INTESA SANPAOLO

Basel 3 Pillar 3 Disclosure

as at 30 September 2016

This is an English translation of the Italian language original "Terzo pilastro di Basilea 3 – Informativa al pubblico al 30 settembre 2016" that has been prepared solely for the convenience of the reader. The Italian language original "Terzo pilastro di Basilea 3 – Informativa al pubblico al 30 settembre 2016" was approved by the Board of Directors of Intesa Sanpaolo on 4 November 2016 and is available on group.intesasanpaolo.com

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

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

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

Basel 3 Pillar 3 Disclosure as at 30 September 2016

Intesa Sanpaolo S.p.A.
Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 8,731,874,498.36 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "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 reserves.

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.

In accordance with the abovementioned provisions, this document has been drawn up on a consolidated basis with reference to a "prudential" scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes (integrated by the proportional consolidation of the jointly controlled entities).

The prudential scope of consolidation as at 30 September 2016 does not differ significantly from that used as at 31 December 2015. There have been no significant changes to the scope of application of internal models for calculating capital requirements compared to the situation as at 31 December 2015.

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 accordance with Article 16 of Regulation (EU) No. 1093/2010, the EBA (European Banking Authority) then issued guidance concerning the need to publish public disclosures more frequently (Guidelines on materiality, proprietary and confidentiality and on disclosure frequency).
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" and "Leverage", supplemented in the half-yearly report with additional information on the use of internal models for credit, market and operational risks.

Details on own funds and capital ratios are also published in the consolidated Interim Statements for March and September and in the Half-yearly Report. Said documents also provide an update on Group liquidity risk.

Given the public importance of this disclosure, the "Basel 3 Pillar 3 disclosure" is signed by the Manager responsible for preparing the Company's financial reports and is subject to the checks and controls established in the Group's "Guidelines for administrative and financial governance", which set out the rules for the application of art. 154 bis of the Consolidated Law on Finance in the Intesa Sanpaolo Group. In particular, the internal control system for accounting and financial information is designed to ensure the ongoing verification of the adequacy and effective implementation of the administrative and accounting procedures at Group level.

All the amounts reported in this disclosure, unless otherwise specified, are stated in millions of euro.
The Intesa Sanpaolo Group publishes this disclosure (Basel 3 Pillar 3) and subsequent updates on its website www.group.intesasanpaolo.com.

Own Funds and capital ratios as at 30 September 2016

(millions of euro)

Own funds and capital ratios	30.09.2016	31.12.2015
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,702	36,908
Additional Tier 1 capital (AT1) net of regulatory adjustments	3,546	2,302
TIER 1 CAPITAL	**40,248**	**39,210**
Tier 2 capital net of regulatory adjustments	8,919	8,089
TOTAL OWN FUNDS	**49,167**	**47,299**
Risk-weighted assets		
Credit and counterparty risks	244,176	245,793
Market and settlement risk	19,232	16,582
Operational risks	21,117	20,653
Other specific risks [(a)]	1,481	1,291
RISK-WEIGHTED ASSETS	**286,006**	**284,319**
% Capital ratios		
Common Equity Tier 1 capital ratio	12.8%	13.0%
Tier 1 capital ratio	14.1%	13.8%
Total capital ratio	17.2%	16.6%

[(a)] The caption includes all other elements not contemplated in the foregoing captions that are considered when calculating total capital requirements.

Own Funds, risk-weighted assets and the capital ratios as at 30 September 2016 were calculated according to the harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of the related Bank of Italy Circulars.
Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017 during which several elements that will be eligible for full inclusion in, or deduction from, Common Equity when the framework is fully effective, only have a partial percentage effect on Common Equity Tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.
Specific transitional provisions (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 of eight years).

Accordingly, the prudential ratios as at 30 September 2016 take account of the adjustments envisaged by the transitional provisions for 2016.
As at 30 September 2016, total Own Funds came to 49,167 million euro, against risk-weighted assets of 286,006 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
In January 2016 Intesa Sanpaolo launched a second Additional Tier 1 (AT1) issue of 1.25 billion euro, targeted at the international markets (a first AT1 issue of 1 billion dollars had been launched in September 2015). This issue has characteristics in line with the provisions of CRD IV and the CRR, is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and can be redeemed in advance by the issuer after 5 years from the issue date and on every coupon payment date thereafter. The coupon, payable semi-annually in arrears on 19 January and 19 July of each year, with first payment on 19 July 2016, is equal to 7.00% per annum. If the early redemption option is not exercised on 19 January 2021, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged in the regulations applicable to the Additional Tier 1 issues, coupon payment is discretionary and subject to certain limitations.
In addition, on 22 April 2016, Intesa Sanpaolo received authorisation for the early repayment of an AT1 instrument with a nominal value of approximately 478 million euro. The subordinated instrument in question, issued in October 2010 and subject to grandfathering following the introduction of the Basel 3 framework, since it did not comply with the new regulations, called for the possibility of early repayment from 1 June 2016.
It should be emphasised that Common Equity Tier 1 capital does not include the net income for the period ended 30 September 2016, less the pro-rata dividend for the period, since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of net income exceeds the total amount of the dividend planned for distribution for the year, equal to 3 billion euro for 2016 on the basis of the 2014-2017 Business Plan.
Based on the foregoing, the Total capital ratio stood at 17.2%, while the ratio of the Group’s Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.1%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 12.8%.
The ECB's final decision concerning the capital requirements to be observed with effect from 1 January 2016, in light of the results of the Supervisory Review and Evaluation Process (SREP), imposed a consolidated capital requirement on Intesa Sanpaolo of 9.5% in terms of the CET1 ratio.
Finally, in accordance with Article 467 (2) of the CRR, adopted by the Bank of Italy in Circular 285, the Intesa Sanpaolo Group has opted to exclude unrealised gains or losses on exposures to central administrations classified among financial assets available for sale (AFS) from its Own Funds. The effect on Common Equity Tier 1 capital as at 30 September 2016 was 1 basis point positive.

Own funds

Qualitative and quantitative disclosure

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.

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, profit reserves, valuation reserves and eligible minority interests, plus deducted elements.
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 rating;
- adjustments to fair value assets associated with the "prudent valuation".

The regulations also envisage a series of elements to be deducted from Common Equity Tier 1:
- 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 adjustments (the shortfall reserve) for positions weighted according to IRB approaches;
- net assets deriving from defined benefit plans;
- exposures for which it is decided to opt for deduction rather than a 1.250% weighting among RWA;
- minor investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations);
- deferred tax assets (DTA) that rely on future profitability and arise from temporary differences (deducted for the amount exceeding thresholds envisaged in the regulations);

– significant investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations).

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 or AT1 equity instruments).

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.

As previously specified, the new regulatory framework will be introduced gradually over a transitional period, generally through 2017, during which several elements that, when the framework is in full effect, will be eligible for full inclusion in or deduction from common equity, will only have a partial percent effect on Common Equity Tier 1 Capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 Capital (AT1) or Tier 2 Capital (T2), or is considered among risk-weighted assets.
Specific transitional provisions 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 of eight years).

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 30 September 2016 is summarised in the table below.

(millions of euro)

	30.09.2016	31.12.2015
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**43,375**	**44,134**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**-532**	**-743**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**42,843**	**43,391**
D. Items to be deducted from CET 1	**-7,356**	**-7,940**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional adjustments	**1,215**	**1,457**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**36,702**	**36,908**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**3,843**	**2,799**
of which AT1 instruments subject to transitional adjustments	1,230	1,435
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 pursuant to transitional adjustments	**-297**	**-497**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**3,546**	**2,302**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**9,198**	**8,480**
of which T2 instruments subject to transitional adjustments	452	877
N. Items to be deducted from T2	**-152**	**-152**
O. Transitional period - Impact on T2 (+ / -), including instruments issued by subsidiaries and included in T2 pursuant to transitional adjustments	**-127**	**-239**
P. Total Tier 2 (T2) (M - N +/- O)	**8,919**	**8,089**
Q. Total own funds (F + L + P)	**49,167**	**47,299**

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, note that for the eligibility of:
– grandfathered instruments;
– minority interests;
– unrealised profits or losses on instruments designated at fair value;
– negative amounts resulting from the calculation of expected losses (shortfall reserve);

– IAS 19 filter on valuation reserves for actuarial gains or losses on defined benefit plans;
– 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.

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

	30.09.2016	31.12.2015
Group Shareholders' equity	48,222	47,776
Minority interests	640	817
Shareholders' equity as per the Balance Sheet	**48,862**	**48,593**
Dividends and other expected charges [(a)]	-	-2,383
Shareholders' equity following presumed distribution to shareholders	**48,862**	**46,210**
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	-485
- Other equity instruments eligible for inclusion in AT1	-2,121	-871
- Minority interests eligible for inclusion in AT1	-7	-8
- Minority interests eligible for inclusion in T2	-5	-6
- Ineligible minority interests on full phase-in	-579	-763
- Ineligible net income for the period [(b)]	-2,335	-
- Treasury shares included under regulatory adjustments	84	68
- Other ineligible components on full phase-in	-39	-11
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,375**	**44,134**
Regulatory adjustments (including transitional adjustments)	**-6,673**	**-7,226**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**36,702**	**36,908**

[(a)] The figure at 31 December 2015 takes account of the dividends paid on 2015 profit, the portion of the remuneration on the AT1 instrument issued on 17 September 2015 and the portion of the 2015 profit allocated to charity, net of the tax effect.

[(b)] Common Equity Tier 1 capital does not take account of the profit accrued during the period ended on 30 September 2016, after deducting the pro-rated share of the dividend on that profit, since Intesa Sanpaolo has decided to request authorisation from the ECB pursuant to Art. 26 of the CRR to include profit for the period in own funds solely if the amount of such profit exceeds the total amount of the dividend that is expected to be distributed for the year, i.e., 3 billion euro for 2016, on the basis of the 2014-2017 Business Plan.

Further details are provided below on the composition of each capital level making up own funds.

Common Equity Tier 1 Capital (CET1)

(millions of euro)

	30.09.2016	31.12.2015
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	8,247	8,247
Share premium reserve	27,349	27,349
Reserves [a]	9,467	9,160
Accumulated other comprehensive income	-1,737	-1,018
Net income (loss) for the period [b]	2,335	2,739
Net income (loss) for the period not eligible [b]	-2,335	-
Dividends and other expected charges [a]	-	-2,383
Minority interests	49	40
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,375**	**44,134**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-84	-68
Goodwill	-4,063	-4,249
Other intangible assets	-2,698	-2,791
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-163	-215
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-25	-299
Defined benefit pension funds assets	-	-
Prudential filters		
- of which Cash Flow Hedge Reserve	*1,344*	*1,145*
- of which Gains or Losses due to changes in own credit risk (DVA)	*54*	*40*
- of which Prudent valuation adjustments	*-157*	*-132*
- of which Other prudential filters	-	-
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]	-1,773	-1,796
- 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	*-1,773*	*-1,796*
Deductions with threshold of 17.65% [e]	-	-
Positive or negative elements - other	-323	-318
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-7,888**	**-8,683**
Total adjustments in the transitional period (CET1)	**1,215**	**1,457**
Common Equity Tier 1 (CET1) - Total	**36,702**	**36,908**

(a) Amount included in CET1.

(b) Common Equity Tier 1 capital does not take account of the profit accrued during the period ended on 31 March 2016, after deducting the pro-rated share of the dividend on that profit, since Intesa Sanpaolo has decided to request authorisation from the ECB pursuant to Art. 26 of the CRR to include profit for the period in own funds solely if the amount of such profit exceeds the total amount of the dividend that is expected to be distributed for the year, i.e., 3 billion euro for 2016, on the basis of the 2014-2017 Business Plan.

(c) The figure at 31 December 2015 takes account of the dividends paid on 2015 profit, the portion of the remuneration on the AT1 instrument issued on 17 September 2015 and the portion of the 2015 profit allocated to charity, net of the tax effect.

(d) For details of the calculation of the deduction thresholds, refer to the specific table.

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

It should be emphasised that Common Equity Tier 1 capital does not include the net income for the period ended 30 September 2016, less the pro-rata dividend for the period, since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of net income exceeds the total amount of the dividend planned for distribution for the year, equal to 3 billion euro for 2016 on the basis of the 2014-2017 Business Plan.

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. Exclusion is gradual. The amount of the filter as at 30 September 2016 is 216 million euro and, based on the Supervisory Provisions, the remaining amounts will be fully eliminated from the calculation of own funds by 31 December 2016.

Additional Tier 1 Capital (AT1)

(millions of euro)

	30.09.2016	31.12.2015
Additional Tier 1 capital (AT1)		
Saving shares	485	485
Other AT1 instruments	2,121	871
Minority interests	7	8
Additional Tier 1 capital (AT1) before regulatory adjustments	**2,613**	**1,364**
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)	**-297**	**-497**
AT1 instruments eligible for grandfathering	**1,230**	**1,435**
Additional Tier 1 (AT1) - Total	**3,546**	**2,302**

AT1 instruments are detailed in the tables below. In particular, it is worth mentioning that, at the beginning of 2016, Intesa Sanpaolo launched an Additional Tier 1 issue of 1.25 billion euro, targeted at the international markets. This issue also has characteristics in line with CRD IV provisions, is perpetual (with a maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and can be redeemed in advance by the issuer after 5 years from the issue date and on every coupon payment date thereafter. The issuer will pay a fixed rate coupon of 7.00% per annum, payable semi-annually in arrears every 19 January and 19 July of each year, with the first coupon payment on 19 July 2016. In the event that the early redemption rights are not utilised on 19 January 2021, a new coupon at fixed rate will be determined by adding the original spread to the 5-year Mid Swap Rate reckoned at the reset date. Such new annual coupon will be fixed for the following 5 years (until the next reset date). As envisaged in the regulations applicable to Additional Tier 1, coupon payment is discretionary and subject to certain limitations. The trigger of 5.125% of Common Equity Tier 1 (CET1) provides that, if the CET1 ratio of the Intesa Sanpaolo Group or Intesa Sanpaolo S.p.A. falls below such trigger, the nominal value of AT1 will be temporarily reduced for the amount needed to restore the trigger level, taking into account also the other instruments with similar characteristics.

The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments are reported in Attachment 1 to the Basel 3 Pillar 3 - Disclosure as at 31 December 2015. Attachment 1 as at 30 September 2016 reports only the details of the new instruments issued during the first nine months of 2016.

Additional Tier 1 (AT1) equity instruments as at 30 September 2016

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 687 b.p./year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	580
Intesa Sanpaolo	up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	YES	1,250,000,000	454
Intesa Sanpaolo	8.698% up to 24/9/2018 (excluded); thereafter 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	YES	250,000,000	196
Total Additional Tier 1 instruments subject to transitional provisions									**1,230**
Intesa Sanpaolo	7% fixed rate	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	NO	1,250,000,000	1,250
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	19-Sep-2015	perpetual	17-Sep-2025	Usd	NO	1,000,000,000	871
Total Additional Tier 1 instruments not subject to transitional provisions									**2,121**
Total Additional Tier 1 equity instruments									**3,351**

Tier 2 Capital (T2)

(millions of euro)

	30.09.2016	31.12.2015
Tier 2 Capital (T2)		
T2 Instruments	8,492	7,597
Minority interests	5	6
Excess of provisions over expected losses eligible (excess reserve)	249	-
Tier 2 capital before regulatory adjustments	**8,746**	**7,603**
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	-152	-152
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-152**	**-152**
Total adjustments in the transitional period, including minority interests (T2)	**-127**	**-239**
T2 instruments eligible for grandfathering	**452**	**877**
Tier 2 Capital (T2) - Total	**8,919**	**8,089**

The details of instruments making up Tier 2, including those eligible for grandfathering, are provided in the following table.

Tier 2 (T2) capital instruments as at 30 September 2016

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo (*)	8.375% fixed rate up to 14/10/2019; then 3-month Euribor + 687 bps/year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	150
Intesa Sanpaolo (*)	up to 20/6/2018 excluded: 8.047%/year.; subsequently: 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	YES	1,250,000,000	118
Intesa Sanpaolo (*)	up to 24/9/2018 excluded: 8.698%; subsequently: 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	YES	250,000,000	51
Intesa Sanpaolo	interest paid quarterly according to the formula (3-month Euribor + 2%)/4	NO	31-Mar-2011	31-Mar-2018	NO	Eur	YES	373,400,000	45
Intesa Sanpaolo	interest paid quarterly according to the formula (3-month Euribor + 1.60%)/4	NO	10-Nov-2010	10-Nov-2017	NO	Eur	YES	479,050,000	42
Intesa Sanpaolo	interest paid quarterly according to the formula (3-month Euribor + 1.6%)/4	NO	30-Sep-2010	30-Sep-2017	NO	Eur	YES	805,400,000	32
Intesa Sanpaolo	up to 18/3/2019 excluded: 5.625%/year; subsequently: 3-month Sterling Libor + 1.125/year	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gbp	YES	165,000,000	14
Total Tier 2 instruments subject to transitional provisions									**452**
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,760
Intesa Sanpaolo	6.6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,408
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,344
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	980
Intesa Sanpaolo	3-moths Euribor + 237 p.b./4	NO	30-Jun-2015	30-Jun-2022	NO	Eur	NO	781,962,000	719
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	698
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	624
Intesa Sanpaolo	2,855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	480
Intesa Sanpaolo	6.625% fixed rate	NO	08-May-2008	08-May-2018	NO	Eur	NO	1,250,000,000	269
Intesa Sanpaolo	5.75% fixed rate; from 28/05/2013 3-month Euribor +1.98%	YES	28-May-2008	28-May-2018	NO	Eur	NO	1,000,000,000	83
Intesa Sanpaolo	6.16 % fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	NO	120,000,000	42
Intesa Sanpaolo	up to 20/2/2013 excluded: 3-month Euribor + 0.25%/year; subsequently: 3-month Euribor + 0.85%/year	YES	20-Feb-2006	20-Feb-2018	NO	Eur	NO	750,000,000	41
Intesa Sanpaolo	up to 26/6/2013 excluded: 4.375%/year.; subsequently: 3-month Euribor + 1.00%/year.	YES	26-Jun-2006	26-Jun-2018	NO	Eur	NO	500,000,000	38
Intesa Sanpaolo	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Eur	NO	30,000,000	5
Intesa Sanpaolo	6.375% fixed rate; from 12/11/2012 3-month Sterling LIBOR	YES	12-Oct-2007	12-Nov-2017	NO	Gbp	NO	250,000,000	1
Total Tier 2 instruments not subject to transitional provisions									**8,492**
Total Tier 2 instruments									**8,944**

(*) Instrument subject to grandfathering in the Additional Tier 1 capital, capped portion pursuant to art. 486 of EU Regulation 575/2013 (CRR).

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

(millions of euro)

	30.09.2016	31.12.2015
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,726	3,725
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	3,726	3,725
C. Threshold for significant investments and DTA not deducted in the threshold described under point B:		
• 15% during the transitional period until 31 December 2017	5,636	5,618
• 17.65% from 2018	5,335	5,340

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 Common Equity Tier 1 (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 15% 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 in accordance with the percentages envisaged in the regulations for individual cases.

As mentioned previously, these deductions are introduced gradually through the application of specific transitional rules. In addition to applying deductions with an increasing impact, these rules also envisage different treatment, compared to that applied when fully operative, for amounts not deducted.

Transitional period adjustments as at 30 September 2016

Greater details on the impact of the transitional regime on the different levels of capital for the period under review are provided below.

(millions of euro)

	ADJUSTMENTS TO CET1			ADJUSTMENTS TO AT1	ADJUSTMENTS TO T2
	Amounts eligible /deductible on full phase-in	Adjustments to CET1	Net effect on CET1 at the date		
Instruments eligible for grandfathering	**-**	**-**	**-**	**1,230**	**452**
Minority interests	**49**	**68**	**117**	**-**	**-**
Other adjustments in the transitional period	**809**	**-300**	**509**	**-**	**-**
- of which Unrealised gains on assets measured at fair value	809	-300	509	-	-
- of which Unrealised losses on assets measured at fair value	-	-	-	-	-
Regulatory adjustments	**-2,825**	**1,447**	**-1,378**	**-297**	**-297**
- of which Deferred tax assets that rely on future profitability and do not arise from temporary differences	-163	66	-97	-	-
- of which Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-25	10	-15	-5	-5
- of which IAS 19 Reserves	-864	472	-392	-	-
- of which CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-	-	-	-
- 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	-1,773	899	-874	-292	-292
Other filters and adjustments	**-**	**-**	**-**	**-**	**170**
Total adjustments in the transitional period and instruments eligible for grandfathering	**n.s.**	**1,215**	**n.s.**	**933**	**325**

Capital requirements

Qualitative and quantitative disclosure

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group's capital must normally amount to at least 10.5% of total risk-weighted assets (Total Capital ratio) 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 risk following insurance coverage.

With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report as at 31 December 2008 on the Corporate portfolio for a scope extending to the Parent Company, network banks in the Banca dei Territori Division and the main Italian product companies.
Progressively, the scope of application has been gradually extended to include the SME Retail and Mortgage Retail portfolios, as well as other Italian and international Group companies.

Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio according to the type of counterparty to be assessed. This was the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013, followed by an additional validation visit in March 2015. In the same month an AIRB authorisation request was presented to the Supervisory Authority for this portfolio.
The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.
For OTC derivatives, with reference to the Parent Company Intesa Sanpaolo and to Banca IMI, the Bank of Italy granted the authorisation to use the internal counterparty risk model for regulatory purposes, starting from the first quarter of 2014. For the Banks in the Banca dei Territori Division, an application for authorisation to use the internal model for regulatory purposes was submitted to the Supervisory Authority in 2015, while for management purposes, the advanced risk estimate measures were implemented in November 2014.
In 2015 an application for authorisation to use internal models for regulatory purposes was also submitted for Securities Financing Transactions (SFT - Repos and securities lending) products. For management purposes, the advanced risk measurement methods were implemented for SFT in May 2015.

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.

There were no changes in the scope of application compared to 31 December 2015.

The adequacy of the internal control system for risks is also illustrated in the annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risks and for the calculation of internal capital and total capital available. The document was approved and sent to the Supervisor in April 2016.

The Intesa Sanpaolo Group participated in the 2016 EU-wide stress test, a test conducted by the European Banking Authority on the financial statements of European banks as at 31 December 2015.
The test consisted of the simulation of the impact of two scenarios – baseline and adverse – and covers a time horizon of three years (2016-2018). The 2016 EU-wide stress test provides crucial information as part of the prudential review process of 2016. The results thus allowed the competent authorities to assess

banks' ability to comply with the established minimum and additional own funds requirements in stress scenarios based on shared methodology and assumptions.
Intesa Sanpaolo acknowledges the results of the 2016 EU-wide stress test announced by the EBA on 29 July 2016, which were extremely positive for the Group. The Common Equity Tier 1 ratio (CET1 ratio) resulting from the stress test for 2018, the final year considered in the exercise, was 12.8% for Intesa Sanpaolo in the baseline scenario and 10.2% in the adverse scenario, compared to the starting-point figure of 13% recorded as at 31 December 2015, and includes a 50 basis-point reduction - in both scenarios - for the transition from the calculation criteria applicable in 2015 to those in force for 2018.

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.

The minimum capital standard requirements equal 7% of the Common Equity Tier 1, including the capital conservation buffer equal to 2.5%, 8.5% of Tier 1 and 10.5% of Tier Total.
In October 2016, in order to meet the need of aligning the national legislation to that of most of the countries in the Eurozone, the Bank of Italy made some amendments, though applicable from 2017, to the requirement relating to the capital conservation buffer. Specifically, these amendments require banks, both at individual and consolidated level, to apply a minimum capital buffer ratio equalling:
– 1.25% from 1 January 2017 to 31 December 2017;
– 1.875% from 1 January 2018 to 31 December 2018;
– 2.5% from 1 January 2019.

On 27 November 2015 the Intesa Sanpaolo Group received the ECB's final decision regarding the minimum total capital requirements at consolidated level to be met starting from 1 January 2016 (9.5% of the Common Equity Tier 1 Ratio) following the results of the Supervisory Review and Evaluation Process (SREP).

Directive 2013/36/EU (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 no. 285, which contains suitable regulations concerning CCyB.
As at 30 September 2016 the countercyclical buffer of the Intesa Sanpaolo Group amounted to approximately 8 million euro and was calculated by applying to the total risk exposure amount the countercyclical ratio of the institution, equal to 0.003%, calculated as a weighted average of the countercyclical ratios applicable in the various countries to which the Intesa Sanpaolo Group has credit exposures.

Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical ratio (relating to the exposures towards Italian counterparties) for the third quarter of 2016 at 0% (equal to that for the second quarter). Finally, please note that, with letter dated 25 January 2016, the Bank of Italy identified the Intesa Sanpaolo banking group as an Other Systemically Important Institution (O-SII) authorised to operate in Italy. The decision was made pursuant to Bank of Italy circular no. 285, which implements the provisions of CRD IV in Italy and specifies the criteria on which the methodology for identifying the O-SIIs is based. The identification took into consideration the contribution of the four categories (size, importance for the Italian economy, complexity, interconnectedness with the financial system) the EBA guidelines use to determine the systemic importance of each institution at individual member state level. Based on the provisions set by CRD IV, the Bank of Italy decided to apply a capital buffer (the so-called O-SII Buffer) equal to 0% for 2016 (the first year of application of the O-SII-related regulation and thus of the buffer specified by the Bank of Italy).

The adequacy of the internal control system for risks is also illustrated in the annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risks and for the calculation of internal capital and total capital available. The document was approved and sent to the Supervisor in April 2016.

Capital requirements and capital ratios of the Intesa Sanpaolo Group

(milions of euro)

	30.09.2016			31.12.2015		
	Unweighted amounts	Weighted amounts	Requirements	Unweighted amounts	Weighted amounts	Requirements
A. CAPITAL REQUIREMENTS						
A.1 Credit and counterparty risks	**547,396**	**243,033**	**19,443**	**541,351**	**244,760**	**19,581**
1. Standardised approach	249,451	114,076	9,126	246,977	117,528	9,402
2. Internal models (IRB)	2,875	6,720	538	2,391	4,917	393
3. Internal models - Advanced approach and retail exposures	288,359	117,323	9,386	286,768	117,890	9,432
4. Securitisations - banking book	6,711	4,914	393	5,215	4,425	354
A.2 Credit risk adjustment		**1,143**	**91**		**1,033**	**83**
A.3 Settlement risk		**1**	**-**		**1**	**-**
A.4 Market risk		**19,231**	**1,539**		**16,581**	**1,326**
1. Standardised approach		2,687	215		2,859	228
2. Internal models		16,544	1,324		13,722	1,098
A.5. Concentration risk		**-**	**-**		**-**	**-**
A.6 Operational risk		**21,117**	**1,689**		**20,653**	**1,652**
1. Basic indicator approach		559	45		559	45
2. Standardised approach		2,899	232		2,899	232
3. Advanced measurement approach		17,659	1,412		17,195	1,375
A.7 Other capital requirements		**-**	-		**-**	-
A.8 Other calculation elements [(a)]		**1,481**	**118**		**1,291**	**103**
A.9 Total capital requirements		**286,006**	**22,880**		**284,319**	**22,745**
B. CAPITAL RATIOS (%)						
B.1 Common Equity Tier 1 ratio			**12.8%**			**13.0%**
B.2 Tier 1 ratio			**14.1%**			**13.8%**
B.3 Total capital ratio			**17.2%**			**16.6%**

[(a)] This caption includes all the other requirements that enter into the calculation of total capital requirements, not considered in previous captions.

In the case of the standardised approach, "unweighted amounts" correspond – in accordance with regulatory provisions – to the exposure value, which takes into account prudential filters, risk mitigation techniques and credit conversion factors. In the case of the internal rating based approach, "unweighted amounts" correspond to "exposure at default" (EAD). For guarantees given and commitments to disburse funds, credit conversion factors are included when determining EAD.

The tables below provide details of the Group's different capital requirements as at 30 September 2016, with a comparison to the same figures as at 31 December 2015. There have been no significant changes to the scope of application of internal models for calculating capital requirements compared to the situation as at 31 December 2015.

Capital requirement for Credit and Counterparty Risk

The following table breaks capital requirements down between credit risk and counterparty risk.

(millions of euro)

	Capital requirement	
	30.09.2016	31.12.2015
Credit risk	18,935	19,002
Counterparty risk	508	579
Total capital requirement for credit and counterparty risk	**19,443**	**19,581**

Counterparty risk is calculated on both the trading book and the banking book. The relative requirements are presented, for each regulatory portfolio, in the following tables.

Capital requirement for Credit and Counterparty Risk (Standardised Approach)

(millions of euro)

Regulatory portfolio	Capital requirement	
	30.09.2016	31.12.2015
Exposures to or secured by central governments and central banks	1,386	1,387
Exposures to or secured by regional governments or local authorities	225	222
Exposures to or secured by public sector organisations	337	350
Exposures to or secured by multilateral development banks	-	-
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	1,097	1,276
Exposures to or secured by corporates	2,290	2,128
Retail exposures	1,479	1,749
Exposures secured by real estate property	137	129
Default exposures	412	452
High-risk exposures	12	19
Exposures in the form of covered bonds	12	9
Short-term exposures to corporates or to supervised institutions	-	-
Exposures to UCIs	184	165
Equity exposures	899	933
Other exposures	656	583
Total capital requirement for credit and counterparty risk (Standardised Approach)	**9,126**	**9,402**

Capital requirement for Credit and Counterparty Risk (IRB Approaches)

(millions of euro)

Regulatory portfolio	Capital requirement	
	30.09.2016	31.12.2015
A. Exposures to or secured by corporates (FIRB & AIRB Approach)	**8,355**	**8,457**
A.1) Specialised lending	752	892
A.2) Specialised lending - slotting criteria	73	75
A.3) SMEs	2,129	2,281
A.4) Other corporates	5,401	5,209
B. Retail exposures (IRB Approach)	**1,099**	**1,039**
B.1) Exposures secured by property: SMEs	61	66
B.2) Exposures secured by property: natural persons	833	760
B.3) Other retail exposures: SMEs	205	213
C. Equity exposures	**470**	**329**
C.1) Equity exposures (Simple risk weight approach)	323	201
- Private equity exposures in sufficiently diversified portfolios	1	3
- Exchange-traded equity exposures	40	37
- Other equity exposures	282	161
C.2) Equity exposures (PD/LGD approach)	-	-
C.3) Equity exposures (Exposures subject to fixed weighting factors)	147	128
Total capital requirement for credit and counterparty risk (IRB Approach)	**9,924**	**9,825**

Details of the capital requirement for Credit and Counterparty Risk (IRB Approaches) - Specialised lending - slotting criteria

(millions of euro)

Regulatory portfolio	Capital requirement	
	30.09.2016	31.12.2015
A. Specialised lending - slotting criteria	**73**	**75**
A.1) Category 1 - 50% - 70% greater than or equal to 2.5 years	10	8
A.2) Category 2 - 70% less than 2.5 years - 90%	27	17
A.3) Category 3 - 115%	22	31
A.4) Category 4 - 250%	14	19
A.5) Category 5 - 0%	-	-
Total capital requirement for credit and counterparty risk (IRB Approach) - slotting criteria	**73**	**75**

Capital requirement for Credit and Counterparty Risk on securitisations - Banking book

(millions of euro)

	Capital requirement	
	30.09.2016	31.12.2015
Securitisations - Standardised Approach	281	239
Securitisations - IRB (Rating Based Approach - Supervisory formula approach)	112	115
Total capital requirement for credit and counterparty risk on securitisations	**393**	**354**

Capital requirement for Market Risk

(millions of euro)

	Capital requirement	
	30.09.2016	31.12.2015
Assets included in the regulatory trading book	**1,409**	**1,254**
Position risk [(a)]	1,409	1,254
Other assets	**130**	**72**
Foreign exchange risk	93	52
Commodity risk	37	20
Total capital requirement for market risk	**1,539**	**1,326**

(a) The caption includes capital requirements for exposures to securitisations for 65 million euro.

Capital requirement for Operational Risk

(millions of euro)

	Capital requirement	
	30.09.2016	31.12.2015
Basic indicator approach	45	45
Standardised approach	232	232
Advanced measurement approach	1,412	1,375
Total capital requirement for operational risk	**1,689**	**1,652**

As already noted, almost all the Group companies use the Advanced Measurement Approach (AMA) and – to a lesser extent – the Standardised Approach to determine capital requirements for operational risk. A small remaining number of companies use the Basic Indicator Approach (BIA). For the AMA Approach the requirement is recalculated on a half yearly basis, whereas for the Standardised and the BIA Approaches the requirement is normally only calculated annually, unless one or more Group companies change approach during the year, by migrating towards more evolved models. Compared to December, the increase in the requirement for the Advanced Measurement Approach is due to the periodic updating of the database on external events and of the "eligible" insurance coverage for capital purposes.

Leverage Ratio

Qualitative and quantitative 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 assets and off-balance sheet exposures. 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 one of the measurement criteria selected within the scope of the Risk Appetite Framework for the monitoring of the overall risk and, more specifically, of the Group's capital adequacy.
In line with the previous year, the 2016 RAF update confirmed the choice to define its limits by adding to the regulatory minimum of 3% a stress buffer (calculated considering a stress scenario with a 1/40 probability). Moreover, an Early Warning threshold has been confirmed, with an additional prudential buffer.

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.
The Delegated Act of the Commission of 10 October 2014 (which became Regulation (EU) No. 62/2015) was published in the Official Journal of the European Union on 17 January 2015. In the Delegated Act, which amends Regulation (EU) No. 575/2013 (the CRR), the European Commission provides indications aimed at ensuring the consistency of the various interpretations of the methods for calculating the Leverage Ratio that make the indicators calculated by the various institutions not comparable with one another.

The main changes introduced by the Delegated Act, compared to the CRR regulation in force, impact on the exposure value, including, in particular:

- for derivatives, the possibility of deducting from the exposure value the variation margin in cash, if certain conditions laid down by the Delegated Act are met;
- measurement of credit derivatives sold at their notional gross amount rather than at fair value, with the possibility of deducting from the notional amount the changes in the fair value recognised through profit and loss (as negative components). When strict criteria are complied with, the offsetting of the protection sold with the protection purchased is also authorised;
- deduction from exposures of the "customer" component of transactions with a qualifying central counterparty (QCCP) where the entity is not obliged to reimburse the customer in the event of default of the QCCP, because no leverage effect is created;
- clarification that the collateral received for securities financing transactions cannot be used to reduce the exposure value of those transactions, but that receivables and payables in cash arising from such transactions with the same counterparty may be offset when strict criteria are met.

In addition, the Delegated Act - modifying Regulation (EU) No. 575/2013 - provides that the Leverage Ratio is calculated at the quarter end date, eliminating the discretion provided previously by the CRR (arithmetic mean of monthly ratios for the reference quarter, or - subject to prior authorisation of the competent Authority - the exact figure at the end of the quarter).

On 15 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 EU Regulation No. 575/2013.
Therefore, starting from 31 March 2016, the Intesa Sanpaolo Group will publish the Leverage Ratio on the basis of the provisions contained in the Delegated Act.

The reporting flows are sent to the Supervisory Authorities with effect from 30 September 2016 consistently with the provisions of the Delegated Act and (EU) Implementing Regulation no. 428/2016 of the Commission, which amends (EU) Implementing Regulation no. 680/2014. The latter lays down the implementing technical standards regarding the supervisory reporting of institutions and shall apply from the first reference date for reporting purposes, which falls six months after the date of publication in the Official Journal of the European Union (that is from the reporting as at 30 September 2016).

Leverage Ratio of the Intesa Sanpaolo Group

The following is the Intesa Sanpaolo Group's Leverage Ratio as at 30 September 2016, in compliance with the CRR regulatory principles, amended according to the Delegated Act and expressed in percent form.

The Leverage Indicator is indicated according to the transitional provisions.

(milions of euro)

Capital and total exposure measure	30.09.2016
Tier 1 capital	40,248
Leverage ratio total exposure measure	600,632
Leverage ratio	**6.7%**

Declaration of the Manager responsible for preparing the Company’s financial reports

The Manager responsible for preparing the Company’s financial reports, Fabrizio Dabbene, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document “Basel 3 - Pillar 3 as at 30 September 2016” corresponds to the corporate records, books and accounts.

Milan, 4 November 2016

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

Attachment 1

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

Common equity Additional Tier 1 instruments (AT1) - New issues in 2016

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1346815787
3	Governing law(s) of the instrument	English law, except subordination clauses
	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 security - 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	19/01/2016
12	Perpetual or dated	Irredeemable
13	Original maturity date	Without maturity date
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	19/01/2021 (and on every interest payment date thereafter)
	Contingent call dates and redemption amount	Regulatory and Tax Event
16	Subsequent call dates, if applicable	Call date exercisable on every 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, the Regulator can prevent payment of interest at any time.
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	Noncomulative or comulative	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 the nominal capital if the CET1 of Iintesa Sanpaolo or of the Intesa Sanpaolo Group falls 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	In case the CET1 of ISP or of the Group is re-established above 5.125 pct, the issuer can decide to write-up the Nominal Capital within the limits of the Maximum Distributable Amount.
35	Position in subordination hierarchy in liquidation	Senior compared to Equity and subordinated compared to the instruments having 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	

Common equity Tier 2 instruments (T2) - New issues in 2016

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAW79
3	Governing law(s) of the instrument	New York Law, with the exception of matters concerning subordination, regulated 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 security - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,344
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	Liabilities - Amortised cost
11	Original date of issuance	15/01/2016
12	Perpetual or dated	at maturity
13	Original maturity date	15/01/2026
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.71% per annum, payable semi-annually
19	Existence of a dividend stopper	NO
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	NO
22	Noncomulative or comulative	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 compared to "Additional Tier 1" and subordinated compared to "Senior Unsecured" instruments
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

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