counterparties resident in Italy, around 44% to households and the remaining 3% to other operators. This transaction led to the sale of loans for a gross value of 895 million euro, transferred "without recourse" to the special purpose vehicle IntesaBci Sec NPL, for a sale price of 516 million euro. The transaction was funded by the special purpose vehicle through the issue of bonds in five tranches with a total nominal value of 525 million euro. The first three (class A of 274 million euro with an AAA rating; class B of 72 million euro with an AA rating; and class C of 20 million euro with an A rating) were subscribed by Morgan Stanley, Crédit Agricole-Indosuez and Caboto, which subsequently placed them with institutional investors. The final two tranches (class D of 118 million euro and class E of 41 million euro, both unrated), on the other hand, were subscribed by IntesaBci. The rating agencies used were Fitch and Moody's.
  The securitisation transaction was closed in 2018.

- ***Electricity Securitisation***
  This transaction was conducted in 2011 on a portfolio of trade receivables in the electricity sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group.
  The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination.
  In March 2018, the programme was increased from 900 million euro to around 1,500 million euro. To close the transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l. and Duomo Funding Plc.

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

- ***Gas 2 Securitisation***
  This transaction was conducted in 2013 for an amount of 35 million euro on a portfolio of trade receivables in the gas sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risks of the portfolio of receivables were subsequently securitised. For this transactions, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. To close the transaction, the Group used the vehicles Hermes Trade Receivables S.a.r.l and Duomo Funding Plc.
  In 2018, the transaction was restructured and transferred to the new programme called Fuel 2.

- ***Telephony Securitisation***
  This transaction was conducted in 2014 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination.
  In 2016, the programme was increased from 150 million euro to 250 million euro. For this transaction, the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., ABS Funding S.A. and Duomo Funding Plc were used.
  In 2018, the transaction was transferred to the programme called Telefonia 2.

- ***Telefonia 2 Securitisation***
  This transaction was conducted in 2017 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group for a programme amount of 100 million euro. The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles used for the transaction were Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc.
  In 2018, the assets relating to the Telephony transaction, conducted in 2014 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group, for a total programme amount of 300 million euro, were also transferred to the Telefonia 2 transaction.
  In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. For this transaction, the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., ABS Funding S.A. and Duomo Funding Plc were used.

- ***Telefonia 3 Securitisation***
  This transaction was conducted in 2017 on a portfolio of trade receivables in the telephony sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group for a programme amount of 500 million euro. The risks of the portfolio of receivables were subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. The vehicles Trade Receivables Investment Vehicle S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc. were used for this transaction.

- ***Tibet Securitisation***
  In 2015, Banca Imi securitised a loan of 203 million euro secured by a mortgage granted in 2014 for the purchase of a prestigious property in Milan.
  The vehicle Tibet CMBS S.r.l. was used in the transaction. The securities issued have the following ratings: Senior AA; 1st Mezzanine A, 2nd Mezzanine A-, and Junior BB.
  This securitisation transaction was closed in 2018.

- ***Fuel Securitisation***
  The transaction has been carried out in several tranches starting from 2015, on portfolios of trade receivables in the oil & refined products sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group.
  The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2018, the nominal value of the securitised loans was 159 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.

- ***Automotive, Electronics and Mechanics Securitisation***
  The transaction has been carried out in several tranches starting from 2012, on portfolios of trade receivables in the automotive, electronics & mechanics sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2018, the nominal value of the securitised loans was 457 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.

- ***Tranched Cover Piemonte Securitisation***
  A tranched cover synthetic securitisation was initiated in 2016 – also under the “GARC” Project – on newly-issued portfolios promoted by the Piedmont Regional Authority under the 2007/2013 Regional Operational Programme funded by the European Regional Development Fund, for the objective “Regional competitiveness and employment” – Axis 1 – Activity I.4.1 Measure to support access to credit for piedmontese SMEs through the establishment of the Tranched Cover Piemonte Fund. The transaction provided for the granting of a total portfolio of new loans of 60 million euro to around 350 enterprises in Piedmont.

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

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

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

- ***SME Initiative Italy Securitisation***
  In 2017, the synthetic securitisation "SME Initiative Italy" (SMEI), part of the "GARC" (Active Credit Risk Management) Project, was also completed on a portfolio of performing loans granted by Banco di Napoli S.p.A. to SMEs and Small Mid-Caps located in Southern Italy. This initiative was jointly financed by the Ministry of Economic Development and the European Commission and the EIB Group - European Investment Bank and European Investment Fund. The transaction involves the issue of a personal guarantee by the European Investment Fund on the investments in the Junior, Lower Mezzanine, Middle Mezzanine and Upper Mezzanine tranches, which covers the credit risk relating to a portfolio of around 500 million euro of loans to around 1,400 businesses in the Corporate and SME Corporate regulatory segment, valued using internal models (Advanced IRB). In exchange for that guarantee, the bank undertakes to provide new funds to support lending to SMEs in Southern Italy.

- ***K-Equity Securitisation***
  In 2017, the Intesa Sanpaolo Group sold non-performing exposures totalling around 226 million euro through two securitisations. Another Italian bank also participated in the securitisations.
  The securitisations consisted of the transfer of their credit exposures with several industrial companies to specifically established third-party entities, in order to enable their value enhancement through financial and industrial restructuring.
  That transfer specifically fulfils the purpose of ensuring the management of said exposures by entities established and managed by specialised third parties to optimise the recovery of the overall exposure by using the know-how and experience of the parties involved in the financial and industrial restructuring processes and, possibly, the granting of new financing to benefit the transferred debtors.
  Among other things, the transaction involved the use of a securitisation company established pursuant to Law 130/99, Norma SPV S.r.l., which purchases and securitises the credit exposures and, where necessary, provides new lending to the transferred borrowers.
  The Group holds no investments in the abovementioned company, which is therefore a third party that is independent from Intesa Sanpaolo.
  Norma SPV shall execute the securitisations by issuing Senior, Mezzanine and Junior notes, fully subscribed by each bank. Therefore, each securitisation already regards the loans due to the selling banks from a single debtor.
  The exposures sold have not currently been derecognised either from the financial statements or for prudential purposes. Against said sales, in addition to the notes mentioned above, Super Senior notes subscribed by third parties were also issued. All the securities issued have no external rating.

- ***GARC Securitisations***
  For details of the transactions carried out in 2018, see the description in the "Securitisations carried out during the period", presented at the end of this section.

- ***Tranched Cover Fondo Centrale di Garanzia Securitisation***
  For details of the transactions carried out in 2018, see the description in the "Securitisations carried out during the period", presented at the end of this section.

- ***Savoy Securitisation***
  For details of the transactions carried out in 2018, see the description in the "Securitisations carried out during the period", presented at the end of this section.

- ***Fuel 2 Securitisation***
  For details of the transactions carried out in 2018, see the description in the "Securitisations carried out during the period", presented at the end of this section.

Securitisations for which the Group acts a sponsor

- ***Muttley and Setafia Securitisations***
  In 2015, Banca IMI sponsored 2 securitisations on trade receivables, respectively in the furniture and furnishing sector for 55 million euro and in the pharmaceutical sector for 80 million euro. Receivables generated by primary customers of the Group were purchased by special purpose vehicles established pursuant to Law 130/99 (Muttley and Setafia respectively) which proceeded to securitise the risk by issuing securities. For these transactions, the vehicles Muttley S.r.l., Setafia SPV S.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l, ABS Funding S.A. and Duomo Funding Plc were used. All the securities issued are unrated.

- ***Massy and Bayon Securitisations***
  In 2018, Banca IMI and ISP sponsored 2 securitisations on trade receivables, respectively in the food & beverages sector for 583 million euro and in the telephony sector for 200 million euro. Receivables generated by primary customers of the Group were purchased by special purpose vehicles established pursuant to Law 130/99 (Massi S.r.l. and Bayon S.r.l. respectively) which proceeded to securitise the risk by issuing securities. The vehicles used for the transactions were Lana Trade Receivables S.a.r.l., CRC CF (Lux) S.a r.l. and Duomo Funding Plc, in addition the vehicles mentioned above. All the securities issued are unrated.

- ***Food & Beverages Securitisation***
  The transaction was initially carried out in several tranches starting from 2012, on portfolios of trade receivables in the food & beverages sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. In relation to the receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2017, the nominal value of the securitised loans was 626 million euro. For these transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., Hermes Trade Receivables S.a.r.l., Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.
  In 2018, this transaction was restructured so that the Intesa Sanpaolo Group could act as Sponsor. The new structure involves the sale without recourse pursuant to Law 52/91 on factoring of portfolios of loans from the sellers to Intesa Sanpaolo up to the amount of the programme dedicated to each individual seller. At the same time Intesa Sanpaolo sells the loans to a vehicle company pursuant to Law 130/99, which is financed through the issue of senior asset-backed securities (subscribed by Duomo Funding Plc) and junior asset-backed securities (subscribed in part by Banca IMI and by Luxembourg-registered vehicle companies).

Asset Backed Commercial Paper (ABCP) programmes

In accordance with the IAS/IFRS, Intesa Sanpaolo controls and fully consolidates:

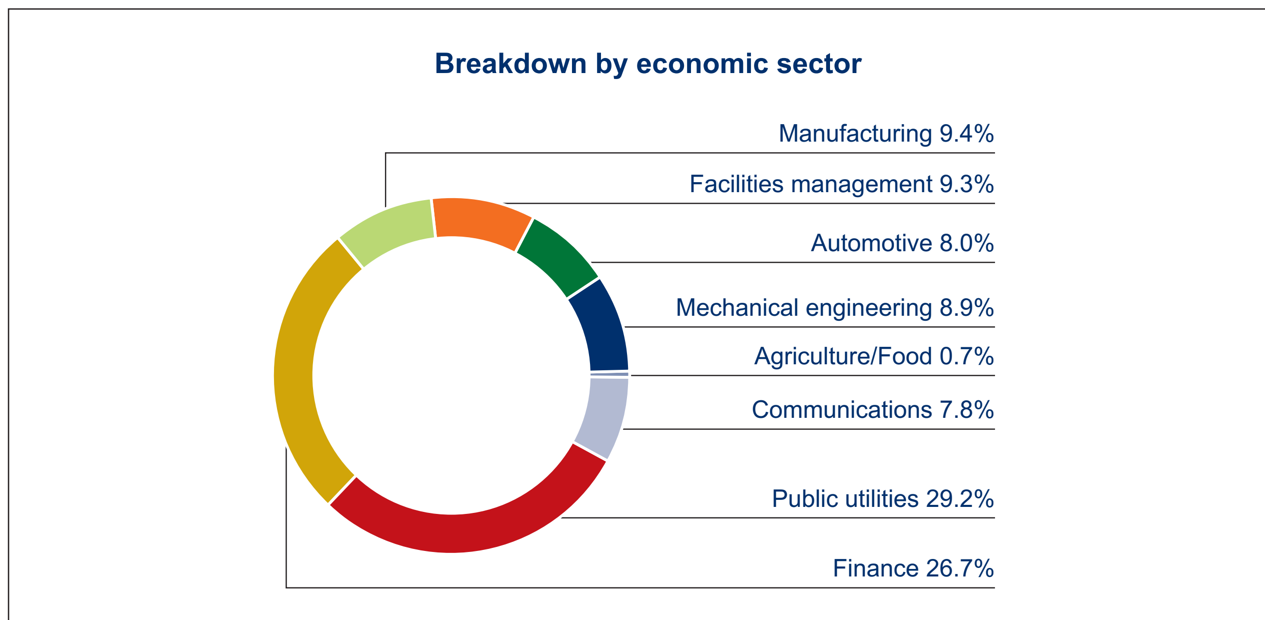
- ***Romulus Funding Corporation***
  a company based in the USA with the mission of purchasing financial assets, consisting of loans or securities with predefined eligibility criteria originating from Group customers, and financing purchases by issuing Asset-Backed Commercial Papers;

- ***Duomo Funding PLC***
  an entity that operates in a similar manner to Romulus Funding Corporation, but is limited to the European market, and is financed through funding agreements with Romulus.

Romulus Funding Corporation and Duomo Funding Plc are the Intesa Sanpaolo Group's asset-backed commercial paper conduits, originally established to support Intesa Sanpaolo's strategy of offering customers an alternative financing channel via access to the international asset-backed commercial paper market. The assets originated by European customers are purchased by Duomo, whereas Romulus is responsible for U.S. assets and fund-raising on the U.S. market through the issuance of asset-backed commercial paper. Nonetheless, due to the subsequent downgrading of Intesa Sanpaolo at the end of 2014, U.S. investors gradually divested without the vehicle being able to find new third-party investors with which to place the asset-backed commercial papers. As at 31 December 2018, approximately 5 billion euro of the securities issued by Romulus, amounting to 5.5 billion euro, had been subscribed by the Parent Company Intesa Sanpaolo. The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks. As already indicated for Banking Group risks, risk management performs dynamic hedging on the OTC derivatives market to manage both volatility and interest rate risk, as well as listed derivatives to optimise interest rate strategies. Companies are not generally permitted to take foreign-exchange positions.
As at 31 December 2018, the investment portfolio of Romulus consisted of 5.3 billion euro in loans to the vehicle Duomo. Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 5.3 billion euro, almost all of which has been subscribed by the Parent Company, Intesa Sanpaolo.
With regard to the portfolio of the vehicle Duomo, at the end of 2018 – in addition to receivables from Intesa Sanpaolo Group banks of 2.2 billion euro – this portfolio mainly consisted of loans to customers of 3.3 billion euro.
The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 0.4% of the total consolidated assets.

The portfolio risk of the two vehicles is approximately 61% accounted for by trade receivables and the remainder by consumer loans (7%), loans deriving from lease contracts (8%), inventory-backed loans (9%), factoring contracts (6%), mortgage loans (2%) and loans/lease contracts to pharmaceutical companies (7%).
Almost all of the eligible assets held by the vehicles are expressed in euro (97.4% of the total portfolio). The remainder is denominated primarily in British pounds (2.01%), US dollars (0.5%), Australian dollars (0.04%) and Canadian dollars (0.05%).

With regard to the portfolio of eligible assets, the chart below shows the breakdown by economic sector.



With regard to the rating breakdown of the loan portfolio, around 97.7% does not have a rating.
With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 99.95% of the debtors are located in Italy.

List of stakes in special purpose vehicles held by the Banking Group

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION (a)	ASSETS (b)			LIABILITIES (b)		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l. (c)	Conegliano Veneto (TV)	(f)	3,390	-	228	2,227	-	1,350
Intesa Sanpaolo SEC SA (c)	Luxembourg	Consolidated	21	-	302	306	-	16
Intesa Sec 3 S.r.l.	Milano	Consolidated	(d)	(d)	(d)	(d)	(d)	(d)
Augusto S.r.l. (e)	Milano	(f)	1	-	2	13	-	-
Colombo S.r.l.	Milano	(f)	1	-	6	-	4	10
Diocleziano S.r.l. (e)	Milano	(f)	4	-	1	52	-	-
Trade Receivables Investment Vehicle S.a.r.l.	Luxembourg	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
ISP OBG S.r.l. (ex ISP Sec 4 S.r.l.) (h)	Milano	Consolidated	32,447	-	5,618		37,791	
ISP CB Ipotecario S.r.l. (h)	Milano	Consolidated	19,872	-	4,907		22,975	
ISP CB Pubblico S.r.l. (h)	Milano	Consolidated	3,149	1,958	2,521		7,361	
BRERA SEC S.r.l. (c)	Conegliano Veneto (TV)	(f)	11,035	-	972	9,168	-	2,597
Claris Finance 2005 S.r.l (i)	Roma	(f)	(g)	(g)	(g)	(g)	(g)	(g)
Claris Finance 2007 S.r.l (i)	Conegliano Veneto (TV)	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Claris Finance 2008 S.r.l. (c) (i)	Conegliano Veneto (TV)	Not consolidated	118		7		39	55
Claris RMBS 2014 S.r.l (i)	Conegliano Veneto (TV)	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Claris RMBS 2016 S.r.l. (c) (i)	Conegliano Veneto (TV)	Not consolidated	872	-	66	651	116	144
Claris SME 2015 S.r.l. (c) (i)	Conegliano Veneto (TV)	Not consolidated	629	-	66	-	249	403
Claris SME 2016 S.r.l. (i)	Conegliano Veneto (TV)	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Berica ABS 3 S.r.l. (i)	Vicenza	(f)	(g)	(g)	(g)	(g)	(g)	(g)
Berica ABS 4 S.r.l. (i)	Vicenza	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Berica ABS 5 S.r.l. (c) (i)	Vicenza	Not consolidated	493		38	383	60	52
Apulia Finance n. 4 S.r.l. (i)	Conegliano Veneto (TV)	(f)	(g)	(g)	(g)	(g)	(g)	(g)

(a) Consolidation method referring to the "prudential" scope.

(b) Figures gross of any intercompany relations.

(c) Self-securitisation vehicle described in Section 1.4 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2 of Part E of the Notes to the consolidated financial statements.

(d) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.6 of the Notes to the consolidated financial statements.

(e) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2017).

(f) Vehicle consolidated at equity.

(g) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 of the Notes to the consolidated financial statements.

(h) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section D.4 in Part E of the Notes to the consolidated financial statements.

(i) Vehicle deriving from the acquisition of certain assets and liabilities of the former Venetian Banks

With regard to the securitisations structured by the Intesa Sanpaolo Group on its own assets, including those named Towers, K-Equity and Savoy, in addition to those shown in the table above, other special purpose vehicles were also used that are third-party and independent entities with respect to Intesa Sanpaolo and in which the Group does not hold any investments.

"Third-party" securitisations

The Intesa Sanpaolo Group also operates in the securitisations market as an investor, although the volume of the existing investments, in both banking and trading books, represents a very small part of the Bank's assets. These operations relate, on the one hand, to the diversification of the risk profile of the managed portfolio and the maximisation of the risk-return target, and on the other hand to the activities involving securities representing public loans, carried out by Group structures specialised in Public Finance.

Nature of the risks, including liquidity risk, relating to the securitised assets

In addition to credit risk, the securitised assets are subject to other types of risk. These include:

- liquidity risk;
- interest rate risk;
- foreign exchange risk.

The nature and scope of the different risks vary based on the type of transaction executed. Generally, in any case, the interest rate and exchange rate risks are subject to hedging transactions or are factored in the credit enhancement of the transaction. All securitised assets are also subject to different degrees of operational risk associated with the documentation and the collection of cash flows. In particular, the representation of third-party securitisations held in the Group securities portfolio for the purposes of liquidity risk considers the classifications and assessments made based on the fair value policy (see Section on Market risks), as well as their eligibility as high-quality liquid assets (HQLA) in accordance with the rules established by the Delegated Regulation 2015/61 and their eligibility for refinancing with Central Banks and liquidability, in the absence of which the securities are classified by residual maturity, based on their repayment plans and weighted average life.

Exposures to originated and third-party re-securitisations: type of risk

The Group's re-securitisations portfolio shows, in general, immaterial amounts in terms of value of the exposures (See Quantitative Disclosure of this Section).

Procedures for monitoring changes in credit and market risk of the securitisations

The ABS risk factor is not included in the Internal Model, as the product is securitised; therefore, neither the regulatory VaR nor the IRC are included. As regards monitoring of the management market risk, the ABS risk factor is fully included in the ordinary process laid down by the Market Risk Charter. In particular, for the positions in ABS securities belonging to the trading book and the HTCS book, the Financial and Market Risks Head Office Department carries out the calculation of the VaR to monitor the market risks with the "illiquid parameters" method, given the specific characteristics of the risk factor considered, and monitors their absorption according to the set VaR limits. In addition, the exposure to ABS is within the monitoring scope of the issuer risk (credit ceiling and concentration limits), as well as in other possible second level limits.
Furthermore, the Financial and Market Risks Head Office Department carries out the monthly calculation of fair value for accounting purposes for the positions in securitisations held in the trading books and those classified as HTCS. For the positions classified as HTC, this calculation is carried out for disclosure purposes on a half-yearly basis.
Finally, the Financial and Market Risks Head Office Department carries out the monthly analytical impairment analysis for the banking book securitisations in order to identify any losses realised and determine a consequent adjustment of the book value. This activity, described in detail below, is based on the analysis of the performance and of any deterioration in the credit standing of the collateral underlying the securitisations.

Risk hedging policies for exposures to securitisations and re-securitisations

No protection purchase strategies are currently in place. In the past, hedging strategies relied on listed indices (such as LCDX) or Credit Default Swaps.

Securitisations: methods for calculating the risk-weighted exposures

Intesa Sanpaolo uses the Standardised approach and, starting from 31 December 2012, the IRB Approach (Rating Based Approach – RBA and Supervisory Formula Approach - SFA) to calculate the capital requirement for credit risk from securitisations with underlying assets for which there is an internal model validated in the corresponding credit risk. The currently validated regulatory segments are: Large Corporate, Corporate, Specialised Lending, Public Sector Entities, Banks, Retail SME and Retail. The IRB Approach - RBA is used for third-party securitisations with public rating (Agency Rating). The IRB Approach - SFA is used for originated securitisations.

Securitisations: accounting policies

The securitisation transactions, whose accounting treatment is governed by IFRS 9 (in particular in the paragraphs relating to derecognition), are divided into two types depending on whether the underlying assets must be derecognised from the seller's financial statements or not.

In the event of derecognition

When all the risks and rewards associated with the ownership of the securitised assets are effectively transferred, the transferor (originator) shall derecognise the transferred assets from its financial statements and record offsetting entries for the consideration received and any profit or loss from the sale.
If the total consideration received is not formed by an on-balance sheet sum, but partly by financial assets, the latter are initially recognised at fair value and this fair value is also used for the purpose of calculating the profit or loss on disposal.
If the transferred asset is part of a "greater" financial asset (for example, if only part of the cash flows that derive from a receivable is subject to disposal) and the transferred part meets the requirements for derecognition, the book value of the "greater" financial asset must be divided between the part that continues to be recognised and the part subject to derecognition based on the corresponding fair values at the transfer date.
Moreover, in case of derecognition, any arrangement costs incurred by the originator are recorded in the income statement when incurred as they are not attributable to any financial assets appearing in the financial statements.
Therefore, in light of the above, the assets sold are derecognised from the balance sheet, and the consideration from the sale, as well as the connected profit or loss, are normally recorded in the financial statements at the date of completion of the sale. More generally, the entry date for the transfer in the financial statements depends on the contractual clauses. For example, if the cash flows from the assets sold are transferred after the execution of the agreement, the assets are derecognised and the proceeds of the sale are recognised at the time of the transfer of the cash flows. Instead, in the case a sale is subject to conditions precedent, the assets are derecognised and the profit or loss from the sale is recognised when the condition precedent clause ceases.
The profit or loss, recognised in the income statement, is classified, in principle and net of any other components, as the difference between the consideration received and the book value of the assets sold.

In the event of no derecognition

If a transfer does not require derecognition because the seller essentially maintains all the risks and benefits associated with the ownership of the transferred assets, the seller continues to recognise in its financial statements the assets transferred in total and recognises a financial liability against the consideration received.
A common example of transfer which does not result in derecognition is when the originator sells a loan portfolio to a special purpose vehicle, but subscribes in full for the junior class of securities issued by the latter (therefore retaining the majority of the risks and rewards of the underlying assets) and/or provides a collateral for the transaction.

Therefore, in the event of no derecognition, the receivables subject to securitisation continue to be entered in the balance sheet of the seller; furthermore, after the sale, the seller is obliged to record any income from the transferred asset and any charge incurred on the liability entered without any netting of the costs and revenues.
The transferred loan portfolio continues to be classified in the loan category that it originally formed part of and, consequently, if it meets the adequate requirements, it continues to be measured at amortised cost and valued (individually or on a collective basis) as if the transaction had never taken place.
In this case too, considering the provisions of IFRS 9 on the matter, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained.

Provisions for guarantees and commitments

Provisions made on an individual and collective basis, related to estimated possible disbursements connected to credit risk relative to guarantees and commitments, possibly included in the securitisation transactions, determined applying the same criteria set out with respect to other types of loans and receivables, are recorded under Other liabilities, as set out by Bank of Italy instructions.

Assessment of exposures to securitisations - banking book

For securities deriving from securitisations, the need to recognise impairment is assessed if the fair value is lower than the carrying amount by a percentage set a priori (30%), or if there is potential evidence of impairment. This process has not changed compared to the previous year.
If one of these conditions is in place, the securitisation is analysed to check whether the decrease in fair value is due to a generic increase of the spreads on the secondary market or an impairment of the collateral. In the former case the conditions are not met to proceed to the impairment; instead, in the latter the analysis focuses on the performance of the underlying elements, which constitute the vehicle's assets, and the methods with which such performance is reflected on the subordination characteristics of the securities in the portfolio.
Specifically, the procedure involves the following steps:

- monitoring the parameters/triggers/covenants envisaged at issue, which is the basis of the regulation of the payment waterfall or, as an extreme measure, the advance termination of the deal. The analysis is based on the periodic reports from the vehicle administrators and rating agencies;
- specifically for securitisations originated by Intesa Sanpaolo, which have reliable business plans, the analysis is conducted on available cash flows. For non-performing products, reference is made to adjustments to the underlying loans, the recovery plan prepared and updated by the servicer, and the features of the payment waterfall.

If, as a result of said analysis, there is no evidence of breaches which could compromise payments of principal and interest, it is not necessary to record impairment of the security in the portfolio. Otherwise, if there is the possibility of (full or partial) non-payment of the principal or interest, due to a change in the payment priority and/or impairment of the collateral, the security must be impaired.
Impairment is assessed:

- by comparing the residual market value of the collateral and the outstanding amounts of the notes based on the attachment and detachment points, in the event of credit events that result in advance termination of the transaction;
- the fair value is recalculated based on the new rules and the new available cash flows are compared with the credit enhancement of the tranche in the portfolio, in the event of trigger covenants resulting in new payment priorities.

In summary, for all the securitisations classified in the banking book, the impairment analysis is carried out based on the valuation of the collateral to determine the overall flows deriving from the primitive assets. These flows are allocated to the tranches of the securitisation based on all the structuring and performance characteristics of the collateral (waterfall, trigger, CDR, CPR, etc.). The Intex and Bloomberg software is used for the allocation of the cash flows to the individual tranches, except for a small number of private securitisations only, where cash flow models are used. They are developed internally during the structuring of the deal and duly updated with the performance of the collateral.

Assessment of exposures to securitisations - trading book

Exposures included in the trading book are measured at fair value. For an illustration of the valuation techniques used to determine fair value, see the relevant chapter (see Section 13 - Market risk).

Synthetic securitisations

Synthetic securitisations are usually recognised on the basis of the following rules.
The loans subject to synthetic securitisation continue to be recorded among the assets of the bank (protection buyer) that has retained their full ownership. The premium paid by the bank to the protection seller for the purchase of the protection contract is recorded under commission expense in the income statement, where the premiums relating to the guarantees received are recorded. The financial guarantee received from the protection seller also contributes to the determination of the adjustments made to the loans subject to the guarantee (overall and, where applicable, specific).

Any deposit liabilities received by the bank, also as a result of the issue of notes by vehicles that sell portions of the risk acquired from the protection seller in the market, are recorded under payables in the balance sheet liabilities.

Securitisations: recognition criteria for prudential purposes

The prudential regulations on securitisations are governed directly by the CRR, in particular in Part 3, Title II, Chapter 5 and Part 5, and is supplemented by the following Regulations:

- Delegated Regulation 625/2014 of 13 March 2014 which concerns the regulatory technical standards specifying the requirements for investor, sponsor, original lender and originator institutions relating to exposures to transferred credit risk;
- Implementing regulation (EU) no. 602/2014 of 4 June 2014 laying down implementing technical standards for facilitating the convergence of supervisory practices with regard to the implementation of additional risk weights relating to securitisation transactions.
- Implementing regulation (EU) 2016/1801 of 11 October 2016 on laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for securitisation in accordance with Regulation (EU) No 575/2013.

In addition, the issue is further dealt with in the EBA guidelines:

- to define arm's length conditions and when a transaction is not structured to provide implicit support, according to Article 248 of the CRR (EBA GL/2016/08); a subject that is also referred to in the ECB's letter of July 2017, which provides guidance on the additional requirements relating to the notification and the documentation referred to in that article;
- on the significant transfer of risk pursuant to Articles 243 and 244 of the CRR (EBA GL/2014/05); a subject that is also referred to in the ECB's letter of March 2016, which provides additional guidance to the industry regarding the recognition of the significant credit risk transfer.

Although the prudential regulations indicated above present clear analogies with the IAS/IFRS measurement criteria, the accounting treatment of securitisations is not material for the purposes of recognition for prudential purposes. Therefore, intermediaries may see situations where the accounting figures and the reports for prudential purposes are different. In the case of the Intesa Sanpaolo Group, this possibility is not significant, because the financial statement criteria and prudential reporting criteria are only different for the Intesa Sec 3 and Claris Finance 2007 transactions (see Quantitative Disclosure below).

Indeed, these transactions are:

- not derecognised for financial statement purposes, because – in accordance with the applicable accounting standards – the Group has essentially maintained the risks and rewards of the portfolio sold;
- derecognised for prudential supervision purposes, following – based on the prudential rules in effect upon creation of the securitisation – a significant transfer of risk, as the prudential requirement of exposures to the securitisation in the portfolio ("post-securitisation" requirement) was lower – upon structuring of the transaction – than the amount calculated on the securitised assets ("ante-securitisation" requirement) (the "static test").

Quantitative disclosure

The tables below detail the net and gross exposures and adjustments for the securitisations. The figures in the tables represent the exposures shown in the financial statements, and include both the positions relating to the banking book and the regulatory trading book.

Securitisations: amount of the positions relating to originated and third-party securitisations

(millions of euro)

	On-balance sheet exposures						Guarantees given					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Exposure		Exposure		Exposure		Exposure		Exposure		Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	**11,536**	**11,456**	**727**	**702**	**1,414**	**1,329**	**-**	**-**	**-**	**-**	**-**	**-**
a) Bad loans	*457*	*444*	*461*	*443*	*368*	*347*	-	-	-	-	-	-
b) Other	*11,079*	*11,012*	*266*	*259*	*1,046*	*982*	-	-	-	-	-	-
B. Third party underlying assets	**7,241**	**7,224**	**503**	**464**	**80**	**69**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL 31.12.2018	**18,777**	**18,680**	**1,230**	**1,166**	**1,494**	**1,398**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL 31.12.2017	**13,657**	**13,563**	**1,387**	**1,332**	**3,578**	**3,438**	**-**	**-**	**-**	**-**	**-**	**-**

	Credit lines						Total					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Exposure		Exposure		Exposure		Exposure		Exposure		Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets (*)	**2,552**	**2,547**	**-**	**-**	**-**	**-**	**14,088**	**14,003**	**727**	**702**	**1,414**	**1,329**
a) Bad loans	-	-	-	-	-	-	*457*	*444*	*461*	*443*	*368*	*347*
b) Other	*2,552*	*2,547*	-	-	-	-	*13,631*	*13,559*	*266*	*259*	*1,046*	*982*
B. Third party underlying assets (**)	**3,067**	**3,061**	**-**	**-**	**-**	**-**	**10,308**	**10,285**	**503**	**464**	**80**	**69**
TOTAL 31.12.2018	**5,619**	**5,608**	**-**	**-**	**-**	**-**	**24,396**	**24,288**	**1,230**	**1,166**	**1,494**	**1,398**
TOTAL 31.12.2017	**5,208**	**5,208**	**-**	**-**	**-**	**-**	**18,865**	**18,771**	**1,387**	**1,332**	**3,578**	**3,438**

(*) The amount includes 2,528 million euro relating to lines of credit granted in respect of loans for which the derecognition conditions set out in IFRS 9 have not been satisfied.

(**) Including the Romulus and Duomo Asset Backed Commercial Paper (ABCP) programmes, the details of which are provided in the following tables regarding third-party securitisations.

With the exception of the synthetic GARC securitisations, the Group's originated securitisations include only traditional transactions and ABCP (Asset Backed Commercial Paper) programmes.

Total amount of assets awaiting securitisation

In 2011, Mediocredito Italiano entered into two agreements with the Ministry of Economic Development, which provide subsidies in the form of cash collateral provided as pledge to the bank for two portfolios of credit exposures to be disbursed to SMEs for purposes envisaged by the Italian National Innovation Fund (FNI).
For each of the agreements signed, the loan portfolio will be divided into two separate tranches: a junior tranche, exposed to initial losses, and a senior tranche, with a rating equivalent to A-. As a guarantee for the two portfolios, the Bank has received a total cash collateral amount of 16.4 million euro, into an interest-bearing deposit account, provisionally calculated based on the estimate of available portfolios.
The construction of portfolios regarding the first and second agreement was developed starting from 2011 and from 2012 and it was completed, as contractually agreed, on 31 October 2014.

Given the specific investment objectives indicated by the aforementioned agreements and the ongoing difficult economic conditions, applications for special-purpose loans were limited and a limited number of transactions could be carried out (overall, a total of 23 transactions were finalised - including 9 redeemed in advance and 2 in default - with a residual value at 31 December 2018 of 3.2 million euro. There is also a transaction involving an arrangement with creditors which is past due for an amount of 1.6 million euro).
This cash collateral, due to the pledge agreements entered into on 18 April 2016 between the Ministry of Economic Development and MCI and to ministerial decrees no. 3555 and 3556 of 16 June 2016, was decreased in 2016 and 2017, to be replaced by two pledges guaranteeing the residual portfolios, originally totalling 1.6 million euro.

Breakdown of net exposures to securitisations by financial assets portfolio and by type of exposure

(millions of euro)

	On-balance sheet exposures (*)			Off-balance sheet xposures (*)		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	746	301	13	-	-	-
Financial assets measured at fair value through profit or loss	87	241	303	-	-	-
Financial assets measured at fair value through other comprehensive income	659	74	-	-	-	-
Financial assets measured at amortised cost (**)	6,121	92	56	3,080	-	-
TOTAL 31.12.2018	**7,613**	**708**	**372**	**3,080**	**-**	**-**
TOTAL 31.12.2017	**7,373**	**494**	**236**	**2,457**	**-**	**-**

(*) Not including on-balance sheet exposures arising from originated securitisations in which the assets transferred have not been fully derecognised, in the total amount of 12,552 million euro. As at 31 December 2018, off-balance sheet exposures arising from originated securitisations in which the assets transferred have not been fully derecognised amounted to 2,528 million euro.

(**) Off-balance sheet exposures, composed of "Guarantees issued" and “Credit lines", have been included in this caption by convention.

Securitisations: breakdown of on-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/ Exposure	On-balance sheet exposures (*)					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised for prudential and financial statement purposes	**389**	**-**	**244**	**-**	**303**	**1**
A.1 Savoy (**)						
- Loans to businesses including SMEs	*365*	*-*	*240*	*-*	*294*	*-*
A.2 Towers S.r.l.						
Consumer credit	*24*	*-*	*4*	*-*	*9*	*1*
B. Partly derecognised for prudential and financial statement purposes	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised for prudential and financial statement purposes	**11,067**	**-12**	**458**	**59**	**1,026**	**-9**
C.1 GARC (***)						
- Loans to businesses including SMEs	*10,325*	*-13*	*-*	*-*	*43*	*-*
C.2 Tranched Cover Piemonte (***)						
- Loans to businesses including SMEs	*18*	*-1*	*-*	*-*	*1*	*-*
C.3 Sme Initiative Italy (***)						
- Loans to businesses including SMEs	*294*	*-*	*1*	*-*	*9*	*-*
C.4 Tranched Cover Fondo Centrale di Garanzia (***)						
- Loans to businesses including SMEs	*70*	*-*	*-*	*-*	*1*	*-*
C.5 K Equity (**)						
- Loans to businesses including SMEs	*79*	*4*	*203*	*62*	*53*	*-*
C.6 Telephony Securitisation						
– Trade receivables	*8*	*-*	*-*	*-*	*-*	*-*
C.7 Electricity Securitisation						
– Trade receivables	*-*	*-*	*38*	*-*	*-*	*-*
C.8 Automotive, Electronic & Mechanics Securitisation						
– Trade receivables	*2*	*-*	*-*	*-*	*-*	*-*
C.9 Fuel Securitisation (****)						
– Trade receivables	*-*	*-*	*-*	*-*	*-*	*-*
C.10 Gas Securitisation (****)						
– Trade receivables	*-*	*-*	*-*	*-*	*-*	*-*
C.11 Intesa Sec 3						
– Residential mortgage loans	*-*	*-*	*26*	*-*	*49*	*-*
C.12 Berica ABS 3						
– Residential mortgage loans	*3*	*-*	*37*	*-*	*115*	*-1*
C.13 Berica ABS 4						
– Residential mortgage loans	*28*	*-*	*123*	*-1*	*95*	*-1*
C.14 Claris Finance 2005						
– Residential mortgage loans	*24*	*-*	*-*	*-*	*9*	*-*
C.15 Claris Finance 2007						
– Residential mortgage loans	*49*	*-*	*-*	*-*	*9*	*-1*
C.16 Claris RMBS 2014						
– Residential mortgage loans	*155*	*-2*	*-*	*-*	*176*	*-2*
C.17 Claris SME 2016						
– Residential mortgage loans	*-*	*-*	*-*	*-*	*393*	*2*
C.18 Apulia Finance n. 4						
– Residential mortgage loans	*12*	*-*	*30*	*-2*	*73*	*-6*
TOTAL 31.12.2018	**11,456**	**-12**	**702**	**59**	**1,329**	**-8**
TOTAL 31.12.2017	**6,252**	**-15**	**849**	**2**	**3,224**	**-9**

(*) Originated securitisations are included in the banking book, with the exception of exposures of 80 million euro relating to traditional securitisations included in the trading book. By way of addition to the information presented in the table, it should be noted that losses on disposal recognised by the Group on the senior and mezzanine exposures amounted to less than 1 million euro and on junior exposures amounted to approximately 4 million euro.

(**) The amount refers to non-performing financial assets.

(***) The transactions referred to as "GARC", "Tranched Cover Piemonte", "SME Initiative Italy" and "Tranched Cover Fondo Centrale di Garanzia" are synthetic securitisations.

(****) The Fuel and Gas securitisations amounted to less than 1 million euro and have thus been presented in the table with nil values.

The exposures in the table above include the transactions named Intesa Sec 3 and Claris Finance 2007, which have not been derecognised for financial reporting purposes, but have been derecognised for prudential purposes.

Securitisations: breakdown of off-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/ Exposure	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A. Fully derecognised for accounting and prudential purposes												
A.1 Duomo funding PLC.	**-**	**-**	**-**	**-**	**-**	**-**	**19**	**-**	**-**	**-**	**-**	**-**
- Consumer credit	-	-	-	-	-	-	*19*	-	-	-	-	-
B. Partly derecognised for accounting and prudential purposes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised for accounting and prudential purposes												
C.1 Duomo Funding Plc.	**-**	**-**	**-**	**-**	**-**	**-**	**2,528**	**-5**	**-**	**-**	**-**	**-**
- trade receivables (*)	-	-	-	-		-	*2,528*	*-5*	-	-	-	-
TOTAL 31.12.2018	**-**	**-**	**-**	**-**	**-**	**-**	**2,547**	**-5**	**-**	**-**	**-**	**-**
TOTAL 31.12.2017	**-**	**-**	**-**	**-**	**-**	**-**	**2,794**	**-**	**-**	**-**	**-**	**-**

(*) Amount referring to credit lines granted to cover loans which did not meet the criteria for derecognition pursuant to IFRS 9.

Securitisations: breakdown of on-balance sheet exposures deriving from main third-party securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES (*)					
	Senior (**)		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Other assets (***)	5,628	10	30	-	3	-
- Banking book	5,508	11	1	-	-	-
- Trading book	120	-1	29	-	3	-
Securitisations	53	3	-	-3	-	-
- Banking book	53	3	-	-3	-	-
- Trading book	-	-	-	-	-	-
Consumer credit	49	-	8	-	-	-
- Banking book	3	-	-	-	-	-
- Trading book	46	-	8	-	-	-
Trade receivables	234	-3	-	-	1	-
- Banking book	234	-3	-	-	-	-
- Trading book	-	-	-	-	1	-
Leasing	14	-	22	-	-	-
- Banking book	-	-	22	-	-	-
- Trading book	14	-	-	-	-	-
Commercial mortgage loans	93	-	10	-	2	-
- Banking book	53	-	-	-	-	-
- Trading book	40	-	10	-	2	-
Residential mortgage loans	673	-3	210	-1	2	-
- Banking book	294	1	44	-	-	-
- Trading book	379	-4	166	-1	2	-
Loans to businesses (including SME) (****)	480	-1	184	6	61	-1
- Banking book	337	-	96	9	56	-1
- Trading book	143	-1	88	-3	5	-
TOTAL 31.12.2018	**7,224**	**6**	**464**	**2**	**69**	**-1**
- Banking book	**6,482**	**12**	**163**	**6**	**56**	**-1**
- Trading book	**742**	**-6**	**301**	**-4**	**13**	**-**
TOTAL 31.12.2017	**7,311**	**-6**	**483**	**1**	**214**	**-38**
of which: Banking book	**6,222**	**-9**	**155**	**-2**	**197**	**-38**
of which: Trading book	**1,089**	**3**	**328**	**3**	**17**	**-**

(*) By way of addition to the information presented in the table, it should be noted that, with regard to banking book positions, the losses on disposal recognised by the Group amounted to 1 million euro for Senior and Mezzanine exposures and less than 1 million euro for Junior exposures.

(**) It should be noted that, by convention, senior exposures have also been considered to include 468 million euro of mono-tranche securities, which for prudential supervision purposes are not regarded as securitisation positions.

(***) The amount also includes the Romulus securities for 5,094 million euro held in the banking group's portfolio and generally presented among third-party securitisations. These securities are included in portfolio, but are not weighted for supervisory purposes, because the off-balance sheet positions included among third-party underlying assets have already been subject to weighting.

(****) The exposures include non-performing financial assets amounting to 67 million euro in Senior exposures, 73 million euro in Mezzanine exposures and 56 million euro in Junior exposures, respectively. The aggregate also includes debt securities issued by the securitisation vehicle set up as part of the sale of Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato to Credit Agricole by the National Interbank Deposit Guarantee Fund - Voluntary Scheme, which the Group participates in. The related Junior Notes were fully written down.

Securitisations: breakdown of off-balance sheet exposures deriving from main third-party securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/Exposure	GUARANTEES GIVEN						CREDITI LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
Duomo ABCP Conduit transactions	-	-	-	-	-	-	*3,061*	*-6*	-	-	-	-
Total 31.12.2018	**-**	**-**	**-**	**-**	**-**	**-**	**3,061**	**-6**	**-**	**-**	**-**	**-**
Total 31.12.2017	**-**	**-**	**-**	**-**	**-**	**-**	**2,414**	**-**	**-**	**-**	**-**	**-**

Securitisations: weighted amount of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	31.12.2018		31.12.2017	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 20%	4	5	10	22
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	2	16	3	14
Risk weight 100%	3	2	-	4
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	17	36
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other (*)	173	2,554	288	2,020
Total	**182**	**2,577**	**318**	**2,096**

(*) The amounts also include the weighted amount determined by applying the securitisation cap test regulatory requirements.

(**) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Securitisations: weighted amount of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach - Supervisory Formula Approach)

(millions of euro)

Risk weight bands	31.12.2018		31.12.2017	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 7 - 10%	4	79	5	76
Risk weight 12 - 18%	6	34	6	53
Risk weight 20 - 35%	-	124	-	103
Risk weight 40 - 75%	-	46	-	127
Risk weight 100%	-	34	-	83
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	148	-	24
Risk weight 300%	-	766	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	119	-	232
Risk weight 500%	-	-	-	21
Risk weight 650%	-	31	-	40
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - other	-	-	-	28
SFA - Supervisory Formula Approach	2,263	24	663	-
Total	**2,273**	**1,405**	**674**	**787**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

The tables above detail the exposures to securitisations by weight band. Details of the exposures included in the banking book and the regulatory trading book are shown in the following tables, including information on the re-securitisations.

Additional information on market risks of the trading book, including the capital requirement in relation to the securitisations included in that book, is set out in the Section of this document on market risks, which also presents separately the requirements relating to exposures to securitisations in the trading book.

Banking Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 20%	4	-	1	-
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	2	-	11	-
Risk weight 100%	3	-	-	-
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other (*)	173	-	2,554	-
Total RWA Banking book as at 31.12.2018	**182**	**-**	**2,566**	**-**
Total RWA Banking book as at 31.12.2017	**311**	**-**	**2,036**	**-**
Capital requirements				
Risk weight 20%	1	-	-	-
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%				
Risk weight 100%	-	-	-	-
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other (*)	14	-	204	-
Total Requirements Banking book as at 31.12.2018	**15**	**-**	**205**	**-**
Total Requirements Banking book as at 31.12.2017	**25**	**-**	**163**	**-**

(*) The amounts also include the weighted amount determined by applying the securitisation cap test regulatory requirements.

(**) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Trading Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 20%	-	-	3	-
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	5	-
Risk weight 100%	-	-	2	-
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other (*)	-	-	-	-
Total RWA Trading book as at 31.12.2018	**-**	**-**	**10**	**-**
Total RWA Trading book as at 31.12.2017	**7**	**-**	**60**	**-**
Capital requirements				
Risk weight 20%	-	-	-	-
Risk weight 35%	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	1	-
Risk weight 100%	-	-	-	-
Risk weight 150%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other (*)	-	-	-	-
Total Requirements Trading book as at 31.12.2018	**-**	**-**	**1**	**-**
Total Requirements Trading book as at 31.12.2017	**1**	**-**	**5**	**-**

(*) The amounts also include the weighted amount determined by applying the securitisation cap test regulatory requirements.

(**) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Banking Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach- Supervisory Formula Approach)

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 7 - 10%	3	-	49	-
Risk weight 12 - 18%	5	-	6	-
Risk weight 20 - 35%	-	-	27	*12*
Risk weight 40 - 75%	-	-	13	*9*
Risk weight 100%	-	-	26	*26*
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	31	-
Risk weight 300%	-	-	766	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	-	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - other	-	-	-	-
SFA - Supervisory Formula Approach	2,263	-	24	-
Total RWA Banking book as at 31.12.2018	**2,271**	**-**	**942**	***47***
Total RWA Banking book as at 31.12.2017	**672**	**-**	**228**	***70***
Capital requirements				
Risk weight 7 - 10%	-	-	4	-
Risk weight 12 - 18%	1	-	1	-
Risk weight 20 - 35%	-	-	2	*1*
Risk weight 40 - 75%	-	-	1	*1*
Risk weight 100%	-	-	2	*2*
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	2	-
Risk weight 300%	-	-	61	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	-	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
Look-through - other	-	-	-	-
SFA - Supervisory Formula Approach	181	-	2	-
Total Requirements Banking book as at 31.12.2018	**182**	**-**	**75**	***4***
Total Requirements Banking book as at 31.12.2017	**54**	**-**	**18**	***6***

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Trading Book securitisations: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach - Supervisory Formula Approach)

(millions of euro)

Risk weight bands	Originated securitisations	*of which: Re-securitisations*	Third-party securitisations	*of which: Re-securitisations*
Weighted amounts (RWA)				
Risk weight 7 - 10%	1	-	29	-
Risk weight 12 - 18%	1	-	27	-
Risk weight 20 - 35%	-	-	96	-
Risk weight 40 - 75%	-	-	33	-
Risk weight 100%	-	-	9	-
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	118	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	119	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	32	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
SFA - Supervisory Formula Approach	-	-	-	-
Total RWA Trading book 31.12.2018	**2**	**-**	**463**	**-**
Total RWA Trading book 31.12.2017	**2**	**-**	**559**	**-**
Capital requirements				
Risk weight 7 - 10%	-	-	2	-
Risk weight 12 - 18%	-	-	2	-
Risk weight 20 - 35%	-	-	8	-
Risk weight 40 - 75%	-	-	3	-
Risk weight 100%	-	-	1	-
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	9	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	10	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	2	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
SFA - Supervisory Formula Approach	-	-	-	-
Total Requirements Trading book as at 31.12.2018	**-**	**-**	**37**	**-**
Total Requirements Trading book as at 31.12.2017	**-**	**-**	**45**	**-**

(*) Starting from 2016 the exposures towards securitisations that meet the requirements for the application of the weighting factor at 1250% are deducted from own funds. For details see Section 3 Own Funds.

Exposures to originated and third-party re-securitisations – exposures covered by credit risk mitigation techniques

It is specified that the exposures referring to re-securitisations did not benefit from credit risk mitigation techniques.

Securitisations carried out during the period

- ***GARC Securitisations***

  In 2018 the Parent Company continued its activities relating to the “GARC” (Active Credit Risk Management) Project, involving a platform for monitoring credit risk in performing portfolios. The initiative involves the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to Italian businesses, particularly SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit. As part of these operations, during the year two securitisations, GARC SME-7 and GARC Corp-1, were completed through which the junior risk was sold to specialist investors relating respectively to (i) a total portfolio of 4 billion euro in loans to around 8,400 businesses in the Corporate and SME Corporate segments, valued by applying internal models (Advanced IRB) and (ii) a portfolio of around 4 billion euro in loans to around 215 companies in the Corporate regulatory segment. Both portfolios mainly consist of businesses operating in Northern Italy.

- ***Tranched Cover Fondo Centrale di Garanzia Securitisations***

  In 2018, a tranched cover synthetic securitisation, supported by the Central Guarantee Fund, was initiated, which allows businesses to access the benefits provided for by Law no. 662/96, aimed at facilitating access to new credit for Italian SMEs. This initiative is financed by the Ministry of Economic Development and provides for the issue of a personal guarantee by the Central Guarantee Fund through which the risk of first losses is covered in relation to four portfolios of newly disbursed loans, each amounting to around 300 million euro, whose disbursements were started in 2018 and will be completed by the second half of 2019.

- ***Savoy Securitisations***

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

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

- ***Fuel 2 Securitisations***

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

Section 13 - Market risk

MARKET RISK/TRADING BOOK

Risk management strategies and processes

The allocation of capital for trading activities is set by the Parent Company's Board of Directors, through the attribution of operating limits in terms of VaR to the various Group units.
The overall limits of the Group and of Intesa Sanpaolo and Banca IMI are included in the Group's Risk Appetite Framework. At the same time, the Board of Directors of the Parent Company defines the operating limits in terms of VaR for other Group companies which hold smaller trading books whose risk is marginal.
The Group Financial Risk Committee monitors the risks of all the Group companies on a monthly basis, with particular reference to the absorption of the VaR limits, and recommends any corrective actions. The situation is also regularly examined by the Board of Directors and the Steering Committee in order to propose any changes to the strategies for trading activities to the Management Bodies.

Structure and organisation of the associated risk management function

The Chief Risk Officer is responsible, at Group level, for setting out the system of operating limits, the capital allocation system, and the system of binding policies and procedures. These activities are coordinated by the Group Financial Risk Committee, which discusses the guidelines for the management of market risks.
As part of its functions, the Financial and Market Risks Head Office Department is responsible for the:

- calculation, development and definition of the management risk indicators: Value at Risk, sensitivity and greeks, level measures, stress tests and scenario analyses;
- monitoring of operating limits;
- monitoring of regulatory risk;
- comparison of the P&L with the risk indicators and in particular with the VaR (so-called backtesting).
- establishment of the parameters and rules for the valuation of assets subject to mark-to-market and fair value at Group level, as well as their direct valuation when this cannot be obtained from instruments available to the business units;

The structure of the Financial and Market Risks Head Office Department is based on the following guidelines:

- structuring of the responsibilities according to the main risk-taking centres and to "Risk Type";
- focusing and specialisation of the resources on the "Risk Owners";
- compliance with the instructions and proposals of the Supervisory Authorities;
- sustainability of the operating processes, including:
  - the methodological development;
  - the collection, processing and production of data;
  - the maintenance and refinement of the instruments and application models;
  - the general consistency of the data produced.

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

The quantification of trading risks (managerial calculation scope) is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

The monitoring scope for the VaR regarding the above risk factors is calculated at the level of the banking group both on the trading book and on the HTCS book (areas consistent with the market risk rules, defined in the internal Market Risk Charter document, for the scope measured at fair value).
For the trading book, the regulatory requirements are established in Regulation (EU) 575/2013 (CRR - Part Three, Title I, Chapter 3, in Articles 102, 103, and 104 respectively). The combined provisions of those articles lay down the set of minimum requirements for the identification of the trading strategies and the measurement and control of the associated risks. This set of requirements consists of the need to:

- define, formalise and monitor the trading strategies, both quantitatively and qualitatively;

- ensure a clear reporting line along which powers, responsibilities and information are correctly transferred;
- ensure an effective system of control and limitation of the risks connected with the holding of the trading book;
- ensure that the positions meet the minimum requirements for recognition in the trading book.

Based on the requirements of the applicable regulations, Intesa Sanpaolo has established a policy (in the document "Rules on the identification and management of the prudential trading book"), which identifies the trading book based on the following:

- measurement at fair value through profit or loss of the instruments held for trading;
- the strategies defined;
- the risk-taking centres identified;
- the monitoring, limitation and management of the risks defined in accordance with the internal regulations on market risk.

In particular, the assets classified in the regulatory trading book coincide – apart from some specific exceptions – with the financial assets held for trading (Bank of Italy Circular 262). This association derives from the set of strategies, powers, limits and controls that feed and guarantee the adjacency and consistency between the accounting and prudential portfolios.
A metric of verification of consistency of the inclusion in the trading book has also been established, consisting of the indicator of average vintage, which is subject to a monitoring and escalation process, provided for in the above-mentioned internal policy.

The risk indicators used for the trading risks may be divided into six main types:

- Value at Risk (VaR), which represents the backbone of the whole risk management system due to its characteristics of uniformity, consistency and transparency in relation to both economic capital and the Group Finance operations;
- sensitivity and greeks, which are the essential accompaniment to the VaR indicators due to their ability to capture the sensitivity and the direction of the existing financial trading positions in relation to the various individual risk factors;
- level measures (such as notional and Mark-to-Market), which are a useful aid to the above indicators as an immediately applicable solution;
- stress tests and scenario analyses that enable the completion of the analysis of the overall risk profile, capturing changes in predetermined assumptions relating to the evolution of the underlying risk factors, also simulating anomalous market conditions (opening of the basis risks, worst case);
- Incremental Risk Charge (IRC), an additional measure to VaR (which contributes to the determination of the capital absorption) that enables the correct representation of the specific risk on debt securities and credit derivatives because it also captures event and default risk, in addition to idiosyncratic risk;
- Stressed VaR (from 31 December 2011 it contributes to the determination of capital absorption), which represents the VaR associated with a market stress period, identified on the basis of the indications presented in the Basel document "Revision to the Basel II market risk framework".

The reporting system is continuously updated in order to take into account the evolution of the operations, the organisational structures and the analytical methods and tools available.

Policies for hedging and mitigating risk

In Intesa Sanpaolo and Banca IMI, weekly risk meetings are held during which the main risk factors of the portfolios are discussed. The monitoring and discussions take place on the basis of a series of reports by the Financial and Market Risks Head Office Department based on standard quantitative indicators (VaR, greeks, and issuer risk) and stress indicators (what if analysis, stress tests on particular macroeconomic scenarios/risk factors, and marginal VaR).
This set of information represents an effective means for deciding policies for the hedging and mitigation of risk, as it enables the provision of detailed recommendations to the trading rooms on the risk profile of the books, and the identification of any idiosyncratic risks and concentrations, and the suggestion of methods for the hedging of exposures considered to be a potential source of future deteriorations in the value of the portfolios.
During the weekly meetings the Financial and Market Risks Head Office Department ensures the consistency of the positions with the decisions taken in the Group Financial Risk Committee.

Strategies and processes for the ongoing assessment of their effectiveness

At operational level, in addition to the daily reporting (VaR, sensitivities, level measures, control of assigned limits), information is exchanged between the heads of the Business Departments during the abovementioned Risk Meetings called by the heads of the Departments.
More specifically, during the Risk Meetings the risk profile is examined in detail, with the aim of ensuring that operations are conducted in an environment of controlled risk, and the appropriate use of the capital available.

MARKET RISKS/BANKING BOOK

Risk management strategies and processes

Market risk originated by the banking book arises primarily in the Parent Company and in the main other subsidiaries that carry out retail and corporate banking.
Specifically, in managing interest rate risk in the banking book (discussed below), the Intesa Sanpaolo Group seeks to maximise profitability, by adopting operating methods consistent with the general stability of the financial results over the long term. To this end, positions are adopted that are consistent with the strategic views produced during the regular meetings of the Group Financial Risk Committee, which is also responsible for the assessment of the overall risk profile of the Group and its main operational units.
"Structural" foreign exchange risk refers to the exposures deriving from the commercial operations and the strategic investment decisions of the Intesa Sanpaolo Group. The main sources of foreign exchange risk consist of foreign currency loans and deposits held by corporate and retail customers, purchases of securities, equity investments and other financial instruments in foreign currencies, and conversion into domestic currency of assets, liabilities and income of branches and banking subsidiaries abroad.
The banking book also includes the exposure to the price risk deriving from the equity investments in companies not consolidated on a line-by-line basis and to the foreign exchange risk represented by equity investments in foreign currency, including Group companies.

Structure and organisation of the associated risk management function

Within the Financial and Market Risks Head Office Department, the market risks of the Banking Book and the Liquidity risk (discussed in specific sections) are overseen by the Banking Book Financial Risks Sub-Department, which is responsible for:

- setting out the criteria and methods for the measurement and management of the financial risks of the banking book (interest rate, foreign exchange, minority equity investments and liquidity);
- proposing the system of operational limits and the guidelines for the management of financial risks for the operational units of the Group involving the operations of the banking book;
- measuring the financial risks of the banking book assumed by the Parent Company and the other Group Companies, both directly, through specific outsourcing contracts, and indirectly by consolidating the information originating from the local control units, and verifying compliance by the Group Companies with the limits set by the Statutory Bodies, reporting on their progress to Top Management and the Parent Company's operational structures;
- analysing the overall financial risk profile of the Group's banking book, proposing any corrective measures, within the more general context of the guidelines set out at strategic planning level or by the Corporate Bodies;
- managing the assessment and measurement, for the Parent Company and all the other Group Companies governed by outsourcing contracts, of the effectiveness of the hedging relationships (hedge accounting) required by the IAS/IFRS regulations (for the main Group companies the structures of the Parent Company centralise these activities in order to achieve operational efficiencies and the most effective governance of the process. For the other subsidiaries, it provides direction and guidance);
- supporting the AVM and Strategies Sub-Department in relation to strategic ALM.

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

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

1. shift sensitivity of economic value (∆EVE);
2. net interest income:
   - shift sensitivity of net interest income (∆NII);
   - dynamic simulation of net interest income (NII);
3. Value at Risk (VaR).

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet).
In measurements, capital items are represented based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

4. 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);
5. for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise net interest income both in absolute terms and in terms of variability over time;
6. for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows.
7. The cash flows used for both the contractual and behavioural profile are calculated at the contractual rate or at the FTP.

To determine the present value, a multi-curve system is adopted which has different discounting and forwarding curves according to the type of instrument and the tenor of its indexing. For the determination of shift sensitivity, the standard shock applied to all the curves is defined as a parallel and uniform shifting of +100 basis points of the curves.

In addition to the standard +100 scenario, the measurement of the economic value (EVE) is also calculated based on the 6 scenarios prescribed by the BCBS document and based on historical stress simulations aimed at identifying worst- and best-case scenarios.

The shift sensitivity of the net interest income quantifies the impact on short-term interest income of a parallel, instantaneous and permanent, shock to the interest rate curve.
Margin sensitivity is measured using a method that enables the estimation of the expected change in net interest income as a result of a shock to the curves produced by items subject to interest rate revision within a gapping period set at 12 months from the analysis date.
This measure highlights the effect of variations in market interest rates on the net interest income generated by the portfolio being measured, on a constant balance sheet basis, excluding potential effects resulting from the new operations and from assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.
To determine changes in net interest income (ΔNII), standard scenarios of parallel rate shocks of +/-50 basis points are applied, in reference to a time horizon of twelve months.
Dynamic margin simulation analyses are also conducted that combine shifts in yield curves with changes in base and liquidity differentials, as well as changes in customer behaviour in different market scenarios.

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR). Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

Policies for hedging and mitigating risk

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

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods.
A first method refers to the fair value hedge of specifically identified assets and liabilities (microhedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. On the basis of the carved-out version of IAS 39, fair-value hedging is also applied for the macrohedging of the stable portion of demand deposits (core deposits) and on the already fixed portion of variable-rate loans and on a portion of fixed-rate loans. For this last type, an open-portfolio macrohedging model has been adopted according to a bottom-layer approach that, in accordance with the interest rate risk measurement method involving modelling of the prepayment phenomenon, is more closely correlated with risk management activity and asset dynamics.

Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable-rate funding, to the extent that the latter finances fixed-rate investments, and on variable-rate investments to cover fixed-rate funding (macro cash flow hedges).
The Financial and Market Risks Head Office Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with international accounting standards.
During the year no hedging activities were performed to cover the price risk of the banking book.

Qualitative and quantitative disclosure regarding the trading book

The quantification of trading risks is based on daily and periodic vulnerability of the trading books of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the risk factors already listed above.

Other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios are interest rates and foreign exchange rates, both relating to linear pay-offs.

The table below shows the items of the consolidated Balance Sheet that are subject to market risks, showing the positions for which VaR is the main risk measurement metrics and those for which the risks are monitored with other metrics. The latter mostly include the sensitivity analysis to the different risk factors (interest rate, credit spread, etc.).

(millions of euro)

Financial assets and liabilities	BOOK VALUE (supervisory scope)	MAIN RISK MEASUREMENT METRICS		
		VaR	Other	Risk factors measured using metrics included under Other
Assets subject to market risk	**592,046**	**97,398**	**494,648**	
Financial assets held for trading	38,970	38,066	904	Interest rate risk, credit spread, equity
Financial assets designated at fair value	208	198	10	Interest rate risk, credit spread
Other financial assets mandatorily measured at fair value	3,492	1,997	1,495	Interest rate risk, credit spread
Financial assets measured at fair value through other comprehensive income (ifrs 7 par. 8 lett. h))	60,452	57,129	3,323	Interest rate risk, equity
Due from banks	69,191	-	69,191	Interest rate risk
Loans to customers	410,454	-	410,454	Interest rate risk
Hedging derivatives	2,993	8	2,985	Interest rate risk
Investments in associates and companies subject to joint control	6,286	-	6,286	Equity risk
Liabilities subject to market risk	**566,893**	**42,556**	**524,337**	
Due to banks	106,463	-	106,463	Interest rate risk
Due to customers	327,097	-	327,097	Interest rate risk
Securities issued	84,388	-	84,388	Interest rate risk
Financial liabilities held for trading	42,051	41,987	64	Interest rate risk
Financial liabilities designated at fair value (ifrs 7 par. 8 lett. e))	4	4	-	-
Hedging derivatives	6,890	565	6,325	Interest rate risk

Internal model validation

For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital requirement of both Intesa Sanpaolo and Banca IMI.
More specifically, concerning market risk, the risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI and the hedge fund portfolios of the Parent Company (look through approach), (iii) position risk on dividend derivatives and (iv) commodity risk for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The VaR and the Stressed VaR used to determine the capital requirement use the same calculation engine and the same pricing libraries for the full evaluation of the managerial measures. With regard to the latter, however, there is no 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.

Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Supervisory Authority following completion of the previously recommended corrective actions.

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

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the trading book resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.
This measure applies to all financial products that are sensitive to credit spreads included in the trading books except for the securitisations.
The simulation is based on a Modified Merton Model. The probabilities of transition and default are those observed through the historical matrices of the main rating agencies. The asset correlation is inferred from the equity correlation of the issuers. The model is based on the assumption of a constant position with a holding period of one year.
A regular stress program is applied to the model's main parameters (correlation, and transition, default and credit spread matrices).

EU MR1 - Market risk under the standardised approach

(millions of euro)

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	385	31
2	Equity risk (general and specific)	281	22
3	Foreign exchange risk	559	45
4	Commodity risk	2	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	**Securitisation (specific risk)**	**475**	**38**
9	**Total**	**1,702**	**136**

The figure for foreign exchange risk was in line with that observed during the previous half year and was mainly linked to exposure to linear products in USD. The requirement for Securitisations amounted to 38.2 million euro in December, down around 10 million euro compared to the previous half year. The main driver was the reduction in the RMBS exposure, particularly for the Senior and Mezzanine tranches.

EU MR2-A – Market risk under the IMA[17]

(millions of euro)

		RWAs	Capital requirements
1	**VaR (higher of values a and b)**	**5,000**	**400**
a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		109
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		400
2	**SVaR (higher of values a and b)**	**10,454**	**837**
a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		207
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)		837
3	**IRC (higher of values a and b)**	**3,991**	**319**
a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)		319
b)	Average of the IRC number over the preceding 12 weeks		291
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**	**19,445**	**1,556**

The higher volatility of credit spreads had a significant impact on the VaR figures for Banca IMI and Intesa Sanpaolo. The Stressed VaR and Incremental Risk Charge figures continued to be driven by exposure to the financial sector (mainly CDS indices) and, to a lesser extent, to sovereign risk. The RWAs were also affected by the add-ons linked to the backtesting exceptions recorded in the last year.

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":

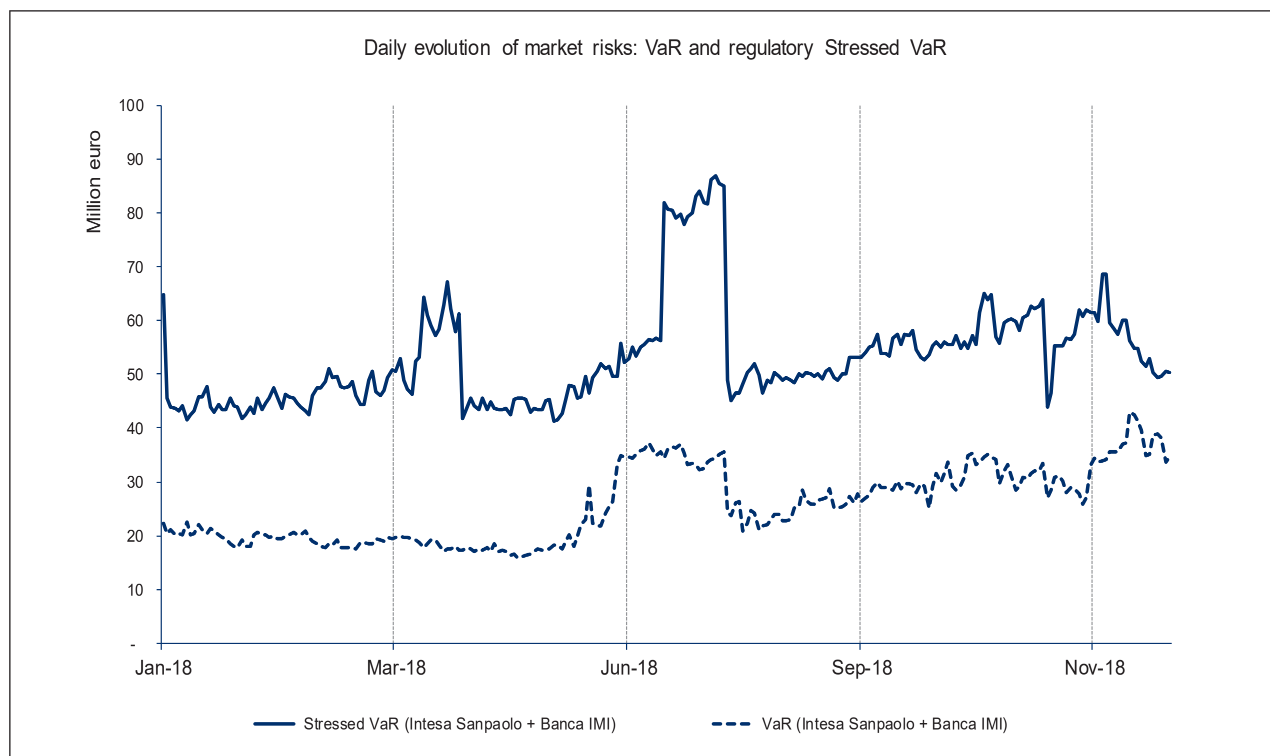
- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real time series to be used for all portfolio risk factors.

Consistently with the historical simulation approach used for Var calculation, the latter point is a discriminating condition in the selection of the holding period. Actually, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As at the date of preparation of this document, the period for the measurement of Stressed VaR was set as from 1 October 2011 to 30 September 2012 for both Intesa Sanpaolo and Banca IMI.

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

The graph below shows the trend of the measures.



The table below shows the breakdown of the capital requirements for current and Stressed VaR measures

EU MR3 – IMA values for trading portfolios

(millions of euro)

VaR (10 day 99%)		
1	Maximum value	145
2	Average value	103
3	Minimum value	78
4	Period end	109
SVaR (10 day 99%)		
5	Maximum value	293
6	Average value	219
7	Minimum value	153
8	Period end	207
IRC (99.9%)		
9	Maximum value	551
10	Average value	291
11	Minimum value	188
12	Period end	319
Comprehensive risk capital charge (99.9%)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-

The trend in this requirement was characterised by higher market volatility, which had a significant impact on the VaR figures for Banca IMI and Intesa Sanpaolo. The Stressed VaR and Incremental Risk Charge figures continued to be driven by exposure to the financial sector (mainly CDS indices) and, to a lesser extent, to sovereign risk.

Managerial VaR

The analysis of market risk profiles relative to the trading book (managerial VaR scope) uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.
Details are provided below of the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

Stress tests

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

Sensitivity and greeks

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

Level measures

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

Daily evolution managerial VaR

During the fourth quarter of 2018, the market risks originated by Intesa Sanpaolo declined slightly compared to the previous period, whereas those originated by Banca IMI increased: the average daily VaR for the fourth quarter of 2018 was 95.2 million euro, up on the third quarter.
With regard to the whole of 2018, the Group's average risk profile (74.1 million euro) increased compared to the average values in 2017 (69 million euro).

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

(millions of euro)

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	13.9	11.1	19.4	14.4	11.8	7.8
Banca IMI	81.3	66.9	106.3	75.9	50.1	40.3
Total	**95.2**	**78.8**	**124.9**	**90.4**	**61.9**	**48.1**

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

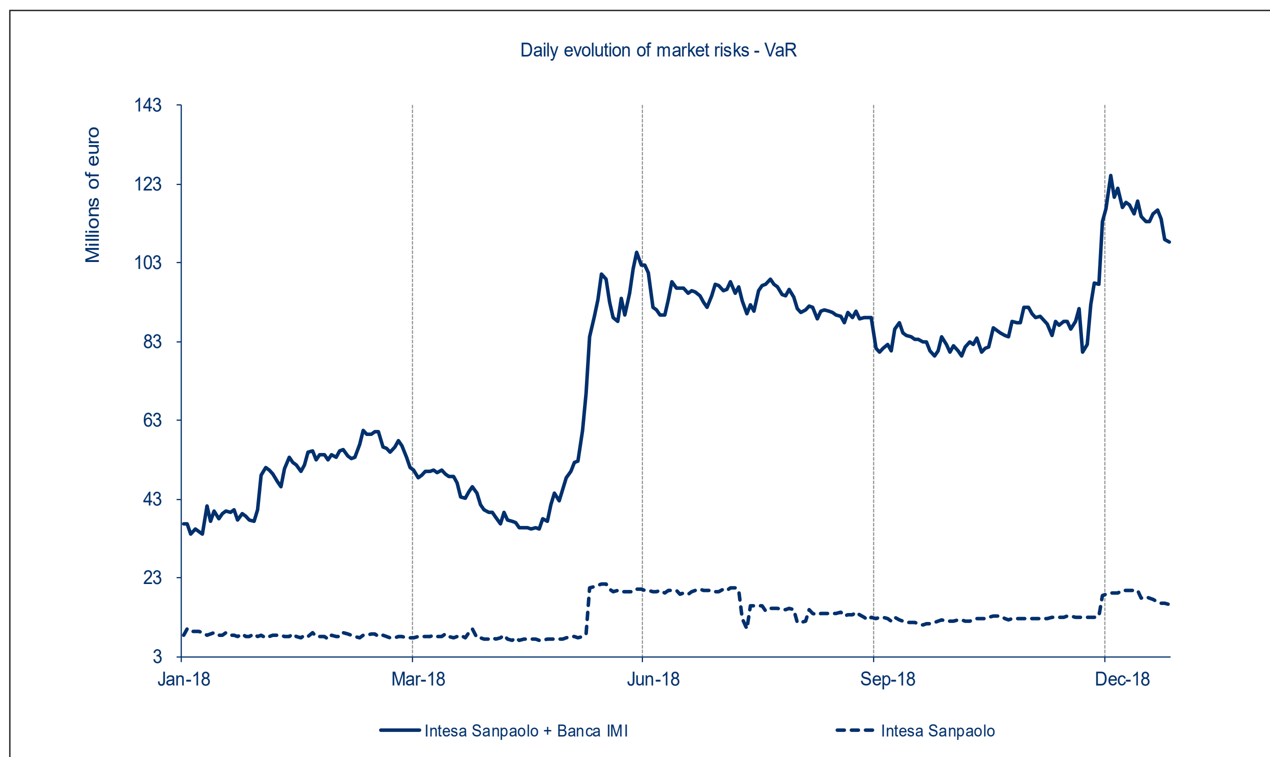
Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2018 and 2017[(a)]

(millions of euro)

	2018				2017		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	12.0	6.7	20.9	14.3	10.0	6.3	12.5
Banca IMI	62.0	24.7	106.3	100.4	59.0	44.2	93.2
Total	**74.1**	**33.7**	**124.9**	**114.7**	**69.0**	**52.3**	**104.8**

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

The trend in the Group's VaR, shown in the following chart, was mainly determined by Banca IMI.



During the first half of 2018 there was an increase in the risk measures as a result of the increase in the volatility of the financial markets, particularly in the Italian government segment in May. In the second half, the trend in VaR for Banca IMI was mainly due to portfolio movements and technical model effects (VaR scenarios) linked to the passage of time, which kept the risks stable on average up to mid-November. Subsequently, there was an increase in VaR due to greater exposure of the government bond portfolio. For the Parent Company there was an increase in risks, although to a smaller extent, in the second and fourth quarter due to an increase in volatility of the credit spread (indices).

Contribution of risk factors to total VaR (a)

4th quarter 2018	Shares	Hedge fund	Rates	Credit spread	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	2%	2%	22%	54%	19%	1%	0%
Banca IMI	3%	0%	15%	77%	0%	4%	1%
Total	**3%**	**0%**	**16%**	**74%**	**3%**	**3%**	**1%**

(a) Each line in the table sets out the contribution of risk factors considering the overall VaR 100%, calculated as the average of daily estimates in the fourth quarter of 2018, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

The breakdown of risk profile in the fourth quarter of 2018 with regard to the various factors shows the prevalence of the risk generated by the spread, which accounted for 54% of the total VaR for Intesa Sanpaolo and 77% 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 on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of December is summarised in the following table: The shocks applied to the portfolio were updated on an annual basis by the Financial and Market Risks Department.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITY	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-10%	+10%	Crash	Bullish
Total	-2	-7	-118	67	361	-351	37	-13	-1	0

In particular:
- for stock market positions, there would be a loss in both crash and bullish scenarios, given the portfolio non-linearity;
- for positions in interest rates, there would be a loss of 118 million euro in the event of an increase in rate curves of 40 bps;
- for positions in credit spreads, a widening of credit spreads of 25 bps would entail a loss of 351 million euro;
- for positions in foreign exchange, there would be losses of 13 million euro in the event of a 10% increase in the EUR-USD exchange rate and reduction in volatility of 25%.
- finally, for positions in commodities, there would be a loss of 1 million euro in the event of a reduction in commodity prices of 20% accompanied by an increase in the price of gold of 15%.

Backtesting

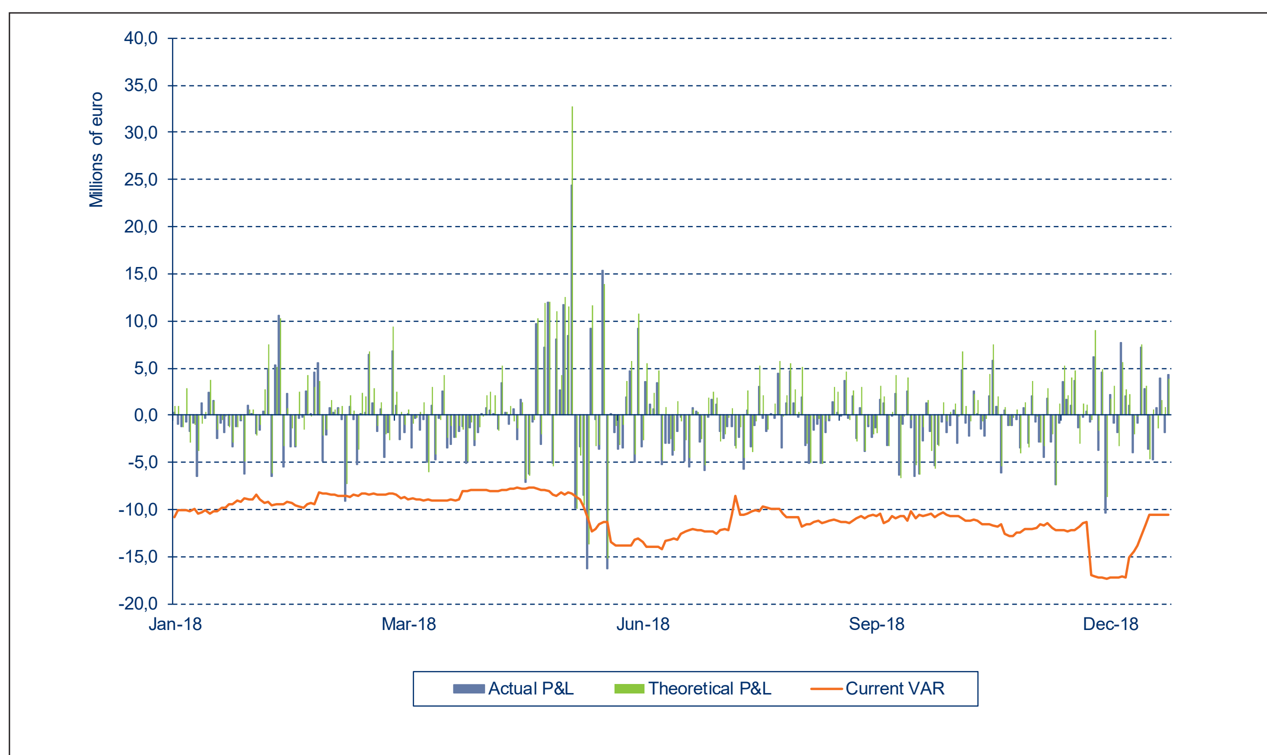
The soundness of the VaR calculation methods must be monitored daily via backtesting which, for the regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting are calculated using the daily profits and losses achieved by the individual desks. This measure therefore needs to be stripped of the products and/or components that are not relevant to the backtesting checks: these include fees, financial costs of managing the positions and P&L reserves that are regularly reported within the managerial area.

Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the internal model are represented by situations in which daily profits/losses based on backtesting highlight more than four occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. The backtesting used by Intesa Sanpaolo involves both the P&L series actually recorded and the theoretical series. The latter is based on valuation of the portfolio value through the use of pricing models adopted for the VaR measurement calculation. The number of significant backtesting exceptions is determined as the maximum between those for actual P&L and theoretical P&L.

EU MR4 – Comparison of VaR estimates with gains/losses

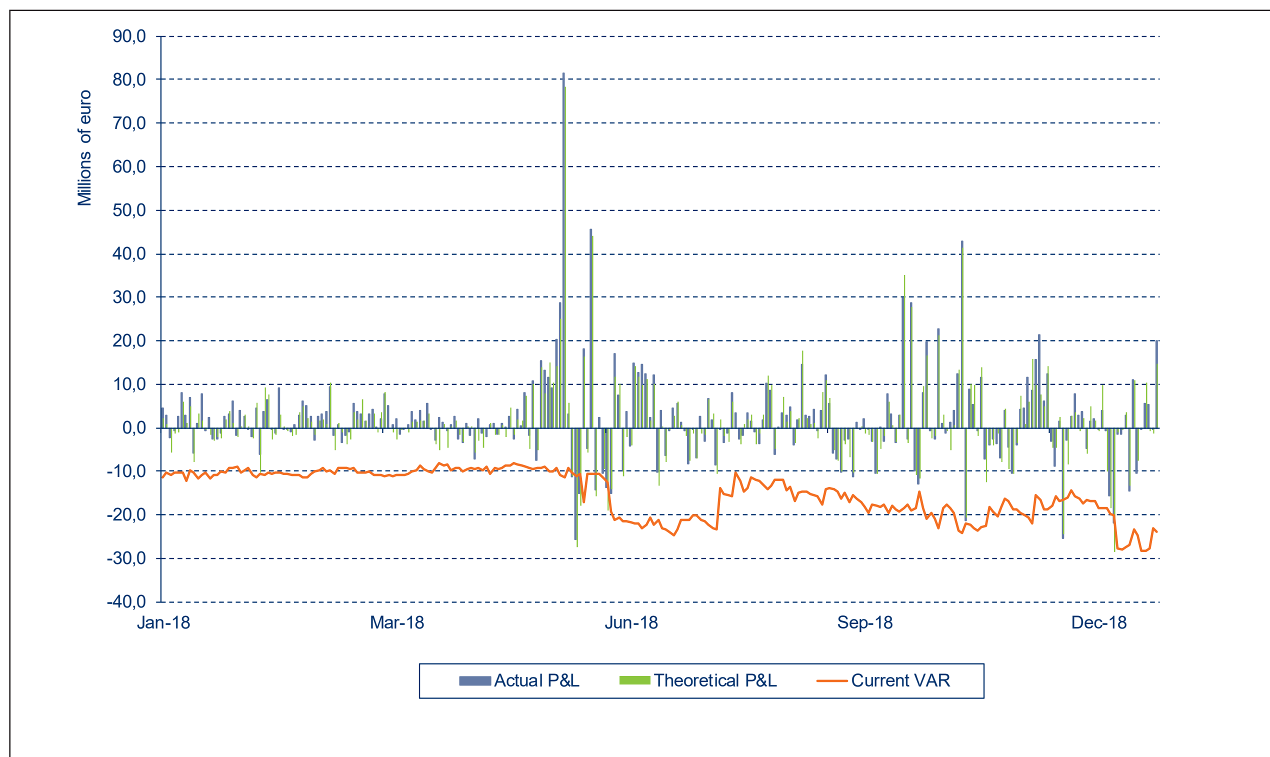
Backtesting in Intesa Sanpaolo

Over the last twelve months there have been four backtesting exceptions. The breaches were caused by the credit component of the portfolio, which was particularly affected by the volatility in the second half of May 2018. The volatility was particularly high for purchase positions hedging credit indices.



Backtesting in Banca IMI

The credit spread volatility was very high in 2018. This volatility led to seven backtesting breaches for both theoretical and actual P&L. The portfolio was particularly sensitive to the performance of the financial sector and to a lesser extent to the government sector.



Issuer risk

Issuer risk in the trading portfolio is analysed through level measures, i.e. in terms of mark to market, with exposures aggregated by rating class, and is monitored through a system of operating limits based on both sector/rating classes and concentration indexes.

Breakdown of exposures by type of issuer for Intesa Sanpaolo and Banca IMI [a]

	TOTAL	OF WHICH					
		Corporate	Financial	Emerging	Covered	Government	Securitis.
Intesa Sanpaolo	71%	5%	3%	0%	4%	79%	9%
Banca IMI	29%	1%	24%	13%	1%	4%	57%
Total	**100%**	**3%**	**11%**	**5%**	**3%**	**50%**	**28%**

(a) In the Total column, the table reports the contribution to total exposure of Intesa Sanpaolo and Banca IMI to issuer risk, breaking down the contribution to exposure by type of issuer. The scope is the trading book subject to issuer credit limit (excluding Italian Government and AAA, own securities) , including cds (absolute value).

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

Operating limits

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the following basic concepts of hierarchy and interaction.
The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

– first level limits (VaR): at the level of individual legal entities, these are approved by the Board of Directors, concurrently with approval of the RAF. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risk Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;

- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures;
- other significant limits: they have the objective of monitoring particular transactions (e.g. ceiling for transactions with issuer risk, Incremental Risk Charge limit).

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

With regard to the VaR limits, for the 2018 RAF, an overall limit was set for the trading component of 155 million euro, in line with the previous year.

With respect to the component sub-allocated to the organisational units, it may be noted that the use of the VaR limit (held for trading component) for Intesa Sanpaolo averaged 49% in 2018, with a maximum use of 88%. For Banca IMI, the average VaR limit came to 50%, with a maximum use of 83%. It should be specified that for Banca IMI the VaR limit also includes the HTCS component.

The use of VaR operating limits on the HTCS component (excluding Banca IMI) at year-end was 63%. For 2018, the limit for this component remained in line with 2017 at 260 million euro.

With regard to the use of the IRC limits, these amounted to 99.9% at year-end for Intesa Sanpaolo (limit of 150 million euro) and 39.4% for Banca IMI (limit of 430 million euro).

Incremental Risk Charge – Summary of 2018 performance

(millions of euro)

	average 4th quarter	4th quarter last one	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	132.1	149.8	78.7	216.6	59.6	35.7	32.0
Banca IMI	158.6	169.4	109.2	333.9	117.5	130.5	128.6
Total	**290.7**	**319.2**	**187.9**	**550.5**	**177.1**	**166.2**	**160.6**

FAIR VALUE, INDEPENDENT PRICE VERIFICATION AND PRUDENT VALUE OF FINANCIAL INSTRUMENTS

The framework of financial measurement at fair value is based on three pillars: fair value measurement according to the IFRS, independent price verification (IPV) and prudent value measurement. The latter are established by the CRR - Capital Requirement Regulation. The paragraphs below describe the methods applied by the Intesa Sanpaolo Group to implement and use those elements.

General fair value principles

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Financial and Market Risks Head Office Department and also applied by the Parent Company and to all consolidated subsidiaries.

The first part of the document, "General principles", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, is revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The second part, "Detailed methods", is reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposed by the Financial and Market Risks Head Office Department.

In accordance with IFRS 9 regarding the rules for the classification and measurement of financial instruments, an instrument is measured at fair value based on the business model adopted or, if it does not pass the Solely Payment of Principal and Interest (SPPI) test, based on the contractual characteristics of its cash flows.

IFRS 13, which harmonises the measurement rules and the related disclosure, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single bank. Underlying the definition of fair value is the assumption that the Bank is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.
The bank has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible. Measurement at fair value presumes that the asset is sold or the liability transferred:

a. in the principal active market for the asset or liability;
b. in the absence of a major market, in the most advantageous active market for the asset or liability.

The entity is not required to conduct an exhaustive study of all possible markets to identify the major market or, in the absence of the major market, the most advantageous market, but must take into account all the reasonably available information. If there is no evidence to the contrary, the market that the entity normally operates in to sell the asset or transfer the liability is assumed to be the major market or the most advantageous market, if there is no major market. The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Intesa Sanpaolo Group generally operates.

The Group considers a market to be active when transactions in an asset or liability occur with sufficient frequency and volume to provide useful information for determining price on an ongoing basis. An instrument is considered listed on an active market if prices reflecting normal market transactions are promptly and regularly available from stock exchanges, brokers, intermediaries, principal-to-principal markets, listing services or authorised entities and such prices are representative of effective, regular market transactions.

In specific cases regulated by internal policies and despite being quoted on regulated markets, adequate research is carried out in order to verify the significance of official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, widening or increase of the bid-ask spread, reduction or total lack of market for new issuances, limited publicly-available information), analyses of the transactions or of the quoted prices must be carried out. A reduction in the volume or the level of activity alone may not indicate that the price of a transaction or the quoted price does not represent fair value or that the transaction in that market is not ordinary. If an entity determines that a transaction price or quoted price does not represent fair value (e.g., non-ordinary transactions) an adjustment to the transaction prices or listed prices is required if the entity uses those prices as the basis for fair value measurement and that adjustment may be significant with respect to the fair value as a whole.

General independent price verification principles
The Intesa Sanpaolo Group governs and defines the independent price verification process through the Group's Independent Price Verification Policy, prepared by the Financial and Market Risks Head Office Department and also applied by the Parent Company and to all consolidated subsidiaries of the Banking Group.

The "Guidelines on Independent Price Verification", once a favourable opinion has been given by the Group Financial Risks Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risks Committee. The level I and II "Rules on Independent Price Verification" are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposed by the Financial and Market Risks Head Office Department.

According to the provisions of Regulation (EU) 575/2013 (Capital Requirement Regulation – CRR), Article 4, par. 1.70 and Article 105, par. 8, the Intesa Sanpaolo Group governs the Independent Price Verification (IPV) process, i.e. the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the managers of the business, at a frequency commensurate with the trading carried out and the nature of the market.

General prudent value principles
The framework of financial measurements is completed with the prudent valuation of financial intruments measured at fair value, which involves the calculation of additional adjustments to valuations, significant for prudential purposes, without impacts on the fair value calculated for accounting purposes in accordance with the IFRS.

The Intesa Sanpaolo Group governs and defines the prudent value measurement of financial instruments through the Group's Prudent Value Policy, prepared by the Financial and Market Risks Head Office Department and applied by the Parent Company and to all the consolidated subsidiaries of the Banking Group.

The "Guidelines on Prudent Valuation of Financial Instruments", once a favourable opinion has been given by the Group Financial Risk Committee and the Managing Director and CEO, are revised and approved at least on an annual basis by the Board of Directors, with the support of the Risk Committee. The "Rules on Prudent Valuation of Financial Instruments" are reviewed, revised and approved at least on an annual basis by the Group Financial Risk Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposed by the Financial and Market Risks Head Office Department.

In accordance with the provisions of EU Regulation 575/2013 (Capital Requirement Regulation – CRR), prudent valuation requires the calculation of specific additional valuation adjustments (AVAs) for the financial instruments measured at fair value, aimed to capture different sources of valuation uncertainty and to ensure the achievement of a suitable level of certainty in the measurement of the positions. The total value of the AVAs is deducted from the Common Equity Tier 1 capital, without impacts on accounting fair values.

The fair value of financial instruments
The presence of official quoted prices in an active market represents the best evidence of fair value and these prices are therefore the quoted prices to be used on a priority basis for the measurement of the financial assets and liabilities measured at fair value.

If there is no active market, the fair value is determined using valuation techniques aimed, ultimately, at establishing the price the product would have had, at the measurement date, in an arm's length exchange motivated by normal business considerations. An entity must use valuation techniques that are appropriate for the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and reducing the use of unobservable inputs to a minimum. Such techniques include:
- reference to market values indirectly connected to the instrument to be valued and deduced from products with the same risk profile;
- valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the valuator.

The choice of the above methods is not optional, because they must be applied in hierarchical order: the availability of a price stated in an active market prevents the use of one of the other measurement approaches.

Inputs of the valuation techniques
The inputs are defined as the assumptions that market operators would have used to determine the price of the asset or the liability, including assumptions regarding risk, such as, for example, the risk relating to a particular valuation technique used to measure fair value or the risk relating to the inputs of the valuation technique. The inputs may be observable or unobservable.
Observable inputs are those produced using market data, such as publicly available information on operations or actual events, which reflect the assumptions that market operators would use in determining the price of the asset or the liability.
Unobservable inputs are those for which no market information is available and that are produced using the best available information regarding the assumptions that market operators would use to determine the price of the asset or the liability.

Fair value hierarchy

IFRS 13 establishes a fair value hierarchy in which inputs to fair value measurement techniques are divided into three levels. That hierarchy assigns top priority to (unadjusted) quoted prices on active markets for identical assets or liabilities (level 1 data) and the lowest priority to unobservable inputs (level 3 data). In particular:

- Fair value level 1 applies when an instrument is measured directly on the basis of (unadjusted) quoted prices on active markets for identical assets or liabilities to which the entity has access on the measurement date.
- Fair value level 2 applies when a price has not been found on an active market and the instrument is measured according to valuation techniques, on the basis of observable market parameters, or of the use of parameters that are not observable but are supported and confirmed by market evidence, such as prices, spreads or other inputs (the comparable approach).
- Fair value level 3 applies when fair value is measured using various inputs, not all of which are directly drawn from observable market parameters, and which thus entail estimates and assumptions by the valuator.

If various inputs are used to measure the fair value of an asset or liability, classification in the hierarchy is determined on the basis of the lowest-level input used in measurement. When assigning a level in the fair value hierarchy, priority is given to the inputs of the valuation techniques rather than the valuation techniques themselves.
The attachment “Fair Value Hierarchy” of the Fair Value Policy defines, with regard to the respective financial instrument valuation models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the end of the reference period.
For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.
The following are considered as level 1 financial instruments: contributed bonds (i.e. quoted on the EuroMTS circuit, or for which at least three bid and ask prices can be continuously derived from the main price contribution international platforms), contributed equities (i.e., quoted on the official market of reference), contributed harmonised mutual funds, spot exchange rates, derivatives for which quotations are available on an active market (for example, exchange traded futures and options)[18] and hedge funds whose Net Asset Value (NAV) is available, according to the frequency established in the subscription contract, and the checklist does not identify any critical issues in terms of liquidity risk or counterparty risk.
Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.

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

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

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

- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- loans whose fair value is determined through the use of an appropriate credit spread which is estimated starting from market data of financial instruments with similar characteristics;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- structured credit products for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters which may be presumed from the market;
- equity instruments measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers.

[18] Bonds valued using official closing prices and/or fixing provided by local authorities (central bank, monetary authority or local stock exchange) may be classified as level 1, but only for foreign branches and international banks and pursuant to local regulatory requirements, where the decentralised Risk Management units confirm that there is an active market, and when the Risk Management Department expressly authorises it.

In case of instruments classified as level 3, the calculation of the fair value is based on valuation models which consider input parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator. In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:
- the development of future cash flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured using this method:
- debt securities and complex credit derivatives (CDOs) included among structured credit products and credit derivatives on index tranches;
- hedge funds not included in level 1;
- funds, shareholding and other equity instruments measured using models based on discounted cash flows;
- loans whose fair value is determined through the use of a credit spread that does not meet the criteria to be considered level 2;
- some transactions in derivatives or structured bonds, measured using level 3 inputs.

Valuation of financial instruments

The valuation of financial instruments entails the following phases:
- identification of the measurement sources: for each asset class, the Fair Value Policy and Market Data Reference Guide establish the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- validation and processing of market data for periodic valuation: this stage consists of the accurate verification, at each accounting measurement date, of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.
- certification of valuation models (so-called “Model Validation”): this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the valuation models used and at determining any adjustments necessary for measurement;
- periodic monitoring of the consistency of the valuation models over time (so-called “Model Risk Monitoring”): the monitoring consists of the ongoing checking of the adherence to the market of the valuation model and enables the timely discovery of any gaps, in order to initiate the necessary checks and measures.

Identification, certification and treatment of market data and the sources for measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end, the Market Data Reference Guide, attached to the Fair Value Policy, has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate for the measurement of financial instruments held for any purpose in the proprietary portfolios of the Parent Company and its subsidiaries. The same sources are used in measurements carried out for third parties under Service Level Agreements, entered into in advance. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources. For each market parameter category, the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price.
The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Financial and Market Risks Head Office Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Model Validation

In general, all the valuation models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). More specifically, the internal certification process is activated when a new financial instrument that requires an adjustment to the existing valuation methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the valuation of existing contracts.
The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:
- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model’s ability to optimise its internal parameters (or meta-data) to

best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Financial and Market Risks Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official measurements. If the analysis identifies a significant Model Risk, which, however, is within the limits of the ability of the approach to correctly manage the related contracts, the Financial and Market Risks Head Office Department selects a supplementary approach to determine the appropriate adjustments to be made to the fair value, and validates the supplemented approach.

Model Risk Monitoring

The performance of the valuation models that are validated and actually used is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:
- repricing of contributed elementary instruments: verifying the model's ability to replicate the market prices of all the quoted instruments considered to be relevant. An automatic repricing system for elementary financial instruments is used in the Bank's Front Office systems, which enables the systematic verification of any deviations between the model and the market;
- comparison with benchmarks: extensive use of data supplied by qualified external providers (e.g. Markit), which enables the contribution and obtainment of consensus valuations from leading market counterparties for interest rate instruments, equity instruments, credit instruments, and commodity instruments. This information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets, strikes, etc. The scope of available consensus data is constantly monitored and updated to cover the most significant exposures;
- comparison with market prices: verification based on prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

Where significant deviations are found, the impact on the respective portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified, as described in the paragraph below.

The Independent Price Verification (IPV) process, illustrated below, supports and completes the process of identification, certification and treatment of market data.

Fair value adjustments

As governed by the Fair Value Policy, the valuation of a financial instrument may require the inclusion of additional valuation components, known as "fair value adjustments", which constitute an integral part of the fair value. These are designed to take into account the valuation uncertainty or the difficulty in the disposal of specific financial positions, and may relate to a single financial instrument or to the net position for a particular risk factor. The adjustments may be calculated as add-ons to the valuation or included directly in the valuation. They are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.

In particular, fair value adjustments are envisaged for the following categories of valuation uncertainty.
- Uncertainty of input data: any valuation uncertainty related to the input data for the valuation (whether mid, bid or ask) is measured with respect to temporary or structural conditions on the markets or in relation to the size of the values held (in the case of concentration), and where necessary a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Illiquidity of the underlying positions or risk factors: similarly to the case above, the market bid-ask spread is measured and, where necessary, a fair value adjustment is made, quantifying the consequent impact on the valuations.
- Model risk: this is based on the identification and use of variants of the same model or alternative models, with which to carry out comparison analyses aimed at quantifying the variability of the valuations (in particular any directionality of the price when the model changes) and the behaviour of the model in various market scenarios (stress tests). The quantification of the fair value adjustment is based, where possible, on easily comprehensible and measurable financial variables (e.g. vega, delta, correlation shift).
- Counterparty and funding risk: counterparty and funding risks, collectively referred to as XVA, include Bilateral Credit Value Adjustment (bCVA) and Funding Value Adjustment (FVA). The bCVA takes account of the counterparty risk premium associated with the possibility that the counterparties may not honour their mutual commitments (for example in the event of bankruptcy). This component derives, in turn, from two components: the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA), which consider, respectively, the scenarios where the Counterparty goes bankrupt before the Bank (and the Bank has a positive exposure towards the Counterparty), and vice versa the scenarios where the Bank goes bankrupt before the Counterparty (and the Bank has a negative exposure towards the Counterparty). The bCVA depends on the probability of default and the Loss Given Default depends on the total exposure of the two counterparties. The latter must be calculated taking into account any counterparty risk mitigation agreements, particularly netting and collateralisation agreements. The Funding Value Adjustment (FVA), on the other hand, takes into consideration the funding risk premium, connected to the costs of funding the cash flows generated by an OTC derivative portfolio (coupons, dividends, collateral, etc.). Like the bCVA, the FVA depends on the probability of default of the counterparties and considers any netting and collateralisation agreements (CSA).

The management process for fair value adjustments is formalised in the Fair Value Policy with appropriate calculation methodologies on the basis of the different configurations of the points set out above, and is carried out in the most objective, consistent and systematic manner possible by the Financial and Market Risks Head Office Department. The introduction and release of the fair value adjustments depends on the factors described above. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.
For new products, the decision to apply the adjustments is taken during the new product approval process, upon the proposal of the Financial and Market Risks Department.
The application of the adjustments is subject to an authorisation procedure that, above a certain warning threshold defined for specific cases, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

Fair value levels 2 and 3: valuation techniques and inputs used

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products, hedge funds), on the valuation models used.

I. Valuation of non-contributed debt securities

The valuation of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:

- contributed and liquid debt securities of the same issuer;
- credit default swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case, the different seniority of the security to be priced is considered with regard to the issuer's debt structure.
In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.
When applying the spread for the pricing of the non-contributed instrument, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the "fair" credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.
Finally, if the instrument includes an optional component, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and any illiquidity of the underlying assets. This component is calculated based on the type of option, using the corresponding valuation models for derivatives mentioned below.

Similarly, with respect to financial liabilities measured at fair value through profit or loss, the credit spread of Intesa Sanpaolo is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market prices and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level.

II. Valuation of loans

Loans are measured at fair value calculating the present value of expected future cash flows using an appropriate credit spread, identified starting from the following sources:

- contributed loans on the market;
- sector/rating specific loan market curves;;
- contributed securities of the same issuer;
- credit default swaps on the same reference entity;

In any case, the different seniority of the instrument to be priced is considered with regard to the issuer's debt structure.
When applying the spread for the pricing of the loan, if the estimated 'fair' credit curve does not respect the same characteristics of the instrument, correction factors are considered.
Moreover, where, in determining the credit spread of the loans, reference is made to the curves created through bonds, a Bond – Loan basis must be applied, to capture the different structure of the market, if any, and the different type of loan.
In order to consider the premium required by the market for illiquid and/or structured instruments, several adjustments are applied to the credit spread.

III. Valuation of interest rate, foreign exchange, equity, inflation, commodity and credit derivatives

The fair value of an OTC derivative instrument is calculated considering the risk premium related to the various underlying risk factors. Specifically, there are two relevant cases, according to whether the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the counterparty and funding risk.

a. For CSA transactions with characteristics that reduce counterparty and funding risk to a negligible level, the fair value is calculated according to the non-arbitrage principle, by including the market risk premium related to the risk factors underlying the contract (e.g. interest rates, volatility, etc.), and considering the rate of remuneration for the collateral as the discount rate for the future cash flows. Given that the rate of remuneration for the collateral is

generally an overnight rate, and the corresponding discount curve is constructed based on the market prices of Overnight Indexed Swap (OIS) instruments, this approach is called “OIS discounting”.

b. For transactions without CSAs, or with CSAs with characteristics that do not reduce the counterparty and funding risk to a negligible level (e.g., One Way CSAs, or with non-negligible limits or minimum transfer amounts), the fair value of the instrument may be stated, under appropriate circumstances, as the sum of the reference (or base) value, equal to the price of the corresponding collateralised instrument, and several additional valuation components related to the counterparty and funding risk premium, referred to jointly as XVA (see “Fair value adjustments”).

For derivatives measurement, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.
Interest rate, foreign exchange, equity, inflation, commodity and credit derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific valuation models, fed by input parameters (such as, for example, yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.

The table below illustrates the main models used to measure OTC derivatives based on the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, 1- and 2-factor Hull-White, Mixture of 1- and 2-factor Hull-White, Bivariate lognormal, Rendistato, Hagan replication	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates,
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV), Stochastic Local Volatility (SLV), Local Volatility (LV)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Local Volatility, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Bifactorial Inflation	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward, Local Volatility, 2-Factors Jump Diffusion	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Loans	Net present Value, Black Model, Contingent CDS	Probability of default, Recovery rate.

As envisaged by IFRS 13, in determining fair value the Intesa Sanpaolo Group also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer’s own credit risk.

IV. Valuation model for structured credit products

Regarding ABSs, if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs) or, where parameters cannot be observed, estimated parameters (level 3 inputs, where significant).
In this case, the cash flows are obtained from infoproviders or specialised platforms; the spreads are gathered from prices available on the market/consensus platforms, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures. The results of these analyses are subject to backtesting with actual sales prices.

In the case of securitised high-yield loans to European corporate borrowers (CLO HY loans), valuation techniques call for calculation of the net present value of the expected cash flows, determined through specialised platforms, discounted using market spreads. When modelling expected future flows, account is taken of all contractual aspects of the CLO HY loans that may influence the waterfall. For this asset class, the process of determining fair value also involves stress of the main unobservable variables and a credit analysis aimed at identifying any weaknesses of the individual assets

securing the CLOs that results in a revision of the input parameters.

With regard to debt securities and complex credit derivatives (funded and unfunded CDOs) the fair value is determined based on a quantitative model which estimates joint losses on collateral with a simulation of the relevant cash flows which uses copula functions.
The most significant factors considered in the simulation – for each collateral – are the risk-neutral probability of default derived from market spreads, recovery rates, the correlation between the value of collateral present in the structure and the expected residual life of the contract.
For spreads, the valuation process incorporates, as promptly as possible, all the market inputs (including synthetic indexes such as LCDX, Levx and CMBX) considered to be significant: consensus parameters calculated by multi-contribution platforms and market spread estimates made available by major dealers are used.
The Market Data Reference Guide, which sets out credit spread contribution sources, is moreover integrated with specific policies for the other inputs such as correlations and recovery rates.
For specific types of collateral, such as trust preferred securities, the probability of default is estimated using the Expected Default Frequency from Moody's - KMV.
In order to incorporate high market dislocation and intense market illiquidity phenomena in the valuations, a series of corrections are prepared for the valuations referred to the main input parameters:

- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal are decreased by 25% (50% for REITS underlying securities);
- stress of the correlations: inter and intra correlations are increased and decreased by 15% or 25% depending on the type of product;
- stress of spreads: the spreads, used to determine the marginal distributions of defaults, are increased by 25%;
- stress of expected residual lives: the latter are increased by 1 year.

Each of these modules contributes to the definition of a sensitivity grid of the value to the single parameter; results are then aggregated assuming independence between the single elements.

After this valuation, credit analyses on underlying assets are fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the ABS/CDO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point. The results of this analysis are condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.) which are summarised in an indicator representing credit quality. On the basis of the value of this synthetic indicator, specific thresholds are identified which correspond to a number of downgrades, so as to proceed to a consistent adjustment in the valuation.

V. Valuation of equities

Level 2 equities include:

- 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;
- equity instruments measured using relative methods, based on multipliers: implied multiples in transactions in comparable listed or unlisted companies, within a time frame deemed sufficiently short with respect to the time of measurement and under constant market conditions (M&A multiples) or implicit multiples in the stock market prices of a sample of comparable companies (stock market multiples).

Level 3 equities for which the "relative" models described above are not applicable in significant terms, and, therefore, "absolute" valuation models are used, include:

- equity instruments for which analytical models based on flows are used, which determine the value through estimates of the cash or income flows that the company is expected to generate over time, discounted using an appropriate rate based on the level of risk of the instrument;
- equity instruments measured based on asset criteria such as NAV or Adjusted Net Asset Value (ANAV), which estimates the fair value of the various components of the assets of the investee.

Any values deemed representative of the fair value of the equity instrument deriving from contractual clauses (for example, options) are classified in level 2 or 3 of the fair value hierarchy, according to the observability of the inputs used in the valuation. Specifically, if the negotiation of the clause resulted in strike prices or pre-defined algorithms and multiples, the instrument is classified in level 2.
The cost criterion as estimate of fair value is used to a lesser extent, where none of the previous methods are applicable due to lack of sufficient information, and in the cases where there is a wide range of possible fair value measurements and it is not possible to identify the most appropriate value among these.

VI. The valuation of hedge funds

The determination of the fair value of a fund is the result of an analytical process that involves two distinct approaches applied respectively to investments in funds made through the direct purchase of units and to funds managed through a Managed Account Platform (MAP), which ensures daily transparency of the instruments underlying the funds.

For the funds not managed via an MAP, the fair value corresponds to the Net Asset Value (NAV) provided by the fund administrator, to which an adjustment can be applied, deriving from a measurement process aimed at capturing the main risk factors that the management of the funds is subject to, which consist of the following two types:

- counterparty (broker) risk, i.e. the risk that the assets of the fund are exposed to when a single service provider is

entrusted with prime brokerage or custodian activities, subject to the risk of default;
- illiquidity risk, i.e. the risk that the assets of the fund are illiquid due to the limited prices available or due to a lack of information on the assessment policies used by the fund.

These risks are assessed on the basis of the information contained in the documentation received periodically from the fund managers or administrators.

For the funds managed via an MAP, the Fair Value corresponds to the NAV provided by the fund administrator. For this type of fund, no adjustment is applied because it is considered that the infrastructure that guarantees the daily transparency enables sufficient control and monitoring of the underlying instruments to mitigate counterparty and illiquidity risk.

For both types of investment, the fair value hierarchy level is assigned based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

VII. Valuation of other level 2 and 3 instruments

Loans measured at amortised cost, whose fair value is reported, for information purposes, in the Notes to the Parent Company's Financial Statements, are included among financial instruments whose fair value is determined on a recurring basis through level 2 inputs. In particular, for medium- and long-term assets and liabilities measurement is carried out by discounting future cash flows. This is based on the discount rate adjustment approach, in which the risk factors connected with the granting of loans are taken into consideration in the rate used to discount future cash flows.

Independent price verification of financial instruments

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.

Within the IPV, the level I, II and III control functions have the following main responsibilities:
- the level I control function participates in the definition of the related methodological framework and carries out the level I implementations and controls, reporting the results to the business function and the level II control functions;
- the level II control function defines the methodological and control framework, ensures alignment with current regulations and consistency between the IPV controls, accounting valuations and additional valuation adjustments (AVA) (carried out, respectively, on the basis of the Fair Value Policy and the Prudent Valuation Policy); it supervises the level I controls and performs the level II controls;
- the level III control function carries out internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks.

The level I and II IPV controls are qualitative and quantitative controls and are distinguished according to the type of instruments subject to control. They are applied consistently to both the input data underlying the valuations and the valuations themselves, and ensure consistency between the management valuations and the accounting valuations carried out in the various systems. They are characterised by completeness and suitability of application, absence of overlaps, sequentiality and complementarity in execution. The IPV control instruments use, as far as possible, specific applications or IT procedures, which enable extensive data analysis on a daily basis. In particular:
- the level I controls are aimed at ensuring the validation of the market data entered into the systems and are based on an in-depth analysis of the data obtained from external providers. If the level I controls detect that certain thresholds have been exceeded for the data contained in the systems, or the data is not considered correct by the level I control functions, a comparison process (challenge) is activated with the involvement of the business function and the level II control functions, in line with the degree of complexity of the report.
- Level II controls are characterized by sequentiality and complementarity in execution with the level I controls and are designed to ensure alignment between management and accounting valuations, based on an in-depth analysis of consensus or counterparty data and, where these are not available, through the application of pricing models associated with the respective instruments.

The results of the IPV process are analysed, assessed and coordinated by the IPV Working Group, a technical body set up specifically for this purpose, with the aim of facilitating integration and comparison between the business functions and the control functions.

The prudent value of financial instruments

The Intesa Sanpaolo Group, in line with criteria indicated in Delegated Regulation (EU) 2016/101, is subject to the application of the core approach for the determination of AVAs both at individual and at consolidated level for all the positions measured at fair value. In particular the following AVAs are considered:
- Market price uncertainty: this reflects the uncertainty of the market prices, calculated at valuation exposure level.
- Close-out costs: it reflects the uncertainty of the exit price calculated at valuation exposure level.

- Model risks: it considers the valuation model risk which arises due to the potential existence of a range of different models or model calibrations, which are used by market participants, and the lack of a firm exit price for the specific product being valued.
- Unearned credit spreads: it reflects the valuation uncertainty in the adjustment necessary according to the applicable accounting framework to include the current value of expected losses due to counterparty default on derivative positions.
- Investment and funding costs: it represents the valuation uncertainty in the funding costs used when assessing the exit price according to the applicable accounting framework.
- Concentrated positions: it reflects the uncertainty relating to the exit price of the positions defined as concentrated.
- Future administrative costs: it considers administrative costs and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied for the close-out costs AVAs for concentrated positions.
- Early termination: it considers the potential losses arising from non-contractual early terminations of customer trades.
- Operational risks: it considers the potential losses which may be incurred consequently to the operational risks connected to the valuation processes.

The prudent value corresponds to the exit price from the position with a level of certainty equal to 90%. Where possible, this value is determined on the basis of a distribution of exit prices observed on the market. In all the other cases, an expert-based approach is used, referring to the qualitative and quantitative information available.
The AVA value associated to the single position and to the single source of uncertainty in valuation thus corresponds to the difference between the prudent value and the fair value. The total AVA is obtained by aggregating the single AVAs, taking into account the corresponding weighting ratios.
The “Rules on Prudent Valuation of Financial Instruments” outline, for each AVA, the definition and interpretation, the scope of application, the input data and the detailed calculation method for each class of financial instrument.

The table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

(thousands of euro)

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	Favourable changes in FV	Unfavourable changes in FV
Securities and loans	Discounting Cash Flows	Credit Spread	-28	3	%	5,104	-365
Structured securities and loans	Two-factor model	Correlation	-36	39	%	2,796	-2,031
ABSs	Discounting Cash Flows	Credit Spread	-43	28	%	10,156	-6,866
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	-132	53
CLOs Cash	Discounting Cash Flows	Credit Spread	-38	6	%	7,979	-1,191
CLOs Cash	Discounting Cash Flows	Recovery rate	-25	10	%	-1,464	586
CLOs Cash	Discounting Cash Flows	CPR	-10	10	%	158	-158
OTC derivatives subject to FV adjustment for CVA/DVA - Non-performing counterparties	bCVA	Loss Given Default Rate (LGD)	0	100	%	6,127	-5,665
OTC derivatives subject to FV adjustment for CVA/DVA - Performing counterparties	bCVA	Probability of default (PD) based on counterparty's internal rating	CCC	BBB	Internal rating	205	-153
OTC Derivatives - Equity basket option	Black - Scholes model	Correlation between underlying equity baskets	65,86	93,63	%	169	-132
OTC Derivatives - Equity Option	Black - Scholes model	Historical volatility	11,04	55,09	%	385	-236
OTC Derivatives - Equity Option	Marshall Olkin Model	Historical correlation	32,21	80,93	%	284	-442
OTC Derivatives - Spread option on swap rates	Bivariate log-normal model	Correlation between swap rates	-79,13	97,34	%	853	-585

Section 14 – Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

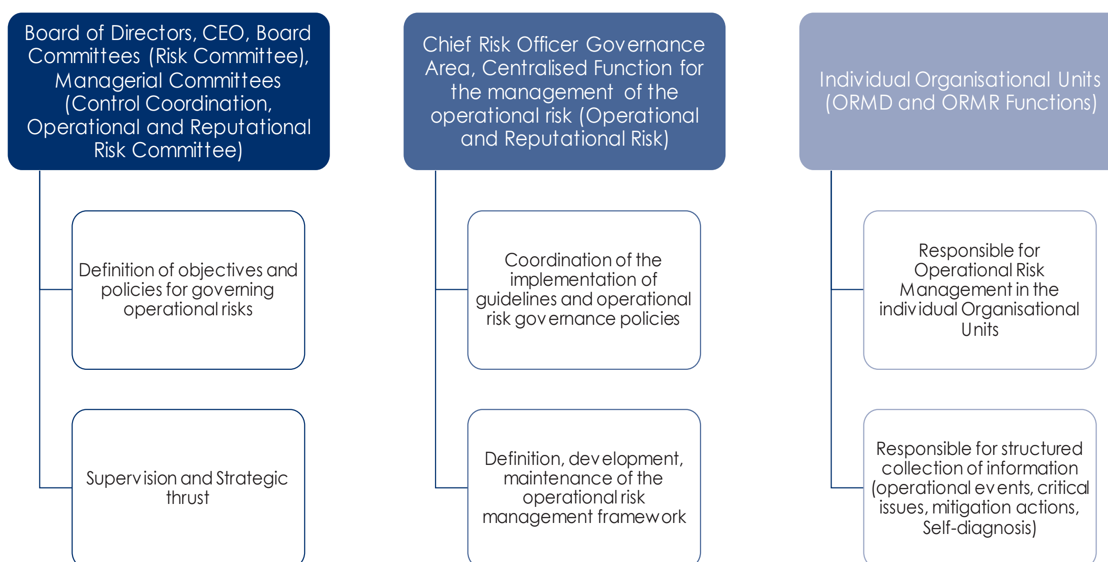
General operational risk management aspects

The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.

In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk management framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

Governance Model

The monitoring of the Intesa Sanpaolo Group's Operational Risk Management involves Bodies, Committees and structures that interact with different responsibilities and roles in order to create an effective operational risk management system that is closely integrated into the decision-making processes and the management of company operations.

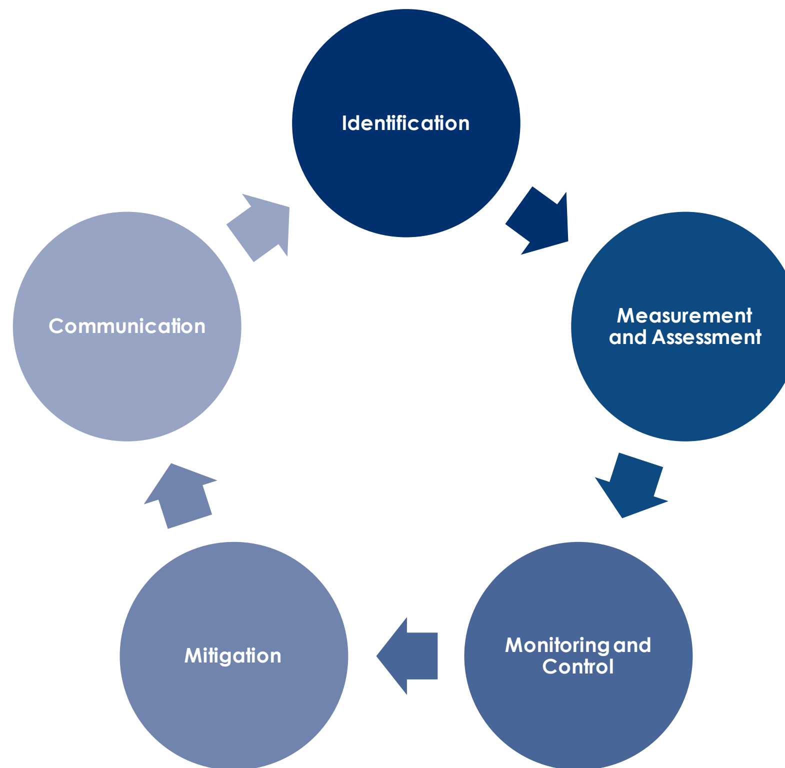


The Group has a centralised function within the Enterprise Risk Management Department for management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.

In compliance with current requirements, the individual Organisational Units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these Organisational Units to be responsible for Operational Risk Management (structured collection of information relative to operational events, detection of critical issues and related mitigation actions, scenario analyses and evaluation of the business environment and internal control factors).
In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.

Group Operational Risk Management Process

The Intesa Sanpaolo Group's operational risk management process is divided into the following phases:



Identification

The identification phase involves:

- the structured collection and timely updating of the data on operational events, decentralised to the Organisational Units;
- the detection of critical issues;
- the performance of the annual Self-diagnosis process;
- the identification of potential operational risks arising from the introduction of new products and services, the launch of new activities and the entry in new markets, as well as risks associated with outsourcing;
- the analysis of operational events and indicators originating from external consortia (O.R.X. - Operational Riskdata eXchange Association);
- the identification of operational risk indicators (including ICT and cyber risks, compliance risks, etc.) by the individual Organisational Units.

Measurement and assessment

Measurement is the transformation, using a dedicated model, of the elementary information (internal and external operational loss data, Scenario Analyses and Business Environment Evaluations) into synthetic risk measures. These measures present an adequate detail to allow complete knowledge of the Group's overall risk profile and to allow the quantification of capital at risk for the Group's units.

Monitoring and control

The monitoring of operational risks consists of the analysis and structured organisation of the results obtained from the identification and/or measurement in order to verify and control the evolution over time of the exposure to operational risk (including ICT and cyber risk) and to prevent the occurrence of harmful events.

Mitigation

Management activities and mitigation actions, defined on the basis of the results of the identification, measurement and monitoring, consist of:

- the identification, definition and implementation of risk mitigation and transfer activities, in accordance with the established risk appetite;
- the analysis and acceptance of residual operational risks;
- the rationalisation and optimisation, from a cost/benefit perspective, of insurance coverage and any other forms of risk transfer adopted by the Group.

In this regard, in addition to benefiting from a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cybercrimes, fire and earthquake, and third-party liability), the Group stipulated an insurance coverage policy named Operational Risk Insurance Programme in compliance with the requirements established by the regulations and to have access to the capital benefits provided for by the policy,

which provides specific cover, significantly increasing the limits and transferring the risk of significant operational losses to the insurance market.
In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

Communication
Communication consists of setting up adequate information flows related to the management of operational risks between the various actors involved, in order to enable the monitoring of the process and provide adequate knowledge of the exposure to those risks.

The Self-diagnosis Process

The self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational risk by assessing the level of managemnt of the elements characterising their business environment (Business Environment Evaluation, VCO) and estimating potential losses in the event of potentially harmful operational events (Scenario Analysis, SA). The assessment takes into account the critical issues identified and the operational events occurred. This assessment does not replace the specific risk assessments carried out by the specialised and control functions within the scope of their responsibilities (e.g. assessments carried out by the Chief Audit Officer, by the Manager responsible for preparing the Company's financial reports and by the Chief Compliance Officer), but allows the assessments that emerge during the process to be brought to the attention of the functions concerned and to be discussed with the Head of the Organisational Unit concerned.
The detection of critical issues enables the identification and definition of suitable mitigation actions, whose implementation is monitored over time to reduce the exposure to operational risk.

ICT risk

Information Technology or ICT risk means the risk of incurring economic, reputational and market share losses, in relation to the use of information and communication technology. In the integrated representation of business risks for prudential purposes, this type of risk is considered, according to the specific aspects, under the operational, reputational and strategic risks and includes the risk of violation of the confidentiality, integrity or availability of the information.
In line with the methodological framework established for the governance of corporate risks and, in particular, for operational risks, the Intesa Sanpaolo Group's ICT Risk framework has been developed with a view to integrating and coordinating the specific expertise of the structures involved.
Every year, the Technical Functions (e.g. ICT Head Office Department, IT functions of the main Italian and international subsidiaries) and the Cybersecurity Function identify the level of exposure to ICT risk (and to the Information Security risk included within it) of the information technology assets managed through the top-down assessment of the level of management of the relevant Risk Factors. In addition to this analysis, carried out for all the application assets and company processes, when there are situations that may modify the overall level of risk or in the case of innovation projects or changes to significant components of the ICT System, the Technical Functions and the Cybersecurity Function identify the level of exposure to ICT risk of the specific components of the ICT system.
This assessment is accompanied, as part of the Self-diagnosis process, by the bottom-up assessment carried out by the individual Group Organisational Units, which analyse their own exposure to ICT risk and provide an opinion on the level of management of the risk factors relevant for this purpose (e.g. relating to the adequacy of the software for the Unit's operations, etc.).

Methods for calculating Operational Risk

For regulatory purposes, the Group adopts the Advanced Measurement Approach (below also AMA or internal model), in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement.
The capital absorption resulting from this process amounted to 1,414 million euro as at 31 December 2018, down on the previous year (1,488 million euro).

Breakdown of capital requirements by calculation approach

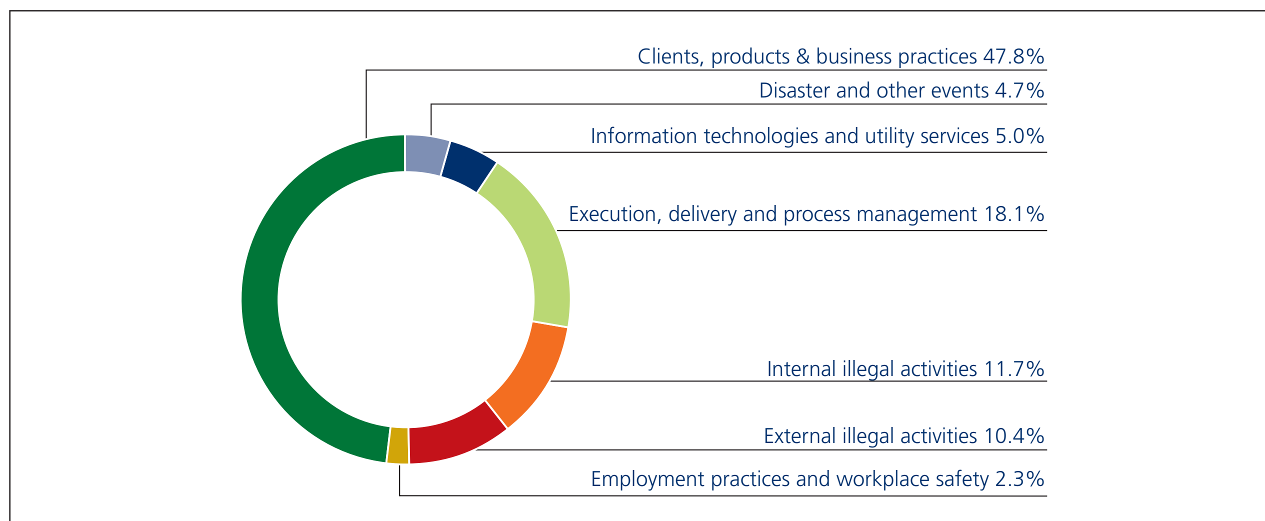
(millions of euro)

Approach	Capital requirement
Advanced Measurement Approach (AMA)	**1,193**
Traditional Standardised Approach (TSA)	**169**
Corporate Finance	15
Trading & Sales	33
Retail Banking	41
Commercial Banking	56
Payment & Settlement	14
Agency Services	2
Asset Management	6
Retail Brokerage	2
Basic Indicator Approach (BIA)	**52**
Total as at 31.12.2018	**1,414**
Total as at 31.12.2017	**1,488**

The AMA approach is adopted by the main banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, as well as by Intesa Sanpaolo Group Services, VUB Banka and PBZ Banka.
The internal model is designed to combine all the main sources of quantitative information (operational losses: internal and external events) and qualitative information (Self-diagnosis: Scenario Analysis and Business Environment Evaluation).
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case). It is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%. The methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment (VCO), to take into account the effectiveness of internal controls in the various Organisational Units.
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by event type.

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



Section 15 - Equity Exposures: disclosures for positions not included in the trading book

Qualitative disclosure

Exposure in equity instruments not included in the trading book: differentiation of exposures on the basis of the objectives pursued

Investments in equity instruments present in the Intesa Sanpaolo Group - except for those consolidated on a line-by-line basis and the companies of the Insurance Group (the latter deducted in the calculation of Own Funds) - fall into a number of categories, summarised as follows:

- Banking and Financial;
- Non-Financial:
  - Functional to the Group's core business: they contribute directly or indirectly to the implementation of banking, retail and corporate activities, also within and through the "new professional areas";
  - Debt to Equity: from restructuring transactions;
  - Other: mainly held for disposal and minor shareholdings that do not fall under the above categories;
- Funds: which differ in terms of strategy and product type (Private Equity, Venture Capital, Real Estate, Infrastructure and Institutional).

Recognition and valuation of the equity instruments not included in the trading book

The equity exposures not included in the trading book are classified under the balance sheet items Investments in associates and companies subject to joint control, Financial assets measured at fair value through profit or loss, and Financial assets measured at fair value through other comprehensive income in accordance with the IAS/IFRS.

For an explanation of the methods for the recognition and measurement of the equity instruments not included in the trading book, please refer to Part A of the Notes to the consolidated financial statements - Accounting Policies, which sets out, for each individual financial statement caption, the accounting criteria applied by the Intesa Sanpaolo Group (A.2 - Main financial statement captions). In particular, paragraphs 1, 2 and 5 set out the criteria for classification, recognition, measurement and derecognition for "Financial assets measured at fair value through profit or loss (FVTPL)", "Financial assets measured at fair value through other comprehensive income (FVOCI)" and "Investments in associates and companies subject to joint control" respectively; point 16 "Other information" shows the methods for determining impairment losses for investments. For details on the criteria for impairment testing of investments in associates and companies subject to joint control, reference should be made to Part B of the Notes to the consolidated financial statements (Section 7 - Investments in associates and companies subject to joint control). Lastly, for a description of the valuation techniques used to calculate fair value, see the discussion of this subject in the section on market risks of this document.

Quantitative disclosure

The tables below show the breakdown of the equity exposures according to their book classification. The figures represent the exposures shown in the Group consolidated financial statements and exclude the values of all investments in fully consolidated companies. The value of investments in insurance companies, which is deducted from the regulatory capital, is shown in the Section on Own funds.

Non-trading book: on-balance sheet equity exposures (*)

(millions of euro)

Exposure type/values	31.12.2018							
	Book value		Fair value		Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet	
	Level 1	Level 2/3	Level 1	Level 2/3	Gains	Losses	Plus (+)	Minus (-)
A. Investments in associates and companies subject to joint control (**)	-	943	-	-	198	-21	-	-
B. Financial assets vailable for sale (AFS)	568	2,566	568	2,566	-	-	222	-24
C. Financial assets designated at fair value through profit and loss (DAAFV)	2	274	2	274	278	-14	-	-
Exposure type/values	**31.12.2017**							
	Book value		**Fair value**		**Realised gains/losses and impairments**		**Unrealised gains/losses recognised in the balance sheet**	
	Level 1	Level 2/3	Level 1	Level 2/3	Gains	Losses	Plus (+)	Minus (-)
A. Investments in associates and companies subject to joint control (**)	-	653	-	-	1,174	-25	-	-
B. Financial assets vailable for sale (AFS)	500	3,152	500	3,152	111	-136	150	-73
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-	-1	-	-

(*) This table provides figures pertaining exclusively to the Banking Group.

(**) For Investments, the fair value refers to listed investments only (level 1).

Price risk generated by minority stakes in listed companies, mostly held in the HTCS (former AFS) category and measured in terms of VaR[19], recorded an average level during 2018 of 60 million euro (64 million euro at the end of 2017), with maximum and minimum values of 70 million euro and 52 million euro respectively, with the latter coinciding with the value at the end of 2018.

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

Non-trading book: impact on shareholders' equity of price risk as at 31 December 2018

(millions of euro)

		1st quarter 2018 impact on shareholders' equity at 31.03.2018	2nd quarter 2018 impact on shareholders' equity at 30.06.2018	3rd quarter 2018 impact on shareholders' equity at 30.09.2018	4th quarter 2018 impact on shareholders' equity at 31.12.2018	Impact on shareholders' equity at 31.12.2017
Price shock	10%	56	53	48	39	60
Price shock	-10%	-56	-53	-48	-39	-60

[19] Value at Risk is calculated as the maximum potential loss in the portfolio’s market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).

Non-trading book: on-balance sheet equity exposures - weighted values

(millions of euro)

	Weighted exposure	
	31.12.2018	**31.12.2017**
IRB approach	**13,300**	**6,228**
Equity exposures (Simple risk weight approach)		
- Private equity exposures in sufficiently diversified portfolios	-	-
- Exchange-traded equity exposures	62	-
- Other equity exposures	1,587	1,194
Equity exposures (PD/LGD approach)	3,862	2,927
Equity exposures (Exposures subject to fixed weighting factors)	7,789	2,107
Standardised approach	**2,719**	**10,239**

For further details regarding the geographical breakdown, and the concentration per sector or type of counterparty, of the exposures in equity instruments, see Section 6 of this document.

Section 16 - Interest rate risk on positions not included in the trading book

Qualitative disclosure

Interest rate risk

Market risk originated by the banking book arises primarily in the Parent Company and the main Group companies involved in retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mainly held by the Parent Company.
The internal system for measuring interest rate risk assesses and describes the effect of changes in interest rates on the economic value and the net interest income and identifies all significant sources of risk that affect the banking book:

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

The following metrics are used to measure the interest rate risk generated by the banking book:
1) shift sensitivity of economic value (ΔEVE);
2) net interest income:
   - shift sensitivity of net interest income (ΔNII);
   - dynamic simulation of net interest income (NII);

3) Value at Risk (VaR).

The shift sensitivity of the economic value (or shift sensitivity of the fair value) measures the change in the economic value of the banking book and is calculated at individual cash flow level for each financial instrument, based on different instantaneous rate shocks and reflects the changes in the present value of the cash flows of the positions already in the balance sheet for the entire remaining duration until maturity (run-off balance sheet).
In measurements, capital items are represented based on their contractual profile, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise net interest income both in absolute terms and in terms of variability over time;
- for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows.
- The cash flows used for both the contractual and behavioural profile are calculated at the contractual rate or at the FTP.

The models adopted for core deposits and for prepayment are subject to periodic backtesting. This backtesting is duly indicated in the Model Change documents and has been duly approved by the Group Financial Risk Committee.

To determine the present value, a multi-curve system is adopted which has different discounting and forwarding curves according to the type of instrument and the tenor of its indexing. For the determination of shift sensitivity, the standard shock applied to all the curves is defined as a parallel and uniform shifting of +100 basis points of the curves.
In addition to the standard +100 scenario, the measurement of the economic value (EVE) is also calculated based on the 6 scenarios prescribed by the BCBS document and based on historical stress simulations aimed at identifying worst- and best-case scenarios.

The shift sensitivity of the net interest income quantifies the impact on short-term interest income of a parallel, instantaneous and permanent, shock to the interest rate curve.
Margin sensitivity is measured using a method that enables the estimation of the expected change in net interest income as a result of a shock to the curves produced by items subject to interest rate revision within a gapping period set at 12 months from the analysis date.

This measure highlights the effect of variations in market interest rates on the net interest income generated by the portfolio being measured, on a constant balance sheet basis, excluding potential effects resulting from the new operations and from assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.
To determine changes in net interest income (ΔNII), standard scenarios of parallel rate shocks of +/-50 basis points are applied, in reference to a time horizon of twelve months.
Dynamic margin simulation analyses are also conducted that combine shifts in yield curves with changes in base and liquidity differentials, as well as changes in customer behaviour in different market scenarios.

The changes in net interest income and economic value are subject, at consolidated level and at individual Group company level, to monthly monitoring of compliance with the limits and sub-limits approved by the Group Financial Risk Committee (GFRC).
To this end, the measurements are presented taking into account the structuring for the verification, in terms of ceilings and sub-ceilings, time buckets (short, medium and long term), company and currency.
The scenarios used for the verification of the limits are:

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

Value at Risk is calculated as the maximum potential loss in the portfolio’s market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR). Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

Quantitative disclosure

Interest rate risk

In 2018, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, averaged 1,346 million euro, with a minimum value of 691 million euro and a maximum value of 1,713 million euro, reaching a figure of 1,143 million euro at the end of 2018 (1,615 million euro at the end of 2017), almost entirely concentrated on the euro currency.

The sensitivity of net interest income – assuming a +50, -50 and +100 basis point change in interest rates – amounted to 886 million euro, -928 million euro and 1,759 million euro, respectively, at the end of 2018. The last of these figures was up on the 1,563 million euro recorded at the end of 2017.

Interest rate risk, measured in terms of VaR, averaged 119 million euro in 2018, with a maximum value of 147 million euro and a minimum value of 91 million euro, with the latter coinciding with the value at the end of 2018 (153 million euro at the end of 2017).

Price risk generated by minority stakes in listed companies, mostly held in the HTCS (former AFS) category and measured in terms of VaR, recorded an average level during 2018 of 60 million euro (64 million euro at the end of 2017), with maximum and minimum values of 70 million euro and 52 million euro respectively, with the latter coinciding with the value at the end of 2018.

The table below shows the changes in the main risk measures

(millions of euro)

Risk Measures	2018			31.12.2018	31.12.2017
	Average	Minimum	Maximum		
Shift Sensitivity of the Economic Value +100 bp	1,346	691	1,713	1,143	1,615
Shift Sensitivity of Net Interest Income -50bp	-914	-889	-931	-928	-872
Shift Sensitivity of Net Interest Income +50bp	858	831	886	886	794
Shift Sensitivity of Net Interest Income +100bp	1,702	1,625	1,759	1,759	1,563
Value at Risk - Interest Rate	119	91	147	91	153
Value at Risk - Equity investments in listed companies	60	52	70	52	64

The reduction in the economic value in the event of a 200-bps change in interest rates stayed within the limits of the alert threshold set by the prevailing Supervisory provisions (20% of Own Funds).

Section 17 - Encumbered and unencumbered assets

Qualitative disclosure

The total book value of the “encumbered” assets and the reused guarantees received, compared to total assets and the collateral received, measures the “level of encumbrance” on the assets, i.e. the so-called “asset encumbrance ratio”. The Supervisory Authorities, Rating Agencies and investors recently increased the attention to the risk of asset encumbrance, which may lead to greater subordination of unsecured creditors and, in the event of an increase in the asset encumbrance ratio, also to greater potential liquidity risks in case of stress.
In the course of its operations, the Intesa Sanpaolo Group carries out a number of transactions involving the encumbrance of own assets or assets received as collateral. Among the main transactions of this type are:

- repurchase agreements and securities lending;
- assets used against covered bond issues;
- underlying assets of securitisation structures, in which the financial assets have not been derecognised;
- collateralisation agreements such as, for example, collateral given in respect of the market value of derivatives;
- collateralised financial guarantees;
- collateral deposited with clearing systems, with central counterparties (CCPs) and other infrastructure institutions as a condition for access to the service; this includes incremental and initial margins;
- instruments given as collateral in several respects, for funding from central banks or multilateral development banks.

These types of activities are carried out either to allow the Group to access forms of funding considered favourable at the time a transaction is finalised or because the provision of collateral is the standard condition to access specific markets or types of activities (for example, in transactions with central counterparties). In particular, the guarantees provided in connection with the refinancing operations at the European Central Bank amount to approximately 74 billion euro for the owned assets recognised and to approximately 10 billion euro for the assets not recognised in the financial statements.

The transactions involving encumbered assets are carried out mainly by the Parent Company or by Banca IMI, also as regards the settlement and trading of derivative contracts carried out within the framework of the centralised services provided also to the other banks of the Group. Conversely, the Group’s network banks took part in the pooling of assets against the provision of covered bond issues. The issue of covered bonds is dealt with in depth in the Notes to the consolidated financial statements, under the specific point of Part E: “Covered bond transactions”.
The Intesa Sanpaolo Group measures the level of encumbrance of its assets by adopting the rules set by the “Implementing Technical Standards” published by the European Banking Authority (EBA); starting from 31 December 2014 this information is subject to specific reporting to the Supervisory Authorities.
The share of encumbered assets is subject to periodic disclosure to the Board of the Parent Company, which has also established an alert threshold when defining the Risk Appetite Framework (RAF), with the aim of preventing any excessive increase in the risk connected to the share of encumbered assets.
At the same time, considering this measure, the Group monitors the unencumbered assets by assessing both the Reserves already promptly available, and the availability of new assets usable in the short-term, according to the Contingency Funding Plan and Recovery Plan.

Quantitative disclosure

Based on the regulations issued by the EBA as a result of the provisions of the CRR (art. 443), the institutions must indicate the amount of encumbered or unencumbered assets by type of activity. “Encumbered” assets are on-balance sheet assets that have been provided as pledge or sold and not derecognised, or otherwise encumbered, as well as the guarantees received that meet the conditions for recognition in the financial statements of the transferee. Starting from the disclosure as at 31 December 2015, the information published on the subject of encumbered and unencumbered assets is calculated based on median values of quarterly data on a rolling basis during the previous twelve months.

Encumbered and unencumbered assets as at 31 December 2018

(millions of euro)

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	168,251	X	474,464	X
Equity instruments	178	X	6,330	X
Debt securities	49,801	49,316	42,774	42,024
of which: covered bonds	381	381	843	842
of which: asset-backed securities	239	236	2,451	2,456
of which: issued by general governments	47,665	47,220	24,449	24,162
of which: issued by financial corporations	1,851	1,842	14,680	14,987
of which: issued by non-financial corporations	459	450	2,122	2,037
Other assets	116,770	X	425,347	X
of which: loans on demand	4,013	X	44,681	X
of which: loans other than loans on demand	112,607	X	305,898	X
of which: other	150	X	74,768	X

Access to the secured market represents an important source of medium/long-term funding (Covered Bonds, ABS and TLTRO). With specific regard to Covered Bonds programmes, the funding obtained through such programmes represents, on average, 15% of annual wholesale funding.

As mentioned in the previous paragraph, the most important forms of encumbrance on the Group’s part concern: repurchase transactions, TLTRO, derivative instruments, covered bonds, ABS, loans eligible with the Bank of Italy (Abaco), and collateralised loan agreements concluded with supranational entities.

The maximum level of overcall for the Covered Bonds programmes is 7.53%. In any case, the Bank always maintains a higher level of overcall in order to hedge any negative events that could impact the programme’s underlying assets. The Bank is party to guarantee contracts with supranational entities; should certain events occur, it may be necessary to increase the amount of collateral supplied to those entities.
At the end of 2018, unencumbered assets - net of the financial statement components that cannot be committed - amounted to approximately 407 billion euro (at book value), 89 billion euro of which were immediately available for use as highly liquid reserves and/or reserves eligible with Central Banks.

Information on the guarantees received by type of assets is also provided hereunder.

Guarantees received as at 31 December 2018

(millions of euro)

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	34,645	17,542
Loans on demand	-	1
Equity instruments	514	147
Debt securities	34,085	14,852
of which: covered bonds	-	341
of which: asset-backed securities	4,369	1,720
of which: issued by general governments	29,829	11,009
of which: issued by financial corporations	4,995	2,922
of which: issued by non-financial corporations	74	204
Loans and advances other than loans on demand	-	553
Other collateral received	209	1,979
Own debt securities issued other than own covered bonds or asset-backed securities	271	26,212
Own covered bonds and asset-backed securities issued and not yet pledged	-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	204,970	-

Finally, the details of liabilities associated with the received encumbered assets or guarantees are stated below.

Sources of encumbrance as at 31 December 2018

(millions of euro)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	146,778	182,396
Derivatives	11,444	11,861
of which: Over-The-Counter	11,310	11,861
Deposits	120,383	151,805
Repurchase agreements	48,694	54,739
of which: Central banks	278	272
Collateralised deposits other than repurchase agreements	72,351	100,699
of which: Central banks	60,504	87,238
Issued debt securities	14,898	18,509
of which: issued covered bonds	14,858	18,509
of which: issued Asset-backed securities	-	-

Section 18 - Leverage ratio

Qualitative disclosure

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

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

The Leverage ratio is calculated as the ratio of Tier 1 Capital to total exposure. Focusing on the denominator of the ratio, total exposure includes on-balance sheet exposures, net of any components deducted from Tier 1 Capital, and off-balance sheet exposures.

Description of the processes used to manage the risk of excessive leverage

The Intesa Sanpaolo Group shares the regulatory indication of monitoring and containing a leverage ratio to integrate the capital ratios based on risk and acknowledges their usefulness in order to limit the excessive accumulation of leverage in the banking system and especially to provide supplementary monitoring against model risk and the possible related measurement errors.
Accordingly, the Leverage ratio is given a high level of attention and, as such, it has been selected as a reference measurement criterion within the scope of the Risk Appetite Framework for the monitoring of the overall risk and, more specifically, of the Group's capital adequacy. In this regard, it is noted that the governance of the Risk Appetite Framework includes particularly strict escalation mechanisms in the event of breach of the Group's leverage limit, with the requirement for the Board of Directors to rapidly approve a remediation plan that can have a maximum duration of one year.
In line with the previous year, the 2018 RAF update confirmed both the choice to define its limit by adding a stress buffer to the regulatory minimum of 3% and the decision to also set an early warning threshold quantified based on an additional prudential buffer. In line with the limit established at Group level, the individual leverage ratio limits were also confirmed for the subsidiaries Banca IMI, Fideuram-ISPB Group and for the Group's international subsidiary banks (both those belonging to the International Subsidiary Banks Division and those within the scope of the Corporate & Investment Banking Division and the Capital Light Bank). In this regard, it is noted that the governance of the Risk Appetite Framework establishes specific escalation mechanisms for the Group companies, in the event of breach of the individual leverage limits, that not only require the Body with strategic supervision function of the company concerned to rapidly approve a remediation plan that can have a maximum duration of one year, but also the obligation to involve the competent Parent Company structures.
Compliance with these limits is monitored in the Risks Tableau de Bord and reported to the Risk Committee and the Board of Directors on a quarterly basis.
Lastly, it is noted that the Group has one of the lowest leverage ratios in the industry and, in view of the operations carried out, the management of the risk of excessive leverage, although it is subject to the utmost attention from Top Management, is not a significant constraint for the Group's strategic planning.

Description of the factors that had an impact on the Leverage ratio during the period

During the year, both aggregates that determine the leverage ratio recorded decreases. In particular:

- the reduction in capital level (Tier 1 capital) is mainly attributable to the decrease in valuation reserves; see the Section relating to Own Funds of this document for a thorough analysis of the breakdown of the Tier 1 capital;
- the reduction in Total exposure was due to:
  a) a decline in on-balance sheet exposures (excluding SFTs and derivatives), mainly attributable to the drop in exposures to Institutions and Corporate and exposures in default, partially offset by exposures secured by mortgages on real estate and exposures other than loans;
  b) a decrease in the off-balance sheet items.

  In contrast to this overall trend, derivatives exposures and SFTs recorded an increase in operations.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 31 December 2018 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 31 December 2018 and the breakdown of the total exposure into the main categories, according to the provisions of Article 451(1) (a, b, c) of the CRR.

(millions of euro)

	On-balance sheet exposures (excluding derivatives and SFTs)	31.12.2018	31.12.2017
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	561,448	572,977
2	(Asset amounts deducted in determining Tier 1 capital) - transitional regime	-13,872	-11,557
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**547,576**	**561,420**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	9,128	8,519
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	13,801	12,110
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)	-8,826	-11,244
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	51,323	40,565
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-48,406	-39,193
11	**Total derivatives exposures (sum of lines 4 to 10)**	**17,020**	**10,757**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	44,110	39,879
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-10,135	-6,920
14	Counterparty credit risk exposure for SFT assets	5,976	3,259
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)**	**39,951**	**36,218**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	228,568	240,025
18	(Adjustments for conversion to credit equivalent amounts)	-164,553	-171,453
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**64,015**	**68,572**
	(Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19a	(Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
	Capital and total exposure measure		
20	**Tier 1 capital**	42,097	43,465
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	668,562	676,967
	Leverage ratio		
22	**Leverage ratio**	**6.30%**	**6.42%**
	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)

		31.12.2018	31.12.2017
1	Total assets as per published financial statements	787,721	796,861
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-148,652	-148,508
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	-11,875	-18,250
5	Adjustment for securities financing transactions (SFTs)	-4,241	-3,665
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	64,015	68,572
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 (*)	-18,406	-18,043
8	**Leverage ratio total exposure measure**	**668,562**	**676,967**

(*) "Other adjustments" mainly include amounts related to assets deducted for the calculation of Tier 1 Capital (transitional regime)

LRSpl table – Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

For exposures other than derivatives and SFTs, the table provides a breakdown by counterparty, in accordance with the provisions of Article 451 (1) (b) of the CRR.

(millions of euro)

		CRR leverage ratio exposures	
		31.12.2018	31.12.2017
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**561,448**	**572,977**
EU-2	Trading book exposures	12,495	13,937
EU-3	Banking book exposures, of which:	548,953	559,040
EU-4	*Covered bonds*	*1,210*	*595*
EU-5	*Exposures treated as sovereigns*	*126,548*	*127,030*
EU-6	*Exposures to regional governments, local authorities, MDB, international organisations and PSE not treated as sovereigns*	*12,556*	*12,865*
EU-7	*Institutions*	*36,256*	*38,258*
EU-8	*Secured by mortgages of immovable properties*	*117,984*	*113,525*
EU-9	*Retail exposures*	*40,603*	*41,862*
EU-10	*Corporate*	*146,656*	*154,592*
EU-11	*Exposures in default*	*17,493*	*25,638*
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	*49,647*	*44,675*

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

The Manager responsible for preparing the Company’s financial reports, Fabrizio Dabbene, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document “Basel 3 - Pillar 3 as at 31 December 2018” corresponds to the corporate records, books and accounts.

19 March 2019

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

Independent Auditors’ Report on Basel 3 Pillar 3

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report on the Basel 3 Pillar 3 disclosure as at 31 December 2018

To the board of directors of
Intesa Sanpaolo S.p.A.

We have performed a limited assurance engagement on the accompanying Basel 3 Pillar 3 disclosure (the "Pillar 3 disclosure") of the Intesa Sanpaolo Group (the "Group") as at 31 December 2018.

Directors' responsibility for the Pillar 3 disclosure

The directors of Intesa Sanpaolo S.p.A. (the "Bank") are responsible for the preparation of the Pillar 3 disclosure in accordance with the provisions of part 8 of Regulation EU no. 575/2013 of 26 June 2013 (the "CRR"), implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Pillar 3 disclosure that is free from material misstatement, whether due to fraud or error.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the Pillar 3 disclosure with the requirements of part 8 of the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments. We carried out our work in accordance with the criteria

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established by "International Standard on Assurance Engagements 3000 (Revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the Pillar 3 disclosure is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 Revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the Pillar 3 disclosure are based on our professional judgement and include inquiries, primarily of the Bank's personnel responsible for the preparation of the information presented in the Pillar 3 disclosure, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

- comparing the financial disclosures presented in the Pillar 3 disclosure to those included in the Group's consolidated financial statements as at 31 December 2018, on which we issued our report dated 20 March 2019 pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014;
- interviews and discussions with the management of the Bank to gather information on the IT, accounting and reporting systems used in preparing the Pillar 3 disclosure, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the manager in charge of financial reporting for the preparation of the Pillar 3 disclosure;
- sample-based analyses of documentation supporting the preparation of the Pillar 3 disclosure to obtain evidence of the processes put in place to prepare the data and information presented therein;
- reading correspondence with the European Central Bank in relation to the authorisation process related to using internal models to calculate regulatory capital requirements;
- reading the reports issued by the Internal Auditing and Internal Validation departments on the management and internal control processes relevant for the preparation of the data and information presented in the Pillar 3 disclosure;
- obtaining the representation letter on the compliance of the Pillar 3 disclosure with part 8 of the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments and on the reliability and completeness of the information and data contained therein.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Pillar 3 disclosure of the Intesa Sanpaolo Group as at 31 December 2018 has not been prepared, in all material respects, in accordance with part 8 of the CRR implemented in Italy through Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments.

Other matters

This report has been prepared solely for the purposes set out in the first paragraph and, therefore, cannot be used, in whole or in part, for any other purposes. We have not undertaken to update this report for events or circumstances that may take place after its issue.

Milan, 20 March 2019

KPMG S.p.A.

(signed on the original)

Mario Corti
Director of Audit

Attachment 1

Own Funds: Terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0000072618
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Ordinary shares - Art. 28 CRR
8	Amount recognised in regulatory capital (€/mln)	34,253
9	Nominal amount of instrument: original amount in currency of issuance (mln)	N/A
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	N/A
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0456541506
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62/486 CRR
8	Amount recognised in regulatory capital (€/mln)	484 (AT1) - 247 (T2)
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,500
9a	Issue price	100
9b	Redemption price	100% (in case of Issuer Call or Additional Amount Event); 100% or Make Whole (in case of Regulatory Event or Tax Deductibility Event)
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	2009-10-14T00:00:00
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	14/10/19
	Contingent call dates and redemption amount	08/02/04
16	Subsequent call dates, if applicable	In addition to issuer call on 14/10/2019 and each IPD thereafter, issuer may also redeem following Capital Disqualification Event or Tax Event at any time subject to notice.
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 14/10/2019)
18	Coupon rate and any related index	8.375% through to 14.10.2019. Then 3m Euribor + 687.1 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Optional suspension of interest (in whole or in part) if no Distributable Profits and/or no dividends/distributions on Junior Obligations since last AGM. Mandatory suspension of interest: - in whole or in part if interest payment would lead to Capital Deficiency Event; or - in whole if Capital Deficiency Event has occurred or otherwise prohibited by Italian law Dividend pusher applies, with reference to: - dividends/distributions on Junior Obligations during last 12 months; or redemption/repurchases of Junior Obligations during last 12/6/3 months, unless mandatory suspension of interest applies. Dividend pusher applies, with reference to: dividends/distributions on Junior Obligations during last 12 months; or redemption/repurchases of Junior Obligations during last 12/6/3 months, unless mandatory suspension of interest applies.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes
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)	Capital Deficiency Event (i.e. regulatory capital on a consolidated or non-consolidated basis falls below minimum requirements, or lead regulator determines that Capital Deficiency Event is likely)
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	In priority to Junior Obligations and pari passu with Parity Obligations
35	Position in subordination hierarchy in liquidation	Senior to shares, pari passu with Parity Obligations and junior to Tier 2
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Dividend pusher/loss absorption mechanisms are not compatible with AT1 requirements
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAU14
3	Governing law(s) of the instrument	New York law, except for subordination provisions governed by Italian law.
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	871
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	884
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	17/09/2015
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	17/09/2025 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 17/09/2025
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.70% (until first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1346815787
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	1,250
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1/19/2016
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	19/01/2021 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 19/01/2021
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1548475968
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	1,250
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1/11/2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	11/01/2027 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 11/01/2027
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7.75% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1614415542
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1 capital
5	Post-transitional CRR rules	Additional Tier 1 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	750
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	5/16/2017
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	16/05/2024 (and thereafter on each interest payment date)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Early redemption exercisable on each interest payment date after 16/05/2024
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6.25% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, payment of interest may be blocked by the Regulator anytime.
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Write-down of nominal capital if CET1 of Intesa Sanpaolo or Intesa Sanpaolo Group is below 5.125 pct.
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	If CET1 of ISP or the Group returns to 5.125 pct or above, the issuer may decide to revaluate the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior to Equity and subordinate to instruments having a lower subordination level (i.e. T2)
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0188046543
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	14
9	Nominal amount of instrument: original amount in currency of issuance (mln)	165
	Nominal amount of instrument: original amount - currency of issuance	GBP
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	247
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	3/18/2004
12	Perpetual or dated	Dated
13	Original maturity date	3/18/2024
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	18/03/19
	Contingent call dates and redemption amount	03/09/00
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 18/03/2019)
18	Coupon rate and any related index	5.625 until 18/3/19, then 3m Libor + 1.125%
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	Yes
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Step up
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0452166324
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	571
9	Nominal amount of instrument: original amount in currency of issuance	1,500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro	1,500
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9/23/2009
12	Perpetual or dated	Dated
13	Original maturity date	9/23/2019
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.05
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0526326334
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	652
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	7/16/2010
12	Perpetual or dated	Dated
13	Original maturity date	7/16/2020
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.1500%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0971213201
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,409
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,446
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,445.656
9a	Issue price	99.119
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9/13/2013
12	Perpetual or dated	Dated
13	Original maturity date	9/13/2023
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.06625
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAT41
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,636
9	Nominal amount of instrument: original amount in currency of issuance (mln)	2,000
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,466
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	6/26/2014
12	Perpetual or dated	Dated
13	Original maturity date	6/26/2024
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.05017
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1109765005
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	980
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9/15/2014
12	Perpetual or dated	Dated
13	Original maturity date	9/15/2026
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	3.9280%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005118838
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 486 CRR
8	Amount recognised in regulatory capital (€/mln)	721
9	Nominal amount of instrument: original amount in currency of issuance (mln)	738
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	738
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	6/30/2015
12	Perpetual or dated	dated
13	Original maturity date	6/30/2022
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 237 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1222597905
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 486 CRR
8	Amount recognised in regulatory capital (€/mln)	480
9	Nominal amount of instrument: original amount in currency of issuance (mln)	500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	500
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	4/23/2015
12	Perpetual or dated	dated
13	Original maturity date	4/23/2025
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	2.855%
19	Existence of a dividend stopper	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	NO
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	NO
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
	N/A = Informazione non applicabile	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAW79
3	Governing law(s) of the instrument	New York law, except for subordination provisions governed by Italian law.
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,423
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,500
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,378
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	1/15/2016
12	Perpetual or dated	dated
13	Original maturity date	1/15/2026
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.71% per annum, payable semi-annually
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	NO
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	NO
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, subordinated to Senior Unsecured
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0005279887
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2 capital
5	Post-transitional CRR rules	Tier 2 capital
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	724
9	Nominal amount of instrument: original amount in currency of issuance (mln)	723.7
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	724
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	9/26/2017
12	Perpetual or dated	dated
13	Original maturity date	9/26/2024
14	Issuer call subject to prior supervisory approval	NO
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	(3m EURIBOR + 1.90 %) / 4
19	Existence of a dividend stopper	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	NO
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	NO
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, subordinated to Senior Unsecured
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

Attachment 2 - Own funds: own funds disclosure template

(millions of euro)

			Amount at disclosure date	Reference article of Regulation (EU) 575/2013
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1		Capital instruments and the related share premium accounts	33,853	26, paragraph 1, 27, 28, 29
		of which: instrument type 1	33,853	EBA list as per article 26 (3)
		of which: instrument type 2	0	EBA list as per article 26 (3)
		of which: instrument type 3	0	EBA list as per article 26 (3)
2		Retained earnings	16,239	26, paragraph 2(c)
3		Accumulated other comprehensive income (and other reserves)	-4,169	26, paragraph 1, 27, 28, 29
3a		Funds for general banking risk	-	26, paragraph 1(f)
4		Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1 capital	-	486, paragraph 2
5		Minority interests (amount allowed in consolidated CET1)	27	84
5a		Independently reviewed interim profits net of any foreseeable charge or dividend	516	26, paragraph 2
6		**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**46,466**	**Sum of rows from 1 to 5a**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7		Additional value adjustments (negative amount)	-237	34, 105
8		Intangible assets (net of related tax liability) (negative amount)	-7,774	36, paragraph 1(b), 37
9		Transitional adjustment related to IAS 19 and IFRS 9	2,895	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)	-1,456	36, paragraph 1(c), 38
11		Fair value reserves related to gains or losses on cash flow hedges	814	33, paragraph 1(a)
12		Negative amounts resulting from the calculation of expected loss amounts	-208	36, paragraph 1(d), 40, 159
13		Any increase in equity that results from securitised assets (negative amount)	-	32, paragraph 1
14		Gains or losses on liabilities measured at fair value resulting from changes in own credit rating	-201	33, paragraph 1(b)
15		Defined-benefit pension fund assets (negative amount)	-	36, paragraph 1(e), 41
16		Direct and indirect holdings by the institution of own CET1 instruments (negative amount)	-204	36, paragraph 1(f), 42
17		Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36, paragraph 1(g), 44
18		Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	36(1)(h), 43, 45, 49 (2 and 3), 79
19		Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-1,721	36(1)(i), 43, 45, 47, 48(1)(b), 49 (1,2 and 3), 79
20		Other CET1 deduction items based on instructions from the National Authority	-319	Circ. 285 of the Bank of Italy - Part 2 C.1 Sec.6 Guidelines
20a		Exposure amount of the following items which qualify for a risk weighting of 1250%, where the institution opts for the deduction alternative	-227	36, paragraph 1(k)
	20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36, paragraph 1(k)(i), 89, 90, 91
	20c	of which: securitisation positions (negative amount)	-227	36, paragraph 1(k)(ii), 243 (1)(b), 244 (1)(b), 258
	20d	of which: free deliveries (negative amount)	-	36, paragraph 1(k)(iii), 379 (3)
21		Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36, paragraph 1(c), 38, 48 (1)(a)
22		Amount exceeding the 15% threshold (negative amount)	-587	48, paragraph 1
	23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-375	36(1)(i), 48(1)(b)
24		Empty field in the EU	-	
	25	of which: deferred tax assets arising from temporary differences	-212	36, paragraph 1(c), 38, 48 (1)(a)
25a		Losses for the current financial year (negative amount)	-	36, paragraph 1(a)
25b		Foreseeable tax charges relating to CET1 items (negative amount)	-	36, paragraph 1(l)
27		Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36, paragraph 1(j)
28		**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**-9,225**	**Sum of rows from 7 to 20a, 21, 22 and from 25a to 27**
29		**Common Equity Tier 1 capital (CET1)**	**37,241**	**Row 6 less row 28**

(millions of euro)

			Amount at disclosure date	Reference article of Regulation (EU) 575/2013
Additional Tier 1 (AT1) capital: instruments				
30		Capital instruments and the related share premium accounts	4,121	51, 52
	31	of which: classified as equity under applicable accounting standards	4,121	
	32	of which: classified as liabilities under applicable accounting standards	-	
33		Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	731	486, paragraph 3
34		Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	4	85, 86
	35	of which: instruments issued by subsidiaries subject to phase-out	-	486, paragraph 3
36		**Additional Tier 1 (AT1) capital before regulatory adjustments**	**4,856**	**Sum of rows 30, 33 and 34**
Additional Tier 1 (AT1) capital: regulatory adjustments				
37		Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	52, paragraph 1(b), 56 (a), 57
38		Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58
39		Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	56 (c), 59, 60, 79
40		Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	56 (d), 59, 79
41		Empty field in the EU	-	
42		Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43		**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	**Sum of rows from 37 to 42**
44		**Additional Tier 1 (AT1) capital**	**4,856**	**Row 36 less row 43**
45		**Tier 1 capital (T1 = CET1 + AT1)**	**42,097**	**Sum of rows 29 and 44**

(millions of euro)

		Amount at disclosure date	Reference article of Regulation (EU) 575/2013
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	7,625	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	12	486, paragraph 4
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	4	87, 88
49	of which: instruments issued by subsidiaries subject to phase-out	-	486, paragraph 4
50	Credit risk adjustments net of transitional adjustments related to IFRS 9	-	62 (c)(d) and Art. 473(a) Reg. 2395/2017 (7)(c)
51	**Tier 2 (T2) capital before regulatory adjustments**	**7,641**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-72	63 (b)(i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68
54	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount	-788	66 (d), 69, 79
56	Empty field in the EU	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-860**	**Sum of rows from 52 to 56**
Tier 2 (T2) capital: regulatory adjustments			
58	**Tier 2 (T2) capital**	**6,781**	**Row 51 less row 57**
59	**Total capital (TC = T1 + T2)**	**48,878**	**Sum of rows 45 and 58**
60	**Total risk-weighted assets**	**276,446**	

(millions of euro)

		Amount at disclosure date	Reference article of Regulation (EU) 575/2013
Capital ratios and buffers			
61	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	13.47%	92, paragraph 2(a)
62	Tier 1 capital (as a percentage of the risk exposure amount)	15.23%	92, paragraph 2(b)
63	Total capital (as a percentage of the risk exposure amount)	17.68%	92, paragraph 2(c)
64	Institution-specific buffer requirement (CET1 requirement pursuant to Article 92 (1)(a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer, expressed as a percentage of risk exposure amount)	6.63%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	1.88%	
66	of which: countercyclical buffer requirement	0.06%	
67	of which: systemic risk buffer requirement	0.00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.19%	
68	Common Equity Tier 1 capital available to meet capital buffers (as a percentage of total risk exposure amount)	6.84%	CRD 128
69	[not relevant in EU regulation]		
70	[not relevant in EU regulation]		
71	[not relevant in EU regulation]		
Amounts below the deduction thresholds (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	1,145	36(1)(h), 46, 45, 56 (c) 59, 60; 66 (c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	3,671	36, paragraph 1(i), 45, 48
74	Empty field in the EU	-	
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	2,077	36, paragraph 1(c), 38, 48

(millions of euro)

		Amount at disclosure date	Reference article of Regulation (EU) 575/2013
Applicable caps on the inclusion of provisions in T2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	850	62
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	-	484 (3), 486 (2 and 5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2 and 5)
82	Current cap on AT1 instruments subject to phase-out arrangements	820	484 (4), 486 (3 and 5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3 and 5)
84	Current cap on T2 instruments subject to phase-out arrangements	1,891	484 (5), 486 (4 and 5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4 and 5)

(*) Total adjustments in the transitional period (CET1) of 4,269 million euro is broken down as follows:
- Transitional adjustments related to IAS 19 and IFRS 9: 2,895 million euro (IFRS 9 for 2,837 million; IAS 19 for 58 million)
- “Indirect” adjustments of 1,374 million euro resulting from the application of the transitional period (1,368 million under row 22; 6 million under row 19)

Glossary

ABS – Asset-Backed Securities
Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.
Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)
ABS whose collateral is made up of receivables.

Acquisition finance
Leveraged buy-out financing.

Additional return
Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

Advisor
Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

AIRB (Advanced Internal Rating Based) Approach
Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. In this case, the Bank uses its own internal estimates for all inputs (PD, LGD, EAD and Maturity) for credit risk assessment, whereas for Foundation IRB it only estimates PD.

ALM – Asset & Liability Management
Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

ALT-A Agency
Securities whose collateral consists of Alt-A mortgages, guaranteed by specialised Government Agencies.

ALT- A - Alternative A Loan
Residential mortgages generally of “prime” category, but which, due to various factors such as LTV ratio, documentation provided, borrower’s income/employment situation, type of property etc., cannot be classified as standard contracts usable in subscription programmes.
Incomplete documentation is the main reason for a loan being classified as “Alt-A”.

Alternative investment
Alternative investments comprise a wide range of investment products, including private equity and hedge funds (see definitions below).

Other related parties – close relatives
An individual’s “close relatives” comprise those family members likely to influence or be influenced by such individual in their relations with the entity. They include the individual’s non-separated spouse/domestic partner and the individual’s children, his/her spouse’s/domestic partner’s children, and the individual’s or his/her spouse’s/domestic partner’s dependents.

AP – Attachment Point
Level above which a protection seller will cover the losses of a protection buyer. It is typically used in synthetic CDOs.

Arrangement fee
A fee paid for professional advice and assistance provided in the loan structuring and arranging stage.

Arranger
In the structured finance sector, the arranger is the entity that – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger etc.) – coordinates the organisational aspects of the transaction.

Asset allocation
The distribution of assets in an investment portfolio among different markets, geographical areas, sectors and products.

Asset management
The various activities relating to the management and administration of different customer assets.

AT1
Additional Tier 1 Capital (AT1). In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

Intangible asset
An identifiable, non-monetary asset lacking physical substance.

Discounting
Process of determining the present value of a payment or payment flows to be received in the future

Audit
In listed companies, it indicates the various examinations of the business activities and bookkeeping of a company, performed by both in-house staff (internal audit) and independent audit firms (external audit).

AVA (Additional Valuation Adjustment)
Additional valuation adjustments necessary to adjust the fair value to the prudent value of the positions. To perform a prudent valuation of the positions measured at fair value, the EBA envisages two approaches for calculating the AVA (the Simplified approach and Core approach). The prudent valuation requirements apply to all positions measured at fair value regardless of whether they are held in the trading book or not, where the term ‘positions’ refers solely to financial instruments and commodities.

AUM Assets under management
Overall market value of assets such as deposits, securities and funds managed by the Group on behalf of customers

β
The beta coefficient of an issuer or a group of comparable issuers, an expression of the relationship between an equity's actual return and the total return of the market in question.

Back office
The unit of a bank or financial company that processes all the transactions performed by the operational units (front office).

Backtesting
Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

Banking book
Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to “proprietary” trading.

Basis swap
Contract providing for the exchange between two parties, of two floating-rate payments linked to a different index.

Best practice
It generally identifies conduct in line with state-of-the-art skills and techniques in a given technical/professional area.

Bid-ask spread
The difference between the buying and selling price of a given financial instrument or set of financial instruments.

Bookrunner
See Lead manager and Joint lead manager.

Brand name
IFRS 3 considers the “brand name” a potential, marketing related intangible asset, which may be recorded in the purchase price allocation process. The term "brand” is used in accounting standards with an extensive meaning and not as a synonym of trademark (the logo and the name). It is considered a general marketing term which defines a set of complementary intangible assets (in addition to the name and the logo, also the competencies, consumer trust, service quality, etc.) which concur to form brand equity.

Budget
Forecast of cost and revenue performance of a company over a period of time.

Business combinations
In accordance with IFRS 3, a transaction or other event in which an acquirer obtains control of one or more company assets.

Business model
The business model within which financial assets are managed.
With regard to the business models, IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed: *Hold to Collect (HTC), Hold to Collect and Sell (HTCS), Others/Trading.*

CAGR (Compound Annual Growth Rate)
Compound annual growth rate of an investment over a specified period of time. If n is the number of years, the CAGR is calculated as follows: (Ending value/Beginning value)^(1/n) -1.

Capital Asset Pricing Model (CAPM)
An economic model for determining the “opportunity cost” i.e. the amount of income for the period necessary to remunerate the cost of capital.

Capital structure
It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:
Equity Tranche (B): the riskiest portion of the portfolio, it is also known as “first loss” and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.
Mezzanine Tranche (B): the tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB and AAA.
Senior/Supersenior Tranche (B): the tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

Captive
Term generically referring to “networks” or companies that operate in the exclusive interest of their parent company or group.

Carry trade
The carry trade is a financial transaction in which funds are procured in a country with a low cost of money and then invested in a country with high interest rates to take advantage of the difference in returns.

Securitisation
A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

Cash flow hedge
Coverage against exposure to variability in cash flows associated with a particular risk.

Cash-generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash management
A banking service that in addition to informing companies on the status of their relations with the bank, is an operational tool enabling companies to transfer funds, thus leading to more efficient treasury management.

Categories of financial instruments provided for by IAS 39
Financial assets “held for trading”, which includes the following: any asset acquired for the purpose of selling it in the near term or part of portfolios of instruments managed jointly for the purpose of short-term profit-taking, and assets that the entity decides in any case to measure at fair value, with fair value changes recognized in profit and loss; investments “held to maturity”, non-derivative assets with fixed term and fixed or determinable payments, that an entity intends and is able to hold to maturity; “Loans and receivables”, non-derivative financial assets with fixed or determinable payments not quoted in an active market; financial assets “available for sale”, specifically designated as such, or, to a lesser extent, others not falling under the previous categories.

Certificates
Financial instruments which, based on their contracts, may be classified as optional derivatives that replicate the performance of an underlying asset. By purchasing a certificate, an investor acquires the right to receive – at a set date – an amount linked to the value of the underlying. In other words, through certificates investors can acquire an indirect position in the underlying asset. In some cases, investors can use the option structure to obtain full or partial protection of the invested capital, which takes the form of full or partial return of the premiums paid, irrespective of the performance of the parameters set in the contracts.
Certificates are securitised instruments and, as such, they can be freely traded as credit securities (traded on the SeDeX - Securitised Derivatives Exchange - managed by Borsa Italiana, and on the EuroTLX market).

Sale without recourse
Transfer of a loan or receivable in which the transferor does not offer any guarantees in the event of default by the debtor. The transferor thus only guarantees the transferee that the transferred loan or receivable exists, but not that the debtor is solvent.

Sale with recourse
Transfer of a loan or receivable in which the transferor guarantees payment by the debtor. The transferor thus guarantees the transferee both that the transferred loan or receivable exists and that the debtor is solvent.

CCF - Credit Conversion Factor
The ratio of the currently undrawn amount of a commitment that could be drawn and that would therefore be outstanding at default to the currently undrawn amount of the commitment, the extent of the commitment being determined by the advised limit, unless the unadvised limit is higher.

CCP (Central Counterparty Clearing House)
A central counterparty is an institution interposed in securities trades between the two contracting parties, protecting the latter against default risk and guaranteeing the successful execution of the transaction. The central counterparty protects itself against its own risk by taking securities or cash collateral (margins) commensurate with the value and risk of the contracts guaranteed. Central counterparty services can be provided not only in the markets that expressly provide for them but also in respect of over-the-counter trading outside regulated markets.

CDO – Collateralised Debt Obligation
Financial instruments issued within the framework of securitisation transactions, backed by a pool of loans, bonds and other financial assets (including securitisation tranches). In the case of synthetic CDOs the risk is backed by credit derivatives instead of the sale of assets (cash CDOs).

CDSs on ABX
An Asset-backed security index (ABX) is an index with asset-backed securities as an underlying. Each ABX refers to a basket of 20 reference obligations belonging to a specific ABS sector. Each ABX (there are five in total) reproduces a rating class (AAA, AA, A, BBB, and BBB-).
In particular, the ABX.HE index, launched on 19 January 2006 (Annex Date), is made up of reference obligations of the home equity segment of ABS (Residential Mortgage-Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.
For ABX, the market does not provide credit curves but directly price valuation. The settlement admitted for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pays the protection buyer the losses incurred as these emerge, without leading to termination of the contract.
Please note that the coverage achieved via the purchase of ABX indices, even if it is structured so as to match as closely as possible the characteristics of the hedged portfolio, remains in any case exposed to basis risks. In other words, since it is not a specific hedge

of individual exposures, it may generate volatility in the income statement whenever there is imperfect correlation between index prices and market value of the hedged positions.

CLO - Collateralised Loan Obligation
CDOs backed by a portfolio of corporate loans.

CMBS - Commercial Mortgage-Backed Securities
Debt instruments backed by mortgages on commercial real estate.

CMO - Collateralised Mortgage Obligation
Securities backed by mortgages in which the total amount of the issue is divided into tranches with different maturities and return. The tranches are repaid according to an order specified in the issue.

Commercial paper
Short-term notes issued in order to collect funds from third-party underwriters as an alternative to other forms of indebtedness.

Consumer ABS
ABS whose collateral is made up of consumer credits.

Core Business
Main area of business on which company's strategies and policies are focused.

Core deposits
"Core deposits" are "customer-related intangibles", generally recorded in business combinations between banks. The intangible value of core deposits stems from the future benefits for the acquirer deriving from the lower funding cost compared to market parameters. Basically, the acquirer may use funding for its lending and investment activities which it pays less than the market interest rate.

Common Equity Tier 1 Ratio (CET1 Ratio)
The ratio of Common Equity Tier 1 capital (CET1) to total risk-weighted assets.

Corporate
Customer segment consisting of medium- and large-sized companies (mid-corporate, large corporate).

Cost/income ratio
Economic indicator consisting of the ratio of operating costs to net operating income.

Amortised cost
Differs from "cost" in that it provides for the progressive amortisation of the differential between the book value and nominal value of an asset or liability on the basis of the effective rate of return.

Transaction costs
Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. It is a cost that would not have been incurred if the entity had not acquired issued or disposed of the financial instrument.

Covenant
A covenant is a clause, expressly agreed upon during the contractual phase, under which a lender is entitled to renegotiate and revoke a loan upon the occurrence of the events set out in the clause, linking the debtor's financial performance to events that trigger termination/amendment of contractual conditions (maturity, rates, etc.).

Coverage ratio
It represents the percentage coverage of the value adjustment with respect to the gross exposure.

Covered bond
Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

CPPI (Constant Proportion Insurance Portfolio)
A technique consisting of forming a portfolio of two assets, one without risk that offers a certain rate of return (risk-free) and one with risk that offers a generally higher return. The purpose of the re-balancing procedure is to prevent the value of the portfolio from falling below a predetermined level (floor), which rises at the risk-free rate over time and coincides with the capital to be guaranteed at maturity.

Credit default swap/option
Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives
Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit enhancement
Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

Credit/emerging markets (Funds)
Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

Credit-linked notes
Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

Credit Risk Adjustment (CRA)
A technique that aims to draw attention to the penalty resulting from the counterparty's creditworthiness used in determining the fair value of unlisted derivative financial instruments.

Credit spread option
Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

Past due loans
“Past due exposures” are non-performing exposures on which payments are past due on a continuing basis for over 90 days, in accordance with the definition set forth in current supervisory reporting rules.

CreditVaR
Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank’s risk appetite.

Cross selling
Activity designed to increase customer loyalty through the sale of integrated products and services.

CRM – Credit Risk Mitigation
Techniques used by institutions to reduce the credit risk associated with their exposures.

CRP (Country Risk Premium)
Country risk premium; it expresses the component of the cost of capital aimed specifically at providing compensation for the risk implicit in a particular country (namely the risk associated with financial, political and monetary instability).

CR01
Referred to a credit portfolio, it indicates the change in portfolio value that would occur for a 1-basis-point increase in credit spreads.

CSA (Credit Support Annex)
A document through which counterparties trading in an over-the-counter derivative instrument establish the terms of contribution and transfer of the underlying guarantees to mitigate credit risk in the event of in-the-money position of the instrument. This document, although not mandatory for the transaction, is one of the four components that contribute to the establishment of the Master Agreement according to the standards established by the International Swaps and Derivatives Association (ISDA).

Reclassification date
The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

Default
Declared inability to honour one’s debts and/or make the relevant interest payments.

Delinquency
Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

Delta
Value that expresses the sensitivity of the price of the underlying asset for an option. Delta is positive for call options because the price of the option rises along with the price of the underlying asset. Delta is negative for put options because a rise in the price of the underlying asset yields a decrease in the price of the option.

Delta-Gamma-Vega (DGV VaR)
Parametric model for calculation of the VaR, able to assess both linear and non-linear risk factors.

Embedded derivatives
Embedded derivatives are clauses (contractual terms) included in a financial instrument that generate the same effects as an independent derivative.

Desk
It usually designates an operating unit dedicated to a particular activity.

Dynamics of funding
Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time current accounts and time deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

Directional (Funds)
Funds that invest in financial instruments that profit from directional market movements, also through macroeconomic forecasting.

Domestic Currency Swap
Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the difference between the forward and the spot exchange rates is settled in euro.

Duration
An indicator of the interest rate risk of a bond or bond portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a bond.

EAD – Exposure At Default
Relating to on- or off-balance sheet positions, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

ECAI – External Credit Assessment Institution
An external credit assessment institution.

EDF – Expected Default Frequency
Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

Embedded value
A measure of the underlying value of a life insurance company. It is the sum of the company's adjusted net asset value and the present value of the future income margins from the policies already in force over the period of their residual life.

Eonia (Euro overnight index average)
Weighted average of the overnight rates transmitted to the ECB by a sample of banks operating in the euro area.

Equity hedge / long-short (Funds)
Funds that predominantly invest in stocks with the possibility of creating hedging strategies by means of short sales of the same stocks or strategies in derivative contracts involving securities or market indices.

Equity origination
Increase of a company's risk capital achieved by floating a new issue of stock.

ERP (equity risk premium)
Risk premium demanded by investors in the market in question. ISP uses the risk premium calculated according to the historical approach (geometric average of the difference between equity and risk-free returns for the period 1928-2009) by New York University - Stern School of Business.

Exotics (derivatives)
Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

EVA (Economic Value Added)
An indicator that provides a snapshot of the amount of value created (if positive) or destroyed (if negative) by enterprises. In contrast to other parameters that measure business performance, EVA is calculated net of the cost of equity capital, that is to say the investment made by shareholders.

Event-driven (Funds)
Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

EVT – Extreme Value Theory
Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

Expected Credit Losses
Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.
Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

12-Month Expected Loss
Portion of the lifetime expected loss that arises if the default occurs within 12 months from the reporting date (or a shorter period if the expected life is less than 12 months), weighted by the probability of that default.

Facility (fee)
Fee calculated with reference to the disbursed amount of a loan.

Factoring
Sale of trade receivables to factoring companies, for credit management and collection, normally associated with the granting of a loan to the seller.

Fair value
The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

Fair value hedge
Hedging against the risk of change in the fair value of a financial statement item, attributable to a particular risk.

Fair Value Option (FVO)
The Fair Value Option is an option for classifying a financial instrument.
When the option is exercised, even a non-derivative financial instrument not held for trading may be measured at fair value through profit or loss.

Fairness/Legal opinion
An opinion provided on request by experts of recognised professionalism and competence, on the adequacy of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

"G" factor ("g" growth rate)
It is the factor used for perpetuity projection of cash flows in order to calculate "Terminal value".

FICO Score
In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual's credit report. The FICO score is an indicator of the borrower's creditworthiness. A mortgage lender will use the "score" to assess borrower default risk and to correctly price risk.

FIFO: First In First Out
Criterion used to recognise the expected credit losses (ECL) recorded on a security through profit or loss at the time of sale

Prudential filters
In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

Harmonised mutual funds
Mutual funds within the scope of Directive 85/611/EEC of 20 December 1985, as amended, characterised by their open form, the possibility of offering units to the public and certain investment limits. Investment limits include the obligation to invest primarily in quoted financial instruments.

Forward Rate Agreement
See "Forwards".

Forwards
Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

Front office
The divisions of a company designed to deal directly with customers.

Funding
The raising of capital, in various forms, to finance the company business or particular financial transactions.

Futures
Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

FVTOCI: Fair Value Through Other Comprehensive Income
Method of recognition of changes in the fair value of financial assets through other comprehensive income (therefore in shareholders' equity) and not through profit or loss.

FVTPL: Fair Value Through Profit or Loss
Method of recognition of changes in the fair value of financial assets through profit or loss

Global custody
An integrated package of services including, in addition to the custody of securities, the performance of administrative activities relating to the settlement of securities, collections and payments, acting as depositary bank and cash management, as well as various forms of portfolio performance reporting.

Goodwill
The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Governance
The set of instruments, rules and standards regulating the life of the company, particularly as regards the transparency of documents and company records, and the completeness of information made available to the market.

Grandfathering
The new composition of own funds under Basel 3 and other less significant measures will enter into force following a transitional period. Specifically, old instruments included in Basel 2 regulatory capital, which are not included under Basel 3, will be gradually eliminated (referred to as the grandfathering period).

Greeks
Greeks are the quantities that identify the greater or lesser sensitivity of a derivative contract, typically an option, to changes in the value of the underlying asset or other parameters (e.g. intrinsic volatility, interest rates, stock prices, dividends and correlations).

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

Hedge funds
Mutual fund that employs hedging instruments in order to achieve a better result in terms of risk/return ratio.

HELs – Home Equity Loans
Loans granted up to the current market value of the real estate property used as collateral (therefore with a loan-to-value ratio higher than the ordinary thresholds), by means of first or second lien mortgages. Standard & Poor's considers Subprime and Home Equity Loan largely synonymous when the home equity loan borrowers have low credit score (FICO<659).

HY CBO – High-Yield Collateralised Bond Obligation
CDOs with collateral represented by High-Yield securities.

IAS/IFRS
The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

IASB (International Accounting Standard Board)
The IASB (previously known as the IASC) is the entity responsible for issuing international accounting standards (IAS/IFRS).

ICAAP (Internal Capital Adequacy Assessment Process)
The "Second Pillar" provisions require that banks implement processes and instruments of Internal Capital Adequacy Assessment Process (ICAAP), to determine the amount of internal capital needed to cover all risks, including risks different from those covered by the total capital requirement ("First Pillar"), when assessing current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

IFRIC (International Financial Reporting Interpretations Committee)
A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

IMA (Internal Models Approach)
Approach for calculating the capital requirement for market risk using internal models.

IMM (Internal Model Method)
Method for calculating Exposure at Default, within the counterparty risk assessment, through internal models based on the concept of Expected Positive Exposure.

Impairment
When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

Deferred tax (tax liabilities or assets)
Deferred tax liabilities are the amounts of income tax that will be payable in future periods and arising from taxable temporary differences.
Deferred tax assets are the amounts of income taxes claimable in future periods and arising from:
a) deductible temporary differences;
b) the carryforward of unused tax losses; and
c) the carryforward of unused tax credits.
Temporary difference is the difference between the carrying amount of an asset or liability and its tax base.
There are two types of temporary difference:
d) taxable temporary difference, i.e. a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in taxable amounts in the future when the carrying amount of the asset is recovered or the liability is settled; or
e) deductible temporary difference: a temporary difference that, when determining the taxable income (tax loss) of future periods, will result in amounts that are tax deductible in the future when the carrying amount of the asset is recovered or the liability is settled.

Significant increase in credit risk "SICR"
Criterion used to verify the transition between stages: if the credit risk of the financial instrument has increased significantly since initial recognition, the value adjustments are equal to the lifetime expected credit losses of the instrument (lifetime ECL). The bank establishes whether there has been a significant increase in credit risk based on qualitative and quantitative information. Exposures are considered to have had a significant increase in credit risk when:
- the weighted average lifetime PD has increased beyond the threshold at the time of the origination. Other measures of PD deterioration can also be used. The relative thresholds are defined as percentage increases and set at a particular value or segment;
- exposures are determined to be of higher credit risk and subject to closer monitoring;

exposures are more than 30 days past due, used as a backstop rather than a primary driver

Incurred loss
Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." It represents the risk level inherent in a portfolio of performing loans and is the basic indicator for determining the size of the stock of collective adjustments recognised in the financial statements.

Index-linked
Policies whose performance at maturity depends on the performance of a reference parameter, which may be a stock index, a basket of securities or some other indicator.

CMBX index
The same as the ABX index, the only difference being that the reference entities are CMBSs.

Internal dealing
Transactions between different operating units of the same company. These transactions are recognised in the accounts and contribute to determining the position (trading or hedging) of the individual units involved.

Intraday
Used to refer to an investment/disinvestment transaction performed in the course of a single day involving the negotiation of a security. It is also used with reference to prices quoted during any one day.

Investment property
Real estate owned for the purpose of obtaining income and/or benefiting from an increase in their value.

Investment grade
Term used with reference to high-quality bonds that have received a medium/high rating (e.g., not less than BBB on Standard & Poor’s index).

IRS – Interest Rate Swap
A binding agreement between two parties to exchange two flows calculated over a notional amount with fixed/floating or floating/floating rate.

Joint venture
Agreement between two or more firms for the performance of a given economic activity, generally through the incorporation of a joint-stock company.

Junior
In a securitisation transaction, it is the lowest-ranking tranche of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.

Ke (Cost of Equity)
Cost of equity, the minimum return demanded for investments of the same risk level.

Ke – g
Difference between the cash flow discounting rate and the long-term growth rate. If cash flows remain equal, value in use increases as that difference decreases.

Lambda (λ)
Coefficient that measures the assessed item's specific exposure to country risk. In the model used by Intesa Sanpaolo, it is estimated to be 1, in that it is presumed that it is necessary to vary the country's risk level.

LCRE: Low Credit Risk Exemption
Exemption from the ordinary credit risk measurement according to which it can be assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk (at least equal to investment grade) at the reporting date

LDA - Loss Distribution Approach
Method of quantitative assessment of the risk profile through actuarial analysis of individual internal and external loss events; by extension, the term Loss Distribution Approach also refers to the calculation model for the historical capital per business unit.

Lead manager - Bookrunner Lead bank of a bond issue syndicate.
The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the debtor. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

Risk-based lending
A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

Leveraged & acquisition finance
See “Acquisition finance”.

LTV – Loan-to-Value Ratio
The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.
The LTV ratio measures the weight of the borrower’s own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower’s own funds used to buy the asset, the lower the creditor’s protection.

Cumulative loss
Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

Loss Given Default (LGD)
It indicates the estimated loss rate in the event of borrower default.

M–Maturity
The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Macro-hedging
Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

Mark to Market
Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

Market dislocation
Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with difficulties in finding significant prices on specialised information providers.

Market making
Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

Market neutral
Operating strategies involving securities designed to minimise the relevant portfolios' exposure to market volatility.

Mark-down
Difference between the 1-month Euribor and interest rates on household and business current accounts.

Mark-up
Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month Euribor.

Merchant banking
A range of activities including the underwriting of securities – both equities and bonds – issued by corporate customers for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

Mezzanine
In a securitisation transaction it is the tranche ranking between junior and senior tranche.

Monoline
Insurance companies which, in exchange for a commission, guarantee the reimbursement of certain bond issues. Formed in the 1970s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for issues of complex financial products: the structure and the assets underlying such issues are often highly complex; the debt positions guaranteed by monoline insurers become easier to value and more appealing for risk-averse investors, since default risk is borne by the insurer.

Multistrategy / Funds of funds (Funds)
Funds that do not invest in a single strategy but in a portfolio reflecting different strategies, i.e. in a portfolio of investment funds managed by third parties.

NAV - Net Asset Value
The market value of one share of the fund's managed assets.

Non-performing
Term generally referring to loans for which payments are overdue.

Option
Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (call option) or to sell (put option) a financial instrument at a set price (strike price) within (American option) or on (European option) a given future date.

Outsourcing
The transfer of business processes to external providers.

Overnight Indexed Swap (OIS)
Contract involving the exchange of the net flow deriving from the difference between a fixed and floating interest rate applied to a notional principal amount. The fixed rate is set at the inception of the contract, while the floating rate is determined at maturity as the average of the overnight rates surveyed during the term of the contract, with compound interest.

Over-The-Counter (OTC)
It designates transactions carried out directly between the parties outside organised markets.

Packages
Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

Expected credit losses
Expected credit risk adjustments, determined based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.
Calculated as the difference between all contractual flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls) discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Lifetime expected loss
Expected credit losses that result from all possible default events over the expected life of a financial instrument.

Performing
Term generally referring to loans characterised by regular performance.

Plain vanilla (derivatives)
Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

POCI: Purchased or Originated Credit-Impaired Assets – Assets for which the lifetime expected losses are recognised upon initial recognition and which are automatically classed as Stage 3.

Index-linked life insurance policies
Life insurance policies the benefits of which are based on indexes, normally drawn from equity markets. Policies may guarantee capital or offer a minimum return.

Pool (transactions)
See “Syndicated lending”.

Held for trading
A financial asset or financial liability that:
- is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Pricing
Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

Prime broker
The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund’s manager with the utmost confidentiality. The Prime Broker also acts as the fund’s lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to the fund. The Prime Broker also provides risk management services, monitoring the hedge fund’s risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund’s cash and securities, handling of the netting and settlement process, and recording of all market transactions.

Prime loan
Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower’s history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.

Private banking
Business designed to provide preferred customers with asset management, professional advice and other personalised services.

Private equity
Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

One-year Probability of Default (PD)
The likelihood that a debtor will default within the space of 1 year.

Lifetime PD
The likelihood that a debtor will default within a period equal to the expected life of the financial instrument.

Project finance
Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

PV01
Measures the price value change of a financial asset following a one basis point shift in the yield curve.

Indirect customer deposits
The holding of third parties’ securities and similar valuables not issued by the bank, at nominal value, excluding certificates of deposit and bank bonds.

Rating
An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

Relative value/Arbitrage (Funds)
Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

Credit risk
The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

Market risk
Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Liquidity risk
The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Operational risk
The risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract liability or other disputes; ICT (Information and Communication Technology) risk and model risk. Strategic and reputation risks are not included.

Risk-free
Return on risk-free investments. For the Italy CGU and countries in the International Subsidiary Banks CGU with "normal" growth prospects, the return on 10-year Bunds has been adopted, while for countries with "strong" growth prospects, the return on 30-year Bunds has been used.

Risk Management
Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

RMBS - Residential Mortgage-Backed Securities
Asset-backed securities guaranteed by mortgages on residential real estate.

ROE (Return On Equity)
It expresses the return on equity in terms of net income. It is the indicator of greatest interest to shareholders in that it allows them to assess the return on their equity investment.

RTS (Regulation Technical Standards)
Regulatory technical standards

Risk-Weighted Assets (RWA)
On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

Scoring
System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

Senior/Super senior tranche
In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

Sensitivity
It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

Servicer
In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

SGR (Società di gestione del risparmio)
Joint-stock companies reserved the possibility of providing both collective and individual asset management service jointly. In particular, they are authorised to set up mutual funds, manage their own or others' mutual funds and the assets of SICAVs and provide individual investment portfolio management service.

SPEs/SPVs
Special Purpose Entities or Special Purpose Vehicles are companies established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

Speculative grade
Term used to identify issuers with a low credit rating (e.g., below BBB on Standard & Poor's index).

SPPI TEST
One of the two classification drivers (the other is the "business model") that the classification of the financial assets and the measurement basis depend on. The objective of the SPPI test is to identify the instruments, which can be defined as "basic lending arrangements" in accordance with the standard, whose contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI - solely payment of principal and interest). Assets with contractual characteristics other than SPPI are mandatorily measured at FVTPL.

Spread
This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

SpreadVar
Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

Stage 1
Represents the financial instruments whose credit risk has not significantly increased since the initial recognition date. A 12-month expected loss is recognised for these financial Instruments.

Stage 2
Represents the financial instruments whose credit risk has significantly increased since the initial recognition date. A lifetime expected loss is recognised for these financial Instruments.

Stage 3
Represents financial instruments that are credit impaired or in default. A lifetime expected loss is recognised for these financial Instruments.

Stakeholders
Subjects who, acting in different capacities, interact with the firm's activity, sharing in its profits, influencing its performance/services, and evaluating its economic, social and environmental impact.

Stock options
Term used to indicate the right granted to company managers to purchase the company's shares at a certain price (strike price).

Stress tests
A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

Structured export finance
Structured finance transactions in the goods and services export sector.

Financial instruments listed in an active market
A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Subprime
A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or bad loans) or because their debt-to-income or loan-to-value ratio is high.

Swaps
Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In an interest-rate swap, the parties exchange flows which may or may not be benchmarked on interest rates, calculated on a notional principal amount (e.g., one party pays a fixed-rate flow while the other pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

Syndicated lending
Loans arranged and guaranteed by a pool of banks and other financial institutions.

Effective interest rate
The effective interest rate is the rate that exactly discounts estimated future cash payments of the loan, for principal and interest, to the amount disbursed inclusive of the costs/revenues attributable to the loan. This measurement method uses a financial approach and allows distribution of the economic effect of the costs/revenues through the expected residual maturity of the loan.

Tax rate
The effective tax rate, determined by the ratio of income taxes to income before tax.

Terminal value
An enterprise's value at the end of an analytical cash-flow forecasting period, calculated by multiplying the analytical cash flow for the final period by (1 + g) and dividing that amount by (Ke-g).

Impairment test
The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:
- intangible assets with indefinite useful life
- goodwill acquired in a business combination
- any asset, if there is any indication of impairment losses.

Tier 1
Tier 1 Capital consists of Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital (AT1).

Tier 1 capital ratio
Ratio of Tier 1 Capital, which consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1), to total risk-weighted assets.

Tier 2
Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.
Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Time value
Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

Total capital ratio
Capital ratio referred to regulatory capital components of Own Funds (Tier 1 plus Tier 2).

Total return swap
A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Trustee (Real estate)
Real estate vehicles.

Trust-preferred Securities (TruPS)
Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

Underwriting fee
Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

Value in use
Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

Collective assessment of performing loans
With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

Fundamental Valuation
Stock price analysis performed by estimating the fair value of stocks and comparing it with their market value.

VaR - Value at Risk
The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

Vega
Coefficient that measures the sensitivity of an option's value in relation to a change in or underestimation of volatility.

Vega 01
Referred to a portfolio, it indicates the change in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

Vintage
Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgage portfolios underlying securitisations.

Expected life
This refers to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolving financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the bank's exposure to credit losses to the contractual notice period. The expected life for these credit facilities is their behavioural life. Where data is insufficient or analysis inconclusive, an additional 'maturity factor' may be incorporated to reflect the full estimated life, based upon other experienced cases or similar cases of peers. Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until they occur.

Warrant
Negotiable instrument that entitles the holder to purchase from or sell to the issuer fixed-income securities or shares according to specific procedures.

Waterfall
Characteristic of a CDO's cash flow projection that is used in the CDO pricing process to model and allocate flows. It establishes the priority of payment of the various tranches in the event of failure of the tests on overcollateralisation and interest coverage ratios.

Wealth management
See "Asset management".

What-if
Form of analysis that attempts to predict the response of specific elements to changes in baseline parameters.

Wholesale banking
Banking activity mainly consisting of high-value transactions concluded with major counterparties.

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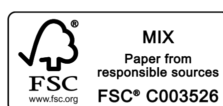

GALLERIE D’ITALIA.
THREE MUSEUM VENUES: AN ITALIAN CULTURAL NETWORK.

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

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

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

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

Cover photo:

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

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

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

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