Basel 3 Pillar 3
Disclosure as at 31 December 2016

This is an English translation of the Italian original "Terzo pilastro di Basilea 3 – Informativa al pubblico al 31 dicembre 2016" that has been prepared solely for the convenience of the reader. 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 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 8,731,984,115.92 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.
The above Circular does not dictate - as it did in the past - 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 8 "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 is entrusted to the EBA (European Banking Authority) bearing the regulatory or implementing technical standards to regulate the uniform templates for the disclosure of various types of information.

Further information on Pillar 3 was then provided by the EBA (European Banking Authority) with a specific document regarding the guidelines on materiality, proprietary and confidentiality and on the frequency of disclosure to be provided in Pillar 3 (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 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.

The issue of Pillar 3 disclosure was also the subject of analyses by the Basel Committee with its document "Revised Pillar 3 disclosure requirements". This document provides indications to the Supervisory Authorities, which should have them incorporated in the national regulations (in our case the EU) so that they come into force. In this field, in December the EBA published the final version of the “Guidelines on disclosure requirements under part Eight of Regulation No (EU) 575/2013” providing guidelines aimed at increasing and improving the consistency and comparability of the information to be provided in Pillar 3.

These guidelines were implemented in the proposed draft to amend CRR 575 published in November 2016.
These guidelines will be applicable starting from 31 December 2017.

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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).

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.
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.

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 EU Regulation 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 2016, the disclosure obligations concerning the countercyclical capital buffers have also been applied. Therefore, the disclosure at 31 December 2016 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 relation to the scope of application of the provisions of the CRR, which refers - as previously indicated - to a "prudential" consolidation area, 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 2 – Risks of insurance companies);
– the risks of other companies (Part E – Information on risks and relative hedging policies: Section 3 – risks of other companies);
– Banking Group liquidity risk (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: 1.3 Liquidity risk);
– Banking Group foreign exchange risk (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: 1.2.3 Foreign exchange risk)
– exposure to structured credit products (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: Information on Structured credit products);
– legal and tax disputes (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: 1.4 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 "Corporate Governance Report and Information on Ownership Structures - Report on Remuneration" includes all the information concerning the Corporate Governance system of Intesa Sanpaolo and the remuneration policies in force. The "Report" is available for consultation from the "Governance" section of the Bank's website at: www.group.intesasanpaolo.com.

In particular, the Report on Corporate Governance includes the information required by paragraph 2 of art. 435 of the CRR:

- the number of administrative tasks assigned to the members of the management body;
- 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.

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.

The Group's website also contains the information 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”).

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.

Given the importance to investors of the “Basel 3 Pillar 3 disclosure”, Intesa Sanpaolo has decided that this Document should be the subject of a limited review by the Independent Auditors KPMG S.p.A. The related audit report is published together with this document.

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

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 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 31 December 2016

(millions of euro)

Own funds and capital ratios	31.12.2016	31.12.2015
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	35,926	36,908
Additional Tier 1 capital (AT1) net of regulatory adjustments	3,533	2,302
TIER 1 CAPITAL	**39,459**	**39,210**
Tier 2 capital net of regulatory adjustments	8,815	8,089
TOTAL OWN FUNDS	**48,274**	**47,299**
Risk-weighted assets		
Credit and counterparty risks	243,351	245,793
Market and settlement risk	19,199	16,582
Operational risks	19,545	20,653
Other specific risks [a]	1,823	1,291
RISK-WEIGHTED ASSETS	**283,918**	**284,319**
% Capital ratios		
Common Equity Tier 1 capital ratio	12.7%	13.0%
Tier 1 capital ratio	13.9%	13.8%
Total capital ratio	17.0%	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 31 December 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, will 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 31 December 2016 take account of the adjustments envisaged by the transitional provisions for 2016.

As at 31 December 2016, total Own Funds came to 48,274 million euro, against risk-weighted assets of 283,918 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 AT 1 issues, coupon payment is discretionary and subject to certain limitations.

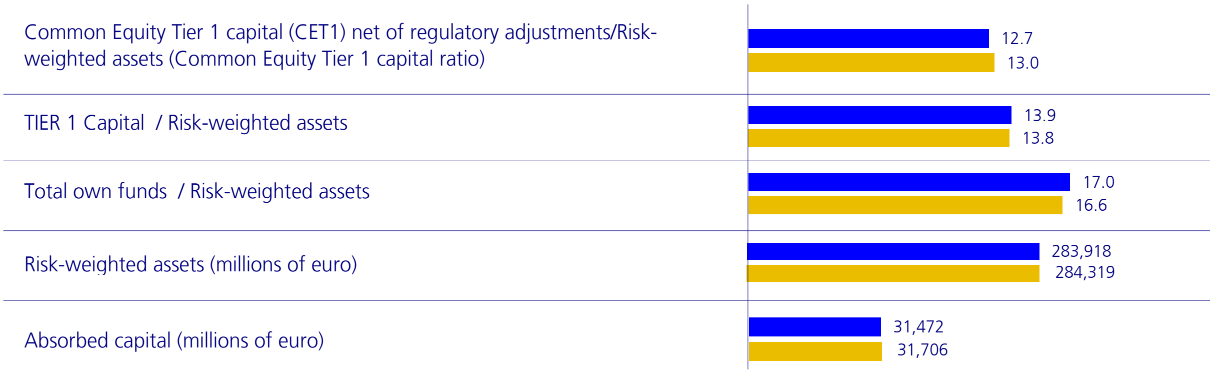
In addition, on 22 April 2016, Intesa Sanpaolo received authorisation for the early repayment of an AT1 instrument with a nominal value of approximately 478 million euro. The subordinated instrument in

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 31 December 2016 after deduction of the related dividend.
Based on the foregoing, the Total capital ratio stood at 17.0%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 13.9%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 12.7%.
You are reminded that, on 12 December 2016, Intesa Sanpaolo received the ECB's final decision regarding the capital requirements to be observed with effect from 1 January 2017, in light of the results of the Supervisory Review and Evaluation Process (SREP). The capital requirement at consolidated level in terms of Common Equity Tier 1 ratio, including the combined buffer, is 7.25% under the transition criteria in force for 2017 and 9.25% under the standard criteria.
Lastly, it should be noted that, following the process conducted by the ECB on the harmonisation of the national discretion adopted by the competent authorities in the different EU countries, with effect from 1 October 2016, the date when Regulation (EU) 2016/445 of the ECB came into force, the prudential filter was eliminated; this filter had been aimed at excluding unrealised gains or losses on exposures to central administrations classified in the category Financial assets available for sale (AFS). Consequently, as at 31 December 2016, the above-mentioned unrealised gains/losses were included at 60% in the Common Equity Tier 1 Capital, based on the percentages established by the transitional provisions for 2016.

Section 1 – General requirements

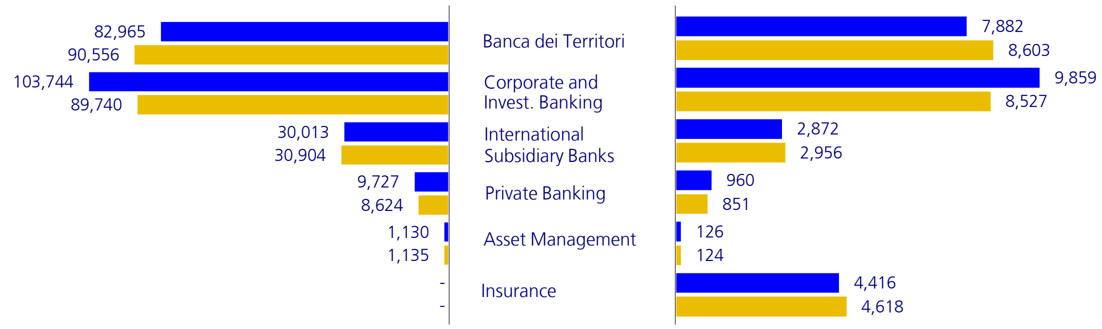
Group's risk profile: key indicators as at 31 December 2016

Consolidated capital ratios (%)



Risk-weighted assets by sector
(millions of euro)

Absorbed capital by sector
(millions of euro)



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

[a] Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves

[b] 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.

[c] The dilutive effect is calculated with reference to the programmed issues of new ordinary shares.

The macroeconomic scenario, which remains uncertain, 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 capacity, low leverage, adequate capital base, and prudent asset valuations.

Group liquidity remains high: as at 31 December 2016, both regulatory indicators envisaged by Basel 3 (LCR and NSFR), adopted also as internal liquidity risk measurement metrics, were well above the requirements for 2018. At the end of December, the Central Banks eligible liquidity reserves came to 150 billion euro (117 billion euro at the end of December 2015), of which 96 billion euro, net of haircut, was unencumbered (78 billion euro at the end of December 2015) and unused. The loan to deposit ratio at the end of December 2016, calculated as the ratio of loans to customers to direct deposits from banking business, came to 93%.
In terms of funding, the widespread branch network remains a stable, reliable source: 73% of direct deposits from banking business come from retail operations (289 billion euro). Moreover, during the year, USD 1.5 billion in Tier 2 subordinated bonds, 1.25 billion euro in Additional Tier 1 instruments and 1.25 billion euro in bank covered bonds were placed on the international wholesale market.

In January 2017 a further 1.25 billion euro in Additional Tier 1 instruments were placed.
In June, the Group participated in the first TLTRO II programme for an amount of approximately 36 billion euro (against a maximum that can be requested of approximately 57 billion euro) after the repayment in full of the TLTRO I, outstanding at 27.6 billion euro. In September, the Group participated in the second

TLTRO II operation for approximately 5 billion euro and in December, it participated in the third operation for 3.5 billion euro. As at 31 December 2016, the Group's participation in the refinancing programme therefore amounted to approximately 45 billion euro.

Intesa Sanpaolo Group leverage (6.3% as at 31 December 2016) continues to be at the top levels recorded in the sector.

The capital base also remains high. As previously indicated, own funds, risk weighted assets and the capital ratios at 31 December 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 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 December, total Own Funds came to 48,274 million euro, against risk-weighted assets of 283,918 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 17.0%, while the ratio of the Group’s Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 13.9%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity Tier 1 ratio) was 12.7%.
Common Equity Tier 1 capital does not include the net income for the year and, for consistency, the correlated dividend or the distribution of reserves proposed, or the other foreseeable related charges.

With reference to the insurance sector, both for the consolidated/aggregate figures of the Companies in the Insurance Division and for the Intesa Sanpaolo Vita Insurance Group referred only to the companies subject to control (therefore excluding Fideuram Life), the Solvency Ratio measurements (Solvency II) as at 31 December 2016 show a ratio higher than 180%.

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. The trend in the Group’s VaR in 2016, shown in the following chart, was mainly determined by Banca IMI and is attributable in the first quarter to an extension of the portfolio. In the second quarter, a reduction was recorded as a result of exiting scenarios of volatility. In correspondence to the outcome of the referendum in the UK, volatility of credit spreads was then recorded on the markets accompanied by lower interest rates and share prices. The new scenario generated an increase in the Group's VaR towards the end of the half-year. During the third quarter, in addition to further exclusions of volatile scenarios, there was also a decrease in positions in government and financial securities. Thereafter risk measures were stable. During the year, risk measures continued to be contained within the assigned limits.
The Group’s average risk profile for the year was approximately 95 million euro, compared to an average amount of 94 million euro in 2015.

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.
Risk measurement is performed by means of different rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public sector entities and Financial institutions). These models make it possible to summarise the counterparty’s credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a uniform scale of reference.
Ratings and credit-risk mitigating factors (guarantees, loan types and covenants) play a key role in the loan granting and managing process.
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 were assessed using the usual criteria of prudence, as highlighted by the substantial average coverage percentages for bad loans (60.6%) and unlikely to pay (26.9%).

With regard to performing loans to customers, the "collective" adjustments, equal to 1,607 million euro, provide a portfolio coverage ratio of 0.5% (0.7% at the end of 2015).

Constant attention has been paid to the valuation of financial items. The majority of financial assets are measured at fair value, since classified as held for trading using the fair value option, under assets available for sale, or represented by hedging derivatives.
The fair value measurement of financial assets was carried out as follows: approximately 81% using level 1 inputs, around 17% using level 2 inputs and only close to 2% using level 3 inputs. Among the financial liabilities designated at fair value through profit and loss, most of the financial instruments (approximately 88%) were measured using the level 2 approach.
As regards the Intesa Sanpaolo Group's sovereign debt exposure, at the end of December exposure in securities to the Italian government amounted to a total of approximately 86 billion euro, in addition to receivables for approximately 15 billion euro.
The Group banks' exposure in securities amounted to almost 35 billion euro, of which 8.3 billion euro up to 3 years (approximately 24%), with a duration of approximately 5.2 years. On the other hand, the duration of the insurance portfolio is longer, at 6.4 years, consistently with that of liabilities.
Investment levels in structured credit products and hedge funds remained low. The former generated a positive contribution of 13 million euro during the year. For the hedge funds, the economic result of the investments in this segment was negative for 35 million euro.

As regards taxes, deferred tax assets were posted in the consolidated financial statements for 11,131 million euro, of which 8,491 million euro can be converted into tax credits, and deferred tax liabilities for 1,541 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 2016.

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 213 million euro) are being gradually amortised (with 35 million euro of amortisation recognised in the income statement for 2016) 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. During the year, the last amount of amortisation (123 million euro) relating to intangible asset management was posted to the income statement. Therefore, as at 31 December 2016 the intangible asset had been fully amortised.
As regards intangible assets with an indefinite useful life, represented by goodwill (4,059 million euro) and brand name (1,882 million euro), for the 2016 Financial Statements 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.
As the analyses carried out have yielded values 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.

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, introduced in 2011 to ensure that risk-acceptance activities remain in line with shareholders' expectations, is established by taking account of the Intesa Sanpaolo 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:
  - it adopts an operational risk assumption and management strategy geared towards prudent management and, also by establishing specific limits and early warnings, it focuses on achieving an optimal balance between growth and earnings objectives and the consequent risks;
  - it is committed to investing in assets and infrastructure with the aim of minimising the potential impact of malfunctions of the IT system and cyber attacks;
  - for compliance risk, it 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;
  - it works to ensure formal and substantive compliance with the provisions in terms of legal liability with the aim of minimising claims and proceedings that it is exposed to and that result in outlays;
  - it actively manages its image in the eyes of all stakeholders and seeks to prevent and contain any negative effects on its image, including through robust, sustainable growth capable of creating value for all stakeholders.

The general principles apply both at Group level and business unit or company level. In the event of external growth, these general principles must be applied, by adapting them to the specific characteristics of the market and the competitive scenario.
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. In addition, it aims to ensure the desired reputational and compliance risk profiles.
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, Funding/Lending Gap 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 and reputational risk so as to minimise the risk of negative events that jeopardise the Group's economic stability and image.

In compliance with the EBA guidelines (EBA/GL/2015/02) on the "Minimum list of quantitative and qualitative recovery plan indicators", during the 2016 update of the RAF the Group added new indicators (mainly asset quality, market and macroeconomic indicators) as early warning thresholds, in accordance with its Recovery Plan.
Management of the main specific risks is aimed at determining the risk appetite that the Group intends to assume with regard to exposures that may represent especially significant concentrations. Such management is implemented by establishing specific limits, management processes and mitigation measures to be taken in order to limit the impact of especially severe scenarios on the Group. These Risks are assessed also considering stress scenarios and are periodically monitored within the Risk Management systems.

In detail, the main specific risks monitored are:
- especially significant risk concentrations (e.g., concentration on individual counterparties, sovereign risk or commercial real estate);
- the individual risks that make up the Group's overall risk profile and whose operating limits, as envisaged in specific policies, complete the Risk Appetite Framework.

As already disclosed, a specific Credit Risk Appetite Framework (CRA) had already been established in 2015. The CRA 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. In 2016, the CRA was implemented with binding instructions for the credit process by setting specific limits identifying the maximum tolerated risk for the riskiest transactions. The limits set are approved within the RAF and are continuously monitored by the Credit Risk Management Head Office Department.

During the 2016 update of the RAF, the framework was further extended to Divisions and Group companies, allocating specific limits according to the:
- extent of the risks assumed (in terms of capital requirements, total assets, and contribution to Group earnings);
- specific nature of the business model (e.g. Banca IMI);
- presence of local regulations (International Subsidiary Banks) or industry sector regulations (e.g. companies in the insurance segment).

Particular attention was also given to the governance of the limits specifically assigned to the Divisions and companies during the review of the Guidelines for the Group's Risk Appetite Framework approved by the Board of Directors in July 2016.

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 governance and control limits and procedures.

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 Group prepares a Recovery Plan according to indications from the Supervisory Authorities. The process that governs 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 (governed 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 to take action to restore the long-term economic stability of an institution in the event of serious deterioration of its financial situation.

Within the annual preparation process for the Recovery Plan, the Chief Risk Officer Governance Area identifies the stress scenarios capable of highlighting the main vulnerabilities of the Group and its business model (e.g. significant exposure to the domestic market) in addition to measuring its potential impact on the Group's risk profile. The final results showed that the Group has a high level of resilience. In addition, as per the Road Map agreed with the Joint Supervisory Team, the subsidiaries within the SSM scope (VUB Group, Banka Koper, ISPB Ireland and ISPB Luxembourg) were included within the Group Recovery Plan. Additional scope extensions are planned for 2017 (CIB, PBZ and ISP Romania), while the other international subsidiaries will continue to be managed according to the regulations in their countries.

Risk culture

The utmost attention is devoted to the sharing and internalisation of risk awareness, by confirming the principles through periodic updates of the reference documents drown up (Tableau de Bord, ICAAP, and Risk Appetite Framework), and by taking specific actions for the implementation of development plans based on the guidance issued by the corporate bodies.
The risk management approach aims to achieve an integrated and consistent system of measures, considering both the macroeconomic scenario and the Group's risk profile, by fostering a risk-awareness through a transparent, thorough representation of the risk level of portfolios. The efforts made in recent years with the Basel 2 and 3 Project in order to obtain authorisation from the Supervisory Authorities for the use of internal ratings to calculate credit risk requirements and in order to secure validation of internal models for operational and market risks should be seen in this context.
The Group promotes the spread of risk-awareness through extensive training efforts aimed at ensuring the proper application of the internal risk management models.
The measures taken in pursuit of this goal are established through a systematic and coordinated approach to risk management, in accordance with the provisions of the supervisory regulations, with ongoing support from the Parent Company for the strengthening of the local risk assessment and monitoring systems within the international subsidiaries.

To that end, the CRO Forum was set up in 2015, consisting of quarterly meetings of the Chief Risk Officers of the Group's international subsidiary banks with the corresponding structures of the Parent Company. These meetings aim to favour the discussion of common issues and problems, by leveraging the experiences within the Group and by improving the knowledge of the specific characteristics of the local markets, in relation to the operational and regulatory aspects. The development guidelines for risk governance are also illustrated during these occasions, with reporting on the strategic projects conducted at Group level, in order to facilitate subsequent opportunities for dialogue and the leveraging of synergies.
Also with a view towards the internalisation of a Group risk-awareness, the Risk Academy was promoted, mainly aimed at the international subsidiaries, in order to strengthen the quality of Risk Governance at Banking Group level.
Particular attention was devoted to perform an extensive and in-depth assessment of the Group's risk culture, a topic of increasing prominence for the market and the Regulators. From a core perspective, the Group's good positioning was confirmed: a conservative risk profile with sound capital and liquidity levels, ongoing attention given to the internal control system and compliance rules that seek to ensure adherence to the substance of the regulations. It was also decided to add to these evidences through a survey on the perceptions and the behaviour of the managers involved in decision making and the transmission – from top management through to the responsible of small group of people – with a view to comparing the consistency between the desired guidelines and the day-to-day company operations. The Group profile in term of risk culture emerging from the assessment was compared both internally against the Group's Divisions, and with respect to international peers, to supplement the results with remarks collected through a programme of interviews with top management and the first-line managers. Periodic reporting was provided to the Management Control Committee and the Board on the initiative's developments, for the subsequent submission of a plan of targeted measures to further enhance the comprehensive programme of actions designed for the internalisation of the desired behavioural profiles in terms of risk culture.

Risk governance organisation

The risk acceptance policies are defined by the Board of Directors, with strategic supervision and management functions, and by the Management Control Committee with control functions. The Board of Directors carries out its activity through specific internal committees, among which the Risk Committee. The Corporate Bodies are assisted by the action of management committees, among which mention should be made of the Group Risk Governance Committee, as well as by the Chief Risk Officer, reporting directly to the Chief Executive Officer.
The Chief Risk Officer, to whom the Governance Area in charge of the risk management functions as well as the controls on the risk management and internal validation process reports, represents a "second line of defence" in the management of corporate risks that is separate and independent from the business functions.
The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management guidelines and policies in accordance with the company's strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of

the Group, including within the various corporate departments. The Chief Risk Officer ensures 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. The CRO implements level II monitoring and controls of credit and other risks, and ensures the validation of internal risk measurement systems.
In 2015, the Chief Compliance Officer was established, directly reporting to the Managing Director and CEO, in a position that is independent from operating departments and separate from internal auditing, which ensures the management of Group compliance risk, both in the operational and reputational risk components, including the risk of sanctions, losses or damage arising from improper conduct towards customers or such as to jeopardise the integrity and orderly functioning of the markets (so-called conduct risk). Furthermore, in line with corporate strategies and objectives, the CCO defines guidelines and policies, including statements and limits for the Risk Appetite Framework, and works with the corporate control functions to effectively integrate the risk management process.

The Group Risk Governance Committee, chaired by the Managing Director and CEO, is a body with decision-making, consultative and reporting powers. It was established with the aim of ensuring the monitoring and management of risks and the safeguarding of corporate value at Group level, including internal control systems, in implementation of the strategic guidelines and management policies defined by the corporate bodies. The Committee is also responsible for Basel 2 and 3 project governance and supervising the projects and measures necessary to guarantee compliance.
The Group Financial Risks Committee is a technical body with decision-making and reporting 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, is responsible for evaluating, in advance of approval by the Corporate Bodies, the methodological and measurement guidelines for financial risks and proposals for operational limits, in addition to defining the distribution thereof amongst the Group's major units; in addition, the session verifies the financial risk profile of the Group and 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 Corporate Bodies 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 appropriate measures aimed at mitigating it.

The Group Control Coordination and Operational Risk Committee is a technical body that operates with the aim of stepping up coordination and interdepartmental cooperation mechanisms:
– as part of the Group internal control system, facilitating the integration of the risk management process;
– in relation to operational risks, including ICT risk, facilitating its effective management.

The Committee operates within the scope of the guidelines set by the Corporate Bodies, based on the operational and functional powers delegated by the Board of Directors of the Parent Company. The Functions of the Group Control Coordination and Operational Risk Committee are organised into specific, separate sessions:
– Integrated Internal Control System Session, for reporting and consulting purposes;
– Operational Risk session, with decision-making, reporting and consulting purposes (in this context, the Committee's duties include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies).

The Parent Company performs a steering and coordination role with respect to the Group Companies, aimed at ensuring effective and efficient risk management at Group level. 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 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. Specifically, it performs the following functions:
- it governs the macro-process of definition, approval, control and implementation of the Group's Risk Appetite Framework (RAF) with the support of the other corporate functions involved;
- consistent with corporate strategies and objectives, it assists the Corporate Bodies in defining guidelines and policies on risk management;
- it coordinates the implementation of guidelines and policies on risk management by the relevant Group business units, also in the various corporate contexts;
- it ensures the measurement and control of Group exposure to the various types of risk, also verifying the implementation of guidelines and policies as above;
- it ensures credit quality monitoring and the observance of credit guidelines and strategies through the constant monitoring of risk, and submitting proposals on the structure of delegated powers of the Corporate Bodies.
- it monitors capital absorption (capital requirements), supporting the Planning and Active Value Management Head Office Department in actively managing capital;
- it proposes to the top management, along with the other competent corporate bodies, the definition of the structure of operating limits, including the rights to grant and manage credit, in line with the RAF and the allocated capital;
- it oversees regulatory developments and ensures that statutory reports are sent to the Supervisory Bodies with regard to internal models;
- it develops and maintains risk measurement, management and control systems in line with current regulations and international best practices, interacting, for such purposes, with the functions in charge of said corporate processes;
- it adopts capital-at-risk measurements for management reporting and assessment of the Group’s Economic Capital adequacy;
- as part of the Tableau de Bord and on a quarterly basis, it reports to the corporate bodies on the situation of the Group's overall risk profile; it compares that situation with the Risk Appetite Framework, highlighting any situations that require action by the Board of Directors;
- it draws up the annual update of the criteria for identifying significant transactions and provides a prior opinion on such transactions.
- it ensures coverage of II level risk monitoring and controls, also contributing to design I level controls and checking that they are effectively performed;
- it carries out II level monitoring and controls on credit quality, composition and evolution of the various loan portfolios also through risk-based controls on proper classification and provisioning of single positions (“single name” controls);
- it also monitors and analyses the structure of level II controls for monitoring risks other than credit risk, in order to verify the completeness and continuity of level I controls;
- it identifies any critical issues based on its control/monitoring activities and the results of I level controls, requesting and monitoring the implementation of specific mitigation actions, ensuring prompt reporting to the corporate bodies in the event of breaches or significant shortcomings;
- It validates internal risk measurement systems.

To that end, the Chief Risk Officer Governance Area is broken down into the following Organisational Units:
- Credit Risk Management Department;
- Financial and Market Risks Department;
- Enterprise Risk Management Department;
- Internal Validation and Controls Department;
- Coordination of Risk Management Initiatives.

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.
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 internal control system plays a crucial role and involves the entire corporate organisation (bodies, units, hierarchical levels, all personnel). In compliance with the provisions of Bank of Italy Circular 285/2013 (First Part, Title IV, Chapter 3) the "Integrated Internal Control System Regulation" was finalised. This aims to define the guidelines of Intesa Sanpaolo's internal control system, in its capacity as Bank and Parent Company of the Banking Group, through the adaptation of the reference principles and the definition of the responsibilities of the Bodies and of the functions with control duties, which contribute, in various ways, to the proper operation of the internal control system, as well as the identification of coordination arrangements and information flows supporting system integration. The structure of internal controls is also outlined by the entire set of company documentation (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls in force, incorporating all the Company policies, the instructions of the Supervisory Authorities, and provisions of law, including the principles laid down in Legislative Decree 231/2001 and Law 262/2005.
The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Regulations, Authorities and powers, Policies, Guidelines, Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls.
More specifically, the Company rules set out organisational solutions that:

– ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
– are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
– enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
– guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
– allow the prompt notification to the appropriate levels within the Company and the swift handling of any anomalies found by the business units and the control functions;
– ensure adequate levels of business continuity.

The Company's organisational solutions also enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.
In terms of Corporate Governance, on 27 April 2016 Intesa Sanpaolo adopted the one-tier corporate governance system, pursuant to Articles 2409-sexiesdecies and following of the Italian Civil Code. It therefore conducts its operations through a Board of Directors, certain members of which are also members of the Management Control Committee
The Board of Directors is responsible for corporate management. The Board may undertake all transactions considered necessary, useful or appropriate in achieving the corporate purpose, relating to both ordinary and extraordinary administration.
The Board of Directors elects a Managing Director from its members, other than the Chairman of the Board, the members of the Management Control Committee or the minimum number of Independent Directors. Subject to the powers that cannot be delegated, the Board of Directors delegates to the Managing Director the necessary and appropriate powers to ensure consistency with day-to-day management, in implementation of the guidelines decided by the Board. The Board clearly and precisely establishes the content, the quantitative and/or value limits and the implementation procedures for the

delegation to the Managing Director. The Board of Directors performs all the strategic supervision duties required by the law currently in force. The Management Control Committee carries out all the tasks assigned to the control body pursuant to the law.
The Intesa Sanpaolo Group adopts an internal control system based on three levels, in line with the legal and regulatory provisions in force.
Such a model provides for the following types of control:

- Level I: line controls which are aimed at ensuring proper performance of operations (for example, hierarchical, systematic and sample-based controls) and which, to the extent possible, are incorporated in the IT procedures. These are conducted by the same operating and business structures, also through a unit dedicated exclusively to control duties or carried out by the back office;
- Level II: risk and compliance controls for the purpose of ensuring, inter alia:
  - the correct implementation of the risk management process;
  - compliance with the operating limits assigned to the various functions;
  - compliance of company operations with the rules, including self-governance rules.

  The functions assigned to such controls are separate from the ones in charge of production and contribute to the definition of the risk governance policies and the risk management process. In the Intesa Sanpaolo Group, Level II includes the following Parent Company structures and the equivalent local units of the Group companies, where established:
  - Chief Risk Officer Governance Area, which is assigned the role of risk management and validation function, as defined by the applicable regulations.
  - Chief Compliance Officer, who is assigned the duties and responsibilities of the "compliance" function, as defined in the reference regulations. The Chief Compliance Officer's area also includes the Anti-Money Laundering Department, which is tasked with the duties and responsibilities of the "anti-money laundering function", as defined by the reference regulations;

- Level III: 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. In the Intesa Sanpaolo Group, internal auditing is carried out by the Internal Auditing Department of the Parent Company and the equivalent local units of Group companies, where established.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context.
Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

The Risk Management and Internal Validation Function

The Chief Risk Officer Governance Area is responsible for operational implementation of the strategic and management guidelines for risk along the Bank's entire decision-making chain, down to individual operational units. The tasks and functions are discussed in detail in the subsequent chapters of Part E.

Through the Internal Validation and Controls Head Office Department, the Chief Risk Officer Governance Area carries out II level monitoring and controls on credit and other risks. The activities conducted on credit consider the quality, composition and evolution of the various loan portfolios, also through risk-based controls on proper classification and provisioning single positions ("single name" controls). It also carries out monitoring and controls on rating assignment and update processes.
In general, the control activities development includes the credit processes assessment also to verify that suitable level I controls are in place, including proper execution and traceability.
The monitoring and control of risks other than credit risks is aimed at verifying that level I controls are properly established in terms of completeness, efficiency, detection and traceability, identifying areas to be strengthened and, where necessary, requesting corrective measures.

As a part of the internal control system implemented by the Bank, the purpose of the validation function is the ongoing evaluation, in accordance with the Supervisory Regulations for banks[1], of the compliance of internal risk measurement and management systems over time as regards determination of the capital requirements with regulatory provisions, Company needs and changes in the market of reference. The

[1] EU Regulation 575/2013 (CRR), EBA Guidelines, EU Directive 2013/36 (CRD IV), Bank of Italy Circular 285/2013.

validation function is entrusted to the Internal Validation and Controls Head Office Department, which is responsible for the activity at the Group level in accordance with the requirements of supervisory regulations governing uniform management of the control process on internal risk measurement systems.
Within this Department, which reports directly to the Chief Risk Officer, the Internal Validation Sub-Department ensures that internal models, whether already operational or in development, are validated with regard to all risk profiles covered by Pillars 1 and 2 of the Basel Accord, in accordance with the independence requirements established by the applicable regulations[2].

The validation process is mainly driven by Intesa Sanpaolo's roll-out plan and any requests coming from the Regulator. On an annual basis, the Internal Validation Sub-Department prepares a validation plan that is submitted to the Board of Directors for approval.

With respect to Pillar 1 risks, validation is a prerequisite for use of the internal systems for regulatory purposes. The validation function conducts assessments of risk management and measurement systems in terms of models, processes, information technology infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference. The level of involvement of the structure depends on the different types of validation (development/adoption of internal systems, application for adoption/extension of internal systems, application for model change and ongoing validation).
Both during the initial application phase and on an ongoing basis (at least annually), the results of the Internal Validation Sub-Department's activities are presented to the competent functions, transmitted to the Internal Auditing Department for its related internal auditing work, as well as to the competent Managerial Committees and Governance Bodies for approval of the certification of compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.
With respect to Pillar 2 risks, the Internal Validation Sub-Department conducts analyses of methodologies, verifying in particular that the measurement or assessment metrics adopted in quantifying significant risks are economically and statistically consistent, the methodologies adopted and estimates produced to measure and assess significant risks are robust and comparing alternative methodologies for measuring and aggregating individual risks. The analyses are conducted both "ex-ante", when adopting/modifying the internal systems used for Pillar 2 purposes, and "ex-post" as part of the prudential control process. The latter are summarised in the ICAAP report while, for substantial or significant modifications of internal systems, the Internal Validation Sub-Department produces a report to be submitted to the competent Managerial Committees and the Governance Bodies[3], as a support to the internal adoption process.
The function also manages the internal validation process at the Group level, interacting with the Supervisory Authorities, the Corporate Bodies of reference and the functions responsible for the level III controls provided for in regulations. The Internal Validation Sub-Department adopts a decentralised approach for companies with local validation functions (certain international companies, with functional reporting for the local validation units to the Internal Validation Sub-Department), coordinating and supervising the activities of such companies, and a centralised approach for the others. The adopted methodologies were developed in implementation of the principles that inspire the Supervisory Provisions for banks, UE directives and regulations, general guidelines of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.
The function generally also provides advice and suggestions to company and Group functions on an ongoing basis, with the aim of improving the efficacy of the processes of risk management, control and governance of internal risk measurement and management systems for determining capital requirements.

Finally, the Internal Validation Sub-Department is responsible for the validation of the internal systems used for management purposes and contributes to the development of the model risk framework[4] for both Pillar 1 and Pillar 2 risks.

In 2016, the main validation activities in the area of credit risks pertained to analyses for the submission of the following applications:

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[2] The validation function became the owner of the calculation of the default rate for the Group from the second half of 2016.

[3] In the event of substantial/significant modifications, the approval process requires that the Credit Risk Management Department submit updates to the Internal Management System, accompanied by the impact analysis on the risk metrics and the report of the validation unit, to the competent Managerial Committee for approval. Subsequently, reporting is provided on those modifications to the Board of Directors.

[4] Model risk is intended as the risk that the model could become unsuitable or could be used incorrectly to describe - in a simplified but accurate manner - the real phenomenon for which it was developed.

- adoption of the internal estimates of the CCFs for the calculation of the EAD for the Corporate segment;
- adoption of the internal estimates of the CCFs for the calculation of the EAD for the Retail SME segment;
- adoption/model change of the internal estimates for PD, LGD and the CCFs for the calculation of the EAD for the Retail segment.

In 2016, the validation function also:

- conducted the review required by the Regulator for the adoption of the AIRB Corporate model change;
- calculated the default rates required to update the Central Tendency of the validated models/models being validated/re-estimated;
- started the validation work on the alignment of the PD and LGD models for IFRS 9.

The following ongoing analyses were also conducted, and their results were summarised in the annual validation report:

- half-yearly backtesting analyses of regulatory segments authorised to use internal systems (residential mortgages for individuals, Corporate and Retail SME segments);
- half-yearly analyses on guarantees used to mitigate credit risk (mortgage, personal and financial guarantees).
- yearly quantitative and qualitative analyses (performance analyses and empirical analyses of use tests) for regulatory segments authorised to use internal systems.

In the cases of the international subsidiaries, Internal Validation conducted its own assessments in collaboration with the local validation functions, where present. In detail, analyses of the adequacy of internal credit risk measurement systems were conducted for the following subsidiaries:

- BIB (Serbia): validation report for the application for the adoption of the FIRB Corporate approach (SME&LC model and slotting for structured finance transactions);
- VUB (Slovakia): validation report for the application for the adoption of the IRB Other Retail approach, and validation report for the application for the amendment of the definition of default (with effect on all the portfolios);
- Banka Koper (Slovenia): validation report for the operational adoption of the PD Small Business model;
- CIB (Hungary): validation report for the operational adoption of the new Corporate PD model, validation report for the operational adoption of the EAD Corporate model, and opinion on the governance document and organisational aspects;
- AlexBank (Egypt): validation report for the operational adoption of the PD Corporate and SME model;
- PBZ (Croatia): validation report for the operational adoption of the PD Retail Unsecured model and recalibration of the PD Small Medium and Large Corporate model;
- Intesa Sanpaolo Bank Luxembourg: application for extension of the new Parent Company Corporate model.

Validation activities for operational risk conducted in 2016 took the form of:

- verification of the strength of the model in the event of updating of the loss data during 2015 (internal and external data);
- ongoing validation analyses for the purpose of drawing up the annual report including the activity of replicating and verifying the database used by the calculation engine to quantify capital requirements. To this end, the information from the documentary and empirical analyses (using Isidoro data) was supplemented by specific on-site inspections, aimed at verifying the effective implementation of the monitoring and management process for operational risks, and by methodological analyses[5], as well as the remote verification process on the Organisational Units/Legal Entities within the AMA scope.

The activity of the Internal Validation Sub-Department relating to the market risk component focused on the following areas:

- periodic quantitative and qualitative analysis as part of the ongoing valuation activity (in particular, backtesting of the Value at Risk (VaR) model and stress testing of the Incremental Risk Charge (IRC) model);

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[5] In 2016, the on-site inspections were conducted, with the aid of the local validation functions, on the international subsidiary banks within the AMA scope (VUB and PBZ, already authorised to use the AMA approach, and CIB, where the AMA framework has been implemented, but currently only for operational purposes).

– monitoring of the existing model for calculating stressed VaR, which entails a half-yearly revision of the adequacy of the historical stress period to be used in the calculation.

In addition, the Internal Validation Sub-Department carries out ongoing activities concerning pricing issues (for example, verification of the consistency of non-contributed bonds pricing among the end of quarter measurements carried out by the Financial and Market Risks Department, and operational pricing, monitored by Product Control of Banca IMI). The validation function was involved in the preparations for the inspection visit scheduled for 2017 under the TRIM (Targeted Review of Internal Models) and monitored the execution of the benchmarking requested by the EBA.

In relation to counterparty risk, the Internal Validation Sub-Department periodically monitors the progress of corrective measures implemented for the findings reported in the authorisation letter and conducts periodic quantitative and qualitative analyses, whose results are summarised in the annual validation report. Following the authorisation for the model change for the simulation model for interest rates, which enables the management of negative rates, the function monitored and analysed the additional measures on the model proposed by the development function in the plan of corrective measures requested by the ECB. The analyses involved rate simulations (with possible inclusion of euro-OIS bases, and additional amendments to the volatility scaling), the addition of a hybrid model to refine the simulation for the equity asset class, currently limited to the indices, and further refinements proposed for the simulation for the foreign exchange asset class (also with the possible addition of a specific driver for exchange rate volatility). The Bank was also involved in an initial meeting under the TRIM, for which the validation function examined the evolution of the forwarding curves and the convergence analyses (and the Monte Carlo error estimate).

For the Pillar 2 Risks, the main areas of analysis in 2016 were:

– follow-ups of the methods used for the determination of the Economic Capital for credit risk (in particular, the portfolio model and the non-performing loans model);
– analyses of the methods used for the calculation of the Economic Capital for banking book interest rate risk under ordinary and stress conditions;
– general review of the stress testing framework and examination of the methods used for the determination of the scenarios (Oxford model, G-VAR). Further analyses were conducted by the validation function under the internal project, initiated in the second half of 2016, to determine the Bank's level of alignment with the EBA "Draft Guidelines on stress testing and supervisory stress testing" published in December 2015;
– analyses of the methods for determining the Economic Capital and AFR for equity risk and banking book foreign exchange risk;
– start of the analyses for the assessment of the methods for calculating Economic Capital for pension risk, added as a significant risk in the 2015-2018 ICAAP&ILAAP Book;
– validation of the adequacy of the behavioural models for banking book interest rate risk: specifically, the validation function was involved in the re-estimation of the model for the core deposits for the contribution to the fair value shift sensitivity for Intesa Sanpaolo, Fideuram – ISPB and the Group's main International Subsidiary Banks (BIB, PBZ and BIH, BK, ISPRO), estimate of the model for the core deposits for the contribution to the net interest income under ordinary and stress conditions (for Italy) and update of the prepayment model (for Italy);
– review of the framework for the management and measurement of liquidity risk. With regard to stress testing in particular, the contribution to the liquidity outflows from the behavioural model for the committed credit lines was analysed.

The analyses conducted by the Internal Validation Sub-Department are reported in specific detailed memos, summarised in the 2015-2018 ICAAP&ILAAP Book and in the section on the methods used for operational purposes[6] in the annual validation report prepared, as usual, in June 2016.

In addition, in 2016, the validation function continued the work for the development and implementation of the framework for the identification and management of model risk, in collaboration with the Enterprise Risk Management Department. Specifically, the development of the components of the framework for the assessment of model risk for the "pilot" model (PD Mortgage model) was completed. The work will continue in 2017 according to the internal planning, extending the framework to other

[6] In accordance with the regulatory requirements implemented by the Group in the "Guidelines for the adoption, management and control of internal risk measurement systems used for management purposes".

credit risk methods and periodically implementing the analyses for the models for which the framework has been established and customised.

Compliance
The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.
The responsibilities and duties of the compliance function are assigned to the Chief Compliance Officer, who is independent and autonomous in relation to the operational structures, reports directly to the Governing Bodies and has access to all activities within the Bank, as well as any significant information for the performance of his/her duties.
The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Corporate Bodies, which indicate the responsibilities of the various company structures and macro processes to mitigate compliance risk:
– identifying and assessing compliance risk;
– proposing the functional and organisational measures for mitigation of this risk;
– assessing the consistency of the company’s bonus system;
– conducting pre-assessments of the compliance of innovative projects, operations and new products and services;
– providing advice and assistance to the governing bodies and the business units in all areas with significant compliance risk;
– monitoring, including through the use of information provided by the other control functions, of ongoing compliance;
– promoting a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.

The regulatory scope and the procedures for monitoring regulatory areas that present significant risks of non-compliance for the Group are defined in the Group Compliance Guidelines. The Chief Compliance Officer submits periodic reports to corporate bodies on the adequacy of compliance control, with regard to all regulatory aspects applicable to the Bank which show compliance risks. On an annual basis, these reports include an identification and assessment of the primary compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a half-yearly basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.
The Compliance Guidelines call for the adoption of two distinct models in relation to direction and control of the Group. These models are organised in such a way as to account for the Intesa Sanpaolo Group’s structure in operational and territorial terms. In particular:
– compliance supervision activities for specifically identified Network Banks and Italian Companies whose operations show a high degree of integration with the Parent Company are centralised with the Chief Compliance Officer structures;
– for the other Companies, specifically identified on the basis of the existence of a legal obligation or due to the importance of their material size and/or risk, as well as for International Branches, an internal compliance function is established and a local Compliance Officer is appointed, which are assigned compliance responsibilities. The local Compliance Officers of the subsidiaries functionally report to the Chief Compliance Officer structures, while those of the International Branches, except where not permitted by local regulations, hierarchically report to the Chief Compliance Officer structures.

Anti-Money Laundering
The duties and responsibilities of the Anti-Money Laundering Function, as envisaged by regulations, are assigned to the Anti-Money Laundering Department, which reports directly to the Chief Compliance Officer.
Specifically, the Anti-Money Laundering Department ensures monitoring of compliance risk in the area of money laundering, combating financing of terrorism and embargo management by:
– laying down the general principles to be adopted within the Group for the management of compliance risk;
– conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable regulations and proposing appropriate organisational and procedural changes;

- providing advice to the functions of the Parent Company and subsidiaries on a centralised basis and establishing adequate training plans;
- preparing appropriate periodic reporting for corporate bodies and top management;
- discharging the required specific obligations on behalf of the Parent Company and subsidiaries on a centralised basis, including, in particular, enhanced customer reviews, controls of proper management of the Single Electronic Archive and the assessment and monthly submission to the Financial Reporting Unit of data relating to aggregated anti-money laundering reports, and the assessment reports of suspicious transactions received from operating departments for the submission to the Financial Reporting Unit of reports deemed accurate.

Internal Auditing

Internal auditing activities are performed by the Internal Auditing Department, which reports directly to the Board of Directors. It also functionally reports to the Management Control Committee and has no direct operating responsibilities.
The Department has a structure and a control model which is organised consistently with the evolution of the organisational model of Intesa Sanpaolo and of the Group.
The Internal Auditing structures of the Group's Italian and international companies report to the Internal Auditing Department in terms of functions.
The Internal Auditing Department performs overall level 3 assessment of the internal control system, reporting possible improvements to the corporate bodies, with specific regard to the RAF, the risk management process and risk measurement and control instruments.
In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control system, the risk management process and the corporate processes, also with regard to their ability to identify and prevent errors and irregularities. In this context, amongst others, it audits the risk control and regulatory compliance corporate functions, also through participation in plans so as to generate added value and improve the effectiveness of the control and corporate governance processes.
The audit action directly concerns Intesa Sanpaolo and the Group companies.
The Internal Auditing Department is also responsible for assessing the effectiveness of the corporate RAF definition process, the internal consistency of the overall framework and compliance of Bank operations with the RAF.
The Head of the Internal Auditing Department enjoys due autonomy and independence from the operating departments. The Department has free access to the activities, data and documents of all company functions.
The Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practices and standards for internal auditing established by the Institute of Internal Auditors (IIA).
The Department has earned the maximum rating ("Generally Compliant") in the external Quality Assurance Review envisaged by the international standards.
In performing its duties, the Department uses structured risk assessment methods to identify existing situations of greatest interest and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and corporate bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Management Control Committee, and subsequent approval by the Board of Directors, on the basis of which it conducts its activities during the year, in addition to a Long-Term Plan.
Auditing was performed directly for the Parent Company, Intesa Sanpaolo, the Network Banks and other subsidiaries under an outsourcing contract. For the other Group companies with their own internal audit departments steering and practical coordination of the local departments was performed to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, were also performed for those companies, as mentioned above.
Any weaknesses detected during control activities have been systematically notified to the company functions involved for prompt improvement actions, which are monitored by follow-up activities to verify their effectiveness.
Summary Internal control system assessments from the checks have been periodically submitted to the Management Control Committee and the Board of Directors. The main weaknesses detected and their development over time have been included in the Audit Tableau de Bord (TdB) so that they may be systematically monitored. The reports relating to the actions completed with a negative opinion or which

highlight major shortcomings were submitted in full to the Board of Directors of the Parent Company as well as to the Boards of Directors and Statutory Auditors of the subsidiaries concerned.
Lastly, the Internal Auditing Department ensured constant assessment of its own effectiveness and efficiency in line with the internal "quality assurance and improvement" plan drafted in accordance with the recommendations of international standards for professional audit practice. In this regard, during 2016 it continued an evolutionary path with the aim of strengthening the audit model in line with the new European supervisory standards laid down by the EBA (SREP framework).

The Manager responsible for preparing the Company's financial reports

The Manager Responsible for preparing the Company's financial reports according to the provisions of Article 154-bis of the Consolidated Law on Finance - appointed in July 2015 by the Management Board, based on the opinion of the Supervisory Board - meets the professionalism requirements - i.e. specific skills concerning financial accounting and management and control of the related administrative procedures – set by the Articles of Association. The Manager responsible for preparing the Company's financial reports also meets integrity requirements for members of control bodies of listed companies envisaged under current regulations.

The Manager responsible for preparing the Company's financial reports was vested with adequate powers and means for the performance of his functions. For this purpose he relies on:
– a dedicated organisational structure capable of supporting him in the performance of his institutional duties, which is adequate in terms of number and technical and professional skills;
– the Administration and Tax Head Office Department;
– the contribution from the corporate control functions and the other functions of the Parent Company and the Group companies.

Supervision on the reliability of the company financial reports and on the financial reporting process is carried out in compliance with the provisions of Article 154-bis of the Consolidated Law on Finance and the related implementing provisions as well as the supervisory rules on the administration and accounting system to which the companies that control companies governed by the laws of non-EU countries (Article 36 of Consob Market Regulation) are bound.

For the purposes of the aforesaid legal and regulatory provisions, the Manager responsible for preparing the Company's financial reports plays a steering and coordination role in Group companies with regard to administrative matters and in the supervision of internal control system functional to accounting and financial reporting and supervises the fulfilment of the legal obligations according to a shared approach at Group level, defined by specific internal regulations. In particular, the Manager responsible for preparing the Company's financial reports:
– issues the instructions for the correct and uniform application of the accounting standards and measurement criteria, formalised as part of the Group Accounting Rules, which are subject to regular periodic updates;
– prepares appropriate administrative and accounting procedures regulating the preparation of the separate financial statements, the consolidated financial statements and all other relevant financial communications pursuant to Article 154-bis of the Consolidated Law on Finance, monitoring their adequacy and ensuring their alignment to the corporate disclosure requirements applicable from time to time;
– oversees the quality of the accounting statements contained in the corporate documents disclosed to the market; to this end, he/she has the power to promptly obtain any information deemed necessary for the performance of his/her duties and coordinates the exchange of information with the independent auditors;
– submits public disclosures to the Board of Directors and certifies the compliance of financial documents and reports in accordance with the provisions of Article 154-bis of the Consolidated Law on Finance.

Furthermore, the Manager responsible for preparing the Company's financial reports monitors the assignments granted to independent auditors to supervise the auditors' independence and impartiality, in compliance with legal provisions and in accordance with methods governed by the specific Company Regulations.

The Manager responsible for preparing the Company's financial reports oversees the periodic reports that enable the Board of Directors to fulfil its legal obligations, as well as the provisions of the Articles of Association and the internal regulations on the supervision of the adequacy of powers and means granted as well as actual compliance with administrative and accounting procedures. This reporting is discussed beforehand with the Management Control Committee and the other Board Committees, for the aspects under their responsibility.

The financial reporting process monitoring

Within Intesa Sanpaolo, the monitoring of the accounting and financial reporting process is based on the review of:

- the completeness and consistency of the information disclosed to the market through a structured system of information flows coming from the functions of the Parent Company and Group companies on the significant events for the purposes of accounting and financial reporting, especially as regards the main risks and uncertainties to which they are exposed;
- compliance of the processes and procedures used for the preparation of the company financial reports and any other relevant financial disclosure pursuant to Article 154-bis of the Consolidated Law on Finance. Special attention is paid to monitoring the adequacy of the auditing approach and the proper conduct of the activities functional to the financial reporting process; the focus of the audits is represented by the work stages which, within business processes, entail the recording, processing, evaluation and presentation of data and information, as well as of the IT architecture and application monitoring rules, especially with reference to the management of operations and development interventions on the summary systems instrumental to the financial reporting process.

As known, the Italian legislation does not make express reference to predefined standards in order to assess the adequacy of the administrative and accounting procedures and to ensure the effectiveness of the related internal control system and technology infrastructure. The international benchmarks – typically also used by independent auditors – are represented respectively by the *COSO Framework*[7] in relation to the internal control system and the *COBIT Framework*[8] with regard to information systems. They are also used as benchmarks by Intesa Sanpaolo insofar as they offer the opportunity for a convergence in the analysis and evaluation methodologies compared to the more widespread consolidated practices at the international level, based on authoritative references and widely recognised, updated on an ongoing basis and accompanied by elements of interpretation that enable a smooth and straightforward dialogue with the regulators, the independent auditors, the relevant bodies and among the control functions.

Independent Auditing

For Intesa Sanpaolo, as a listed company (Public Interest Entity pursuant to the relevant regulations), auditing of the accounts may only be conducted by an independent auditing firm (Independent Auditor), responsible for verifying, during the year, the regular keeping of corporate accounts and the proper recording of management operations in the books, and for expressing, through the appropriate reports, an opinion on the Parent Company's and consolidated financial statements, as well as on the half-yearly report, after ascertaining that they correspond to the accounting entries and related audits and that such records comply with the relevant regulations.

The independent auditor is KPMG S.p.A., which the ordinary Shareholders' Meeting of 10 May 2011 appointed for financial years 2012-2020, as proposed by the Supervisory Board.

In order to monitor compliance with laws governing independent auditing firms engaged for the auditing of the accounts of Group companies, while ensuring the conditions to protect the independence of independent auditors, Intesa Sanpaolo has adopted specific Group Regulations used to introduce a supervisory system aimed at monitoring the appointment of independent auditors and other engagements awarded by the Parent Company's departments and Group companies to independent auditors, their business networks and their affiliates. Recently, said Regulations were updated in order to

[7] The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and organisation.

[8] The COBIT Framework - Control OBjectives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.

incorporate the changes occurred in Intesa Sanpaolo's governance system and the innovations of the external legal framework (Legislative Decree 39/2010 amended by Legislative Decree135/2016 in adoption of Directive 2014/56/EU and EU Regulation 537/2014).

Based on current Group provisions, the appointment of independent auditors by Parent Company departments and Group companies to provide services other than accounting audits requires prior examination by the Manager responsible for preparing the Parent Company's financial reports and subsequently by the Parent Company's Management Control Committee or Board of Statutory Auditors of the company concerned. The Manager responsible for preparing the Company's financial reports is also responsible for reporting to the Management Control Committee on a periodic basis on assignments awarded during the period to the independent auditors of the Parent Company and other Group companies by the Group and the fees paid to them over the year.

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 and model risk;
- insurance risk, analysed in Part E of the Notes to the consolidated financial statements and not in this document since it is outside the prudential scope;
- strategic risk;
- risk on real estate assets owned for whichever purpose;
- 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 in the form of stress tests.

Particular 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 the management processes concerning the primary risks and implementing specific, dedicated communication and reporting flows.

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 under ordinary and stress conditions. The assessment of capital is included in business reporting and is submitted quarterly to the Group Risk Governance Committee, the Risk Committee and the Board of Directors, as part of the Group's Risks Tableau de Bord.

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.

Basel 3 regulations and the Internal Project

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

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 Retail SME and Retail Mortgage portfolios, as well as other Italian and international Group companies, as shown in the following table.

<table>
<tr><th>Company</th><th>Corporate
FIRB</th><th>Corporate
AIRB LGD</th><th>SME Retail
IRB LGD</th><th>Mortgage
IRB LGD</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="7">Dec - 2008</td><td rowspan="7">Dec - 2010</td><td rowspan="7">Dec - 2012</td><td rowspan="6">Jun - 2010</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio in Bologna</td></tr>
<tr><td>Cassa di Risparmio del Friuli Venezia Giulia</td></tr>
<tr><td>Cassa dei Risparmi di Forlì e della Romagna</td></tr>
<tr><td>Mediocredito Italiano</td><td>n.a.</td></tr>
<tr><td>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2009</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Jun - 2010</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>Dec - 2013</td><td>n.a.</td></tr>
<tr><td>Banca IMI</td><td>n.a.</td><td>Jun - 2012</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Intesa Sanpaolo Bank Ireland</td><td>Mar - 2010</td><td>Dec - 2011</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Vseobecna Uverova Banka</td><td>Dec - 2010</td><td>Jun - 2014</td><td>Jun - 2014</td><td>Jun - 2012</td></tr>
</table>

Compared to the situation as at 31 December 2015, the merger by incorporation of Banca dell'Adriatico and Cassa di Risparmio dell'Umbria into the parent company Intesa Sanpaolo S.p.A. was completed

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. The Group is awaiting the AIRB authorisation on this portfolio from the Supervisory Authority.
In 2016, the Supervisory Authority made a pre-validation inspection visit for the authorisation for the use of internal models for determining the PD (Probability of default), LGD (Loss Given Default), and EAD (Exposure at default) for the Retail segment. During this inspection, the parameters for the residential mortgage portfolio were also reviewed, for which authorisation had been obtained for the use of internal models starting from June 2010.
During the same year, a pre-validation inspection visit was also made for the determination of the EAD (Exposure at default) for the Corporate and Retail SME portfolios.
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.

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, Banca IMI and the banks of the Banca dei Territori Division 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 the derivatives of Banca IMI and the Parent Company from the first quarter of 2014, and for the SFTs from the reporting 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 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, the exercise 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) for Intesa Sanpaolo resulting from the stress test for 2018, the final year considered in the exercise, was 12.8% 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 included a 50 basis-point reduction - in both scenarios - for the transition from the calculation criteria applicable in 2015 to those in force for 2018.

CREDIT RISK

Risk management strategies and processes

The Group's strategies, credit risk appetite, 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;
- given the current economic climate, 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.

Credit granting autonomy limits, which incorporate the amount of loans granted (EAD), the risk level of the customer (PD), the loss rate in the event of a default by the borrower, possibly mitigated by the presence of guarantees (LGD), and maturity, are defined in terms of risk-weighted assets and reflect the risks assumed/to be assumed by the Intesa Sanpaolo Group towards the Economic Group.
Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentrations, limit potential losses and ensure credit quality.
In the credit-granting phase, coordination mechanisms have been introduced with which Intesa Sanpaolo exercises its direction, governance and support of the Group:
- the system of Credit Granting and Management Powers and Credit Rules Lending governing the ways in which credit risk to customers is assumed;
- the "Credit-ceiling", intended as the overall limit of lines of credit which may be granted by companies of the Intesa Sanpaolo Group to the larger Economic Groups;
- the "Advisory opinion" on credit-granting to large customers (single name or Economic Group) by Group subsidiaries which exceeds certain thresholds;
- the "Rules on Credit Risk Appetite" that regulate the application of the CRA, whose purpose is to achieve growth in sustainable loans.

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.

Structure and organisation of the associated risk management function
Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, to the extent of their respective competences, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.
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
- Chief Risk Officer
- Chief Financial Officer

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 assesses the creditworthiness of the loan applications received and, where applicable, approves them or issues a compliance opinion; ensures the proactive management of credit, under his/her responsibility, and the management and monitoring of non-performing loans not in bad loan status; establishes the Credit Granting and Management Rules; ensures that positions classified as non-performing, under his/her responsibility, are properly measured for financial reporting purposes; allocates the ratings to the positions that require specialist assessments and assesses the improvement override proposals made by the competent departments; and defines operating credit processes, in collaboration with the subsidiary Intesa Sanpaolo Group Services, also on proposal from the Group's various functions/structures.
The Chief Risk Officer is responsible for adapting the Risk Appetite Framework to the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures, defines the metrics used to measure credit risk, provides risk-adjusted pricing models and guidelines for expected loss, economic capital (ECAP), RWA and acceptance thresholds, formulates proposals for assigning Credit Granting and Managing Powers, and it carries out II level credit monitoring and controls, including rating controls. With specific regard to the collective measurement of performing loans and the measurement of non-performing loans on a statistical basis, he or she supervises credit risk measurement models.
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.
In accordance with the strategic guidelines and risk management policies set by the Board of Directors, the Chief Financial Officer coordinates the process of formulating credit strategies (a process in which the other chiefs and the business units participate) and oversees pricing from a risk/return standpoint according to value creation objectives. The Chief Financial Officer is also responsible for identifying and implementing hedging transactions for the risk exposures of the asset classes in the loan portfolio by taking advantage of the opportunities presented by the secondary credit market with a view towards active management of company value.
In addition, within the framework of the loan assessment process, the Administration and Tax Head Office Department, under the Chief Financial Officer, is responsible for incorporating the assessments of loan positions formulated, on a collective or individual basis, by the competent departments, as well as for coordinating the process of assessing loans for financial reporting purposes.
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 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.
Risk measurement is performed by means of different rating models according to borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Italian Public sector entities and Financial institutions). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a uniform scale of reference.
A number of rating models are used for the Corporate segment:

- models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
- specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for LBO/acquisition-finance and asset-finance transactions.

In general terms, the structure of these models requires the integration of multiple modules:

- a quantitative module that processes financial and behavioural data;
- a qualitative module that requires the manager to fill in a questionnaire;
- an independent assessment by the manager, organised as a structured process, which triggers the override procedure if there is a discrepancy with respect to the integrated rating.

Ratings are generally assigned on a decentralised basis by the Manager, who is the main figure in the process of assigning a rating to a counterparty. The validation of any improvement override proposals is performed by the Specialist Rating Sub-Department within the Credit Coordination Head Office Department. This sub-department is responsible for, among other duties, the task of assigning what are known as "centralised ratings" provided for in the rating assignment processes according to the corporate method and of intervening in the calculation of ratings with specialist models.

The models applied to the Retail portfolio are as follows:

- for the Retail SME segment, since the end of 2008 a Group rating model by counterparty has been used, following a scheme similar to that of the Corporate segment, meaning that it is extremely decentralised and its quantitative-objective elements are supplemented by qualitative-subjective elements; in 2011, the service model for the Small Business segment was redefined, by introducing in particular a sub-segmentation of Micro and Core customers according to criteria of size, simplicity, and a partial automation of the granting process. This required an adjustment of the rating model, which was divided into the two above-mentioned sub-segments, taking advantage of the opportunity to update the data sources and historical series used in development;
- for the Retail Mortgage segment (residential mortgages for private individuals), the Group model processes information relating to both the customer and the contract. It differentiates between initial disbursement, where the acceptance model is used, and the subsequent assessment during the lifetime of the mortgage (performance model), which takes into account behavioural data;
- for products aimed at individuals (the Other Retail segment), a new approval model was made available in September 2014 for operational purposes, which is applied to all new disbursements (such as personal loans, credit cards, and credit facilities on current accounts).

The rating model for the Sovereign portfolio supports the assignment of an assessment of creditworthiness for over 260 countries. The structure of the model involves:

- a quantitative module for assessing country risk, which takes account of the structural rating assigned by the major international agencies, the risk implicit in market quotations of sovereign debt, a macroeconomic assessment of countries identified as strategic and the international scenario;
- a qualitative opinion component, for which the Sovereign Rating Working Group is responsible, supplementing the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of individual sovereign countries.

The framework is completed by the class of regulatory exposures consisting, on the one hand, of banks (and other financial companies attributable to banking groups) and near banking companies (companies that engage in leasing, factoring and consumer credit), and, on the other, public entities:

- in the Banks segment, from the standpoint of determining probability of default, the key decision was to differentiate the models for banks in mature economies and banks in emerging countries, the structure of which, however, is highly similar. In short, these consist of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component relating to systemic risk, a component relating to specific country risk for banks most closely correlated with country risk, and finally, a module (the "manager's opinion") that allows the rating to be modified in certain conditions;
- in 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 extensive approach has been adopted for local healthcare authorities and other sector entities, starting with the legally superior entities, with possible notching based on statistical assessments of financial statements.

Experience-based models are used for counterparties belonging to the Non-Banking Financial Institutions portfolio.

The LGD model is 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 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 a correction factor, known as "Danger Rate": the Danger Rate is a multiplying correction factor, used to recalibrate Bad 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;
- 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 Mortgage, Other Retail, Factoring, Leasing and Public Entities).
The Banks LGD model partly diverges from the models developed for the other segments, given the peculiarities of the segment, which has a low number of defaults ("low-default portfolios"). The estimation model is a market LGD approach, based on the market price of debt instruments observed 30 days after the official date of default for a sample of defaulted banks from all over the world. The market data are provided by 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.

The rating models (PD and LGD) for the Retail Mortgage segment received authorisation for transition to the IRB approach effective from June 2010 report, while rating models for the Retail SME segment received authorisation for transition to the IRB approach effective from December 2012 report. The rating models for the Corporate segment received authorisation for the use of the AIRB approach to calculate capital requirements effective from 31 December 2010 reporting date (the FIRB approach had been used since December 2008), while the LGD Corporate models for Leasing and Factoring products received authorisation for transition to the AIRB approach effective from the June 2012 report.
For information on the plan to extend the IRB approach to other portfolios, refer to the paragraph concerning the Basel 3 Project.
PD and LGD models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company and partly adapted to the local situation which was entirely developed by the subsidiaries concerned.

The rating system also includes a risk monitoring process, calculated on a monthly basis. It interacts with processes and procedures for loan management and credit risk control and allows timely assessments when any anomalies arise or persist. The positions to which the synthetic risk index attributes a high risk valuation, which is confirmed over time, are intercepted by the Proactive Management process.
Starting from July 2014 the new Proactive Credit Management process was activated, setting up a specialised dedicated chain in the Regional Governance Centres, the CIB Division and the Chief Lending Officer structures.
The objective is to promptly identify performing positions with early signs of difficulty and immediately implement the most suitable actions to remove the anomalies and restore the relationship of trust. The introduction of Proactive Management has also significantly simplified the processes, with the removal of the old managerial loan statuses.
During the year, the project named "IT Infrastructure in Support of the Single Supervisory Mechanism (SSM)" was completed with the release of the new Early Warning System model for intercepting and classifying defaults, for the Corporate portfolio, also developed to meet the requirements arising from the 2014 Comprehensive Assessment (AQR impairment trigger). This model replaces the previous IRIS model. The proactive credit management processes were also reviewed at the same time.
The entire loan portfolio is also subject to a specific periodic review carried out by the competent central or peripheral structures based on the credit line limits for each counterparty/economic group.

Through specific monitoring, 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 carries out monitoring and controls on the rating assignment and update processes.

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 assessed in the context of 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. Such limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, defined on an annual basis as the result of an exercise aimed at optimising the risk implicit in the Group's cross-border lending operations.

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 lines of credit.

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 lines of credit for derivatives. The Financial and Market Risks 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.

Directional control of credit risks is achieved through a portfolio model which summarises the information on asset quality in risk indicators, including expected loss and capital at risk.
The expected loss is the product of exposure at default, probability of default (derived from the rating) and Loss Given Default.
The expected loss represents the average of the loss statistical distribution, whereas the capital at risk is defined as the maximum “unexpected” loss that the Group may incur with particular confidence levels. These indicators are calculated 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.
The expected loss, transformed into "incurred loss", as indicated by IAS 39, is used in the collective provisioning, while capital at risk is the fundamental element in the assessment of the Group's capital adequacy. Both indicators are also used in the value-based management reporting system.
The loan portfolio model allows the level of expected loss to be measured with the chosen confidence interval, or capital at risk. The latter reflects not only the risk level of individual counterparties but also the effects of undesired concentration due to the geographical/sector composition of the Group's loan portfolio.

The Group dedicates special attention to assessing concentration risk deriving 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.

The Group's lending activity is focused on Italian customers (83% of the total) and is primarily aimed at households and small and medium enterprises. In addition, it shows strong diversification, especially as regards certain business sectors and geographical areas, as well as loans to countries at risk.

Policies for hedging and mitigating risk

Mitigation techniques are adopted in order to reduce the Loss Given Default. 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 presence 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.

An overall revision of the rules, processes and instruments concerning guarantees received and, more generally, instruments that mitigate credit risk is underway. The goal of these activities is to increase the efficiency of management, reduce the related operational risks and increase the level of eligibility of the guarantees. Following a detailed analysis, the requirements and architecture of a new application platform to manage all the phases in the lifecycle of a guarantee (acquisition, modification, extinction, enforcement, control, monitoring and custody) were defined.
After the release of the module for the management of the personal guarantees of the Italian banks and international branches, in 2016 the part relating to real estate collateral was completed with the creation of a group register of real estate assets, integrated with the portal that manages the valuations, together with a module for the management of the guarantees.

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 Code ("Property Valuation rules for credit purposes") prepared by the Bank. 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" (EVS2012).
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 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.
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 mortgages, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value.
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 reference to each of the three methods permitted by the regulations for calculating capital requirements. 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.

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 for credit and debt positions to be netted against one another if a counterparty defaults.
This is achieved by entering into ISDA and ISMA/PSA 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.

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.

In 2016 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 of SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit.
A tranched cover synthetic securitisation was initiated during the year – also under the "GARC" Project – on a newly-issued portfolio promoted by the Piedmont Regional Authority under the 2007/2013 Regional Operational Programme of the European Regional Development Fund, 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.

Both these types of transactions provide synthetic hedging of default risk (past-due, unlikely to pay and bad) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (EU Regulation 575/2013 and Bank of Italy Circular 285/2013).
For details of the transactions carried out in 2016 under the GARC Project, see the description provided in Section 10 - Securitisations.

Performing loans

Collective measurement is compulsory for all loans for which there is no objective evidence of impairment. Such loans must be measured collectively in homogeneous portfolios, i.e. with similar characteristics in terms of credit risk.
The concept of "loss" to which to refer when measuring impairment is that of incurred loss, as opposed to expected or future losses. In the case of collective measurement, this means that reference should be made to the losses already included in the portfolio, although these cannot be identified with reference to specific loans, also defined as "incurred but not reported losses".
In any event, as soon as new information allows the loss to be assessed at the individual level, the financial asset must be excluded from collective measurement and subject to individual measurement.
Although international accounting standards do not explicitly refer to the methods developed in the context of supervisory regulations, the definition of the elements to which to refer when classifying loans into groups to be subject to collective measurement has many points of contact with the Basel 3 regulations and the possible synergies are therefore evident. Through exploitation of such synergies, a measurement model has been structured involving the use of risk parameters (Probability of Default and Loss Given Default) essentially similar to those of Basel 3.

Therefore, in accordance with regulatory provisions, the method calls for expected loss (EL) to be determined according to the risk parameters estimated for the AIRB models under banking supervision regulations.
Expected loss calculated for the purposes of the collective loan measurement procedure differs from that calculated for reporting purposes inasmuch as the LGD used in incurred loss does not (in accordance with international accounting standards) include indirect recovery costs and calibration on the negative phase of the cycle ("LGD downturn").
For loans to customers only, the expected loss (EL) is transformed into incurred loss (IL) by applying factors that capture the loss confirmation period (LCP) and economic cycle of the portfolio:
- the LCP is a factor that represents the time interval between the event that gives rise to the default and the occurrence of the sign of default, which allows the loss to be transformed from expected to incurred;
- the cyclical coefficient is an annually updated coefficient estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient, which is determined by regulatory segment according to the methods described in the Group Accounting rules, is equal to the ratio between the default rates, estimated for the following 12 months (according to the available forecast and the methods set out in the ICAAP), and the current probabilities of default.

The cyclical coefficients were reviewed for the collective valuation of performing loans for the 2016 Financial Statements and were examined and approved by the Chief Risk Officer. The Loss Confirmation Period factors, on the other hand, remained unchanged.

The illustrated measurement method has also been extended to guarantees and commitments. In the case of the latter, the unused margins on revocable lines of credit are not included in the basis of calculation.
The method and assumptions used are subject to periodic revision.
The internal rating, LGD and EAD models are subject to internal validation process by the Internal Validation Sub-Department and a level three control by the Internal Auditing Department. The control functions produce an annual report for the Supervisory Authority on the compliance of the models with the supervisory regulations, which also verifies deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms the existence of the compliance requirements.

MARKET RISKS

MARKET RISKS/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.
Starting from 2017, the overall limit of the Group and of Intesa Sanpaolo and Banca IMI will be included in the Group's Risk Appetite Framework. At the same time, the Board of Directors of the Parent Company will define the operating limits in terms of VaR for other companies of the Group which hold smaller trading books whose risk is marginal.
The Group Financial Risks 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 Group Risk Governance 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 Risks Committee, which discusses the guidelines for the management of market risks.

As part of its functions, the Financial and Market Risks Department is responsible for the:
- calculation, development and definition of the risk indicators: Value at Risk, sensitivity and greeks, level measures, stress tests and scenario analyses;
- monitoring of operating limits;
- 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;
- comparison of the P&L with the risk indicators and in particular with the VaR (so-called backtesting).

The structure of the Financial and Market Risks 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 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 risk indicators used 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 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 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 mitigating 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 Department ensures the consistency of the positions with the decisions taken in the Group Financial Risks 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, 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 Risks 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 Department, the market risks of the Banking Book and the Liquidity risk (discussed below) 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 financial risks generated by the Group's banking book are measured every month through three types of measurement:

- Shift sensitivity of value (EVE);
- Value at Risk (VaR);
- Shift sensitivity of net interest income (NII);

The sensitivity of economic value (EVE) measures the change in the economic value of the Group's commercial portfolio following shocks in the market rates curves. The sensitivity of EVE is calculated by adopting various interest rate shock scenarios that consider not only parallel shifts in market curves, but also a range of potential scenarios that include conditions of severe stress with regard to the shape of the curve, the level of the current maturity structure of interest rates and historic and implicit rate volatility. The standard shock is defined as a parallel, uniform shift in the curve of +100 basis points. The measurements include an estimate of the prepayment effect and of the risk originated by on demand customer deposits, whose features of stability and of partial and delayed reaction to interest rate fluctuations have been studied by analysing a large collection of historical data, obtaining a maturity representation model through equivalent deposits. Equity risk sensitivity is measured as the impact of a price shock of ±10%.

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.

The Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of +100 basis points of the interest rate curve.

The sensitivity of net interest income focuses the analysis on the impact that changes in interest rates can have on the Group's ability to generate stable profit levels. The component of profits measured is represented by the difference between the net interest income generated by interest-bearing assets and liabilities, including the results of hedging activities through the use of derivatives. The time horizon of reference is commonly limited to the short and medium term (from one to three years) and assesses the impact that the institution is able to continue with its activity (the going concern approach).

To determine changes in net interest income (□NII), standard scenarios of parallel rate shocks of +-50 basis points are applied, in reference to a time horizon of twelve months.

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 floating-rate loans.
In 2016 the Group consolidated the use of macrohedging to a portion of fixed-rate loans, adopting an open-portfolio macrohedging model for a portion of fixed-rate loans 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 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.
Foreign exchange risk deriving from operating positions in foreign currency in the banking book is systematically transferred from the business units to the Parent Company's Treasury Department, for the purpose of guaranteeing the elimination of such risk. Similar risk containment is performed by the various Group companies for their banking book. Essentially, foreign exchange risk is mitigated by the practice of raising funds in the same currency as assets.
As regards equity investments in Group companies held in foreign currencies, risk hedging policies are assessed by the Group Risk Governance Committee and the Group Financial Risks Committee, taking into consideration the advantages and the costs embedded in hedging transactions.

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.

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) 61/2015 with regard to liquidity coverage requirements (liquidity coverage ratio - LCR), supplementing and partially amending previous regulations. Under Delegated Regulation 61/2015, from 1 October 2015 banks are required to comply with the new short-term indicator according to the phase-in process provided for in Art. 38 (60% from 1 October 2015, 70% from 1 January 2016, 80% from 1 January 2017 and 100% from 1 January 2018).
The Guidelines for Group Liquidity Risk Management, which already referred to Bank of Italy Circulars 263 and 285, and to Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR), were therefore updated with effect from March 2015 to reflect the above additional regulations, which revised the composition of the liquid assets eligible for liquidity reserves and the definition of 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) with its October 2014 publication were also adopted.

The "Guidelines for Group Liquidity Risk Management" 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.
The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:
- the existence of liquidity management guidelines 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.

With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.
From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.

The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Department, the Planning Head Office Department and the Active Value Management Department, responsible for liquidity management, and the Financial and Market Risks Department, directly responsible for measuring liquidity risk on a consolidated basis.

The aforementioned Guidelines 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. Within this framework, liquidity risk measurement metrics are laid down, distinguishing between short-term liquidity, structural liquidity and stress tests.

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows with certain or estimated maturities included in 12 months' time horizon, in order to face periods of tension, including extended ones, on different funding markets, also by establishing adequate liquidity reserves in the form of assets eligible for refinancing with Central Banks or liquid securities on private markets. 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).

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. 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 CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU).

The Guidelines for Group Liquidity Risk Management 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 competent 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 (6 months). 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, 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 sound 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 2016: both indicators (LCR and NSFR) were met, already reaching a level above the limits under normal conditions. Also the stress tests, when considering the consistent liquidity reserves (liquid or eligible), 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 provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

OPERATIONAL RISK

Operational risk management strategies and processes

The control of the Group's operational risk was attributed to the Board of Directors, which identifies risk management policies, and to the Management Control Committee, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
Moreover, the tasks of the Intesa Sanpaolo Group Internal Control Coordination and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

Organisational structure of the associated risk management function

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, scenario analyses and evaluation of the business environment and internal control factors).

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

On 31 December 2009, the Group adopted the Advanced Measurement Approach (AMA - internal model), in partial use with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the main banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium and by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.
The Self-diagnosis Process, conducted on an annual basis, allows the Group to:

- identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
- analyse exposure to ICT risk;
- create significant synergies with the Information Security Governance and Business Continuity Sub-Department, which supervises the planning of operational processes, IT security and business continuity issues, with the Administrative and Financial Governance and with control functions (Compliance and Internal Auditing) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests on the effectiveness of controls of company processes.

The Self-diagnosis process for 2016 identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of these risks. During the Self-diagnosis process, the organisational units also analysed their exposure to ICT risk. This assessment is in addition to that conducted by the technical functions (ISGS - ICT Head Office Department, Market Risk IT Infrastructure Office of the ISP Financial and Market Risks Head Office Department and the IT functions of the main Italian and international subsidiaries) and the other functions with control duties (Information Security Governance and Business Continuity Sub-Department and the IT Security functions of the main Italian and international subsidiaries).

The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.
Operational risks are monitored by an integrated reporting system, which provides management with support information for managing and/or mitigating the operational risk.
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.

Policies for hedging and mitigating risk

The Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft including in valuable transports, cyber fraud, forgery, damage to real estate and IT assets, also as a result of earthquake or terrorism, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an insurance coverage policy named Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market.
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 Group is also finalising the purchase of a "cyber" policy to transfer IT and electronic risks, which are constantly increasing for the banking sector.

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.

OTHER RISKS
In addition to the risks discussed above, the following other risks have been identified and monitored by the Group.

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 analysis 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:
- systematically and independently by the corporate structures with specific tasks aimed at preserving corporate reputation, through a structured system of organisational monitoring measures;
- across the various corporate functions, through the Reputational Risk Management process governed by specific Guidelines.

The 'systematic monitoring of reputational risk envisages:
- specific organisational structures which, each for its purview, monitor the Bank's reputation and manage the relationships with the various stakeholders;
- an integrated monitoring system for primary risks, to limit exposure to them;
- compliance with standards of ethics and conduct;
- establishing and managing customers' risk appetite, through the identification of their various risk tolerance profiles according to subjective and objective traits of each customer.

A fundamental tool for reputational risk monitoring is the Code of Ethics adopted by the Group. This contains the basic values to which the Group intends to commit itself and enunciates the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with broader objectives than those required by mere compliance with the law. The Group has also issued voluntary conduct policies (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.
In order to safeguard customers' interests and the Group's reputation, specific attention is also devoted to establishing and managing customers' risk tolerance, through the identification of their various risk appetite profiles according to subjective and objective traits of each customer. The assessments of

adequacy during the process of structuring products and rendering advisory services are supported by objective assessments that contemplate 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 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 is founded on trust.

The "cross-function" monitoring of reputational risk is entrusted to the Reputational Risk Management (RRM) process, conducted yearly and aimed at integrating and consolidating the main findings provided by the organisational structures more directly involved in monitoring the company's reputation. The objective of that process is to identify and mitigate the most significant reputational risk scenarios to which the Intesa Sanpaolo Group is exposed through:
– the identification of the main risk scenarios to which the Group is exposed, by the Enterprise Risk Management Department, along with the Governance and Controls Compliance Department as regards the compliance risks and with the cooperation of the other relevant corporate functions;
– the assessment of said scenarios by the Top Management;
– the definition and monitoring of adequate communication strategies and specific mitigation measures.

The Enterprise Risk Management Department has also established a risk framework consisting of:
– a common methodological approach, structured into Dimensions, Expectations and Scenarios;
– the Reputational Clearing activities, i.e. the set of processes, tools and methods aimed at detecting and analysing the reputational risk within business operations;

the Reputational Monitoring activities aimed at collecting and analysing information to define reputational risk profile of the Intesa Sanpaolo Group.

In establishing the framework and its elements, particular attention was dedicated to the involvement of the corporate functions responsible for managing reputational aspects, to systematising their respective duties and responsibilities and to building a shared corporate framework from the outset.
The Intesa Sanpaolo Group carefully considers all the risks associated with climate change that may result in additional costs for the Bank or its customers. Specifically, with regard to changes in national and international regulations which could have significant financial effects on its customers, through the subsidiary Mediocredito Italiano, Intesa Sanpaolo has set up an Energy Desk specialising in supporting customer companies in energy efficiency projects and advanced advisory services on legal developments and how to suitably prepare for compliance with such regulations.
Furthermore, with regard to the risk of extreme weather events or emergencies due to climate changes, to meet the needs of customers that have incurred damages, following such events Intesa Sanpaolo shall suspend payment of mortgage loans and instalments of loans for retail customers and businesses in areas seriously impacted by weather events.

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 using a VaR-type model based on indexes of mainly Italian real estate prices, which is the main type of exposure associated with the Group's real-estate portfolio.

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 fully consolidated.
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 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 a VAR model for the main macroeconomic variables, and to stress scenarios.

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 Intesa Sanpaolo Banking Group, 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 Intesa Sanpaolo Banking Group as defined by the prevailing Supervisory Provisions.
The consolidation area 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 area, 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.

With respect to the scope of consolidation of the financial statements, therefore, for the purpose of defining the prudential consolidation area, the following companies are treated with different consolidation methods:

- Companies subject to joint control consolidated with the proportional method (carried at equity in the financial statements):
  - MIR Capital S.C.A. SICAR
  - Allfunds Bank
  - Pbz Croatia Osiguranje Public Limited Company For Compulsory Pension Fund Management
  - VUB Generali Dochodkova Spravcovska[9].

- Company carried at equity (consolidated line-by-line in the financial statements):
  - Companies that are not part of the Banking Group, since they are engaged in insurance activities
    - Intesa Sanpaolo Vita[9]
    - Intesa Sanpaolo Life[9]
    - Intesa Sanpaolo Assicura[9]
    - Fideuram Vita[9]

  - Companies that are not part of the Banking Group, since they are engaged in commercial activities or other types of business other than banking and financial activities:
    - In.Fra (Investire nelle Infrastrutture)
    - C.I.F. (Compagnia Italiana Finanziaria)
    - I.L. (Iniziative Logistiche)
    - Cib Car Trading
    - Cib Insurance Broker

[9] A direct subsidiary of the Banking Group, deducted from own funds for the amount exceeding the thresholds envisaged in the regulations.

- Recovery Property Utilisation and Service
- Brivon Hungary
- Risanamento Group[10]
- Intesa Sanpaolo Smart Care

- Vehicle companies (SPE/SPV)
  - Duomo Funding
  - Lunar Funding V
  - Romulus Funding
  - Trade Receivables Investment Vehicle

Intragroup transactions concerning Companies not included in the prudential consolidation scope (since they are carried at equity) were allocated under transactions with third parties. The entities which are neither fully consolidated nor deducted contribute to the determination of the risk-weighted assets concerning the participants included in the prudential consolidation area.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet as at 31 December 2016.

[10] Company not subject to the management and coordination activities pursuant to art. 2497 and following of the Italian Civil Code.

(millions of euro)

Assets	31.12.2016 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2016 Regulatory-scope balance sheet
10. Cash and cash equivalents	8,686	91	8,777
20. Financial assets held for trading	43,613	-489	43,124
30. Financial assets designated at fair value through profit and loss	63,865	-62,493	1,372
40. Financial assets available for sale	146,692	-79,280	67,412
50. Investments held to maturity	1,241	-	1,241
60. Due from banks	53,146	-611	52,535
70. Loans to customers	364,713	3,557	368,270
80. Hedging derivatives	6,234	-	6,234
90. Fair value change of financial assets in hedged portfolios (+/-)	321	-	321
100. Investments in associates and companies subject to joint control	1,278	5,008	6,286
110. Technical insurance reserves reassured with third parties	17	-17	-
120. Property and equipment	4,908	-79	4,829
130. Intangible assets	7,393	-665	6,728
of which: goodwill	*4,059*	*-470*	*3,589*
140. Tax assets	14,444	-517	13,927
150. Non-current assets held for sale and discontinued operations	312	-132	180
160. Other assets	8,237	-3,166	5,071
Total Assets	**725,100**	**-138,793**	**586,307**

Liabilities and Shareholders' Equity	31.12.2016 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2016 Regulatory-scope balance sheet
10. Due to banks	72,641	-86	72,555
20. Due to customers	291,876	4,588	296,464
30. Securities issued	94,783	2,600	97,383
40. Financial liabilities held for trading	44,790	-53	44,737
50. Financial liabilities designated at fair value through profit and loss	57,187	-57,183	4
60. Hedging derivatives	9,028	-	9,028
70. Fair value change of financial liabilities in hedged portfolios (+/-)	773	-	773
80. Tax liabilities	2,038	-723	1,315
a) current	*497*	*-86*	*411*
b) deferred	*1,541*	*-637*	*904*
90. Liabilities associated with non-current assets held for sale and discontinued operations	272	-272	-
100. Other liabilities	11,944	-1,740	10,204
110. Employee termination indemnities	1,403	-7	1,396
120. Allowances for risks and charges	3,427	-108	3,319
a) post employment benefits	*1,025*	*-2*	*1,023*
b) other allowances	*2,402*	*-106*	*2,296*
130. Technical reserves	85,619	-85,619	-
140. Valuation reserves	-1,854	-	-1,854
150. Redeemable shares	-	-	-
160. Equity instruments	2,117	-	2,117
170. Reserves	9,528	-	9,528
180. Share premium reserve	27,349	-	27,349
190. Share capital	8,732	-	8,732
200. Treasury shares (-)	-72	-	-72
210. Minority interests (+/-)	408	-190	218
220. Net income (loss)	3,111	-	3,111
Total Liabilities and Shareholders' Equity	**725,100**	**-138,793**	**586,307**

(*) The effects are attributable to :
- deconsolidation of companies that are not part of the Banking Group;
- proportional consolidation of the jointly controlled companies that are consolidated at equity in the financial statements.

Derogation to the application of liquidity requirements on an individual basis

The competent authorities may waive in full or in part the application of Part 6 of the CRR to an institution and to all or some of its subsidiaries in the Union and supervise them as a single liquidity sub-group. Under Article 8 par. 2 of the CRR, the application on an individual basis of the provisions of Part 6 of the CRR is waived for Italian banks belonging to a banking group. Therefore, the Parent Company Intesa Sanpaolo complies with the provisions of Part 6 of the CRR on a consolidated basis and, where relevant, at the level of liquidity sub-group (See Bank of Italy Circular no. 285 of 17 December 2013 – Part II, Chapter 11, Section III).

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

The restrictions on the transfer of resources within the Intesa Sanpaolo Group are illustrated below.
In connection with the controlling interest in Banca Prossima, a company operating in the non-profit sector, the shareholders have undertaken to renounce the distribution of profits until 2017. Such profits shall be allocated to the Fund for the development of social business.
With regard to the Egyptian subsidiary, Bank of Alexandria, currency export restrictions have been in place since 2012 on the repatriation of funds denominated in Egyptian pounds; specifically, the dividend denominated in Egyptian pounds as from 2013 was paid to Intesa Sanpaolo in US dollars in staggered transactions authorised by the Egyptian central bank on a daily basis. In 2016 everything was blocked, stopping the transfer of the funds and resulting in a receivable of Intesa Sanpaolo from the Egyptian subsidiary.
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 2016 there were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements.

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.

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).

Summary information on the main terms and conditions of the features of capital items

The table below details the captions of the consolidated shareholders' equity that together with the capital components pertaining to third party shareholders contribute to the determination of the regulatory capital.

Group and third party consolidated shareholders' equity

(millions of euro)

	31.12.2016			31.12.2015		
	Group	Third parties	Total	Group	Third parties	Total
Share capital	**8,732**	**374**	**9,106**	**8,732**	**557**	**9,289**
Ordinary shares	8,247	374	8,621	8,247	557	8,804
Savings shares	485	-	485	485	-	485
Share premium reserve	**27,349**	**26**	**27,375**	**27,349**	**172**	**27,521**
Reserves	**9,528**	**-3**	**9,525**	**9,167**	**-45**	**9,122**
Legal reserve	2,065	-	2,065	2,065	-	2,065
Extraordinary reserve	1,130	-	1,130	768	-	768
Concentration reserve (as per Art. 7, par. 3 of Law 218 of 30/7/1990)	232	-	232	232	-	232
Concentration reserve (as per Art. 7 of Law 218 of 30/7/1990)	302	-	302	302	-	302
Consolidation reserve	5,712	-3	5,709	5,591	-45	5,546
Other reserves	87	-	87	209	-	209
Equity instruments	**2,117**	**-**	**2,117**	**877**	**-**	**877**
(Treasury shares)	**-72**	**-2**	**-74**	**-70**	**-2**	**-72**
Valuation reserves:	**-1,854**	**-76**	**-1,930**	**-1,018**	**68**	**-950**
Financial assets available for sale	453	8	461	892	82	974
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-
Cash flow hedges	-1,143	-	-1,143	-1,138	-	-1,138
Foreign exchange differences	-972	-78	-1,050	-758	-8	-766
Non current assets held for sale	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-647	-6	-653	-478	-6	-484
Share of valuation reserves connected with investments carried at equity	107	-	107	112	-	112
Legally-required revaluations	348	-	348	352	-	352
Parent Company's net income (loss) and minority interest	**3,111**	**89**	**3,200**	**2,739**	**67**	**2,806**
Shareholders' equity	**48,911**	**408**	**49,319**	**47,776**	**817**	**48,593**

The main features of the items listed and related to Group capital above are summarised below.

The share capital of the Bank as at 31 December 2016 amounted to 8,732 million euro, divided into 15,859,575,782 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro per share. Each ordinary share gives the right to one vote in the Shareholders' Meeting.
Savings shares, which may be in bearer form, entitle the holder to attend and vote at the Special Meeting of savings shareholders.
Savings shares must be attributed a preferred dividend up to 5% of the nominal value of the share. If in one year the dividend is less than 5% of the nominal value of the non-convertible savings shares, the difference will be added to the preferred dividend paid in the following two accounting periods. Furthermore, retained earnings made available for distribution by the Shareholders' Meeting, net of the above dividend, will be allocated to all shares so that the dividend per non-convertible savings share will be 2% of nominal value higher than for ordinary shares.
In case of distribution of reserves the savings shares have the same rights as other shares. In the case of liquidation of the Company, savings shares shall have pre-emptive rights with regard to the reimbursement of the entire nominal value of the shares.
At the date of this document, the share capital was fully paid-in and liberated.

The share premium reserve essentially includes the same balance sheet item as the Parent Company, primarily generated by the entries made in accordance with IFRS 3 for the merger between Banca Intesa and Sanpaolo IMI, as well as recognition of a portion of the capital increase completed in June 2011 as share premium.
Reserves amounted to 9,528 million euro and included legal reserve, extraordinary reserve, concentration reserves (Law 218 of 30 July 1990, art. 7, par. 3 and Law 218 of 30 July 1990, art. 7) and other reserves for a total of 5,815 million euro, as well as the consolidation reserve equal to 3,713 million euro.
The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated by allocating at least one twentieth of net income for the year.
Concentration reserves ex Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law.
Other reserves included reserves pertaining to branches abroad and other reserves set up in the past following specific legal provisions.
Consolidation reserves were generated following the elimination of the book value of equity investments against the corresponding portion of the shareholders' equity of each investment.
The valuation reserves amounted to negative 1,930 million euro and included valuation reserves of financial assets available for sale for 461 million euro, reserves of cash flow hedge derivatives for -1,143 million euro, exchange rate valuation reserves (relating to fully consolidated investments) for -1,050 million euro and legally-required revaluation reserves for 348 million euro, as well as the negative reserve on actuarial profits (losses) from defined benefit pension plans for -653 million euro, in addition to approximately 107 million euro in valuation reserves connected to minority equity investments.
"Equity instruments" include two Additional Tier 1 issues, the first taking place in September 2015, the second in January 2016.

The breakdown of the Group and third party shareholders' equity for the Group's various operating segments is shown in the table below.

Consolidated Group and third party shareholders' equity: breakdown by type of company

(millions of euro)

	Banking group	Insurance companies	Other companies	Netting and adjustments on consolidation	Total as at 31.12.2016
Share capital	**9,106**	**-**	**290**	**-290**	**9,106**
Ordinary shares	8,621	-	289	-289	8,621
Savings shares	485	-	1	-1	485
Share premium reserve	**27,375**	**-**	**1**	**-1**	**27,375**
Reserves	**9,525**	**-705**	**-386**	**1,091**	**9,525**
Equity instruments	**2,117**	**-**	**-**	**-**	**2,117**
(Treasury shares)	**-72**	**-2**	**-**	**-**	**-74**
Valuation reserves:	**-1,930**	**502**	**6**	**-508**	**-1,930**
Financial assets available for sale	-42	503	-	-	461
Property and equipment	-	-	-	-	-
Intangible assets	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-
Cash flow hedges	-1,143	-	-	-	-1,143
Foreign exchange differences	-1,050	-	6	-6	-1,050
Non current assets held for sale	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-652	-1	-	-	-653
Share of valuation reserves connected with investments carried at equity	609	-	-	-502	107
Legally-required revaluations	348	-	-	-	348
Parent Company's net income (loss) and minority interest	**3,200**	**523**	**-138**	**-385**	**3,200**
Shareholders' equity	**49,321**	**318**	**-227**	**-93**	**49,319**

The table above indicates the components of net book value, adding those of the Group to those of third parties, broken down by the type of consolidated company. In further detail, the column for the Banking group indicates the amount resulting from the consolidation of the companies belonging to such group, gross of the effects on the income statement of transactions with other companies within the scope of consolidation. Subsidiaries other than those belonging to the Banking group and consolidated on a line-by-line basis are stated here at equity. The columns Insurance companies and Other companies contain the amounts resulting from consolidation, gross of the effects on the income statement of transactions with companies belonging to the Banking group. The columns Netting and Adjustments on consolidation show the adjustments required to obtain the figure represented in the financial statements.

As well as due to the distribution of the dividend for 2016 (to be paid on 2015 net income) to Intesa Sanpaolo S.p.A. shareholders for a total of 2,361 million euro, consolidated shareholders' equity (Group and third parties) essentially changed over the two periods under review due to the net income for 2016 and the deterioration in valuation reserves. We then report the issues of a new equity instrument worth 1,250 million euro, as better detailed in the description of AT1 instruments. The breakdown of the different types of valuation reserves and their changes during the year are shown in the tables below.

Valuation reserves of financial assets available for sale and of (the portion of) the investments carried at equity: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		Total as at 31.12.2016		
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Net reserve
1. Debt securities	642	-535	472	-11	-	-	-472	11	642	-535	107
2. Equities	285	-42	27	-4	-	-	-27	4	285	-42	243
3. Quotas of UCI	137	-8	25	-6	-	-	-25	6	137	-8	129
4. Loans	-	-	-	-	-	-	-	-	-	-	-
Total as at 31.12.2016	**1,064**	**-585**	**524**	**-21**	**-**	**-**	**-524**	**21**	**1,064**	**-585**	**479**
of which: Financial assets available for sale											461
of which: Share of valuation reserves connected with investments carried at equity											18
Total as at 31.12.2015	**1,455**	**-473**	**715**	**-33**	**98**	**-**	**-813**	**33**	**1,455**	**-473**	**982**

Valuation reserves of financial assets available for sale and of (the portion of) the investments carried at equity: changes during the year

(millions of euro)

	Debt securities	Equities	Quotas of UCI	Loans	TOTAL as at 31.12.2016
1. Initial amount	**475**	**420**	**85**	**2**	**982**
2. Positive fair value differences	**426**	**188**	**147**	**1**	**762**
2.1 Fair value increases	340	141	109	1	591
2.2 Reversal to the income statement of negative reserves	66	26	11	-	103
- impairment	*-*	*25*	*7*	*-*	*32*
- disposal	*66*	*1*	*4*	*-*	*71*
2.3 Other changes	20	21	27	-	68
3. Negative fair value differences	**-794**	**-365**	**-103**	**-3**	**-1,265**
3.1 Fair value decreases	-581	-150	-79	-3	-813
3.2 Impairment losses	-2	-1	-	-	-3
3.3 Reversal to the income statement of positive reserves: disposal	*-153*	*-202*	*-6*	-	*-361*
3.4 Other changes	-58	-12	-18	-	-88
4. Closing amount	**107**	**243**	**129**	**-**	**479**

Quantitative disclosure

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 31 December 2016 is summarised in the table below.

(millions of euro)

	31.12.2016	31.12.2015
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**43,298**	**44,134**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**-808**	**-743**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**42,490**	**43,391**
D. Items to be deducted from CET 1	**-7,670**	**-7,940**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional adjustments	**1,106**	**1,457**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**35,926**	**36,908**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**3,842**	**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	**-309**	**-497**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**3,533**	**2,302**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**9,154**	**8,480**
of which T2 instruments subject to transitional adjustments	410	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	**-187**	**-239**
P. Total Tier 2 (T2) (M - N +/- O)	**8,815**	**8,089**
Q. Total own funds (F + L + P)	**48,274**	**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.

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. The amount of the "prudential filter" under the actuarial profits (losses) reserve on the defined benefit pension plans, negative for about 648 million euro, equals around 226 million euro.

Moreover, following the process conducted by the ECB on the harmonisation of the national discretion adopted by the competent authorities in the different EU countries, with effect from 1 October 2016, the date when Regulation (EU) 2016/445 of the ECB came into force, the prudential filter was eliminated; this filter had been aimed at excluding unrealised gains or losses on exposures to central administrations classified in the category Financial assets available for sale (AFS).
The effect on Common Equity Tier 1 Capital as at 31 December 2015 was one basis point negative, equal to 40 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 Transitional Own Funds Disclosure Template envisaged in the instructions issued by the EBA.

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	31.12.2016	31.12.2015
Group Shareholders' equity	48,911	47,776
Minority interests	408	817
Shareholders' equity as per the Balance Sheet	**49,319**	**48,593**
Dividends in distribution and other foreseeable charges [a]	-	-2,383
Shareholders' equity following presumed distribution to shareholders	**49,319**	**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	-6	-8
- Minority interests eligible for inclusion in T2	-2	-6
- Ineligible minority interests on full phase-in	-356	-763
- Ineligible net income for the period [b]	-3,111	-
- Treasury shares included under regulatory adjustments	98	68
- Other ineligible components on full phase-in	-38	-11
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,298**	**44,134**
Regulatory adjustments (including transitional adjustments)	**-7,372**	**-7,226**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**35,926**	**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 2016 net income, nor, coherently, of the dividend and distribution of reserves proposed.

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)

	31.12.2016	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]	9,512	9,160
Accumulated other comprehensive income	-1,854	-1,018
Net income (loss) for the period [b]	3,111	2,739
Net income (loss) for the period not eligible [b]	-3,111	-
Dividends and other expected charges [c]	-	-2,383
Minority interests	44	40
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,298**	**44,134**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-98	-68
Goodwill	-4,183	-4,249
Other intangible assets	-2,822	-2,791
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-155	-215
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-23	-299
Defined benefit pension funds assets	-	-
Prudential filters	-	-
- of which Cash Flow Hedge Reserve	*1,146*	*1,145*
- of which Gains or Losses due to changes in own credit risk (DVA)	*53*	*40*
- of which Prudent valuation adjustments	*-144*	*-132*
- of which Other prudential filters	-	-
Exposures to securitisations deducted rather than risk weighted at 1250%	-115	-
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]	-1,748	-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	*-1,748*	*-1,796*
Deductions with threshold of 17.65% [e]	-	-
Positive or negative elements - other	-389	-318
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-8,478**	**-8,683**
Total adjustments in the transitional period (CET1)	**1,106**	**1,457**
Common Equity Tier 1 (CET1) - Total	**35,926**	**36,908**

[a] Amount included in CET1.

[b] In the calculation of Common Equity Tier 1 at 31 December 2016 no account has been taken of profit for 2016, or - for consistency - of the proposed dividend and distribution of reserves.

[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, unlike the previous year, Common Equity Tier 1 capital does not consider neither the net income for the period ended 31 December 2016 nor, for consistency, the dividend and the distribution of reserves proposed.
Likewise note that the Board of Directors will propose to the Shareholders' Meeting for distribution on the net income for 2016, 17.8 cents for each ordinary share and 18.9 cents per each savings share, for a total dividend of 2,999 million euro.
Starting from 2016, as envisaged by Article 258 of (EU) Regulation no. 575/2013 which governs the case, in place of the weighting of the positions towards securitisations that meet the requirements to receive a weighting of 1,250%, it was chosen to proceed with the direct deduction of these exposures from the Own Funds.
The amount of such deduction as at 31 December 2016 is equal to 115 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 2016 is equal to 227 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

	31.12.2016	31.12.2015
Additional Tier 1 capital (AT1)		
Saving shares	485	485
Other AT1 instruments	2,121	871
Minority interests	6	8
Additional Tier 1 capital (AT1) before regulatory adjustments	**2,612**	**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)	**-309**	**-497**
AT1 instruments eligible for grandfathering	**1,230**	**1,435**
Additional Tier 1 (AT1) - Total	**3,533**	**2,302**

The details of instruments making up Additional Tier 1 are provided in the following table.
In particular, it is worth mentioning that in 2015 Intesa Sanpaolo launched a U.S.$1 billion Additional Tier 1 issue targeted at the US and Canadian markets. The Additional Tier 1, issued under the U.S.$ Medium Term Notes Programme of Intesa Sanpaolo, 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 10 years from the issue date and on every coupon payment date thereafter. The coupon, payable semi-annually in arrears on 17 March and 17 September of each year from and including 17 March 2016, is equal to 7.7% per annum. If the early redemption option is not exercised on 17 September 2025, 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 Additional Tier 1, coupon payment is discretionary and subject to certain limitations. The re-offer price was set at 100%. Considering its re-offer price, the yield is 7.70% per annum, equal to the yield of the 10-year U.S. Treasury Bill plus 547.4 basis points per annum.

Furthermore, it is worth mentioning that, at the beginning of 2016, Intesa Sanpaolo launched a second Additional Tier 1 issue of 1.25 billion euro, targeted at the international markets. This second 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.

As already specified, 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 (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 grandfathering	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	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	up to 24/9/2018 (excluded): 8.698%; 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)

	31.12.2016	31.12.2015
Tier 2 Capital (T2)		
T2 Instruments	8,503	7,597
Minority interests	2	6
Excess of provisions over expected losses eligible (excess reserve)	239	-
Tier 2 capital before regulatory adjustments	**8,744**	**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)	**-187**	**-239**
T2 instruments eligible for grandfathering	**410**	**877**
Tier 2 Capital (T2) - Total	**8,815**	**8,089**

Equity instruments (Tier 2 -T2)

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 bps/p.a.	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%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	YES	1,250,000,000	118
Intesa Sanpaolo (*)	8.698% up to 24/9/2018 excluded; thereafter 3-month Euribor 3 + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	YES	250,000,000	50
Intesa Sanpaolo	quarterly interests according to the formula (3-month Euribor + 2%)/4	NO	31-Mar-2011	31-Mar-2018	NO	Eur	YES	373,400,000	37
Intesa Sanpaolo	quarterly interests according to the formula (3-month Euribor + 1.6%)/4	NO	30-Sep-2010	30-Sep-2017	NO	Eur	YES	805,400,000	24
Intesa Sanpaolo	quarterly interests according to the formula (3-month Euribor + 1.60%)/4	NO	10-Nov-2010	10-Nov-2017	NO	Eur	YES	479,050,000	17
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	14
Total Tier 2 instruments subject to transitional provisions									**410**
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,865
Intesa Sanpaolo	5.71% fixed	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,423
Intesa Sanpaolo	6.6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,408
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	721
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	652
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	571
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	226
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	71
Intesa Sanpaolo	6.16 % fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	NO	120,000,000	36
Intesa Sanpaolo	up to 20/2/2013 excluded: 3-month Euribor + 0.25% p.a.; thereafter: 3-month Euribor + 0.85% p.a.	YES	20-Feb-2006	20-Feb-2018	NO	Eur	NO	750,000,000	34
Intesa Sanpaolo	up to 26/6/2013 excluded: 4.375% p.a.; thereafter: 3-month Euribor + 1.00% p.a.	YES	26-Jun-2006	26-Jun-2018	NO	Eur	NO	500,000,000	32
Intesa Sanpaolo	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Eur	NO	30,000,000	3
Intesa Sanpaolo	6.375% fixed rate ; from 12 Nov 2012 3-month gpb libor	YES	12-Oct-2007	12-Nov-2017	NO	Gbp	NO	250,000,000	1
Total Tier 2 instruments not subject to transitional provisions									**8,503**
Total Tier 2 instruments									**8,913**

(*) 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)

	31.12.2016	31.12.2015
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,657	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	3,657	3,725
C. Threshold for significant investments and DTA not deducted in the threshold described under point B:		
• 15% under transitional regime until 31 December 2017	5,526	5,618
• 17,65% as from 2018	5,236	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 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 regime adjustments

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**	**410**
Minority interests	**44**	**46**	**90**	**-**	**-**
Other adjustments in the transitional period	**471**	**-188**	**283**	**-**	**-**
- of which Unrealised gains on assets measured at fair value	471	-188	283	-	-
- of which Unrealised losses on assets measured at fair value	-	-	-	-	-
Regulatory adjustments	**-2,575**	**1,248**	**-1,327**	**-309**	**-309**
- of which Deferred tax assets that rely on future profitability and do not arise from temporary differences	-155	62	-93	-	-
- of which Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-23	9	-14	-5	-5
- of which IAS 19 Reserves	-648	339	-309	-	-
- 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	-1,749	838	-911	-304	-304
Other filters and adjustments	**-**	**-**	**-**	**-**	**122**
Total adjustments in the transitional period and instruments eligible for grandfathering	**-2,060**	**1,106**	**-954**	**921**	**223**

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)

ASSETS	Accounting data: Financial statements scope	Accounting data: Prudential scope	Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
100. Investments in associates and companies subject to joint control	**1,278**	**6,286**	**-1,662**	**8, 19, 41b, 56b**
of which: implicit goodwill in associated companies IAS 28-31	*145*	*639*	*-639*	*8, 19, 41b, 56b*
130. Intangible assets	**7,393**	**6,728**	**-7,195**	**8**
of which: goodwill	*4,059*	*3,589*	*-4,059*	*8*
of which: other intangible assets	*3,334*	*3,139*	*-3,136*	*8*
140. Tax assets	**14,444**	**13,927**	**-93**	**10**
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*161*	*155*	*-93*	*10*

LIABILITIES	Accounting data: Financial statements scope	Accounting data: Prudential scope	Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
30. Securities issued	**94,783**	**97,383**	**10,143**	**33, 46, 47, 52**
of which: subordinated instruments subject to transitional arrangements	*0*	*1,640*	*1,640*	*33, 47*
of which: subordinated instruments not subject to transitional arrangements	*0*	*10,624*	*8,503*	*46, 52*
80. Tax liabilities	**2,038**	**1,315**	**335**	**8**
a) Current tax liabilities	**497**	**411**	**n.d.**	
b) Deferred tax liabilities	**1,541**	**904**	**n.d.**	
of which: tax liabilities related to goodwill and other intangible assets	*335*	*335*	*335*	*8*
140. Valuation reserves	**-1,854**	**-1,854**	**-437**	**3, 9, 11, 26a, 56c**
of which: valuation reserves on securities available for sale	*471*	*471*	*404*	*26a, 56c*
of which: valuation reserves on cash flow hedges	*-1,145*	*-1,145*	*0*	*11*
of which: foreign exchange differences	*-880*	*-880*	*-880*	*3*
of which: legally-required revaluations	*348*	*348*	*348*	*3*
of which: valuation reserves on net actuarial losses	*-648*	*-648*	*-309*	*9*
of which: other	*0*	*0*	*0*	
160 Equity instruments	*2,117*	*2,117*	*2,120*	
170. Reserves	**9,528**	**9,528**	**9,512**	**2**
180. Share premium reserve	**27,349**	**27,349**	**27,349**	**1**
190. Share capital	**8,732**	**8,732**	**8,732**	**1, 30**
of which: ordinary shares	*8,247*	*8,247*	*8,247*	*1*
of which: savings shares	*485*	*485*	*485*	*30*
200. Treasury shares (-)	**-72**	**-72**	**-98**	**16**
210. Minority interests (+/-)	**408**	**218**	**98**	**5, 34, 48**
of which CET1 compliant			*91*	*5*
of which AT1 compliant			*6*	*34*
of which T2 compliant			*1*	*48*
220. Net income (loss) for the period (+/-)	**3,111**	**3,111**	**0**	**5a**
of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period			*0*	*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:	**-530**	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	**54**	**14**
Value adjustments due to the requirements for prudent valuation	**-144**	**7**
Exposures to securitisations deducted rather than risk weighted at 1250%	**-115**	
IRB shortfall of credit risk adjustments to expected losses	**-23**	**12, 41a, 56a**
IRB Excess of provisions over expected losses eligible	**239**	**50**
Filter on unrealised capital gains on real properties	**-83**	**26**
Filter on double tax realignment	**-227**	**26**
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment	**-152**	**55**
Indirect investments	**-79**	**26**
Total own funds as at 31 December 2016	**48,274**	

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, for the ICAAP process.
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 the purposes of the ICAAP process.

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, also in accordance with the criteria of the "use test" established by the supervisory provisions.
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 sheets 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 Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk

management guidelines and policies in accordance with the company's strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures 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.

The risk acceptance policies are defined by the Board of Directors, with strategic supervision and management functions, and by the Management Control Committee with control functions. The Board of Directors carries out its activity through specific internal committees, among which the Risk Committee. The Corporate Bodies are assisted by the action of management committees, among which mention should be made of the Group Risk Governance Committee, as well as by the Chief Risk Officer, reporting directly to the Chief Executive Officer.

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 guiding its operations, ensuring the balance between risks assumed and shareholder return.

As presented in Section 1 of this disclosure, 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 issuer, 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 and model risk;
- insurance risk;
- strategic risk;
- risk on equity investments not subject to line by line consolidation;
- risk on real estate assets owned for whichever purpose;
- risks relating to defined-benefit pension funds.

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 under ordinary and stress conditions.

The Group's overall risk position as at December 2016 and based on the 2017 budget in terms of overall Economic Capital is defined according to an approach that envisages assessment with a 99.9% confidence interval.
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 (37.6% 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 (16% 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 (11.4% of the total Economic Capital).
The "International Subsidiary Banks" Business Unit is assigned 7.7% 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 (25.1% of the total Economic Capital).
Absorption of Economic Capital by the "Private Banking" and "Asset Management" Business Units is marginal (2% and 0.2%, 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 requirements laid down by the Second Pillar, by preparing and sending the ICAAP Reports to the Supervisory Authority - on approval by the corporate bodies – with the figures of the previous years on a consolidated basis. The Group has also substantially completed the ICAAP Report on the figures as at 31 December 2016 and the forecasts over a three-year period, and the final document is due to be sent to the Supervisor by 30 April 2016. 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.

The Intesa Sanpaolo Group participated in the 2016 EU-wide stress test, the exercise 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) for Intesa Sanpaolo resulting from the stress test for 2018, the final year considered in the exercise, was 12.8% 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 included a 50 basis-point reduction - in both scenarios - for the transition from the calculation criteria applicable in 2015 to those in force for 2018.

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 10.5% of total risk-weighted assets (total capital ratio including the minimum requirement and capital conservation buffer) 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 following 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.
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 portfolios, as well as other Italian and international Group companies.
For additional information reference should be made to Part E of these Notes, paragraph "Basel 3 regulations and the Internal Project".

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 2016 (ECB decision of 27 November 2015) the Common Equity Tier 1 ratio to be met was set at 9.5%. This requirement was the result of: a) the SREP requirement comprising a minimum Pillar 1 capital requirement of 4.5% and an additional Pillar 2 requirement of 2.5%, entirely in terms of Common Equity Tier 1 ratio; and b) the additional requirement of the Capital Conservation Buffer, equal to 2.5%.
On 12 December 2016 Intesa Sanpaolo received the ECB's final decision concerning the capital requirement that it has to meet, as of 1 January 2017. The overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio is 7.25% under the transitional criteria for 2017 and 9.25% under the standard criteria.
This is 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 an additional Pillar 2 capital requirement of 1.5%, entirely in terms of Common Equity Tier 1 ratio; b) additional requirements, made up entirely of Common Equity Tier 1 ratio, relating to a Capital Conservation Buffer of 1.25% under the transitional criteria for 2017 and 2.5% the standard criteria in 2019, and an O-SII Buffer (Other Systemically Important Institutions Buffer) of zero under the transitional criteria for 2017 and 0.75% under the standard criteria in 2021.

Specific countercyclical capital buffer of the institution

Below is the information relating to the "Countercyclical capital buffer", prepared based on the ratios applicable at 31 December 2016 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 countercyclical capital buffer pursuant to Article 440 of the same CRR. As established by Article 140, paragraph 1, of directive 2013/36/EU (so-called CRD IV), the specific countercyclical ratio of the institution consists in the weighted mean 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 no. 285, which contains suitable regulations concerning CCyB. 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 first three months of 2017 at 0%.
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 are excluded from the portfolio: exposures to central administrations or central banks; exposures to regional administrations or local authorities; exposures to public-sector bodies; exposures to multilateral development banks; exposures to international organisations; exposures to bodies.

In reference to 31 December 2016:

– 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 (1.50%), Norway (1.50%) and Hong Kong (0.625%);
– at consolidated level, Intesa Sanpaolo's specific countercyclical ratio equals 0.002%.

Amount of the specific countercyclical capital buffer of the institution

(millions of euro)

Total risk exposure	283,918
Specific countercyclical ratio of the institution	0.002%
Specific countercyclical capital buffer requirement of the institution	6

The table below shows the geographic distribution of the relevant credit exposures for the purpose of calculating the specific countercyclical capital buffer of the institution.

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer

(millions of euro)

LINE	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCY-CLICAL 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	58,942	239,420	851	119	3,519	4,891	*10,835*	*83*	*321*	11,239	66.71	-
ABU DHABI	11	1,063	-	-	-	-	*45*	-	-	45	0.26	-
ALBANIA	395	49	-	-	-	-	*27*	-	-	27	0.16	-
SAUDI ARABIA	7	52	-	-	-	-	*3*	-	-	3	0.02	-
ARGENTINA	1	1	-	-	-	-	-	-	-	-	0.00	-
ARMENIA	1	-	-	-	-	-	-	-	-	-	0.00	-
AUSTRALIA	3	740	-	79	-	-	*36*	*20*	-	56	0.33	-
AUSTRIA	51	245	-	2	-	-	*14*	-	-	14	0.08	-
AZERBAIJAN	-	52	-	4	-	-	*5*	*2*	-	7	0.04	-
BAHAMAS	-	278	-	-	-	-	*15*	-	-	15	0.09	-
BELGIUM	342	476	-	2	-	-	*46*	-	-	46	0.27	-
BELIZE	-	3	-	-	-	-	-	-	-	-	0.00	-
BERMUDA	90	423	-	-	-	-	*29*	-	-	29	0.17	-
BOLIVIA	1	-	-	-	-	-	-	-	-	-	0.00	-
BOSNIA AND HERZEGOVINA	784	-	-	-	-	-	*58*	-	-	58	0.34	-
BRAZIL	209	485	-	6	-	-	*46*	*3*	-	49	0.29	-
BULGARIA	1	9	-	-	-	-	-	-	-	-	0.00	-
CANADA	120	114	-	2	-	-	*7*	*1*	-	8	0.05	-
CAYMAN ISLANDS	207	280	15	7	-	-	*35*	*1*	-	36	0.22	-
CZECH REPUBLIC	230	655	-	-	-	-	*61*	-	-	61	0.36	-
CHILE	5	86	-	-	-	-	*3*	-	-	3	0.02	-
CHINA	252	626	-	-	-	-	*97*	-	-	97	0.58	-
CYPRUS	227	174	-	-	-	-	*28*	-	-	28	0.17	-
COLOMBIA	5	5	-	-	-	-	*1*	-	-	1	0.00	-
CONGO	-	1	-	-	-	-	-	-	-	-	0.00	-
SOUTH KOREA	9	7	-	-	-	-	*1*	-	-	1	0.01	-
COSTA RICA	1	-	-	-	-	-	-	-	-	-	0.00	-
CROATIA	6,346	179	3	-	-	-	*468*	-	-	468	2.78	-
DENMARK	43	129	-	4	-	-	*11*	-	-	11	0.07	-
ECUADOR	1	589	-	-	-	-	*17*	-	-	17	0.10	-
EGYPT	1,815	120	-	-	-	-	*146*	-	-	146	0.87	-
ESTONIA	2	-	-	-	-	-	-	-	-	-	0.00	-
PHILIPPINES	-	21	-	-	-	-	*2*	-	-	2	0.01	-
FINLAND	12	94	-	5	-	-	*4*	-	-	4	0.02	-
FRANCE	527	3,633	13	111	-	10	*255*	*10*	-	265	1.57	-
GERMANY	1,195	3,477	22	230	8	5	*192*	*21*	-	213	1.26	-
GHANA	-	102	-	-	-	-	*14*	-	-	14	0.08	-
JAPAN	38	672	-	13	-	-	*23*	-	-	23	0.14	-
GREECE	3	28	-	1	-	1	-	-	-	-	0.00	-
HONG KONG	6	245	-	-	-	-	*7*	-	-	7	0.04	0.625
INDIA	2	156	-	-	-	-	*13*	-	-	13	0.08	-
INDONESIA	1	110	-	-	-	-	*10*	-	-	10	0.06	-
IRELAND	493	343	111	3	-	16	*47*	*5*	*2*	54	0.32	-
ICELAND	-	130	-	-	-	-	*18*	-	-	18	0.11	-
ISLE OF MAN	-	10	-	-	-	-	-	-	-	-	0.00	-
ISRAEL	7	78	-	-	-	-	*6*	-	-	6	0.03	-
JERSEY	3	137	-	-	-	-	*11*	-	-	11	0.07	-
KAZAKHSTAN	-	23	-	1	-	-	*3*	-	-	3	0.02	-
KENYA	1	1	-	-	-	-	-	-	-	-	0.00	-
KUWAIT	-	514	-	-	-	-	*22*	-	-	22	0.13	-
LIBERIA	60	-	-	-	-	-	*5*	-	-	5	0.03	-
LIBYA	-	8	-	-	-	-	-	-	-	-	0.00	-
LITHUANIA	4	-	-	-	-	-	-	-	-	-	0.00	-
LUXEMBOURG	2,586	1,016	6	22	-	30	*275*	*3*	-	278	1.65	-
MACAO	-	13	-	-	-	-	*1*	-	-	1	0.00	-
MALAYSIA	29	8	-	-	-	-	*2*	-	-	2	0.01	-
MALTA	1	42	-	-	-	-	*3*	-	-	3	0.02	-

(millions of euro)

LINE	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCY-CLICAL 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		
MARSHALL ISLANDS	31	201	-	-	-	-	*25*	-	-	25	0.15	-
MEXICO	103	791	-	2	-	-	*42*	-	-	42	0.25	-
MONGOLIA	-	138	-	-	-	-	*9*	-	-	9	0.05	-
NICARAGUA	1	-	-	-	-	-	-	-	-	-	0.00	-
NIGERIA	-	15	-	-	-	-	*3*	-	-	3	0.02	-
NORWAY	63	147	-	3	-	-	*6*	-	-	6	0.04	1.5
NEW ZEALAND	22	-	-	-	-	-	-	-	-	-	0.00	-
OMAN	69	101	-	-	-	-	*6*	-	-	6	0.04	-
THE NETHERLANDS	2,678	2,815	79	194	-	34	*401*	*18*	-	419	2.49	-
PANAMA	107	46	-	-	-	-	*10*	-	-	10	0.06	-
PARAGUAY	3	-	-	-	-	-	-	-	-	-	0.00	-
PERU	2	286	-	-	-	-	*12*	-	-	12	0.07	-
POLAND	277	292	-	-	-	-	*34*	-	-	34	0.20	-
PORTUGAL	157	356	7	2	-	14	*46*	-	*1*	47	0.28	-
PUERTO RICO	-	35	-	-	-	-	*7*	-	-	7	0.04	-
PRINCIPALITY OF MONACO	1	6	-	-	-	-	-	-	-	-	0.00	-
QATAR	187	194	-	-	-	-	*7*	-	-	7	0.04	-
UNITED KINGDOM	4,930	4,423	67	33	-	21	*705*	*12*	-	717	4.25	-
ROMANIA	670	100	-	-	-	-	*43*	-	-	43	0.25	-
RUSSIA	1,188	712	-	13	-	-	*128*	*1*	-	129	0.76	-
SAN MARINO	4	14	-	-	-	-	*1*	-	-	1	0.00	-
SENEGAL	1	-	-	-	-	-	-	-	-	-	0.00	-
SERBIA	2,538	168	-	-	-	-	*160*	-	-	160	0.95	-
SINGAPORE	34	482	-	-	-	-	*29*	-	-	29	0.17	-
SLOVAKIA	2,971	8,833	-	-	-	-	*492*	-	-	492	2.92	-
SLOVENIA	1,781	41	-	-	-	-	*101*	-	-	101	0.60	-
SPAIN	427	2,316	125	15	-	78	*165*	*5*	*5*	175	1.04	-
UNITED STATES OF AMERICA	1,191	9,602	111	97	88	17	*538*	*5*	*11*	554	3.29	-
SOUTH AFRICA	114	9	-	-	-	-	*10*	-	-	10	0.06	-
SWEDEN	128	161	-	6	-	-	*18*	-	-	18	0.10	1.5
SWITZERLAND	183	925	-	274	-	-	*38*	*16*	-	54	0.32	-
THAILAND	1	9	-	-	-	-	-	-	-	-	0.00	-
TUNISIA	31	8	-	-	-	-	*4*	-	-	4	0.02	-
TURKEY	136	1,300	-	-	-	-	*68*	-	-	68	0.41	-
UKRAINE	63	19	-	-	-	-	*4*	-	-	4	0.02	-
HUNGARY	2,816	462	4	-	-	-	*229*	*1*	-	230	1.36	-
URUGUAY	51	40	-	-	-	-	*5*	-	-	5	0.03	-
VENEZUELA	22	2	-	-	-	-	-	-	-	-	0.00	-
BRITISH VIRGIN ISLANDS	-	86	-	-	-	-	*8*	-	-	8	0.05	-
VIETNAM	-	12	-	-	-	-	*1*	-	-	1	0.01	-
TOTAL	**98,050**	**292,269**	**1,414**	**1,250**	**3,615**	**5,117**	***16,302***	***207***	***340***	**16,849**	**100.00**	

Capital requirements and capital ratios of the Intesa Sanpaolo Group

(milions of euro)

	31.12.2016			31.12.2015		
	Unweighted amounts	Weighted amounts	Requirements	Unweighted amounts	Weighted amounts	Requirements
A. CAPITAL REQUIREMENTS						
A.1 Credit and counterparty risks	**571,335**	**242,312**	**19,385**	**541,351**	**244,760**	**19,581**
1. Standardised approach	270,507	114,333	9,146	246,977	117,528	9,402
2. Internal models (IRB)	2,842	6,622	530	2,391	4,917	393
3. Internal models - Advanced approach and retail exposures	288,863	117,034	9,363	286,768	117,890	9,432
4. Securitisations - banking book	9,123	4,323	346	5,215	4,425	354
A.2 Credit risk adjustment		**1,039**	**83**		**1,033**	**83**
A.3 Settlement risk		**1**	**-**		**1**	**-**
A.4 Market risk		**19,198**	**1,536**		**16,581**	**1,326**
1. Standardised approach		1,628	130		2,859	228
2. Internal models		17,570	1,406		13,722	1,098
A.5. Concentration risk		**-**	**-**		**-**	**-**
A.6 Operational risk		**19,545**	**1,563**		**20,653**	**1,652**
1. Basic indicator approach		489	39		559	45
2. Standardised approach		2,805	224		2,899	232
3. Advanced measurement approach		16,251	1,300		17,195	1,375
A.7 Other capital requirements		**-**	-		**-**	-
A.8 Other calculation elements [(a)]		**1,823**	**146**		**1,291**	**103**
A.9 Total capital requirements		**283,918**	**22,713**		**284,319**	**22,745**
B. CAPITAL RATIOS (%)						
B.1 Common Equity Tier 1 ratio			**12.7%**			**13.0%**
B.2 Tier 1 ratio			**13.9%**			**13.8%**
B.3 Total capital ratio			**17.0%**			**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 31 December 2016. Additional details, for the “unweighted” amounts, are also shown:
– for the standardised approach and the securitisations subject to the standardised approach, in their specific section (which also shows the amounts of the off-balance sheet transactions before weighting for the credit conversion factors – CCF);
– for the internal models approach (including securitisations), in its specific Section.

With regard to the “weighted” amounts, on the other hand, additional information on securitisations and equity instruments is provided in the specific sections dedicated to those types of exposures.

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	
	31.12.2016	31.12.2015
Credit risk	18,923	19,002
Counterparty risk	462	579
Total capital requirement for credit and counterparty risk	**19,385**	**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	
	31.12.2016	**31.12.2015**
Exposures to or secured by central governments and central banks	1,383	1,387
Exposures to or secured by regional governments or local authorities	214	222
Exposures to or secured by public sector organisations	254	350
Exposures to or secured by multilateral development banks	-	-
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	1,314	1,276
Exposures to or secured by corporates	2,350	2,128
Retail exposures	1,440	1,749
Exposures secured by real estate property	133	129
Default exposures	378	452
High-risk exposures	12	19
Exposures in the form of covered bonds	13	9
Short-term exposures to corporates or to supervised institutions	-	-
Exposures to UCIs	181	165
Equity exposures	881	933
Other exposures	593	583
Total capital requirement for credit and counterparty risk (Standardised Approach)	**9,146**	**9,402**

Capital requirement for Credit and Counterparty Risk (IRB Approaches)

(millions of euro)

Regulatory portfolio	Capital requirement	
	31.12.2016	**31.12.2015**
A. Exposures to or secured by corporates (FIRB & AIRB Approach)	**8,318**	**8,457**
A.1) Specialised lending	739	892
A.2) Specialised lending - slotting criteria	76	75
A.3) SMEs	1,996	2,281
A.4) Other corporates	5,507	5,209
B. Retail exposures (IRB Approach)	**1,110**	**1,039**
B.1) Exposures secured by property: SMEs	61	66
B.2) Exposures secured by property: natural persons	857	760
B.3) Other retail exposures: SMEs	192	213
C. Equity exposures	**465**	**329**
C.1) Equity exposures (Simple risk weight approach)	319	201
- Private equity exposures in sufficiently diversified portfolios	1	3
- Exchange-traded equity exposures	61	37
- Other equity exposures	257	161
C.2) Equity exposures (PD/LGD approach)	-	-
C.3) Equity exposures (Exposures subject to fixed weighting factors)	146	128
Total capital requirement for credit and counterparty risk (IRB Approach)	**9,893**	**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	
	31.12.2016	31.12.2015
A. Specialised lending - slotting criteria	**76**	**75**
A.1) Category 1 - 50% - 70% greater than or equal to 2.5 years	13	8
A.2) Category 2 - 70% less than 2.5 years - 90%	27	17
A.3) Category 3 - 115%	21	31
A.4) Category 4 - 250%	15	19
A.5) Category 5 - 0%	-	-
Total capital requirement for credit and counterparty risk (IRB Approach) - slotting criteria	**76**	**75**

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

(millions of euro)

	Capital requirement	
	31.12.2016	31.12.2015
Securitisations - Standardised Approach	283	239
Securitisations - IRB (Rating Based Approach - Supervisory formula approach)	63	115
Total capital requirement for credit and counterparty risk on securitisations	**346**	**354**

Capital requirement for Market Risk

(millions of euro)

	Capital requirement	
	31.12.2016	31.12.2015
Assets included in the regulatory trading book	**1,459**	**1,254**
Position risk [(a)]	1,459	1,254
Other assets	**77**	**72**
Foreign exchange risk	42	52
Commodity risk	35	20
Total capital requirement for market risk	**1,536**	**1,326**

(a) The caption includes capital requirements for exposures to securitisations for 39 million euro.

Capital requirement for Operational Risk

(millions of euro)

	Capital requirement	
	31.12.2016	31.12.2015
Basic indicator approach	39	45
Standardised approach	224	232
Advanced measurement approach	1,300	1,375
Total capital requirement for operational risk	**1,563**	**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 Advanced Measurement 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. Capital was down compared to 31 December 2015, with a significant decline in the AMA portion due to the update of the databases used to determine it (as regards both the prospective part - from scenario analyses - and the historical part - internal and external operational losses) and a lesser decrease in the TSA - standardised approach - and BIA - basic approach - components (-13 million euro), due to the annual update to the relevant indicator data used for this purpose.

Section 5 - Adjustments for credit risk: general information

Qualitative disclosure

Definitions of "non-performing" loans and "past due" loans
Non-performing financial assets include those loans which, due to events that occur after their granting, show objective evidence of possible impairment.
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 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 an attribute 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.

Non-performing assets undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories (identified as a function of the risk status, duration of default and significance of the exposure) and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.
This measurement is performed upon classification of the assets at the occurrence of significant events and, in any event, is periodically revised in accordance with the criteria and methods illustrated in the Annual Report, Part A.2 – Accounting Policies, Main financial statement captions, Loans, to which specific reference should be made.
With reference to past due loans and unlikely to pay loans, the structures responsible for their management are identified, on the basis of pre-determined thresholds of increasing significance, directly at the operating points that handle the accounts, or within peripheral organisational units that perform specialist activities and within the Head Office units, which are responsible for the overall management and coordination of these matters.
On the subject of bad loans, in the first half of 2015 the Group adopted a new organisational model according to which almost all (in terms of total exposure) new bad loan flows are to be managed by the Group's Loan Recovery Department. In particular, this model calls for:
– 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 relies on its own specialist units throughout the country to manage recovery activity 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 have been examined in terms of costs and benefits, also considering the financial impact of the estimated recovery times.

The assessment of the loans is reviewed whenever events capable of significantly changing recovery prospects become known to the Bank. In order to identify such events rapidly, the information set relative to borrowers 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 of Italfondiario S.p.A. and the new external servicers in managing the loans entrusted to them under management mandate was monitored by the responsible internal units of the Group. In particular, it should be noted that the individual measurement of loans has been conducted using similar procedures to those established for the internal management of positions, and the other management activities are subject to the guidelines similar to those established for the internally managed positions.

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 loan monitoring and recovery. Classification involves the use of automatic mechanisms when given objective default thresholds are exceeded. This occurs in cases of past-due loans, which are identified at the Group level, and performing positions with other forborne exposures, if such exposures become relevant for the purposes of regulatory provisions concerning reallocation to the non-performing category.
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 aims. Significance 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 significant 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.
Non-performing loans are constantly monitored and controlled, also through II level sample controls on single positions, by the Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area.

The definitions of the various categories of “non-performing” loans are set forth below:

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; 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

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 debtor in said situation is therefore classified under the category "unlikely to pay" (unless the conditions for classification of the debtor among bad loans exist). Loans classified as "unlikely to pay" should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to listed debt securities, unless they meet the conditions for classification as bad loans. 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 [11].

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

The concept of forbearance has also been introduced into supervisory regulations. In this context, the notion of "forborne assets", introduced by European provisions, transversally applies to the loan classification macro-categories (performing and non-performing).

Forborne exposures are subdivided into:

– non-performing exposures subject to forbearance measures, which correspond to the "Non-performing exposures with forbearance measures" pursuant to the aforementioned ITS. These exposures represent a feature, depending on the case, of bad loans, unlikely to pay loans or non-performing past due and/or overdrawn exposures; therefore, they do not form their own category of non-performing loans;
– other exposures subject to forbearance measures, which correspond to the "Forborne performing exposures" pursuant to the ITS.

The definition of "forborne exposures" is directly connected to that of forbearance measures.

The latter represent forbearance measures for 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").

Description of the methods adopted to calculate the adjustments

At every balance sheet date the financial assets not classified under Financial assets held for trading or Financial assets designated at fair value through profit and loss are subject to an impairment test to assess whether there is objective evidence to consider that the carrying value of these assets is not fully recoverable.

A permanent loss occurs if there is objective evidence of a reduction in future cash flows with respect to

[11] 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 renegotiations with borrowers having "non-performing" status upon restructuring or that become non-performing directly following restructuring.

those originally estimated, following specific events; the loss must be quantified in a reliable way and must be incurred and not merely expected.
The measurement of impairment is carried out on an individual basis for financial assets which present specific evidence of losses and collectively for financial assets for which individual measurement is not required or which do not lead to adjustments. Collective measurement is based on the identification of portfolios of financial assets with the same risk characteristics with respect to the borrower/issuer, the economic sector, the geographical area, the presence of any guarantees and other relevant factors.
With reference to loans to customers and due from banks, positions attributed the status of bad loan, unlikely to pay or past due loan according to the definitions of the Bank of Italy, consistent with IAS/IFRS, are subject to individual measurement.
These non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.
Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure. Cash flows relative to loans which are deemed to be recovered in the short term are not discounted, since the time value is immaterial.
Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series, founded on observable elements at measurement date, that enable to estimate the value of the latent loss in each loan category. Measurement also considers the risk connected to the borrower's country of residence.
The determination of provisions on performing loans is carried out by identifying the highest possible synergies (as permitted by the various legislations) with the supervisory approach contained in the regulations known as "Basel 3". In particular, the parameters of the calculation model set out in the supervisory provisions, namely Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards. This time period is reduced to six months for counterparties who are natural persons. This reduction is based on a statistically significant sample of mortgages that showed an average period of six months between the first missed payment and the classification as default. The time period of a year is decreased by 30% for the factoring segment, in order to take into account certain specific characteristics related to the activity of acquiring short-term trade receivables.
The amount of the provision also reflects the phase of the economic cycle through an appropriate corrective factor: an annually updated adjusting coefficient, estimated on the basis of the economic cycle, made necessary by the fact that ratings, which are calibrated according to the long-term expected average level throughout the economic cycle, only partially reflect current conditions. This coefficient is determined by regulatory segment and is equal to the ratio of the default rates estimated for the following 12 months on the basis of the scenario available in the fourth quarter (used in ICAAP) to actual PD. Cyclical coefficients are updated annually and submitted to the Chief Risk Officer for approval.

Provisions made on an individual and collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, determined applying the same criteria set out above with respect to loans, are recorded under Other liabilities, as set out by Bank of Italy instructions.

The tables below show the Gross credit exposures - total and average - and the related adjustments broken down by risk class, geographical area, counterparty category and residual maturity, together with the adjustments made during the period. The figures represent the exposures shown in the financial statements, and include both the positions relating to the banking book and the regulatory trading book.

"On-balance sheet exposures" include all on-balance sheet financial assets claimed from banks and customers, irrespective of their portfolio of IAS/IFRS allocation: An exception is represented by equity exposures which, consistently with the Annual Report (Part E of the Notes to the financial statements – Credit risk) regulated by Circular 262 of the Bank of Italy, are excluded from this disclosure. Equity exposures included in the banking book are detailed in the specific Section hereof. In compliance with the provisions already referred to, the units of UCI are included only in the Residual maturity table.

"Off-balance sheet exposures" include all financial activities that are not on the balance sheet (guarantees given, Irrevocable commitments to lend funds, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with securities lending operations, repurchase agreements and lending transactions with margins within the notion of SFTs (Securities Financing Transactions) defined in prudential regulations.

The following table presents such exposures by risk class and IAS/IFRS portfolio, also including in the "Financial assets held for trading" portfolio derivatives positions not already classified to the Hedging derivatives portfolio. In this regard, consistently with the Annual Report (Part E of the Notes to the financial statements – Credit risk) regulated by Circular 262 of the Bank of Italy, the amounts relating to Financial assets held for trading and Hedging derivatives are conventionally included under performing exposures. For data relating to the previous year, please refer to the document Basel 3 - Pillar 3 - Disclosure as at 31 December 2015, which discloses information on the basis of previous risk classes.

Overall credit exposure by risk class

(millions of euro)

Portfolios/category	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Gross	Net	Gross	Net	Gross	Net
1. Financial assets held for trading	X	X	X	X	X	X
2. Financial assets available for sale	33	1	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-
4. Due from banks	2	-	4	-	-	-
5. Loans to customers	37,834	14,895	19,986	14,651	555	435
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
7. Financial assets under disposal	-	-	-	-	-	-
8. Hedging derivatives	X	X	X	X	X	X
TOTAL 31.12.2016	**37,869**	**14,896**	**19,990**	**14,651**	**555**	**435**

Portfolios/category	Performing past due exposures		Other performing exposures		Total	
	Gross	Net	Gross	Net	Gross	Net
1. Financial assets held for trading	X	X	X	41,652	X	41,652
2. Financial assets available for sale	-	-	62,146	62,146	62,179	62,147
3. Investments held to maturity	-	-	1,241	1,241	1,241	1,241
4. Due from banks	-	-	52,595	52,535	52,601	52,535
5. Loans to customers	7,077	6,922	332,775	331,318	398,227	368,221
6. Financial assets designated at fair value through profit and loss	X	-	X	1,196	X	1,196
7. Financial assets under disposal	-	-	-	-	-	-
8. Hedging derivatives	X	X	X	6,234	X	6,234
TOTAL 31.12.2016	**7,077**	**6,922**	**448,757**	**496,322**	**514,248**	**533,226**

Credit exposures by geographical area to customers and banks

Credit exposures by geographical area – customers

(millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Bad loans	14,334	-21,699	556	-1,150	2	-27	1	-6	4	-88
A.2. Unlikely to pay	13,218	-4,619	1,049	-588	183	-65	52	-11	150	-51
A.3. Non-performing past due exposures	375	-92	33	-22	3	-1	19	-5	4	-
A.4. Performing exposures	296,884	-1,123	84,372	-373	19,052	-45	4,599	-19	4,898	-53
Total A	**324,811**	**-27,533**	**86,010**	**-2,133**	**19,240**	**-138**	**4,671**	**-41**	**5,056**	**-192**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Bad loans	154	-66	13	-8	-	-	-	-	1	-6
B.2. Unlikely to pay	797	-60	52	-23	20	-	-	-	3	-1
B.3. Other non-performing assets	10	-	1	-1	-	-	-	-	-	-
B.4. Performing exposures	63,591	-71	60,365	-61	13,769	-17	1,239	-1	1,703	-3
Total B	**64,552**	**-197**	**60,431**	**-93**	**13,789**	**-17**	**1,239**	**-1**	**1,707**	**-10**
TOTAL (A+B) 31.12.2016	**389,363**	**-27,730**	**146,441**	**-2,226**	**33,029**	**-155**	**5,910**	**-42**	**6,763**	**-202**
TOTAL 31.12.2015	**368,850**	**-29,156**	**119,957**	**-2,884**	**31,639**	**-122**	**4,646**	**-52**	**7,219**	**-290**

Credit exposures by geographical area – banks

(millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Bad loans	-	-	-	-2	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-4	-	-
A.3. Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4. Performing exposures	28,557	-11	21,039	-27	3,595	-15	2,276	-5	1,506	-3
Total A	**28,557**	**-11**	**21,039**	**-29**	**3,595**	**-15**	**2,276**	**-9**	**1,506**	**-3**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Bad loans	-	-	-	-	-	-	-	-	-	-
B.2. Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4. Performing exposures	6,945	-1	36,727	-9	2,715	-2	1,896	-7	634	-11
Total B	**6,945**	**-1**	**36,727**	**-9**	**2,715**	**-2**	**1,896**	**-7**	**634**	**-11**
TOTAL (A+B) 31.12.2016	**35,502**	**-12**	**57,766**	**-38**	**6,310**	**-17**	**4,172**	**-16**	**2,140**	**-14**
TOTAL 31.12.2015	**13,993**	**-7**	**62,942**	**-47**	**10,328**	**-15**	**4,526**	**-24**	**2,525**	**-11**

Credit exposures and adjustments to customers by counterparty

(millions of euro)

Exposures/Counterparties	GOVERNMENTS			OTHER PUBLIC ENTITIES			FINANCIAL COMPANIES			INSURANCE COMPANIES			NON-FINANCIAL COMPANIES			OTHER ENTITIES		
	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments	Net exposure	Individual adjustments	Portfolio adjustments
A. ON-BALANCE SHEET EXPOSURES																		
A.1. Bad loans	7	-3	X	184	-94	X	167	-340	X	1	-1	X	12,305	-20,097	X	2,233	-2,435	X
- *of which* *forborne exposures*	1	-	X	-	-	X	16	-46	X	-	-	X	930	-1,081	X	142	-182	X
A.2. Unlikely to pay	1	-1	X	151	-21	X	550	-179	X	-	-	X	12,490	-4,540	X	1,460	-593	X
- *of which* *forborne exposures*	-	-	X	54	-3	X	435	-110	X	-	-	X	6,191	-1,978	X	577	-136	X
A.3. Non-performing past due exposures	-	-	X	4	-	X	5	-2	X	-	-	X	282	-64	X	143	-54	X
- *of which* *forborne exposures*	-	-	X	-	-	X	-	-	X	-	-	X	55	-10	X	8	-1	X
A.4. Performing exposures	76,512	X	-8	15,673	X	-31	61,889	X	-147	1,516	X	-	167,792	X	-1,187	86,423	X	-240
- *of which* *forborne exposures*	24	X	-	152	X	-	663	X	-26	-	X	-	6,077	X	-144	1,034	X	-15
Total A	**76,520**	**-4**	**-8**	**16,012**	**-115**	**-31**	**62,611**	**-521**	**-147**	**1,517**	**-1**	**-**	**192,869**	**-24,701**	**-1,187**	**90,259**	**-3,082**	**-240**
B. OFF-BALANCE SHEET EXPOSURES																		
B.1. Bad loans	-	-	X	-	-	X	2	-	X	-	-	X	162	-71	X	5	-8	X
B.2. Unlikely to pay	-	-	X	-	-	X	6	-1	X	8	-	X	851	-82	X	6	-2	X
B.3. Other non-performing assets	-	-	X	-	-	X	-	-	X	-	-	X	10	-	X	1	-1	X
B.4. Other exposures	17,391	X	-	1,234	X	-	35,898	X	-6	1,093	X	-	80,588	X	-139	4,463	X	-8
Total B	**17,391**	**-**	**-**	**1,234**	**-**	**-**	**35,906**	**-1**	**-6**	**1,101**	**-**	**-**	**81,611**	**-153**	**-139**	**4,475**	**-11**	**-8**
TOTAL (A+B) 31.12.2016	**93,911**	**-4**	**-8**	**17,246**	**-115**	**-31**	**98,517**	**-522**	**-153**	**2,618**	**-1**	**-**	**274,480**	**-24,854**	**-1,326**	**94,734**	**-3,093**	**-248**
TOTAL 31.12.2015	**75,651**	**-4**	**-12**	**18,060**	**-97**	**-32**	**78,589**	**-706**	**-174**	**2,570**	**-**	**-1**	**268,344**	**-26,042**	**-1,668**	**89,097**	**-3,457**	**-312**

The above table of “Credit exposures and adjustments to customers by counterparty” includes exposures to SMEs for a total amount (on- and off-balance sheet exposures net of value adjustments) of 93,411 million euro (93,268 as at 31 December 2015).

The breakdown by maturity of financial assets is shown in the table below according to the rules set forth in financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity. Therefore, no operational data was used that would require, for example, the representation of cash items according to their level of liquidability.

Credit exposures by residual contractual maturity

(millions of euro)

Type / Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**61,594**	**24,330**	**10,136**	**19,541**	**24,382**	**22,262**	**32,617**	**150,918**	**130,265**	**25,741**
A.1 Government bonds	17	33	68	479	1,392	2,032	3,773	31,077	26,910	-
A.2 Other debt securities	48	205	1,352	3,141	355	568	1,041	6,920	10,763	-
A.3 Quotas of UCI	2,082	-	-	-	-	-	-	-	-	-
A.4 Loans	59,447	24,092	8,716	15,921	22,635	19,662	27,803	112,921	92,592	25,741
- Banks	*12,937*	*1,842*	*1,379*	*1,389*	*3,455*	*1,914*	*2,187*	*947*	*225*	*25,741*
- Customers	*46,510*	*22,250*	*7,337*	*14,532*	*19,180*	*17,748*	*25,616*	*111,974*	*92,367*	-
Off-balance sheet transactions	**168,002**	**90,487**	**19,966**	**42,812**	**60,406**	**31,317**	**37,936**	**112,085**	**45,114**	**-**
B.1 Financial derivatives with exchange of capital										
- Long positions	*505*	*16,083*	*9,566*	*20,916*	*27,444*	*14,190*	*15,348*	*33,840*	*19,186*	-
- Short positions	*2,366*	*15,990*	*9,622*	*20,890*	*26,918*	*14,372*	*15,650*	*31,490*	*18,642*	-
B.2 Financial derivatives without exchange of capital										
- Long positions	*28,650*	*22*	*33*	*50*	*152*	*144*	*418*	*579*	*247*	-
- Short positions	*32,177*	*22*	*35*	*37*	*139*	*176*	*495*	*579*	*247*	-
B.3 Deposits and loans to be settled										
- Long positions	*31,309*	-	-	*50*	-	-	-	-	-	-
- Short positions	*71*	*31,217*	*14*	*57*	-	-	-	-	-	-
B.4 Irrevocable commitments to lend funds										
- Long positions	*2,747*	*27,077*	*677*	*619*	*4,333*	*520*	*1,225*	*29,673*	*3,449*	-
- Short positions	*67,537*	*74*	*11*	*183*	*239*	*885*	*501*	*2,883*	*897*	-
B.5 Financial guarantees given	*497*	*2*	*8*	*10*	*93*	*98*	*53*	*85*	*14*	-
B.6 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	*544*	*466*	*2,123*	*6,478*	*1,216*	-
- Short positions	-	-	-	-	*544*	*466*	*2,123*	*6,478*	*1,216*	-
B.7 Credit derivatives without exchange of capital										
- Long positions	*1,084*	-	-	-	-	-	-	-	-	-
- Short positions	*1,059*	-	-	-	-	-	-	-	-	-
TOTAL AS AT 31.12.2016	**229,596**	**114,817**	**30,102**	**62,353**	**84,788**	**53,579**	**70,553**	**263,003**	**175,379**	**25,741**
TOTAL AS AT 31.12.2015	**200,790**	**83,444**	**24,730**	**49,258**	**86,189**	**50,223**	**68,034**	**234,276**	**173,532**	**6,295**

The following tables present value adjustments recognised in the income statement and include both specific adjustments to non-performing positions and collective adjustments to performing positions.

Net adjustments for on-balance sheet exposures: breakdown

Due from banks and Loans to customers

(millions of euro)

	Impairment losses	Recoveries	2016	2015
A. Due from banks	**-26**	**2**	**-24**	**-22**
- Loans	-17	2	-15	-19
- Debt securities	-9	-	-9	-3
B. Loans to customers	**-5,960**	**2,308**	**-3,652**	**-3,334**
Non-performing loans purchased	**-**	**-**	**-**	**-26**
- Loans	-	-	-	-26
- Debt securities	-	-	-	**-**
Other	**-5,960**	**2,308**	**-3,652**	**-3,308**
- Loans	-5,939	2,308	-3,631	-3,296
- Debt securities	-21	-	-21	-12
C. Total	**-5,986**	**2,310**	**-3,676**	**-3,356**

Financial assets available for sale

(millions of euro)

	Impairment losses	Recoveries	2016	2015
A. Debt securities	-	3	3	3
B. Due from banks	-1	-	-1	-1
C. Loans to customers	-	-	-	-
F. Total	**-1**	**3**	**2**	**2**

Net adjustments for off-balance sheet exposures: breakdown

(millions of euro)

	Impairment losses	Recoveries	2016	2015
A. Guarantees given	-78	125	47	126
B. Credit derivatives	-	2	2	2
C. Commitments to lend funds	-33	39	6	2
D. Other operations	-26	24	-2	-
E. Total	**-137**	**190**	**53**	**130**

Changes in adjustments relating to non-performing on-balance sheet exposures to customers and banks

Changes in adjustments relating to non-performing on-balance sheet exposures to customers as at 31 December 2016

(millions of euro)

Reason/Categories	Bad loans		Unlikely to pay		Non performing past due exposures	
		Of which: forborne exposures		*Of which: forborne exposures*		*Of which: forborne exposures*
A. Initial total adjustments	**24,209**	**944**	**5,658**	**2,208**	**216**	**21**
- of which exposures sold not derecognised	*8*	*-*	*22*	*-*	*-*	*-*
B. Increases	**5,779**	**762**	**2,969**	**1,061**	**418**	**54**
B.1 impairment losses	3,197	359	2,150	729	323	42
B.2. losses on disposal	114	10	16	5	1	-
B.3 transfers from other non-performing exposure categories	1,582	252	487	87	33	2
B.4 other increases	886	141	316	240	61	10
B.5 business combinations	-	-	-	-	-	-
C. Decreases	**-7,018**	**-397**	**-3,293**	**-1,042**	**-514**	**-64**
C.1 recoveries on impairment losses	-1,044	-77	-822	-431	-53	-2
C.2 recoveries on repayments	-226	-19	-148	-64	-2	-
C.3 profits on disposal	-83	-9	-14	-10	-	-
C.4 write-offs	-4,830	-88	-492	-167	-3	-
C.5 transfers to other non-performing exposure categories	-107	-30	-1,573	-249	-423	-61
C.6 other decreases	-728	-174	-244	-121	-33	-1
C.7 business combinations	-	-	-	-	-	-
D. Final total adjustments	**22,970**	**1,309**	**5,334**	**2,227**	**120**	**11**
- of which exposures sold not derecognised	*-*	*-*	*-*	*-*	*-*	*-*

Changes in adjustments relating to non-performing on-balance sheet exposures to banks as at 31 December 2016

(millions of euro)

Reason/Categories	Bad loans		Unlikely to pay		Non performing past due exposures	
		Of which: forborne exposures		*Of which: forborne exposures*		*Of which: forborne exposures*
A. Initial total adjustments	**6**	**-**	**6**	**-**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 impairment losses	-	-	-	-	-	-
B.2. losses on disposal	-	-	-	-	-	-
B.3 transfers from other non-performing exposure categories	-	-	-	-	-	-
B.4 other increases	-	-	-	-	-	-
B.5 business combinations	-	-	-	-	-	-
C. Decreases	**-4**	**-**	**-2**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-	-	-2	-	-	-
C.2 recoveries on repayments	-	-	-	-	-	-
C.3 profits on disposal	-	-	-	-	-	-
C.4 write-offs	-4	-	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-	-	-
C.6 other decreases	-	-	-	-	-	-
C.7 business combinations	-	-	-	-	-	-
D. Final total adjustments	**2**	**-**	**4**	**-**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-	-	-

Section 6 - 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 agencies 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.
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

The quantitative disclosures provided in this Section complement those provided in the section dedicated to risk mitigation techniques. In fact, each regulatory portfolio provided for by regulations under the standardised approach is broken down as follows:

– amount of on- and off-balance exposures, "without" the risk mitigation, which does not take into account the decrease in exposure arising from application of collateral and guarantees; in the case of guarantees, which transfer risk in respect of the guaranteed portion, reference is made to the guarantor's regulatory portfolios and weightings, while as to the residual exposure, reference is made to the guaranteed party's information;
– amount of the same exposures "with" the risk mitigation effect, i.e. net of the guarantees mentioned in the previous point. the difference between exposures "with" and "without" credit risk mitigation

thus represents the amount of approved guarantees, disclosed in the section dedicated to risk mitigation techniques.

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

The exposures listed in the columns "Exposures with credit risk mitigation" and "Exposures without credit risk mitigation" also contain the off-balance sheet exposures in relation to guarantees and commitments (including the margins available on lines of credit) without the application of the credit conversion factors (CCF) required by the prudential regulations. The off-balance sheet exposures in relation to guarantees and commitments are disclosed side by side with the counterparty weighting factor.

Please note that exposures backed by collateral - whose exposure level is reduced due to application of the comprehensive method as provided for by applicable regulations - are conventionally represented side by side with 0% weighting in the table "Exposures without credit risk mitigation".

The column "Exposures deducted from regulatory capital" 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).

Breakdown of exposures: standardised approach

(millions of euro)

Regulatory portfolio	31.12.2016			31.12.2015		
	Exposure with credit risk mitigation	Exposure without credit risk mitigation (*)	Exposures deducted from regulatory capital	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from regulatory capital
Exposures to or secured by central governments and central banks	126,474	132,840		98,641	105,101	
Exposures to or secured by regional governments or local authorities	14,999	15,331		15,691	16,153	
Exposures to or secured by public sector organisations	7,157	7,186		7,430	7,445	
Exposures to or secured by multilateral development banks	2,395	2,400		2,866	2,872	
Exposures to or secured by international organisations	184	184		52	52	
Exposures to or secured by supervised institutions	71,679	78,343		79,965	129,089	
Exposures to or secured by corporates and other entities	41,705	43,425		37,601	44,072	
Retail exposures	30,128	30,990		35,151	36,570	
Exposures secured by real estate property	4,369	4,369	1,998	4,089	4,089	1,768
Exposures in default	4,214	4,345		5,134	5,254	
High-risk exposures	100	100		157	157	
Exposures in the form of covered bonds	862	862		589	589	
Short-term exposures to corporates and other entities or supervised institutions	1	1		1	1	
Exposures to UCI	2,783	2,928		2,486	2,674	
Equity exposures	6,578	6,578		7,063	7,063	
Other exposures	11,594	11,594		11,934	11,934	
Securitisations (**)	3,615	3,615		2,126	2,126	
Total credit risk	**328,837**	**345,091**	**1,998**	**310,976**	**375,241**	**1,768**

(*) With reference to the aggregates shown in the table, please note that - starting from 31 December 2016 – the Intesa Sanpaolo Group has been authorised to extend the EPE methodology to SFTs in the portfolio of Banca IMI and the Parent Company. This method calls for the inclusion of collateral in the calculation of EAD. As a consequence, the amount represented in the "Exposure without credit risk mitigation" column already accounts, as at 31 December 2016, for the collateral exchanged with the SFT counterparties. The amount of the collateral exchanged is reported in Section 8 of this document.

(**) Further information on securitisations is contained in the section "Securitisations".

For certain regulatory portfolios (Exposures to or secured by corporates, Retail exposures and Exposures secured by real estate property), the Group uses the standardised approach to a lesser extent, as it obtained authorisation to use the IRB approaches. For information on the different scope of companies which the IRB approaches are applied to, see the information disclosed in the specific section.

The exposure value shown in the tables of this section is stated net of adjustments.

Further details on the amounts of exposures with or without credit risk mitigation are provided in the following two tables.

Breakdown of exposures by credit quality and by exposure class: standardised approach – exposures with credit risk mitigation

(millions of euro)

Regulatory portfolio	31.12.2016													
	0%	2%	10%	20%	35%	50%	70%	75%	100%	150%	200%	250%	Other	TOTAL
Exposures to or secured by central governments and central banks	110,669	X	X	209	X	1,184	X	X	12,987	65	X	1,360	-	126,474
Exposures to or secured by regional governments or local authorities	-	X	X	14,683	X	50	X	X	266	-	X	X	X	14,999
Exposures to or secured by public sector organisations	44	X	X	2,256	X	20	X	X	4,837	-	X	X	X	7,157
Exposures to or secured by multilateral development banks	2,395	X	X	-	X	-	X	X	-	-	X	X	X	2,395
Exposures to or secured by international organisations	184	X	X	X	X	X	X	X	X	X	X	X	X	184
Exposures to or secured by supervised institutions	922	7,380	X	27,956	X	23,820	-	X	11,251	350	X	X	X	71,679
Exposures to or secured by corporates and other entities	-	496	X	812	X	1,917	-	X	38,355	125	X	X	X	41,705
Retail exposures	-	X	X	X	X	X	X	30,128	X	X	X	X	X	30,128
Exposures secured by real estate property	X	X	X	X	2,659	1,710	X	X	X	X	X	X	X	4,369
Exposures in default	-	X	X	X	X	-	X	X	2,918	1,296	X	X	X	4,214
High-risk exposures	X	X	X	X	X	X	X	X	-	100	-	X	X	100
Exposures in the form of covered bonds	X	X	591	192	X	23	X	X	56	X	X	X	X	862
Short-term exposures to corporates and other entities or supervised institutions	-	X	X	1	X	-	X	X	-	-	X	X	X	1
Exposures to UCI	-	X	X	-	X	-	X	X	2,561	29	X	X	193	2,783
Equity exposures	-	X	-	-	-	-	X	-	3,624	-	-	2,954	-	6,578
Other exposures	3,253	X	X	1,163	X	X	X	X	7,178	-	X	X	X	11,594
Securitisations	X	X	X	X	X	X	X	X	X	X	X	X	X	3,615
Total credit risk 31.12.2016 (*)	**117,467**	**7,876**	**591**	**47,272**	**2,659**	**28,724**	**-**	**30,128**	**84,033**	**1,965**	**-**	**4,314**	**193**	**328,837**

(*) Total credit risk includes Securitisations.

Breakdown of exposures by credit quality and by exposure class: standardised approach – exposures without credit risk mitigation

(millions of euro)

Regulatory portfolio	31.12.2016													
	0%	2%	10%	20%	35%	50%	70%	75%	100%	150%	200%	250%	Other	TOTAL
Exposures to or secured by central governments and central banks	116,259	X	X	209	X	1,815	X	X	13,131	65	X	1,361	-	132,840
Exposures to or secured by regional governments or local authorities	-	X	X	14,995	X	51	X	X	285	-	X	X	X	15,331
Exposures to or secured by public sector organisations	72	X	X	2,255	X	20	X	X	4,839	-	X	X	X	7,186
Exposures to or secured by multilateral development banks	2,400	X	X	-	X	-	X	X	-	-	X	X	X	2,400
Exposures to or secured by international organisations	184	X	X	X	X	X	X	X	X	X	X	X	X	184
Exposures to or secured by supervised institutions	3,293	7,380	X	27,979	X	24,296	-	X	15,045	350	X	X	X	78,343
Exposures to or secured by corporates and other entities	1,672	496	X	812	X	1,919	46	X	38,355	125	X	X	X	43,425
Retail exposures	862	X	X	X	X	X	X	30,128	X	X	X	X	X	30,990
Exposures secured by real estate property	-	X	X	X	2,659	1,710	X	X	X	X	X	X	X	4,369
Exposures in default	131	X	X	X	X	-	X	X	2,918	1,296	X	X	X	4,345
High-risk exposures	X	X	X	X	X	X	X	X	-	100	-	X	X	100
Exposures in the form of covered bonds	X	X	591	192	X	23	X	X	56	X	X	X	X	862
Short-term exposures to corporates and other entities or supervised institutions	-	X	X	1	X	-	X	X	-	-	X	X	X	1
Exposures to UCI	145	X	X	-	-	-	X	X	2,561	29	X	-	193	2,928
Equity exposures	-	X	-	-	-	-	X	-	3,624	-	-	2,954	-	6,578
Other exposures	3,253	X	X	1,163	X	X	X	X	7,178	-	X	X	X	11,594
Securitisations	X	X	X	X	X	X	X	X	X	X	X	X	X	3,615
Total credit risk 31.12.2016 (*)	**128,271**	**7,876**	**591**	**47,606**	**2,659**	**29,834**	**46**	**30,128**	**87,992**	**1,965**	**-**	**4,315**	**193**	**345,091**

(*) Total credit risk includes Securitisations.

Section 7 - Credit risk – disclosures for portfolios treated under IRB approaches

Qualitative disclosure

Credit risk – disclosures for portfolios treated under 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 and the Internal Project"), 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 rollout 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 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 segment and the Residential Mortgages 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 5), 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 historical 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 Corporate segment, 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 Italia and International Corporate models where there is full correspondence with the classes of Rating Agencies, the counterparties rated with other models have a cap on Rating and, therefore, on their reported PD.

Correspondence between internal rating classes and ratings by the major agencies

External Agency Rating		**Corporate International and Italian rated**	**Corporate Italia**	**Specialised Lending**	**Sme Retail**	**Mortgages**
S&P's Fitch DBRS	Moody's	Internal class				
AAA	Aaa	I.1.A	-	-	-	-
AA+	Aa1	I.1.B	-	-	-	-
AA	Aa2	I.1.C	-	-	-	-
AA-	Aa3	I.1.D	-	-	-	-
A+	A1	I.1.E	-	-	-	-
A	A2	I.1.F	I1	-	-	MT1
A-	A3	I2	I2	-	-	-
BBB+	Baa1	I3	I3	-	I3	MT2
		I4	I4	I4	I4	MT3
BBB	Baa2	I5	I5	I5	I5	-
BBB-	Baa3	I6	I6	I6	I6	MT4
BB+	Ba1	M1	M1	M1	M1	MT5
		M2	M2	M2	M2	-
BB	Ba2	M3	M3	M3	M3	MT6
BB-	Ba3	M4	M4	M4	M4	MT7
B+	B1	R1	R1	R1	R1	MT8
		R2	R2	R2	R2	-
B	B2	R3	R3	R3	R3	-
B-	B3	R4	R4	R4	R4	-
CCC	Caa1	R5	R5	R5	R5	MT9

Structure of the internal rating systems (LGD)

The main features of the LGD models are as follows:

- the LGD is calculated by analysing losses suffered by the Group on historical defaults ("LGD workout");
- the definition of default used is the same as that applied in the PD estimation models;
- the LGD is based at Group level, and is the same for each counterparty/relationship, even when they are shared by several entities of the Group, and characterised by the same discriminating variables;
- the data used for the estimate relate to the Parent Company, to the main Network Banks and to the product companies Leasint and Mediofactoring, now merged into Mediocredito;
- the segmentation of the LGD models has been determined in accordance with both legislation and process and regulatory criteria;
- within the segmentation identified, uniform models have been used, suitably differentiated on the basis of analytical criteria considered to be relevant;
- the LGD model is 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;
- the approach used involves the econometric estimation of an LGD model observed starting from the classification of the loan as bad, and the subsequent recalibration of said estimate on definition of default using the Danger Rate model;
- for the Bad loans model, the length of the historical series used, although impacted by the unique company characteristics, meets the need to cover a broad timescale and is based on an extensive historical series, while the Danger Rate model meets the need to represent the structure of the Group for the future and is based on observation of defaults in the most recent periods.

Use of the rating systems (PD and LGD)

The ratings are decisive in the credit granting process and its monitoring and management, and also in pricing, the financial statement processes, the calculation of economic capital, value governance, and reporting, as described below.

Credit granting

The granting of credit involves the use of the rating as an essential reference for the various phases of the process of approving a line of credit for a counterparty. In particular, the rating determines:

- the assignment of the Credit Strategies and Rules for the granting and managing of loans, which govern the procedures the Bank intends to adopt in assuming risk towards its customers, with the aim of promoting the balanced growth of loans to counterparties of the highest standing, and regulating the issue of credit to customers with lower credit quality, also directing them towards lines of credit with higher levels of guarantees;
- the exercise of the powers assigned, for which the Risk Weighted Asset was taken as a parameter to define the credit granting limits of each decision-making Body.

The methodology includes PD and LGD among the main reference drivers, and allows a more accurate grading of the delegated risk, allowing low-risk customers to expand their operations and, simultaneously, bringing the more risky positions to the attention of the higher delegated Bodies.

Credit Risk Appetite

Starting from 2015, within the scope of the Group RAF a specific RAF on Credit Risk Appetite has been introduced, aimed at outlining the bank's risk tolerance.

The CRA takes the form of a framework, applicable to domestic customers in the (performing) Corporate and Retail SME regulatory segment, with the aim of identifying portions of the portfolio featuring potential growth or to keep under control, through a risk/return-based approach. In particular, the CRA:

- uses tools such as rating and statistically significant risk/resilience indicators for the current phase of the economic cycle;
- defines constraints on the maximum tolerated risk, within which the business can be conducted by means of actions aimed at managing the expected loss;
- provides guidance on the use of lines of credit with higher levels of guarantees in cases of counterparties for which credit risk mitigation is necessary.

Credit monitoring and management

Customer credit risk is continuously monitored. In particular, the new Proactive Credit Management process is aimed at intercepting and promptly managing customers who show more or less severe signs of difficulty to anticipate the implementation of the most suitable actions to remove the anomalies and restore the relationship of trust. The new process provides a specialised dedicated chain in the Regional Governance Centres, the CIB Division and the CLO structures. The positions are intercepted monthly on the basis of several indicators, and are managed according to the risk level established within a structured process with preset rules. The activities involve the re-examination of the positions intercepted via the updating of the rating, if necessary, the adjustment of the credit policies, and the establishment of operational procedures aimed at minimising the risk.

The monitored PD is calculated centrally on a monthly basis, using the same engine as the online PD, and is therefore capable of capturing the changes in the counterparty's credit rating because it is able to make use of both the updated financial and behavioural information. The comparison between the online PD and the monitored PD enables the highlighting of the state of the risk profile of the counterparties. In all cases where the minimum set threshold is breached, the online rating becomes "non-performing" and must be re-assigned.

Pricing

The Group has a model to calculate the correct pricing of credit risk, able to quantify the minimum spread with respect to the internal rate of transfer of funds that the business must implement in order to ensure the coverage of the expected loss, the cost of capital and all the items that enable the generation of value.

Financial Statement Processes

The ratings (PD and LGD) contribute to the preparation of the Financial Statements and the drafting of the Notes to the financial statements through: the collective valuation of performing loans, transforming the expected loss into incurred loss in accordance with the IAS/IFRS; the fair value measurement of derivatives and financial assets available for sale; and the drawing up of tables of distribution of assets by rating class and the presentation of the banking book at fair value in the Notes to the financial statements.

The LGD is also used in preparing the Financial Statements through the statistical valuation of Past Due Loans by over 90 days, irrespective of the amount of the exposure, and of loans classified as unlikely to pay and bad loans, up to cash exposure of 2 million euro (the previous threshold of 1 million euro was raised in November 2015).

Calculation of economic capital and value governance

In accordance with the provisions of the Pillar 2, the methods used to estimate the Economic Capital are based on internal rating models (for both the PD and the LGD component). Through the regulatory and economic capital, the internal ratings contribute to the determination of the Group's value creation during both the assignment of targets to the Business Units and the operational performance measurement.

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.

The process for managing and recognising credit risk mitigation techniques

The proper monitoring of credit risk mitigation instruments is ensured by a detailed management system which identifies roles, responsibilities, rules, processes and support instruments, in charge of verifying compliance with general and specific requirements set forth by regulatory provisions for the various approaches. The general and specific requirements may be summarised as:

- technical and legal requirements: aimed at ensuring the legal certainty and the effectiveness of the guarantees, and specific to the characteristics of the individual types of guarantee;
- specific requirements: established for each type of guarantee in relation to its specific features, they are aimed at ensuring that the credit protection is highly effective;
- organisational requirements: general requirements aimed at ensuring an efficient system for the management of credit risk mitigation techniques that oversees the entire process of acquisition, valuation, control and implementation of the Credit Risk Mitigation (CRM) instruments.

For each type of guarantee, analyses are carried out to verify the admissibility of the protection instrument in the various regulatory approaches. Through these analyses, each type of guarantee can be classified, ex ante, into one of the following categories:
- admissible types: these are types of guarantees which, in general, comply with the generic and specific requirements detailed by regulations;
- non-admissible types: these are types of guarantees which do not meet the generic and/or specific requirements set forth by regulations.

As already highlighted in the first Section of this document, 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.

If the individual guarantees acquired are an admissible type, they 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. The support application verifies whether the guarantees received are eligible with reference to each of the three methods permitted by the regulations for calculating capital requirements. 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.

An overall revision of the rules, processes and instruments concerning guarantees received and, more generally, instruments that mitigate credit risk is underway. The goal of these activities is to increase the efficiency of management, reduce the related operational risks and increase the level of eligibility of the guarantees. Following a detailed analysis, the requirements and architecture of a new application platform to manage all the phases in the lifecycle of a guarantee (acquisition, modification, extinction, enforcement, control, monitoring and custody) were defined.
After the release of the module for the personal guarantees of the Italian banks and international branches, in 2016 the part relating to real estate collateral was completed with the creation of a group register of real estate assets, fully integrated with the portal for real estate valuations and the component which manages the guarantees.

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 Sub-Department, which operates independently from the functions that manage the development activities and from the function responsible for the internal audit. Specifically, this sub-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.

Therefore, with regard to the macro processes of adoption, extension, management and control of the internal measurement systems for credit risk, the following activities are assigned exclusively to the Internal Validation Sub-Department:

- validation aimed at assessing the adequacy of the system with respect to the regulatory requirements and to the operational demands of the business and the target market, and formulation of an opinion on the overall performance of the systems, their proper functioning and effective use within the various areas of business management, also identifying any problems and necessary improvements;
- preparation of the validation report to be presented to the Board of Directors to accompany the resolution for the certification of compliance of the internal system with the regulatory requirements and the application for authorisation to the Bank of Italy;
- regular issue of recommendations to the development functions in relation to the performance, operation and use of the internal systems;
- periodic 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 and the Supervisory Authority, based on the progress report periodically provided by the Credit Risk Management Department;
- regular analyses aimed at assessing the performance, proper functioning of the internal system and the provision of the related information to the internal auditing function and the competent managerial Committee;
- preparation of the annual validation report highlighting any problems/areas for improvement of the system to be submitted to the attention of the development functions, the internal auditing function and the Corporate Bodies;
- supervision and coordination of the local validation activities carried out by the corresponding functions of the Group companies, when existing, both in the first adoption/extension phase and in the annual validation phase.

The internal auditing function for the Intesa Sanpaolo Group is assigned to the Internal Auditing Department. 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 overall structure 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 Internal Auditing Department is therefore responsible for the activities of:

- internal audit aimed at verifying the compliance of the risk measurement systems with the requirements established by the regulations;
- assessment of the effectiveness of the overall structure of internal controls:
  - audit of the internal validation process (assessment of the adequacy/completeness 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;
- verifications of the completeness and reliability of the IT system;
- drafting of the relevant report accompanying the application for authorisation to the Bank of Italy;
- 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 issues/areas of improvement highlighted by the same Internal Auditing, Internal Validation function and the Supervisory Authority, based on the progress report periodically provided by the Credit Risk Management Department;
- steering and practical coordination of auditing departments 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;
- development and adoption of the Internal System;

– extension of the Internal System;
– management, maintenance and updating of the Internal System, including the significant amendments to the Internal System already authorised;
– 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 revenue 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 institutions. 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 market are in use at the subsidiary VUB.

The Corporate Italia and Large Corporate Italia models

The Corporate Italia rating model applies to the Italian unrated Corporate customers (i.e. not assigned an agency rating) belonging to the manufacturing, commercial, services, long-term production and real estate sectors, and it can be used for both standalone and consolidated financial statements.
The definition of default (impairment) used comprises Past Due, Unlikely to pay and Bad loans, net of "technical defaults".
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.
Each customer's initial score is calculated by means of a linear combination of appropriately converted indicators originating from two quantitative areas (a finance area - whereby the main financial statement indicators are used to assess profitability and debt servicing, the capital structure and management of working capital - and a performance area). The model is optimised per revenue band and is called "Financial" when only the financial statement information is available, and "Financial-Performance" when the set of information also includes the data from the Central Credit Register (Centrale dei Rischi). The historical data used for the estimate cover the period from 1999 to 2006.
The score is converted into a probability of default (PD) via a calibration (differentiated according to revenue band and macro geographical area), on long-term past experience ("central trends"), to reflect the customer's structural characteristics while limiting the influence of economic cycle fluctuations on the risk.
The PD is then translated via the master scale into classes of credit rating, obtaining the statistic rating.
The reference period for calibration, which initially covered the period 2005-2009, has been updated until 2012 and consequently the Master Scale values (macro class R) were changed.
In between the quantitative and the qualitative module there is a comparison with an internal performance indicator of the counterparty's level of risk, which considers various behavioural aspects of the customer (trend in relationship with the Bank, with the System, regular transactions, etc.), which in certain cases can worsen the risk class.
The qualitative module consists of a questionnaire through which the manager provides a structured assessment of the company, broken down into several areas of analysis (economic and financial, business risks, sector and position, strategies and company plans, ownership structure, management and Group influence). For the Large Corporate counterparties (domestic counterparties with an annual counterparty revenue of over 500 million euro that have not been assigned a rating by one of the main agencies) a specific qualitative questionnaire is used, adapted with suitable adjustments from the questionnaire used for the assessment of the international counterparties (see below).
The model's output is broken down into several areas of analysis, with respect to which the manager is required to provide an independent assessment that interacts with the model's output as part of the abovementioned override procedure, determining the final rating.

The International Corporate models

The International Corporate segment is assessed on the basis of two different models, both developed on the basis of a shadow rating approach, namely using the agency rating as a target estimation variable instead of the performing/default status. This set up was required because of the small number of defaults recorded in this segment in the Bank's historical databases.

The International Large Corporate rating model applies to non-resident customers with a revenue of over 500 million euro and to Italian corporate customers with an agency rating (rated)[12], whereas the International Middle Market model is used to assess non-resident customers with a revenue of less than 500 million euro.
For the international models the override procedure is activated by a comparison with the agency rating, if available, or by providing an assessment over several areas of analysis, in the same way as the Corporate Italia segment, for unrated counterparties.

a) The International Large Corporate model
Like the Domestic Corporate segment, this 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 rules established in the override process.
The quantitative module is estimated on a sample of international businesses with an agency rating, and generates a score that is the linear combination of financial statement indicators.
The qualitative model consists of a questionnaire divided into two areas of analysis (sector and competitive position and the specific features of the counterparty). The two parts of the qualitative module generate scores that are supplemented by the quantitative score on a statistical basis, producing an overall score that is then calibrated on a central trend representing the long-term default rate of the portfolio concerned.

b) The International Middle Market model
Unlike the models described above, this model only has one module containing both quantitative indicators, automatically updated from the financial statement figures, and qualitative indicators, integrated into a linear combination.
The score is calibrated in the same way as in the International Large Corporate segment, also in terms of the benchmark PD.

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 property 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.

[12] Those assigned a rating by at least one of the main Agencies (Standard & Poor's, Moody's, Fitch and DBRS Ratings).

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 modules 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
The INSPIRE bank uses the same Parent Company's Corporate validated models. According to the nature of the business of the Irish subsidiary, most of the exposures are attributable to counterparties measured using the International Large Corporate model.

The Corporate models used by VUB

a) The Internationally Active Large Corporate (IALC) model
The Internationally Active Large Corporate model coincides with the International 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 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).

Description of the regulatory Retail Mortgage segment internal rating systems (PD)
The internal mortgage rating system is divided into an Acceptance Model, applied upon initial disbursement, and a Performance Model, used for subsequent assessment during the lifetime of the mortgage.
The Acceptance Model consists, in turn, of two modules: the personal characteristics module which uses the socio-demographic information of all applicants; and the contractual module which uses the specific information regarding the mortgage agreement. The rating deriving from the integration of the two modules may be modified using notching matrices: by the internal performance indicator of the counterparty's level of risk, if present, and by several indicators of reliability not included in other modules.

The rating calculated according to the Acceptance Model remains in effect for the first year of the life of a mortgage, unless there is a deterioration in the internal risk performance. In such cases, the Performance rating enters into effect in advance of usual practice, where worse than the Acceptance rating. From the second year, the Performance rating is always activated and is calculated on a monthly basis with the greatest weighting given to the performance related component provided by the internal performance indicator, which, by definition, is always calculated. The Acceptance rating is still included within the explanatory variables of the Performance model when the mortgage is in its second or third year of life, whereas its weighting is cleared to zero starting from the fourth year.
In the first half of 2013, the Performance model was updated in order to incorporate the latest historical series and the changes to the internal risk performance of the counterparty. Reference is made in particular to the activities of:
– updating of the historical series;
– calculation of new Central Trends (with long-term default rates of the portfolio referring to the period 2008-2012) and consequent recalibration of the models.

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 historical 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 regarding operations, non-payment, use of credit lines, duration of relationship with the Bank, etc.
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 consolidated 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 also 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 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.

In the first half of 2013, a number of measures were implemented for SME Retail rating models in order to incorporate the most recent historical series. The main adjustments, already applied for the June 2013 report, mainly involved the following:
– updating of the historical series;
– calculation of new Central Trends (with long-term default rates of the portfolio referring to the period 2006-2012) and consequent recalibration of the models;
– revision of the internal Master Scale by updating the PD class.

Description of the LGD model for the Corporate, SME Retail and Mortgage segments

The model for the estimation of the LGD is made up of the following elements:
– estimate of a Bad Loan LGD Model: starting from the LGD observed on the portfolio (10-year historical series), or the "workout LGD", determined on the basis of the recoveries and costs, an econometric model of regression of the LGD is estimated on variables considered to be significant for the determination of the loss associated with the Default event; the procedure allows avoidance of the instability of estimates that would result from the use of the cell averages, despite the presence of consistent historical series data, on the relatively unpopulated individual subsets;
– application of a correction factor, known as "Danger Rate": this is a multiplying correction factor (estimated on a historical series starting from 2008), aimed at recalibrating the Non-Performing LGD with the information available on other default events, in order to produce an LGD that is representative of all the possible default events and their evolution;
– application of other correction factors, known as "Final Settlement Component": this component is used as an add-on to the recalibrated estimate of the Danger Rate in order to take account of the loss rates associated with positions not evolved to the Bad status.

The data from the estimation sample has been subject to normalising: censoring of LGD negative values and treatment at the percentile of LGD values over 100%, filtering of exposures of small amounts and the exclusion of positions with information gaps.

The Incomplete Workout phenomenon is then considered in the estimation model. This phenomenon regards default positions still active at the observation date and recorded as Bad Loans since more than 10 years. For these positions, the residual exposure at the observation date is considered to be completely unrecoverable.

The time factor is taken into consideration by discounting at a risk-free rate all cash movements, recoveries and charges occurring from the time of default to the time of closure (or return to performing status) of the position. The rates are then increased by a spread determined according to the segment, in order to include a premium that takes account of the risk implicit in the volatility of recoveries.

In order to comply with regulatory provisions that require the adjustment of LGD estimates for an economic downturn, and in the absence of a direct relationship between the economic cycle and LGD, it was decided to incorporate this element in the discounting process, by using a suitably stressed risk premium.

As regards the econometric estimation of the Bad Loans Model, starting with a long list of variables, using univariate statistical analyses, the short list was defined, based on the contribution of the single variables in the valuation of the loss rate. For the Corporate segment the following bases of analysis were significant: geographical area, presence/absence of personal guarantee, presence/absence of mortgage, type of relationship, and legal form. For the Retail SME segment, the following were significant: geographical area, type of relationship, presence/absence of personal guarantee, presence/absence of mortgage, amount of real estate coverage and exposure level. For the Retail Mortgage segment, the geographical area and amount of real estate coverage were significant. The model applied to the small set of variables involves the use of a multivariate regression, in order to capture the joint capacity of the explanatory variables in the valuation of the loss rate. The outcome of the multivariate model is the estimate of the Bad Loans LGD, determined in relation to the significant bases of analysis. The Danger Rate model and the Final Settlement Corrections are then applied to these results.

Bankruptcy claw-back actions for transactions implemented prior to the bankruptcy date, indicated as "pursuant to Art. 67 of the Bankruptcy Law" and similar articles, are included in the "boundary" category between credit risk and operational risk. Considering the significant dependence on operations of credit risk, as well as the consolidated orientation deriving from comparison with other Italian Groups and Banks, Intesa Sanpaolo decided to include Bankruptcy claw-back Actions in the area of credit risk. Claw-back actions which are not attributable to credit risk are managed in the area of operational risk.

The LGD models for the Corporate segment of the Leasing and Factoring products

The LGD Corporate models developed for Leasing and Factoring products have the same methodological layout used in the LGD Corporate model of Intesa Sanpaolo's banking products, duly customised in order to take into account the specific characteristics of the two products. The main differences are highlighted below.

For the "Bad Loans" model, the length of the historical series used is impacted by restrictions related to the actual availability of data and is based on a 9-year historical series, while the "Danger Rate" model, which meets the need to represent the structure of the Group for the future, is based on observation of defaults in the most recent periods (observations since 2009 for Leasint and 2010 for Mediofactoring), also due to changes in the non-performing loan management processes of the two product companies, now merged into Mediocredito.

Management of the Incomplete Workout differs from the Parent Company's model in the choice of maximum duration of non-performing status, due to the specific nature of the products, and is 6 years for leasing and 8 years for factoring. The particularly rigorous approach used for leasing has reduced the need to introduce precautionary margins, especially for the real estate sector, characterised by few defaults and limited losses.
The statistical analyses carried out indicate that the bases of analysis that are significant for Leasing are product type (real estate, instrumental, naval-aviation and railway, and motor vehicles) and the regulatory segment (Corporate and SME Corporate). The following were significant for Factoring: product type (with recourse, without recourse), geographical area (Italy, Foreign) and regulatory segment (Corporate, SME Corporate).

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).

Quantitative disclosure

The table below shows the scope of companies for which the Group, as at 31 December 2016, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the "Corporate" (Foundation and Advanced IRB), "Residential Mortgages to Private Individuals" (IRB[13]) and "Retail SME" (IRB) regulatory segments.

Scope of companies for application of the IRB approaches

<table>
<tr><th>Company</th><th>Corporate FIRB</th><th>Corporate AIRB LGD</th><th>SME Retail IRB LGD</th><th>Mortgage IRB LGD</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="7">Dec - 2008</td><td rowspan="7">Dec - 2010</td><td rowspan="7">Dec - 2012</td><td rowspan="6">Jun - 2010</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio in Bologna</td></tr>
<tr><td>Cassa di Risparmio del Friuli Venezia Giulia</td></tr>
<tr><td>Cassa dei Risparmi di Forlì e della Romagna</td></tr>
<tr><td>Mediocredito Italiano</td><td>n.a.</td></tr>
<tr><td>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2009</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Jun - 2010</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>Dec - 2013</td><td>n.a.</td></tr>
<tr><td>Banca IMI</td><td>n.a.</td><td>Jun - 2012</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Intesa Sanpaolo Bank Ireland</td><td>Mar - 2010</td><td>Dec - 2011</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Vseobecna Uverova Banka</td><td>Dec - 2010</td><td>Jun - 2014</td><td>Jun - 2014</td><td>Jun - 2012</td></tr>
</table>

Compared to the situation as at 31 December 2015, the merger by incorporation of Banca dell'Adriatico and Cassa di Risparmio dell'Umbria into the parent company Intesa Sanpaolo S.p.A. was completed

The exposure values as at 31 December 2016 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	
	31.12.2016	**31.12.2015**
Exposures to or secured by corporates:		
- Specialised lending	*-*	*-*
- SMEs (Small and Medium Enterprises)	*195*	*178*
- Other corporates	*779*	*849*
Total credit risk (IRB)	**974**	**1,027**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2016	**31.12.2015**
Exposures to or secured by corporates:		
- Specialised lending	*14,056*	*16,207*
- SMEs (Small and Medium Enterprises)	*64,831*	*69,806*
- Other corporates	*115,924*	*115,830*
Total credit risk (Advanced IRB approach)	**194,811**	**201,843**

[13] 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 IRB approach.

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	**Exposure value**	
	31.12.2016	**31.12.2015**
Retail exposures:		
- Exposures secured by residential property: SMEs	*5,880*	*5,965*
- Exposures secured by residential property: private individuals	*72,719*	*62,836*
- Other retail exposures: SMEs	*14,504*	*15,252*
Total credit risk (IRB)	**93,103**	**84,053**

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitizations	**Exposure value**	
	31.12.2016	**31.12.2015**
Exposures to securitisations (RBA - SFA)	*5,145*	*2,589*
Total credit risk (IRB)	**5,145**	**2,589**

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 techniques for mitigation of risk 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 both portfolios exceed the 2 billion threshold 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)

Regulatory portfolio	31.12.2016			31.12.2015
	Exposure value	Weighted average PD (*) (%)	Weighted average LGD (%)	Exposure value
- Retail exposures	**93,103**			**84,053**
1. Italia	87,821	14.09	19.9	79,921
2. The United States	15	4.27	13.5	13
3. Slovakia	5,025	2.39	25.6	3,929
4. France	10	6.49	14.0	8
5. The Netherlands	10	3.28	13.3	9
6. The United Kingdom	47	5.89	14.3	37
7. Germany	12	11.12	14.7	9
8. Spain	3	7.58	13.7	3
9. Other countries	160	X	X	124
- Exposures to or secured by corporates	**195,785**			**202,870**
1. Italia	150,446	25.40	37.2	159,852
2. The United States	9,522	1.95	39.3	9,827
3. Slovakia	3,808	4.08	40.1	3,734
4. France	3,461	2.79	39.1	3,855
5. The Netherlands	2,807	4.98	38.4	3,099
6. The United Kingdom	4,357	2.43	39.9	2,426
7. Germany	3,455	4.16	40.2	2,362
8. Spain	2,266	6.65	40.6	2,206
9. Other countries	15,663	X	X	15,509

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

Breakdown of exposures by exposure class and PD class (Foundation IRB Approach and Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Rating class	31.12.2016 Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%) (*)	31.12.2015 Exposure value
Exposures to or secured by corporates						
- *Specialised lending*			**14,056**			**16,207**
	-class from 1 to 3	-	-	-	-	-
	-class 4	-	-	-	-	-
	-class 5	-	-	-	-	-
	-class 6	0.07	4	36%	38.0	-
	-class 7	-	-	-	-	4
	-class 8	-	-	-	-	4
	-class 9	0.23	149	54%	33.7	83
	-class 10	0.34	884	61%	31.8	522
	-class 11	0.49	1,250	44%	20.8	1,247
	-class 12	0.83	957	50%	20.3	1,752
	-class 13	1.25	1,383	68%	24.2	1,372
	-class 14	1.81	1,740	88%	29.8	1,953
	-class 15	2.82	1,400	76%	25.9	2,208
	-class 16	4.93	1,245	92%	25.4	941
	-class 17	8.30	352	107%	28.4	1,072
	-class 18	12.08	858	124%	26.1	641
	-class 19	17.35	211	137%	28.6	395
	-class 20	27.82	703	165%	29.4	748
	-class 21 (default)	100.00	2,920	-	44.4	3,265
- SMEs (Small and Medium Enterprises)			**65,026**			**69,984**
	-class from 1 to 3	-	-	-	-	-
	-class 4	-	-	-	-	-
	-class 5	-	-	-	-	4
	-class 6	0.07	1,669	13%	34.4	1,332
	-class 7	0.10	1,731	17%	33.7	1,667
	-class 8	0.15	2,895	22%	33.2	2,590
	-class 9	0.23	3,243	28%	33.0	2,938
	-class 10	0.34	2,425	33%	32.5	2,497
	-class 11	0.49	4,196	43%	33.6	4,404
	-class 12	0.83	3,889	54%	33.3	4,041
	-class 13	1.25	4,654	60%	32.9	4,945
	-class 14	1.81	4,179	65%	31.9	5,069
	-class 15	2.82	5,160	74%	31.7	5,989
	-class 16	4.93	3,448	88%	31.3	4,385
	-class 17	8.30	1,855	104%	30.9	2,375
	-class 18	12.08	1,106	127%	32.2	1,303
	-class 19	17.35	83	151%	33.9	33
	-class 20	27.82	1,585	150%	32.2	2,199
	-class 21 (default)	100.00	22,908	-	51.2	24,213

(*) The disclosure refers only to the Advanced IRB approach.

(millions of euro)

Regulatory portfolio	Rating class	31.12.2016 Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%) (*)	31.12.2015 Exposure value
Exposures to or secured by corporates -continued						
- Other corporates			**116,703**			**116,679**
	-class 1	-	-	-	-	-
	-class 2	-	-	-	-	-
	-class 3	0.03	2,229	10%	38.2	3,663
	-class 4	0.04	1,302	15%	38.8	1,421
	-class 5	0.05	1,101	15%	38.3	2,325
	-class 6	0.07	8,105	20%	36.4	8,305
	-class 7	0.10	7,968	27%	38.1	8,058
	-class 8	0.15	11,716	31%	36.9	8,949
	-class 9	0.23	8,515	40%	37.2	8,235
	-class 10	0.34	10,201	53%	37.0	10,837
	-class 11	0.49	11,613	60%	37.2	11,821
	-class 12	0.83	13,292	79%	37.2	11,422
	-class 13	1.25	6,904	84%	36.2	6,314
	-class 14	1.81	8,209	98%	37.0	7,684
	-class 15	2.82	6,525	114%	37.0	7,185
	-class 16	4.93	2,810	132%	37.3	3,886
	-class 17	8.30	1,828	160%	37.7	1,628
	-class 18	12.08	1,563	194%	38.6	1,478
	-class 19	17.35	108	224%	41.8	71
	-class 20	27.82	1,423	218%	36.8	1,198
	-class 21 (default)	100.00	11,291	-	44.9	12,199

(*) The disclosure refers only to the Advanced IRB approach.

Breakdown of exposures by exposure class and PD class (IRB Approach)

(millions of euro)

Regulatory portfolio	Rating class	31.12.2016 Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%)	31.12.2015 Exposure value
Retail exposures						
- Exposures secured by residential property: SMEs			**5,880**			**5,965**
	-class from 1 to 5	-	-	-	-	-
	-class 6	-	-	-	-	-
	-class 7	-	-	-	-	-
	-class 8	0.15	810	6%	22.1	735
	-class 9	0.23	2	16%	43.2	2
	-class 10	0.34	550	8%	22.1	513
	-class 11	0.49	329	12%	22.1	327
	-class 12	0.83	347	15%	22.3	358
	-class 13	1.25	426	20%	22.5	454
	-class 14	1.81	515	23%	22.5	549
	-class 15	2.82	496	26%	22.6	518
	-class 16	4.93	254	28%	22.6	292
	-class 17	8.30	136	32%	22.7	187
	-class 18	12.08	4	86%	30.0	4
	-class 19	17.35	134	40%	22.5	147
	-class 20	27.82	145	46%	22.5	183
	-class 21 (default)	100.00	- 1,732	-	34.4	1,696
- Exposures secured by residential property: private individuals			**72,719**			**62,836**
	-class from 1 to 2	-	-	-	-	-
	-class 3	0.03	1,354	2%	22.8	1,139
	-class 4	-	-	-	-	-
	-class 5	-	-	-	-	-
	-class 6	0.07	8,483	3%	14.2	6,772
	-class 7	-	-	-	-	-
	-class 8	0.15	3,533	4%	13.7	2,492
	-class 9	0.23	9,755	7%	13.6	7,719
	-class 10	-	-	-	-	-
	-class 11	0.49	20,386	10%	13.1	18,443
	-class 12	0.83	10,786	17%	14.1	9,976
	-class 13	-	-	-	-	-
	-class 14	1.81	5,100	24%	14.0	3,978
	-class 15	2.82	3,807	32%	13.9	2,649
	-class 16	4.93	3,232	50%	14.0	3,006
	-class 17	-	-	-	-	-
	-class 18	-	-	-	-	-
	-class 19	17.35	1	72%	12.2	1
	-class 20	27.82	2,049	84%	14.0	2,399
	-class 21	-	-	-	-	-
	(default)	100.00	4,233	-	25.4	4,262

(millions of euro)

Regulatory portfolio	Rating class	31.12.2016 Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%)	31.12.2015 Exposure value
Retail exposures - continued						
- Other retail exposures: SMEs			**14,504**			**15,252**
	-class from 1 to 5	-	-	-	-	-
	-class 6	-	-	-	-	-
	-class 7	-	-	-	-	1
	-class 8	0.15	2,270	8%	32.8	2,058
	-class 9	0.23	10	18%	51.2	11
	-class 10	0.34	1,397	13%	33.8	1,356
	-class 11	0.49	803	18%	34.4	834
	-class 12	0.83	807	24%	34.9	811
	-class 13	1.25	902	31%	35.7	983
	-class 14	1.81	1,027	37%	36.2	1,123
	-class 15	2.82	1,007	42%	36.9	1,125
	-class 16	4.93	441	45%	37.7	528
	-class 17	8.30	285	51%	37.8	366
	-class 18	12.08	8	66%	47.4	8
	-class 19	17.35	205	66%	37.5	266
	-class 20	27.82	155	80%	38.7	218
	-class 21 (default)	100.00	5,187	-	66.0	5,564

Specialised lending and equity exposures subject to the IRB approaches

(millions of euro)

Regulatory portfolio	Exposure value 31.12.2016	31.12.2015
A) Exposures to or secured by corporates: Specialised lending - slotting criteria	**949**	**872**
A.1) Category 1 - 50% - 70% equal to or higher than 2.5 years	241	151
A.2) Category 2 - 70% lower than 2.5 years - 90%	375	232
A.3) Category 3 - 115%	231	337
A.4) Category 4 - 250%	73	95
A.5) Category 5 - 0%	29	57
B. Equity exposures: Simple risk weight approach	**1,138**	**724**
B.1) Private equity exposures in sufficiently diversified portfolios	7	22
B.2) Exchange-traded equity exposures	261	160
B.3) Other equity exposures	870	542
C. Equity exposures: Exposures subject to fixed weighting factors	729	640
Total Specialised lending and equity exposures subject to the IRB approaches	**2,816**	**2,236**

The weighted values of the equities subject to the IRB approaches and the weighted values of the equity instruments subject to the Standardised Approach are detailed in Table 13 “Equity exposures: disclosures for positions not included in the trading book”.

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		
	2016	**2015**	**2014**
Exposures to or secured by corporates (Corporate)	-2,223	-2,183	-3,111
Exposures secured by residential property (Retail mortgages)	-82	-136	-129
Exposures to SMEs (SME retail)	-256	-192	-352

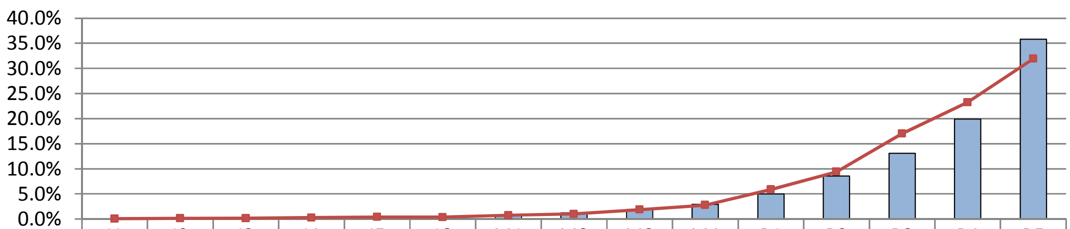
During the 2014-2016 period, expected losses for performing Corporate counterparties (determined based on prior year-end data) amounted to a total of 4,087 million euro. The actual losses recorded during the same period, presented in the foregoing table, significantly exceeded the expected losses, due to deterioration of the economic context in the final part of 2011, which resulted in both a transfer to non-performing loans greater than the ex-ante PD, as presented in the paragraph below concerning backtesting of ratings (which show an improving trend), and a deterioration in prospects for the recovery of non-performing loans. While recording significant lower adjustments in the 2015-2016 period compared to 2014, it should be noted that in the last three years there was an increase in negative trends within the non-performing loans category: transfers to the bad loans category increased, while those to the performing category decreased. 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.

Expected losses in 2014-2016 for residential mortgages amounted to a total of 412 million euro, above the actual loss indicated in the table.

Finally, the Retail SME asset class shows an expected loss of 556 million euro which, as already recorded for the Corporate segment, is significantly below the actual losses although shows an improving trend.

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

As part of its ongoing validation work, the Credit Risk Internal Systems Unit of the Internal Validation Sub-Department periodically (on a half-yearly basis) compares the default rates recorded on the models validated for IRB purposes with the average PDs by individual rating class. The following table presents a breakdown of PD and default figures for the Domestic corporate regulatory segment by rating class.



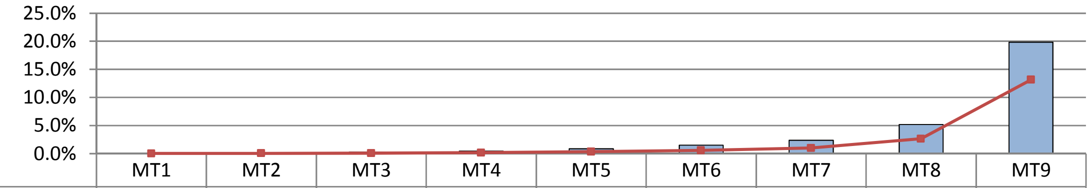
	I1	I2	I3	I4	I5	I6	M1	M2	M3	M4	R1	R2	R3	R4	R5
Average PD	0.1%	0.1%	0.2%	0.2%	0.4%	0.5%	0.8%	1.2%	1.9%	2.9%	5.0%	8.5%	13.1%	19.9%	35.8%
Average TD (3 years)	0.1%	0.1%	0.2%	0.3%	0.4%	0.4%	0.7%	1.0%	1.9%	2.8%	5.9%	9.4%	17.0%	23.2%	31.9%

The default rate, calculated as an average for the years 2014-2015-2016, shows a monotonic increase as the rating class worsens. The riskier classes show an increase in DR and consequent exceeding of the relative PD (except for the R5 class). The underestimation of the DRs in periods of recession is due to the fact that the rating models provide, in accordance with the regulations, a "through the cycle" risk assessment; in line with this assumption, it is hereby specified that with regards to 2016, which confirms the first signs of economic recovery, already seen in 2015, the DRs have decreased reducing significantly the gap with PDs. The performance of the model in terms of discriminating power is fully satisfactory.

Accuracy ratio levels fall between 62% and 79% by turnover bracket and combination of turnover bracket/geographical area.

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

The same distribution by rating class as shown for the Performance portfolio is presented for the Model for Residential Mortgages to private individuals. The scope also includes performing mortgage relationships within IRB validated scope and with valid Performance rating.

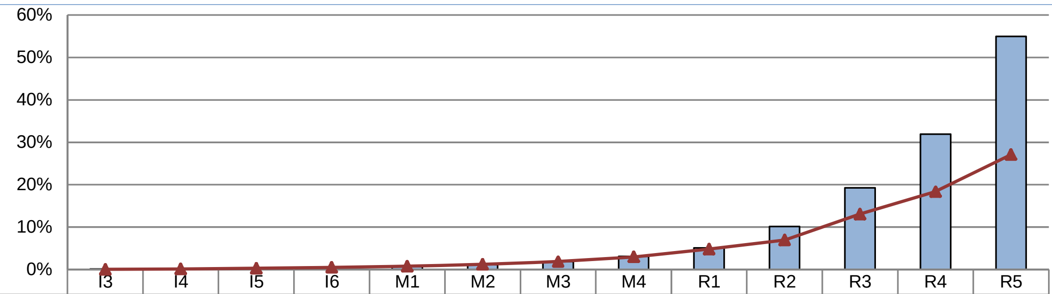


	MT1	MT2	MT3	MT4	MT5	MT6	MT7	MT8	MT9
Average PD	0.1%	0.1%	0.2%	0.5%	0.8%	1.5%	2.4%	5.2%	19.8%
Average TD (3 years)	0.0%	0.0%	0.1%	0.2%	0.3%	0.6%	1.0%	2.6%	13.1%

There is a monotonic increase in the default rate as the rating class worsens. The class PDs are higher, for all the classes, than the respective default rates.
At 82%, the discriminating power of the Residential Mortgages to Private Individuals model is also above the acceptance threshold.

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.



	I3	I4	I5	I6	M1	M2	M3	M4	R1	R2	R3	R4	R5
Average PD	0.1%	0.2%	0.3%	0.4%	0.7%	1.1%	1.9%	3.1%	5.1%	10.2%	19.3%	31.9%	55.0%
TD (3 years)	0.1%	0.1%	0.3%	0.5%	0.8%	1.3%	1.9%	3.0%	4.8%	6.9%	13.1%	18.4%	27.1%

The default rates appear to be generally in line with the theoretical PDs in the I and M bands, and slightly higher in the R band; moreover, they feature a substantially monotonic trend that increases along the rating classes. The performance of the models in terms of discriminating power is overall satisfactory. Accuracy ratio levels fall between 50% and 70% by customer type and the duration of the relationship with the Bank.

Section 8 - 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 agreements 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).
This takes place through the signature of ISDA agreements (for transactions in derivatives). In compliance with the conditions laid down by the Supervisory regulations, these agreements permit the reduction of the absorption of regulatory capital.
The Group also widely uses margin agreements to cover transactions in OTC derivatives, via Credit Support Annex. SFTs are completely collateralised via Global Master Repurchase Agreements/OSLA/GMSLA. Moreover, the Group uses the clearing services provided by LCH Clearnet for the Swapclear derivatives segment. This is a clearing service for the most standard types of over the counter derivative contracts (plain vanilla interest rate derivatives). The individual transactions, previously concluded between the subscribers to the service, are subsequently transferred to the clearing house, which, in the same way as for listed derivatives, becomes the counterparty for the original contracting parties. LCH Clearnet provides 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.

In addition to the reduction in operational risk (through the daily netting off of all the cash flows and the precise control of the transactions), SwapClear offers the typical advantages of centralised netting and collateralisation agreements. Moreover, 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.
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 elements mitigating credit risk.

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 technicians. The external technicians 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 technicians are required to produce estimates on the basis of standardised expert technical 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" (EVS2012).
Property valuations are managed through a specific integrated platform (the Appraisals Portal) covering the entire technical 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 new.

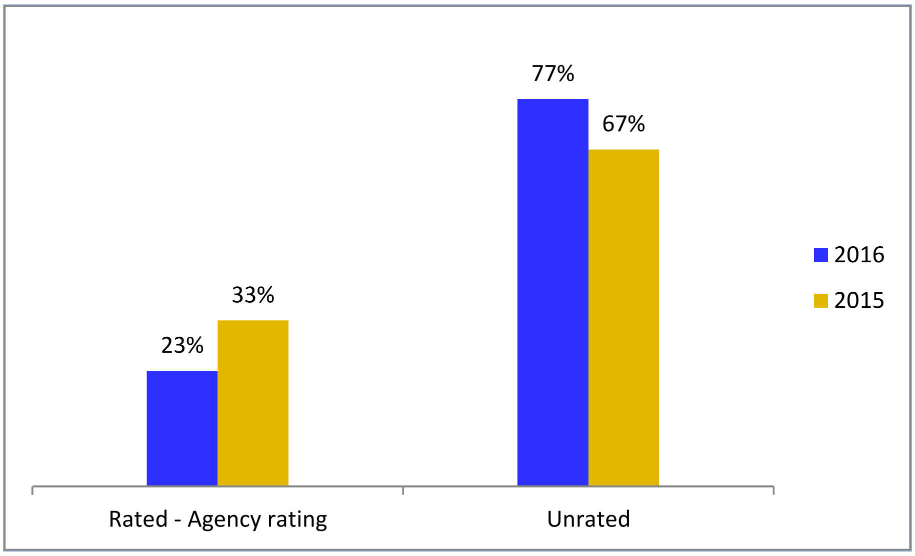
Main types of guarantor and credit derivative counterparty and their creditworthiness

With regard to transactions on credit derivatives, figures at December 2016 show an increase in EAD compared to December 2015, entirely due to the unrated component.

In particular, for the unrated component (77% at December 2016), an increase has been recorded in EAD due to the increase concerning a Corporate counterparty already present in the latest statistics.

Regarding the rated portion (23% in December 2016), there was a slight reduction in EAD on shared customers in the two periods analysed and upon leaving the transaction portfolio. Both components are almost exclusively comprised of banks with investment grade agency ratings.

Creditworthiness of the counterparties in credit derivative transactions



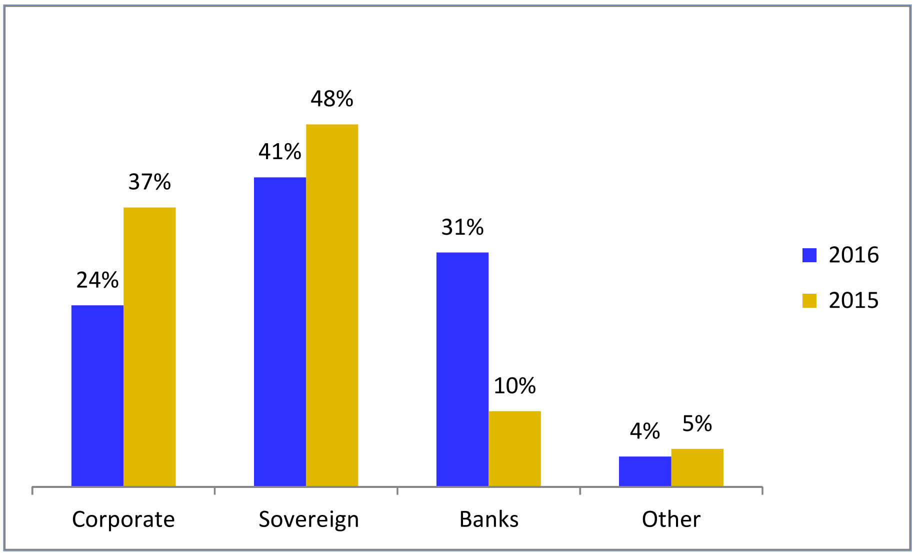
Information about market or credit risk concentrations under the credit risk mitigation instruments used

Personal guarantees

Personal guarantees, as noted in the quantitative disclosure, cover a limited amount of the overall credit exposure.

The share associated with Sovereign guarantors (primarily the Italian government) accounts for 41% of the total amount (48% in December 2015); the Bank and Corporate guarantors represent 31% and 24% respectively (10% and 37% in December 2015).
This breakdown shows, compared to the previous analysis, a significant increase in favour of Bank guarantors, which is mainly due to the guarantees received from banks classified with sub-investment grade as part of a significant international Large Corporate transaction.
There were no other material concentrations of guarantors.

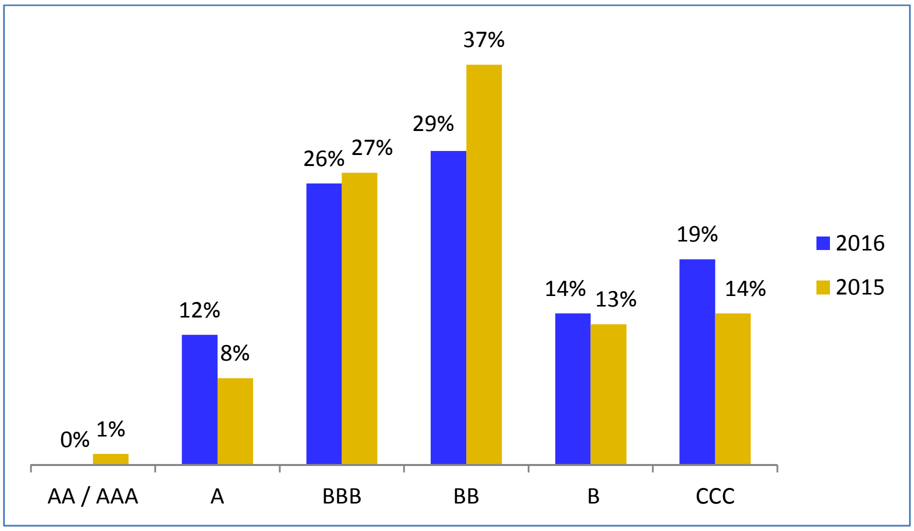
Personal guarantees by type of guarantor



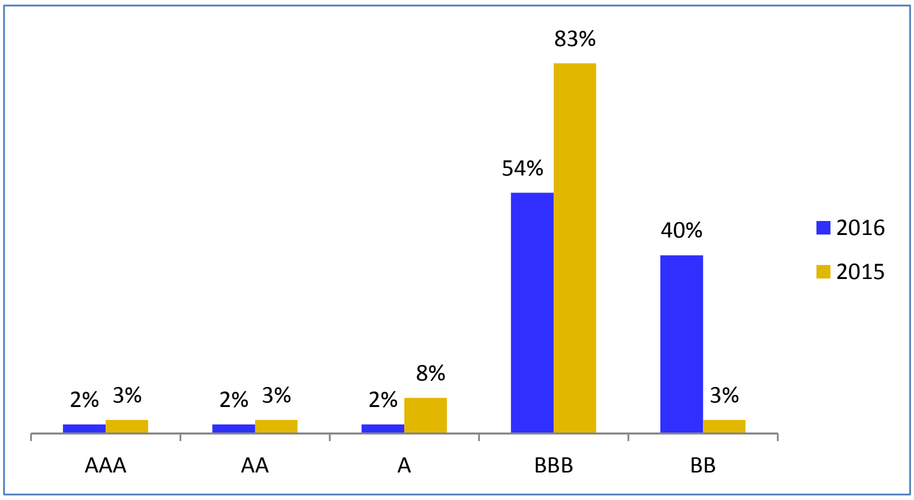
Personal guarantees by guarantor rating classes

By type of personal guarantee, guarantors show a high credit quality, with 54% investment grade that, net of the abovementioned international Large Corporate transaction, would be 76% (73% in December 2015)
The breakdown by rating classes shows that Corporate guarantors classified as investment grade have a share of approximately 38% (36% in December 2015).
With regard to other non-corporate segment personal guarantees, the breakdown by rating class shows guarantors classified as investment grade with a share equal to 59%.
Corporate guarantors are assigned ratings from the internal model, while guarantors of other segments are assigned agency ratings.

Corporate personal guarantees by guarantor rating classes



Other non-corporate segment personal guarantees by guarantor rating classes



Financial collateral

The majority of the financial collateral eligible for risk mitigation relates to repurchase agreements, for which the application of the EPE methodology is noted following the validation obtained for the parent company and Banca Imi. The main issuers in addition to the sovereign state feature ratings in the high investment grade area. As regards the potential exposure to market risk, it should be noted that 49% of these securities have a maturity of less than 5 years (69% as at December 2015).
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 scenario and stress analyses within the ICAAP process.

Quantitative disclosure

As required by the specific reference regulations, this Section lists only the portions of exposures secured by financial collateral and personal guarantees subject to the calculation of capital requirements using the Standard and Foundation IRB approaches. 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.

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

Secured exposures subject to the Standardised approach

(millions of euro)

Regulatory portfolio	31.12.2016		31.12.2015	
	Collateral (*)	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by governments and central banks	8	6,358	7	6,453
Exposures to or secured by regional or local authorities	-	332	-	462
Exposures to or secured by public sector organisations	20	9	2	13
Exposures to or secured by multilateral development banks	-	5	-	6
Exposures to or secured by international organisations	-	-	-	-
Exposures to or secured by supervised institutions	2,371	4,293	48,153	971
Exposures to or secured by corporates and other entities	1,671	49	6,387	84
Retail exposures	862	-	1,419	-
Exposures secured by real estate	-	-	-	-
Defaulted exposures	131	-	120	-
High-risk exposures	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-
Short-term exposures to corporates and other entities or supervised institutions	-	-	-	-
Exposures to UCI	145	-	188	-
Other exposures	-	-	-	-
Securitisations	-	-	-	-
Total	**5,208**	**11,046**	**56,276**	**7,989**

(*) The significant reduction in collateral shown in the table is linked to the extension, starting from 31 December 2016, of the EPE methodology to SFTs in the portfolio of Banca IMI and Parent Company. This method calls for the inclusion of collateral in the calculation of EAD. For a correct comparison with the previous year, please note that this collateral (which is not represented in the table above) totals 60 billion euro, of which 91% refers to the Supervised institutions portfolio and the remaining 9% to the corporates and other entities portfolio. In addition, please note that the existing contracts are all accompanied by margin agreements (GMRA and/or GMSLA).

The table above complements the disclosures in the Section on credit risks - Standardised approach, in the sub-table "exposures with credit risk mitigation", which shows the residual exposure not covered by these guarantees. 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 this Section is the guarantor's responsibility.
Exposures secured by mortgage collateral, for which the regulations require the assignment of preferential weightings, are not shown in this Table, as they are already included under "exposures secured by real estate property". Any collateral on transactions secured by real estate property refers to marginal additional collateral received on these types of transactions.

Secured exposures subject to the Foundation IRB approach

(millions of euro)

Regulatory portfolio	31.12.2016		31.12.2015	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by corporates				
Specialised lending	-	-	-	-
SMEs	11	-	7	-
Other corporates	7	-	-	-
Specialised lending - slotting criteria	-	-	-	-
Total	**18**	**-**	**7**	**-**

The secured exposures subject to the Foundation IRB approach solely regard VUB Banka, the only company of the Group that still uses 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 9 – 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 portfolio 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, ETD 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 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) 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 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 - DRFM, 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 DRFM, analysed and sent to the monitoring systems for the lines of credit for OTC and SFT derivatives. The DRFM 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 and SFT derivatives 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:

- DRFM, 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 lines of credit.

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 Risks 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 the production of 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 historical 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 Wrong Way Risk 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 Risks Committee has approved a structure of specific limits, monitored by the Financial and Market Risk Department (DRFM), 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 allow a synthetic and homogeneous control of the levels of risk exposure for the transactions in OTC derivatives 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 DRFM 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) already in use, the introduction of the accounting standard IFRS13 included 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

(the first subject of the credit risk adjustment methodology), 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 fails 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 fails 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.

Quantitative disclosure

The table below shows the overall EAD of exposures in financial and credit derivatives and SFTs, broken down by measurement approach (EPE internal models or mark-to-market approach).

Counterparty risk

(millions of euro)

Transaction categories	Exposure ad default (EAD)			
	31.12.2016		31.12.2015	
	Current Exposure Method	EPE Internal Method	Current Exposure Method	EPE Internal Method
Derivative contracts	867	17,651	1,325	16,412
SFT transactions (Securities Financing Transaction) and long settlement transactions	3,342	3,927	59,151	-

The exposure value shown in the table above refers to both positions in the regulatory trading book and the banking book.

As already stated, 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 requirement for counterparty risk.

This approach is applicable since March 2014 to almost the entire trading portfolio (as shown in the table, as at 31 December 2016 approximately 95% 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 2016 accounting for approximately 5% of overall EAD) and refer to:

– residual contracts of Banca IMI, Intesa Sanpaolo and 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 3.6 billion euro for the Parent Company, Banca IMI and the banks of the Banca dei Territori Division, while the collateral paid equals 14.5 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 of 9.1 million euro for Banca IMI and 1,427 million euro for the Parent Company (of which 1,400 towards vehicles of the Group), linked 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 model approach. The existing contracts are all accompanied by margin agreements – GMRA (for repurchase agreements) and GMSLA (for securities lending).

The capital requirement for "counterparty risk", for both the regulatory trading book and the banking book, is shown - for the individual regulatory portfolios - in the tables of the capital requirements for credit risk treated under the standardised approach and the IRB approach.

Financial derivatives - Regulatory trading book: period-end notional amounts

(millions of euro)

Underlying assets / Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,009,912**	**229,069**	**1,935,435**	**164,091**
a) Options	112,610	26,038	133,144	15,415
b) Swaps	1,897,237	-	1,802,252	-
c) Forwards	65	-	39	-
d) Futures	-	203,031	-	148,676
e) Others	-	-	-	-
2. Equities and stock indices	**16,431**	**19,059**	**15,253**	**50,315**
a) Options	16,215	17,557	14,925	48,830
b) Swaps	31	-	302	-
c) Forwards	185	-	26	-
d) Futures	-	1,502	-	1,485
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**149,197**	**275**	**136,703**	**347**
a) Options	22,631	60	19,853	11
b) Swaps	49,169	-	45,319	-
c) Forwards	76,525	-	70,415	-
d) Futures	-	215	-	336
e) Others	872	-	1,116	-
4. Commodities	**7,118**	**3,208**	**10,363**	**3,403**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**2,182,658**	**251,611**	**2,097,754**	**218,156**

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 1,780,948 million euro as at 31 December 2016 (1,611,682 million euro as at 31 December 2015).

Financial derivatives - Banking book: period-end notional amounts: *Hedging derivatives*

(millions of euro)

Underlying assets / Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**264,632**	**-**	**225,394**	**-**
a) Options	3,908	-	4,852	-
b) Swaps	260,724	-	220,542	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**3,794**	**-**	**3,819**	**-**
a) Options	-	-	-	-
b) Swaps	3,794	-	3,818	-
c) Forwards	-	-	1	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**268,426**	**-**	**229,213**	**-**

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 10,461 million euro as at 31 December 2016.

Other derivatives

(millions of euro)

Underlying assets / Type of derivatives	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,936**	**-**	**3,333**	**-**
a) Options	1,671	-	1,775	-
b) Swaps	1,265	-	1,558	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	**2,040**	**-**	**2,118**	**-**
a) Options	2,040	-	2,118	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**885**	**-**	**1,787**	**-**
a) Options	201	-	61	-
b) Swaps	182	-	1,038	-
c) Forwards	463	-	688	-
d) Futures	-	-	-	-
e) Others	39	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**5,861**	**-**	**7,238**	**-**

The table above shows the financial derivatives recognised in the financial statements in the trading book, but not forming part of the regulatory trading book. In particular, the table shows the derivatives recorded separately from the combined financial instruments, the derivatives used to hedge debt securities measured at fair value through profit and loss, operational foreign exchange risk hedging derivatives correlated to specific foreign-currency funding and the put and call options relating to commitments on equity investments.

Financial derivatives - gross positive fair value: breakdown by product

(millions of euro)

Portfolios /Types of derivatives	POSITIVE FAIR VALUE			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**27,645**	**647**	**28,634**	**689**
a) Options	3,755	647	4,422	689
b) Interest rate swaps	20,060	-	19,885	-
c) Cross currency swaps	2,382	-	2,369	-
d) Equity swaps	-	-	14	-
e) Forwards	1,120	-	902	-
f) Futures	-	-	-	-
g) Others	328	-	1,042	-
B. Banking book - hedging	**6,234**	**-**	**7,059**	**-**
a) Options	83	-	116	-
b) Interest rate swaps	5,600	-	6,381	-
c) Cross currency swaps	551	-	562	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**675**	**-**	**691**	**-**
a) Options	231	-	250	-
b) Interest rate swaps	441	-	429	-
c) Cross currency swaps	1	-	10	-
d) Equity swaps	-	-	-	-
e) Forwards	2	-	2	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**34,554**	**647**	**36,384**	**689**

Financial derivatives - gross negative fair value: breakdown by product

(millions of euro)

Portfolios /Types of derivatives	NEGATIVE FAIR VALUE			
	31.12.2016		31.12.2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**33,101**	**718**	**32,599**	**715**
a) Options	7,069	718	7,198	715
b) Interest rate swaps	21,553	-	21,452	-
c) Cross currency swaps	2,867	-	2,806	-
d) Equity swaps	-	-	9	-
e) Forwards	1,257	-	879	-
f) Futures	-	-	-	-
g) Others	355	-	255	-
B. Banking book - hedging	**9,027**	**-**	**8,230**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	8,588	-	7,790	-
c) Cross currency swaps	439	-	440	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**360**	**-**	**449**	**-**
a) Options	329	-	390	-
b) Interest rate swaps	28	-	53	-
c) Cross currency swaps	1	-	4	-
d) Equity swaps	-	-	-	-
e) Forwards	2	-	2	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**42,488**	**718**	**41,278**	**715**

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 5,188 million euro (4,076 million euro as at 31 December 2015).

The data contained in the two tables below - unlike the previous tables - refers exclusively to operations in OTC derivatives.

Over the counter financial derivatives – Regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2016

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	7,392	2,244	121,460	1,840,431	779	37,511	95
- positive fair value	3,801	565	13,837	2,809	56	2,143	12
- negative fair value	-4	-17	-15,221	-8,534	-5	-789	-42
2. Equities and stock indices							
- notional amount	-	-	10,518	683	4,864	51	315
- positive fair value	-	-	137	52	1	2	-
- negative fair value	-	-	-3,327	-51	-104	-1	-12
3. Foreign exchange rates and gold							
- notional amount	740	-	89,681	40,456	1,113	17,087	120
- positive fair value	3	-	1,537	1,436	183	593	-
- negative fair value	-52	-	-2,605	-989	-3	-751	-2
4. Other values							
- notional amount	-	-	1,454	1,533	-	4,131	-
- positive fair value	-	-	67	104	-	307	-
- negative fair value	-	-	-102	-179	-	-311	-

Over the counter financial derivatives – Banking book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2016

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	131	417	247,213	18,984	15	31	777
- positive fair value	-	3	6,047	193	-	5	-
- negative fair value	-1	-	-7,925	-751	-11	-	-111
2. Equities and stock indices							
- notional amount	-	-	1,549	69	-	19	403
- positive fair value	-	-	99	8	-	-	-
- negative fair value	-	-	-97	-	-	-	-48
3. Foreign exchange rates and gold							
- notional amount	46	-	4,064	494	-	-	75
- positive fair value	1	-	546	7	-	-	-
- negative fair value	-	-	-285	-158	-	-	-1
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Credit derivatives – period-end notional amounts

(millions of euro)

Categories of transactions	Regulatory trading book		Banking book	
	single counterparty	more counterparties (*basket*)	single counterparty	more counterparties (*basket*)
1. Protection purchases				
- Credit default products	10,736	42,989	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	-	-	-	-
- Others	-	-	-	-
Total 31.12.2016	**10,736**	**42,989**	**-**	**-**
Total 31.12.2015	**13,805**	**36,000**	**-**	**-**
2. Protection sales				
- Credit default products	13,239	41,532	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	-	-	-	-
- Others	-	-	-	-
Total 31.12.2016	**13,239**	**41,532**	**-**	**-**
Total 31.12.2015	**13,449**	**35,655**	**-**	**-**

The transactions in credit derivatives shown in the previous table relate to the own credit portfolio with a notional value of 20 billion euro while the dealing on behalf of customers has a notional value of 88 billion euro.

Over the counter credit derivatives – gross positive fair value: breakdown by product

(millions of euro)

Portfolios /Types of derivatives	POSITIVE FAIR VALUE	
	31.12.2016	**31.12.2015**
A. Regulatory trading book	**1,226**	**879**
a) Credit default products	1,226	879
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
TOTAL	**1,226**	**879**

Over the counter credit derivatives – gross negative fair value: breakdown by product

(millions of euro)

Portfolios /Types of derivatives	NEGATIVE FAIR VALUE	
	31.12.2016	31.12.2015
A. Regulatory trading book	**1,275**	**940**
a) Credit default products	1,275	940
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
TOTAL	**1,275**	**940**

Over the counter credit derivatives – gross (positive and negative) fair values by counterparty as at 31 December 2016

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
REGULATORY TRADING BOOK							
1. Protection purchases							
- notional amount	-	125	29,255	24,345	-	-	-
- positive fair value	-	68	110	68	-	-	-
- negative fair value	-	-	-487	-467	-	-	-
2. Protection sales							
- notional amount	-	-	31,837	22,934	-	-	-
- positive fair value	-	-	486	494	-	-	-
- negative fair value	-	-	-81	-240	-	-	-
BANKING BOOK							
1. Protection purchases							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Application of the amendments to IFRS 7 regarding the disclosure of netting arrangements became mandatory starting from 1 January 2013.
According to these amendments, IFRS 7 requires specific disclosure for financial instruments that have been offset in the balance sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by "netting framework arrangements or similar" that do not respect all of the criteria set forth by IAS 32, paragraph 42.
In this respect, the Intesa Sanpaolo Group has netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements. In particular, these are arrangements that regulate the clearing of over the counter derivatives through subscription to the SwapClear service (LCH Group).This circuit, replacing the original counterparties of the OTC derivatives, mitigates credit risk by calling daily margins on all positions transferred, so that the mutual credit and debt positions are automatically offset. In the table below, therefore, the column regarding the amount of financial assets/liabilities offset in the balance sheet represents the negative fair values on interest rate derivatives offset with the positive fair values for representation in the financial statements. The information is mirrored in the following table.
In terms of instruments that may be potentially offset upon occurrence of such events, it is noted that the Group uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as SFTs. In particular, there are ISDA agreements (for transactions in derivatives) and GMRAs (for repurchase agreements).

For the purposes of preparing the tables and in compliance with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:

– the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) "Financial instruments", together with the fair value of financial collateral consisting of securities;
– the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) "Cash deposits received/provided as collateral";
– repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value. Derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount".

Financial assets subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types	Gross amount of financial assets (a)	Amount of financial liabilities offset in statement of financial position (b)	Net amount of financial assets presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		Net amount 31.12.2016 (f = c-d-e)	Net amount 31.12.2015
				Financial instruments (d)	Cash collateral (e)		
1. Derivatives	72,340	40,751	31,589	23,858	2,726	5,005	4,695
2. Repurchase agreements	32,369	-	32,369	31,854	24	491	184
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2016	**104,709**	**40,751**	**63,958**	**55,712**	**2,750**	**5,496**	**X**
TOTAL 31.12.2015	**95,152**	**37,195**	**57,957**	**50,358**	**2,720**	**X**	**4,879**

Financial liabilities subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

(millions of euro)

Types	Gross amount of financial liabilities (a)	Amount of financial assets offset in statement of financial position (b)	Net amount of financial liabilities presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		Net amount 31.12.2016 (f = c-d-e)	Net amount 31.12.2015
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	78,546	40,751	37,795	23,546	12,243	2,006	1,815
2. Repurchase agreements	30,238	-	30,238	29,853	67	318	130
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2016	**108,784**	**40,751**	**68,033**	**53,399**	**12,310**	**2,324**	**X**
TOTAL 31.12.2015	**99,719**	**37,195**	**62,524**	**50,807**	**9,772**	**X**	**1,945**

Section 10 – 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 service 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 guaranteed 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.

- ***Cr Firenze Mutui***

  At the year-end Banca CR Firenze had an outstanding securitisation relating to "performing" mortgages, carried out in the fourth quarter of 2002, through the special purpose vehicle CR Firenze Mutui S.r.l.. For this transaction the vehicle had issued securities for 521 million euro. The rating agencies used were S&P, Fitch 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 a AAA rating; class B of 72 million euro with a AA rating; and class C of 20 million euro with an A rating) were subscribed by Morgan Stanley, Crédit Agricole-Indosuez and Caboto and they 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.

- ***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. Against receivables with a nominal value of approximately 650 million, numerous tranches of unrated securities were issued. 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, 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.

- ***Food & Beverages Securitisation***
  The transaction has been 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. Against the receivables, numerous tranches of unrated securities were issued.
  At the end of 2016 the nominal value of the securitised loans totalled about 578 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.

- ***Gas 2 Securitisation***
  These transactions were conducted in 2013 on portfolios 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. Against receivables with a nominal value of approximately 35 million, numerous tranches of unrated securities were issued. To close the transactions, the Group used the vehicles Hermes Trade Receivables S.a.r.l and Duomo Funding Plc.

- ***Telephony Securitisation***
  These transactions were conducted in 2014 on portfolios 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. Against these receivables, numerous tranches of unrated securities were issued.
  During 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.

- ***Tibet Securitisation***
  In 2015 Banca IMI securitised a loan of 203 million euro guaranteed 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-, Junior BB.

- ***Fuel Securitisation***
  During 2015 a transaction was finalised involving the securitisation of trade receivables in the oil refining and distribution sector for an amount of 170 million. For this transaction, 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 were used. The securities issued are unrated.

- ***Haywave Securitisation***
  In December 2015, Banca IMI assigned to a customer a portion of 37 million of a loan that had been granted in 2014 for the purchase of a portfolio of non-residential properties. The customer made the purchase through the vehicle Haywave SPV Srl, which issued two classes of notes, a Senior and a Junior class. The securities issued are unrated.

– ***Muttley and Setafia Securitisations***
  In 2015 Banca IMI sponsored 2 securitisations on trade receivables, in the furniture and furnishing sector for 55 million euro and in the pharmaceutical sector for 80 million euro respectively. 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.

– ***Mordor Securitisations***
  During 2016 the Mordor transaction was concluded, involving securitisation of trade receivables in the waste disposal sector for 25 million started in 2015. For these transactions, the vehicles Mordor 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 were unrated.

– ***GARC Securitisations***
  With regard to the transactions carried out in 2016, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

– ***Tranched Cover Piemonte Securitisation***
  With regard to the transactions carried out in 2016, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

– ***Towers Securitisation***
  With regard to the transactions carried out in 2016, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

– ***Automotive, Electronics and Mechanics Securitisation***
  With regard to the transactions carried out in 2016, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

– ***K-Equity Securitisation***
  With regard to the transactions carried out in 2016, reference should be made to "Securitisations carried out during the period". Reported at the end of this section.

It is specified that the Intesa SEC securitisation transaction - structured in 2000 by Banca Intesa on performing real estate mortgages - was closed in 2015.

Asset Backed Commercial Paper (ABCP) programmes
In accordance with 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;

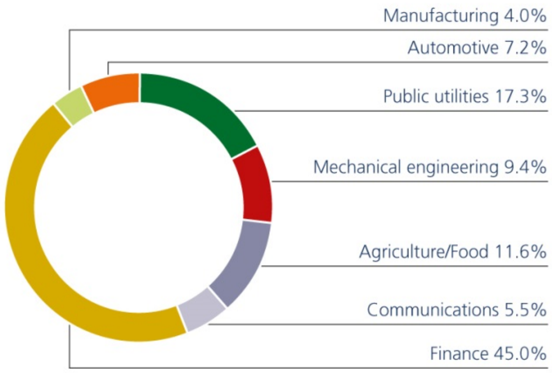
– ***Duomo Funding PLC***
  an entity that operates in a similar manner to Romulus Funding Corporation, but is limited to the European market, and is financed through funding agreements with Romulus.

Romulus Funding Corporation and Duomo Funding Plc are asset-backed commercial paper conduits of the Intesa Sanpaolo Group, 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 2016, around 4.8 billion euro of the securities issued by Romulus 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. 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.

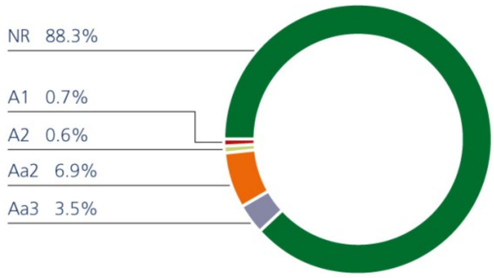
As at 31 December 2016, the investment portfolio of vehicle Romulus included 4,791 million euro in loans to the vehicle Duomo.
These are in addition to cash, other assets and the positive fair value of hedging derivatives totalling approximately 0.4 million euro.
Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a carrying amount of 4,791 million 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 2016 – in addition to receivables from Group banks for 2,038 million euro – this portfolio includes loans to customers for 2,763 million 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 of the two vehicles is approximately 54% accounted for by trade receivables and the remainder by consumer loans (23%), by loans deriving from lease contracts (10%), by inventory-backed loans (7%), by mortgage loans (4%) and by loans/lease contracts to pharmaceutical companies (2%). Almost all of the eligible assets held by the vehicles are expressed in euro (94% of the total portfolio). The remainder is denominated primarily in British pounds (4%) and US dollars (2%). The following information is provided concerning the portfolio of eligible assets.

Breakdown by economic sector



Breakdown of assets by rating



The unrated share of eligible assets is structured in such a way as to obtain an implicit A/AA rating.
With reference to the geographical distribution of the assets held by the two vehicles, please note that approximately 96% of the debtors are located in Italy.
The credit facilities made available by Intesa Sanpaolo to Duomo and the credit quality of the assets financed ensure that the asset-backed commercial papers issued by Romulus will retain its A-3/P-2 ratings.

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] Loans	ASSETS [b] Debt securities	ASSETS [b] Other	LIABILITIES [b] Senior	LIABILITIES [b] Mezzanine	LIABILITIES [b] Junior
Adriano Lease Sec S.r.l.	Conegliano Veneto (TV)	(c)	2,169	-	111	-	2,137	-
Intesa Sanpaolo SEC SA (c)	Luxembourg	Consolidated	61	-	265	310	-	16
Intesa Sanpaolo Securitisation Vehicle S.r.l. (c) (d)	Milan	Consolidated	100	-	15	89	-	159
Intesa Sec 3 S.r.l.	Milan	Consolidated	(e)	(e)	(e)	(e)	(e)	(e)
Intesa Sec NPL S.p.A.	Milan	Consolidated	(e)	(e)	(e)	(e)	(e)	(e)
Augusto S.r.l. (f)	Milan	(g)	2	-	2	14	-	-
Colombo S.r.l.(f)	Milan	(g)	23	-	7	7	20	10
Diocleziano S.r.l. (f)	Milan	(g)	3	-	4	58	-	-
CR Firenze Mutui	Milan	(g)	(h)	(h)	(h)	(h)	(h)	(h)
Trade Receivables Investment Vehicle S.a.r.l.	Conegliano Veneto (TV)	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
TIBET CMBS S.r.l.	Luxembourg	Not consolidated	(h)	(h)	(h)	(h)	(h)	(h)
ISP OBG S.r.l. (former ISP Sec 4 S.r.l.) (i)	Milan	Consolidated	22,597	-	3,503		25,726	
ISP CB Ipotecario S.r.l. (i)	Milan	Consolidated	16,921	-	4,519		19,464	
ISP CB Pubblico S.r.l. (i)	Milan	Consolidated	4,453	2,369	2,910		9,312	

[a] Consolidation method referring to the "prudential" scope.

[b] Figures gross of any intercompany relations.

[c] Self-securitisation vehicle described in Section 1.3 Banking Group - Liquidity Risk, Quantitative Information, paragraph 4 in Part E of the Notes to the consolidated financial statements as at 31 december 2016.

[d] This vehicle (former Intesa Lease Sec S.r.l.) has been used to a transaction - completed at the end of 2014 - which entailed the sale without recourse of a portfolio of loans backed by guarantees and mortgages originated by the subsidiary CIB Hungary, also in currencies other than the euro, for a total of 343 million euro.

[e] For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.6 in Part E of the Notes to the consolidated financial statements as at 31 december 2016.

[f] The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2015).

[g] Vehicle consolidated at equity.

[h] For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.4 in Part E of the Notes to the consolidated financial statements as at 31 december 2016.

[i] Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section E.4 in Part E of the Notes to the consolidated financial statements as at 31 december 2016.

"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) for financial statement purposes, as well as 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), and progressively declining.

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 available-for-sale portfolio, 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 book and in the available-for-sale portfolio. For the loans and receivables positions, this calculation is carried out for quarterly disclosure purposes for the reclassified securities and every six months for originated loans and receivables.
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 any deterioration in the credit standing of the collateral underlying the securitisations.

Risk hedging policies for exposures to securitisations and re-securitisations

Currently, no strategies to purchase protection are 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 the internal model validated in the corresponding credit risk. The currently validated regulatory segments are the Corporate, Mortgage and Retail SME models. 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 IAS 39 (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 balance sheet or not.

In the event of derecognition

When all the risks and benefits 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 recorded 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 recorded 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 of the sale is recorded when the condition precedent clause ceases.
The profit or loss, recorded 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 record 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 benefits 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 IAS 39 on the matter, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained.
It should also be noted that, for the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2 and Intesa Sec Npl), the Group made use of the exemption from compliance with the IAS/IFRS requirements permitted by IFRS 1 on first-time adoption and, consequently, the assets or liabilities sold and derecognised on the basis of the previous accounting standards have not been recorded in the financial statements. For the transactions conducted after that date the provisions of IAS 39 on the derecognition of financial assets and liabilities have been applied.

Provisions for guarantees and commitments
Provisions made on an individual and collective basis, relative 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 record impairment is assessed if the fair value is lower than the carrying value by a percentage set a priori, or if there is potential evidence of impairment. This process has not changed with respect to the previous year.
If one of these conditions is in place, the securitisation is analysed to check whether the reduction 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 junior tranches of 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 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, it is necessary to check whether the note's credit enhancement can still sufficiently absorb the losses. If this check leads to a negative outcome, the security must be written down.

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.

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 on 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 in 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, 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) 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;
– 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.

In addition, the issue is further dealt with in the EBA guidelines:

– to define the normal market conditions when a transaction is not structured to provide support;
– on the significant risk transfer in accordance with articles 243 and 244 of the CRR.

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, as there is only one transaction – Intesa Sec 3 – where the financial statement criteria and prudential reporting criteria are different (see Quantitative Disclosure below). In fact, Intesa Sec 3 is:

– not de-recognised for financial statement purposes, due to the credit enhancement granted in the form of subordinated coverage of the first loss, based on which the Group – in accordance with the accounting principles – has essentially maintained the risks and benefits of the portfolio transferred;
– de-recognised 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 securitisation positions originated and third party

(millions of euro)

	On-balance sheet exposures						Guarantees given					
	Senior Exposure		Mezzanine Exposure		Junior Exposure		Senior Exposure		Mezzanine Exposure		Junior Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	**4,187**	**4,187**	**383**	**345**	**183**	**162**	**-**	**-**	**-**	**-**	**-**	**-**
a) Bad loans	*35*	*35*	*315*	*277*	*82*	*61*	-	-	-	-	-	-
b) Other	*4,152*	*4,152*	*68*	*68*	*101*	*101*	-	-	-	-	-	-
B. Third party underlying assets (*)	**7,124**	**7,121**	**496**	**490**	**51**	**51**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL 31.12.2016	**11,311**	**11,308**	**879**	**835**	**234**	**213**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL 31.12.2015	**7,226**	**7,224**	**635**	**629**	**174**	**174**	**-**	**-**	**-**	**-**	**-**	**-**

	Credit lines						Total					
	Senior Exposure		Mezzanine Exposure		Junior Exposure		Senior Exposure		Mezzanine Exposure		Junior Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	**2,478**	**2,478**	**28**	**28**	**-**	**-**	**6,665**	**6,665**	**411**	**373**	**183**	**162**
a) Bad loans	-	-	-	-	-	-	*35*	*35*	*315*	*277*	*82*	*61*
b) Other	*2,478*	*2,478 (**)*	*28*	*28*	-	-	*6,630*	*6,630*	*96*	*96*	*101*	*101*
B. Third party underlying assets (*)	**2,507**	**2,507**	**-**	**-**	**-**	**-**	**9,631**	**9,628**	**496**	**490**	**51**	**51**
TOTAL 31.12.2016	**4,985**	**4,985**	**28**	**28**	**-**	**-**	**16,296**	**16,293**	**907**	**863**	**234**	**213**
TOTAL 31.12.2015	**3,360**	**3,360**	**-**	**-**	**-**	**-**	**10,586**	**10,584**	**635**	**629**	**174**	**174**

(*) Including Romulus and Duomo Asset Backed Commercial Paper (ABCP) programmes as detailed in the tables relating to third party securitisations.

(**) Amount of euro 2,037 millions is referred to liquidity lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39.

With the exception of the synthetic GARC securitisation, 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 disbursed - including 5 redeemed in advance and 2 in default - with a residual value at 31 December 2016 of 8.5 million euro. Then there is a transaction involving an arrangement with creditors for a residual debt of 0.8 million euro and past due loans for 0.8 million euro).

This cash collateral, due to the pledge agreements entered into on 18 April 2016 between MiSE and MCI and to ministerial decrees no. 3555 and 3556 of 16 June 2016, was decreased on 20 December 2016, replaced by two pledges guaranteeing the residual portfolios, totalling 2.1 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 exposures (*)		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	984	321	35	-	-	-
Financial assets measured at fair value	-	-	-	-	-	-
Financial assets available for sale	745	96	14	-	-	-
Investments held to maturity	-	-	-	-	-	-
Loans (**)	5,552	84	34	2,947	28	-
TOTAL 31.12.2016	**7,281**	**501**	**83**	**2,947**	**28**	**-**
TOTAL 31.12.2015	**5,650**	**531**	**63**	**1,513**	**-**	**-**

(*) Excluding on-balance sheet exposures deriving from originated securitisations in which assets sold have not been fully derecognised for a total of 4.493 million euro. As at 31 December 2016, off-balance sheet exposures deriving from originated securitisations whose assets sold were not fully derecognised from balance sheet assets totalled 2.037 million euro.

(**) This caption includes off-balance sheet exposures referred to "Guarantees given" and "Credit lines".

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)

	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	**159**	**-**	**11**	**-**	**32**	**-5**
A.1 Intesa Sec Npl (**)						
- Residential mortgage loans	*-*	*-*	*-*	*-*	*12*	*-5*
A.2 Haywave SPV S.r.l.						
- Other assets	*28*	*-*	*-*	*-*	*-*	*-*
A.3 CR Firenze Mutui						
- Residential mortgage loans	*-*	*-*	*-*	*-*	*5*	*-*
A.4 Tibet CMBS S.r.l.						
- Other assets	*19*	*-*	*7*	*-*	*-*	*-*
A.5 Towers S.r.l.						
- Consumer credit	*112*	*-*	*4*	*-*	*15*	*-*
B. Partly derecognised for prudential and financial statement purposes	-	-	-	-	-	-
C. Not derecognised for prudential and financial statement purposes	**4,028**	**-**	**334**	**8**	**130**	**-**
C.1 GARC (***)						
- Loans to businesses including SMEs	*3,937*	*-*	*-*	*-*	*16*	*-*
C.2 Tranched Cover Piemonte (***)						
- Loans to businesses including SMEs	*54*	*-*	*-*	*-*	*1*	*-*
C.3 K Equity (**)						
- Loans to businesses including SMEs	*35*	*-*	*277*	*7*	*49*	*-*
C.4 Intesa Sec 3						
- Residential mortgage loans	*-*	*-*	*33*	*1*	*53*	*-*
C.5 Food & Beverage Securitisation						
- Trade receivables	*-*	*-*	*-*	*-*	*2*	*-*
C.6 Telephony Securitisation						
- Trade receivables	*-*	*-*	*-*	*-*	*1*	*-*
C.7 Electricity Securitisation						
- Trade receivables	*-*	*-*	*24*	*-*	*8*	*-*
C.8 Automotive, Electronic & Mechanics Securitisation						
- Trade receivables	*2*	*-*	*-*	*-*	*-*	*-*
C.9 Fuel Securitisation (****)						
- Trade receivables	*-*	*-*	*-*	*-*	*-*	*-*
C.10 Gas Securitisation (****)						
- Trade receivables	*-*	*-*	*-*	*-*	*-*	*-*
TOTAL 31.12.2016	**4,187**	**-**	**345**	**8**	**162**	**-5**
TOTAL 31.12.2015	**1,623**	**-**	**107**	**-**	**132**	**-**

(*) Originated securitisations are included in the banking book portfolio, except for exposures equal to 49 million euro included in the trading book and referring to securitisations of a traditional nature.
(**) The amount refers to non-performing financial assets.
(***) GARC and Tranched Cover Piemonte are synthetic securitisation transactions.
(****) Fuel and Gas Securitisations included in Banca IMI's portfolio, have a value of less than 1 million euro and therefore are stated with value equal to zero in the table.

The exposures in the table above include the transaction named Intesa Sec 3, which has not been derecognised for financial reporting purposes, but has been derecognised for prudential purposes.

Securitisations: breakdown 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	**-**	**-**	**-**	**-**	**-**	**-**	**441**	**-**	**28**	**-**	**-**	**-**
A.1 Duomo funding PLC.												
- Consumer credit	-	-	-	-	-	-	*441*	-	*28*	-	-	-
B. Partly derecognised for accounting and prudential purposes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised for accounting and prudential purposes	**-**	**-**	**-**	**-**	**-**	**-**	**2,037**	**-**	**-**	**-**	**-**	**-**
C.1 Duomo Funding Plc.												
- trade receivables (*)	-	-	-	-		-	*2,037*	-	-	-	-	-
TOTAL 31.12.2016	**-**	**-**	**-**	**-**	**-**	**-**	**2,478**	**-**	**28**	**-**	**-**	**-**
TOTAL 31.12.2015	**-**	**-**	**-**	**-**	**-**	**-**	**1,847**	**-**	**-**	**-**	**-**	**-**

(*) Amount referring to liquidity lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39

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)

	ON-BALANCE SHEET EXPOSURES					
	Senior (*)		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Other assets (**)	*4,925*	-	*6*	-	-	-
- Banking book	*4,885*	-	-	-	-	-
- Trading book	*40*	-	*6*	-	-	-
Securitisations	*96*	*-4*	-	-	-	-
- Banking book	*66*	-	-	-	-	-
- Trading book	*30*	*-4*	-	-	-	-
Consumer credit	*66*	-	*32*	-	-	-
- Banking book	*6*	-	*14*	-	-	-
- Trading book	*60*	-	*18*	-	-	-
Trade receivables	*220*	-	-	-	-	-
- Banking book	*220*	-	-	-	-	-
- Trading book	-	-	-	-	-	-
Leases	*35*	-	*21*	-	*14*	-
- Banking book	-	-	*7*	-	*5*	-
- Trading book	*35*	-	*14*	-	*9*	-
Commercial mortgage loans	*154*	-	*71*	*-5*	*19*	-
- Banking book	*114*	-	*24*	*-5*	*7*	-
- Trading book	*40*	-	*47*	-	*12*	-
Residential mortgage loans	*1,227*	*10*	*231*	-	*2*	-
- Banking book	*659*	*7*	*102*	-	-	-
- Trading book	*568*	*3*	*129*	-	*2*	-
Loans to businesses (including SME)	*398*	*1*	*129*	-	*16*	-
- Banking book	*188*	*1*	*25*	-	*3*	-
- Trading book	*210*	-	*104*	-	*13*	-
TOTAL 31.12.2016	**7,121**	**7**	**490**	**-5**	**51**	**-**
- Banking book	**6,138**	**8**	**172**	**-5**	**15**	**-**
- Trading book	**983**	**-1**	**318**	**-**	**36**	**-**
TOTAL 31.12.2015	**5,603**	**18**	**522**	**-2**	**43**	**-**
of which: Banking book	**4,589**	**3**	**195**	**-2**	**17**	**-**
of which: Trading book	**1,014**	**15**	**327**	**-**	**26**	**-**

(*) It should be noted that conventionally senior exposures include single-tranche securities for 123 million euro, that for prudential purposes are not considered securitisation positions.

(**) The amount also includes the 4,674 million euro in Romulus securities held in the portfolio of the Banking Group, generally shown under third party securitisations. These securities are in the portfolio, but are not weighted for Regulatory purposes because Off-balance sheet positions, which we include under Third party underlying assets, have already been weighted.

Securitisations: breakdown 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							*2,507*					
Total 31.12.2016	-	-	-	-	-	-	**2,507**	-	-	-	-	-
Total 31.12.2015	-	-	-	-	-	-	**1,513**	-	-	-	-	-

(*) In addition to the information shown in the table, the Group's trading portfolio as at 31 December 2016 also contains off-balance sheet transactions represented by credit default swaps with exposures to securitisations as underlyings for a nominal value of 21 million euro.

Securitisations: weighted amount of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	31.12.2016		31.12.2015	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 20%	20	47	4	16
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	7	-	-
Risk weight 50%	3	25	1	96
Risk weight 100%	-	93	-	255
Risk weight 150% (*)	-	-	22	-
Risk weight 225%	-	105	-	76
Risk weight 350%	18	575	25	304
Risk weight 650%	-	-	-	168
Risk weight 1250% - with rating (**)	-	-	-	539
Risk weight 1250% - without rating (**)	-	-	301	210
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	520	2,218	-	1,166
Total	**561**	**3,070**	**353**	**2,830**

(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

(**) 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	31.12.2016		31.12.2015	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 7 - 10%	-	109	-	99
Risk weight 12 - 18%	1	30	2	35
Risk weight 20 - 35%	7	60	6	96
Risk weight 40 - 75%	-	123	2	33
Risk weight 100%	-	97	-	123
Risk weight 150%	-	12	-	42
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	13	-	18
Risk weight 300%	-	-	-	8
Risk weight 350%	-	-	-	12
Risk weight 425%	-	153	-	188
Risk weight 500%	-	69	-	70
Risk weight 650%	-	57	-	99
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	1,094
Risk weight 1250% - without rating (*)	-	-	-	203
SFA - Supervisory Formula Approach	452	-	202	-
Total	**460**	**723**	**212**	**2,120**

(*) 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%	20	-	14	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	7	*7*
Risk weight 50%	3	-	6	-
Risk weight 100%	-	-	78	*38*
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	105	*105*
Risk weight 350%	11	-	560	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	520	-	2,218	-
Total RWA Banking book as at 31.12.2016	**554**	-	**2,988**	*150*
Total RWA Banking book as at 31.12.2015	**339**	-	**2,643**	*566*
Capital requirements				
Risk weight 20%	2	-	1	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	1	*1*
Risk weight 50%	-	-	-	-
Risk weight 100%	-	-	6	*3*
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	8	*8*
Risk weight 350%	1	-	45	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating (**)	-	-	-	-
Risk weight 1250% - without rating (**)	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	41	-	178	-
Total Requirements Banking book as at 31.12.2016	**44**	-	**239**	*12*
Total Requirements Banking book as at 31.12.2015	**27**	-	**210**	*44*

(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

(**) 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%	-	-	33	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	19	-
Risk weight 100%	-	-	15	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	7	-	15	-
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 31.12.2016	**7**	**-**	**82**	**-**
Total RWA Trading book as at 31.12.2015	**14**	**-**	**187**	**-**
Capital requirements				
Risk weight 20%	-	-	3	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	2	-
Risk weight 100%	-	-	1	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	1	-	1	-
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 31.12.2016	**1**	**-**	**7**	**-**
Total Requirements Trading book as at 31.12.2015	**1**	**-**	**15**	**-**

(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

(**) 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%	-	-	58	-
Risk weight 12 - 18%	-	-	10	-
Risk weight 20 - 35%	6	-	25	-
Risk weight 40 - 75%	-	-	69	*3*
Risk weight 100%	-	-	12	-
Risk weight 150%	-	-	12	*12*
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	6	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	87	-
Risk weight 500%	-	-	42	*42*
Risk weight 650%	-	-	2	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
SFA - Supervisory Formula Approach	452	-	-	-
Total RWA Banking book as at 31.12.2016	**458**	-	**323**	**57**
Total RWA Banking book as at 31.12.2015	**173**	-	**1,269**	**96**
Capital requirements				
Risk weight 7 - 10%	-	-	4	-
Risk weight 12 - 18%	-	-	1	-
Risk weight 20 - 35%	-	-	2	-
Risk weight 40 - 75%	-	-	6	-
Risk weight 100%	-	-	1	-
Risk weight 150%	-	-	1	*1*
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	-	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	7	-
Risk weight 500%	-	-	4	*4*
Risk weight 650%	-	-	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
SFA - Supervisory Formula Approach	37	-	-	-
Total Requirements Banking book as at 31.12.2016	**37**	-	**26**	*5*
Total Requirements Banking book as at 31.12.2015	**13**	-	**102**	*7*

(*) 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%	-	-	51	-
Risk weight 12 - 18%	1	-	20	-
Risk weight 20 - 35%	1	-	35	-
Risk weight 40 - 75%	-	-	54	-
Risk weight 100%	-	-	85	-
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	7	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	66	-
Risk weight 500%	-	-	27	*27*
Risk weight 650%	-	-	55	*3*
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating (*)	-	-	-	-
Risk weight 1250% - without rating (*)	-	-	-	-
SFA - Supervisory Formula Approach	-	-	-	-
Total RWA Trading book as at 31.12.2016	**2**	-	**400**	*30*
Total RWA Trading book as at 31.12.2015	**39**	-	**851**	*187*
Capital requirements				
Risk weight 7 - 10%	-	-	4	-
Risk weight 12 - 18%	-	-	2	-
Risk weight 20 - 35%	-	-	3	-
Risk weight 40 - 75%	-	-	4	-
Risk weight 100%	-	-	7	-
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	1	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	5	-
Risk weight 500%	-	-	2	*2*
Risk weight 650%	-	-	4	-
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 31.12.2016	**-**	-	**32**	*2*
Total Requirements Trading book as at 31.12.2015	**3**	-	**68**	*14*

(*) 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 2016 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 of 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 the junior risk relating to a total portfolio of 3.7 billion euro in loans to approximately 8,200 businesses in the Corporate and SME Corporate segments, valued using internal models (Advanced IRB), was sold to specialist investors through several transactions.

- ***Tranched Cover Piemonte Securitisation***
  A tranched cover synthetic securitisation was initiated during the year – 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 (F.E.S.R.), 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 subscribed for 5% of each of the tranches issued, in accordance with the CRR Directive.

- ***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 sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. Against the receivables, numerous tranches of unrated securities were issued.
  This securitisation was expanded during 2016, bringing the nominal value of securitised loans from 490 to 535 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.

- ***K-Equity Securitisation***
  In 2015, Intesa Sanpaolo and another leading Italian bank jointly carried out a securitisation transaction involving the transfer of their non-performing credit exposures to specifically established third-party entities, in order to enable the leveraging of their value through financial and industrial restructuring.
  The exposure is accounted for (a) on one hand, by loan portfolios essentially deriving from medium and long-term loans to specific debtors and, (b) on the other, by equity exposures, essentially represented by participating financial instruments (PFI) issued by said debtors. 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. The transaction involves, *inter alia,* the use of a) a securitisation company established pursuant to Law 130/99, Pillarstone Italy SPV S.r.l., which shall purchase and securitise the credit exposures, as well as, where necessary, disburse new financing to the benefit of the assigned debtors and, b) a newly-established company, Pillarstone Italy Holding S.p.A, controlled by third parties, which shall purchase and hold

(through assigned assets specifically established pursuant to Article 2447-bis, paragraph 1, letter a) of the Italian Civil Code) the PFIs transferred by the banks, as well as any additional equity exposures subscribed as part of future restructuring operations of transferred debtors.
The Group holds no investments in the abovementioned third-party companies which, therefore, are independent from Intesa Sanpaolo.
Pillarstone Italy SPV shall execute as many securitisations as there are individual assigned debtors, by issuing Senior and Junior notes, fully subscribed by each bank. Therefore, each securitisation already regards the loans due to the assigning banks from a single debtor. Pillarstone Italy Holding's methods of acquiring the equity instruments of the selected debtors may be in cash or through deferred payment, by leveraging the value of the transferred financial instruments.
In 2016, the Group sold around 355 million euro of non-performing exposures to Pillarstone Italy SPV. The exposures sold have not 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 are unrated. The Group also sold its interest in the capital of a transferred debtor to Pillarstone Italy Holding, and this interest has been derecognised from the financial statements.

Section 11 - Market risks

Qualitative and quantitative disclosure

The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

Risk factors	
Interest rates	Spreads in credit default swaps (CDS)
Equity and market indexes	Spreads in bond issues
Investment funds	Correlation instruments
Foreign exchange rates	Dividend derivatives
Implied volatilities	Asset Backed Securities (ABS)
	Commodities

A number of the 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)

	BOOK VALUE (supervisory scope)	MAIN RISK MEASUREMENT METRICS VaR	Other	Risk factors measured using metrics included under Other
Assets subject to market risk	**546,474**	**105,061**	**441,413**	
Financial assets held for trading	43,124	42,255	869	Interest rate risk, credit spread, equity
Financial assets designated at fair value through profit and loss	1,372	972	400	Interest rate risk, credit spread
Financial assets available for sale	67,412	61,704	5,708	Interest rate risk, equity risk
Financial assets held to maturity	1,241	-	1,241	Interest rate risk
Due from banks	52,535	-	52,535	Interest rate risk
Loans to customers	368,270	-	368,270	Interest rate risk
Hedging derivatives	6,234	130	6,104	Interest rate risk
Investments in associates and companies subject to joint control	6,286	-	6,286	Equity risk
Liabilities subject to market risk	**520,171**	**45,327**	**474,844**	
Due to banks	72,555	-	72,555	Interest rate risk
Due to customers	296,464	-	296,464	Interest rate risk
Securities issued	97,383	-	97,383	Interest rate risk
Financial liabilities held for trading	44,737	44,492	245	Interest rate risk
Financial liabilities designated at fair value through profit and loss	4	-	4	-
Hedging derivatives	9,028	835	8,193	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 absorptions of both Intesa Sanpaolo and Banca IMI.
In particular, the validated risk profiles for market risks are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.
Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company’s hedge fund portfolios.
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.

Breakdown of capital requirements by Calculation approach

(millions of euro)

	31.12.2016	31.12.2015
Total risk weighted exposures: market risk	**1,536**	**1,326**
Standardised approach	130	228
Position risk on debt instruments	*56*	*104*
Position risk on equity exposures	*7*	*72*
Position risk on CIU	*25*	*-*
Foreign exchange risk	*42*	*52*
Position risk on commodities	*-*	*-*
Internal models	*1,406*	*1,098*
Total risk weighted exposures: concentration risk	**-**	**-**

Position risk also includes the requirements relating to positions exposed towards trading book securitisations which amount to 39 million euro.

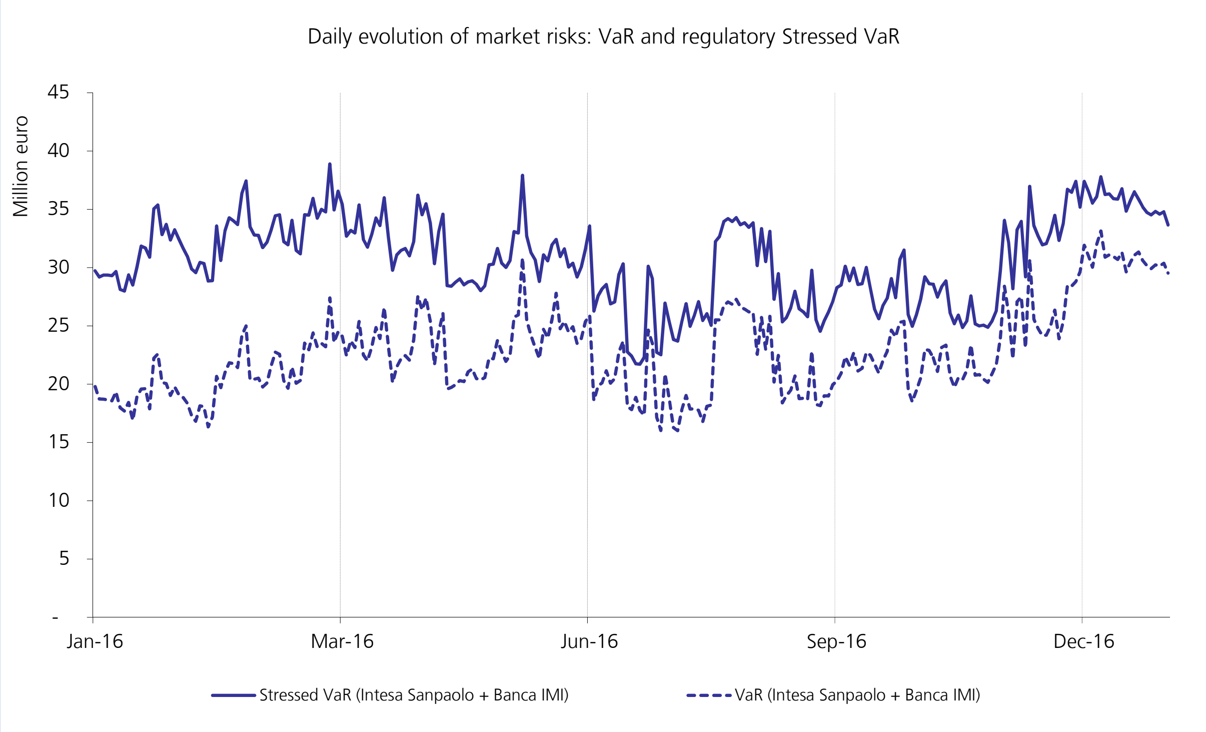
Stressed VaR

The requirement for stressed VaR is included when determining capital absorption effective from 31 December 2011. 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 historical series to be used for all portfolio risk factors.

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, 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 the document, the period relevant to the measurement of stressed VaR was set as 1 January to 30 December 2011 for Intesa Sanpaolo and as 1 July 2011 to 30 June 2012 for Banca IMI.

The graph below shows the trend of the measures.



The table below shows the summary measures relating to the regulatory capital with the breakdown for current VaR measures and VaR in stress conditions.

Current daily value at risk – Summary of 2016 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	6.2	8.1	4.7	9.0	4.0	3.5	6.4
Banca IMI	19.7	21.5	13.8	25.8	17.1	19.7	14.2
Total	**25.9**	**29.6**	**18.5**	**34.8**	**21.1**	**23.2**	**20.6**

Value at risk in stress condition – Summary of 2016 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	12.0	12.1	9.4	14.4	10.7	11.3	18.2
Banca IMI	53.4	51.5	44.5	76.4	53.0	39.6	43.3
Total	**65.4**	**63.6**	**53.9**	**90.8**	**63.7**	**50.9**	**61.5**

VaR

The analysis of market risk profiles relative to the trading book 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.
The section “Quantitative information” presents 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.

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading portfolio 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.

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 VaR evolution

During the fourth quarter of 2016, the market risks originated by Intesa Sanpaolo and Banca IMI declined compared to the previous period: the average daily VaR for the fourth quarter of 2016 was 75.6 million euro, down on the third quarter, primarily for Banca IMI.
With regard to the whole of 2016, the Group's average risk profile (94.9 million euro) increased slightly compared to the average values in 2015 (94.4 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	11.7	10.1	15.1	11.5	11.5	14.9
Banca IMI	63.8	51.8	70.5	90.6	85.5	90.0
Total	**75.6**	**63.3**	**84.1**	**102.2**	**97.0**	**104.9**

[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.

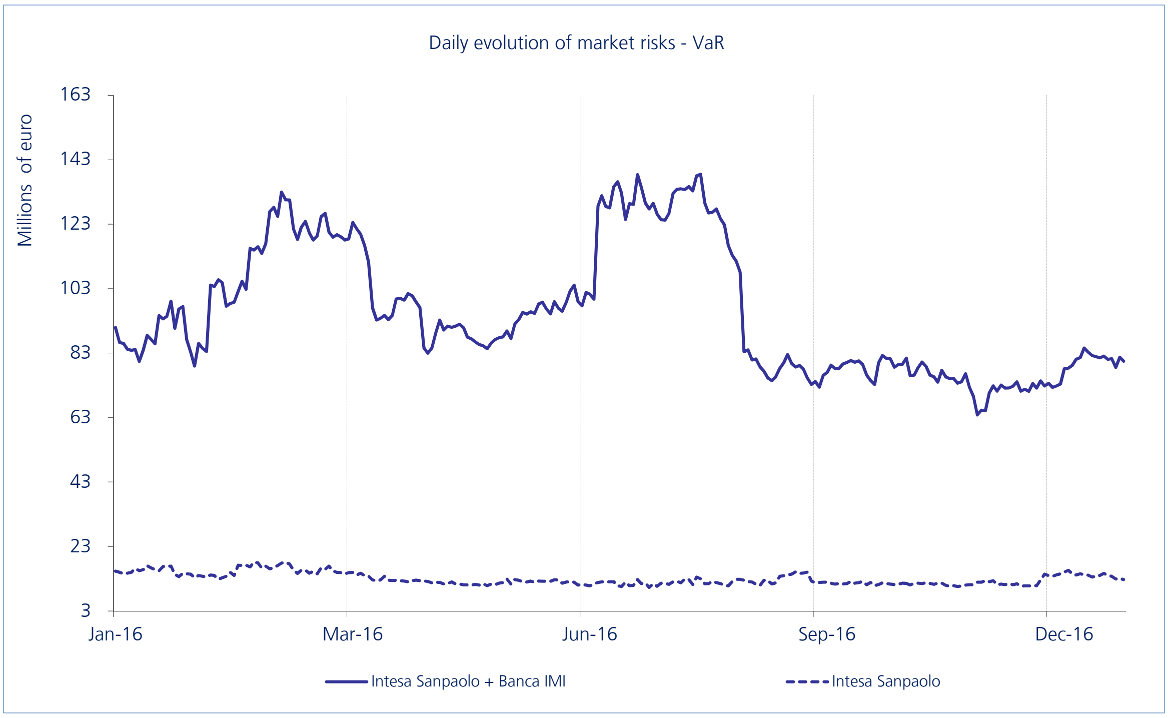
Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2016 and 2015 [a]

(millions of euro)

	2016				2015		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	12.4	9.8	17.6	12.2	12.7	6.0	18.5
Banca IMI	82.5	51.8	125.6	67.7	81.7	54.0	116.3
Total	**94.9**	**63.3**	**137.9**	**79.9**	**94.4**	**64.6**	**125.8**

[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.



The performance of VaR is mainly explained by the operations of Banca IMI. In the first part of the year, risks increased due to the purchases made within the RAF limits approved for 2016. Then, in the second quarter, VaR fell following the reduction of risks and exits from scenarios of volatility. On 24 June 2016, in correspondence to the outcome of the referendum in the UK (Leave victory), volatility of credit spreads was then recorded on the markets accompanied by lower interest rates and share prices. This new scenario generated an increase in the Group's VaR, which at the end of June recorded a peak of 134 million euro. Risk measures continued to be contained within the assigned limits. During the third quarter, in addition to further exclusions of volatile scenarios, there was also a decrease in positions in government and financial securities. Thereafter risk measures were stable.

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

4th quarter 2016	Shares	Hedge fund	Rates	Credit spread	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	5%	8%	26%	16%	42%	3%	0%
Banca IMI	4%	0%	12%	75%	1%	4%	4%
Total	**4%**	**1%**	**14%**	**67%**	**7%**	**4%**	**3%**

[(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 2016, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

For Intesa Sanpaolo the breakdown of the risk profile in the fourth quarter of 2016, with regard to the various factors, shows the prevalence of the risk generated by foreign exchange, which accounted for 42% of total VaR (primarily linked to hedge positions of banking book entries, excluding which, the component relating to interest rate risk is the main one); for Banca IMI, credit spread risk was the most significant, representing 75% of total VaR.

Contribution of strategies to portfolio breakdown [(a)]

	31.12.2016	31.12.2015
- Catalist Driven	12.4%	14.7%
- Credit	37.8%	42.0%
- Directional trading	33.4%	18.2%
- Equity hedged	0.0%	19.1%
- Equity Long Only	3.3%	5.8%
- Multi-strategy	13.1%	0.2%
Total hedge funds	**100.0%**	**100.0%**

[(a)] The table sets out on every line the percentage of total cash exposures calculated on amounts at period-end.

In 2016 the hedge fund portfolio maintained an asset allocation with a focus on strategies relating to distressed credit (38% of the total in terms of portfolio value).
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 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	-32	37	-73	41	260	-253	29	-40	8	-5

In particular:

- for positions on equity markets, there would be a theoretical loss of 32 million euro in the event of a market crash (decline in prices of 15% on the European market and of 10% on the U.S. market and increase in volatility of 25%).
- for positions in interest rates, there would be a loss of 73 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 253 million euro;
- for positions in foreign exchange, there would be losses in the event of a 10% increase in the EUR-USD exchange rate.
- finally, for positions in commodities, an increase in commodity prices of 20% (accompanied by a reduction in the price of gold of 15%) would entail a loss of 5 million euro.

Backtesting

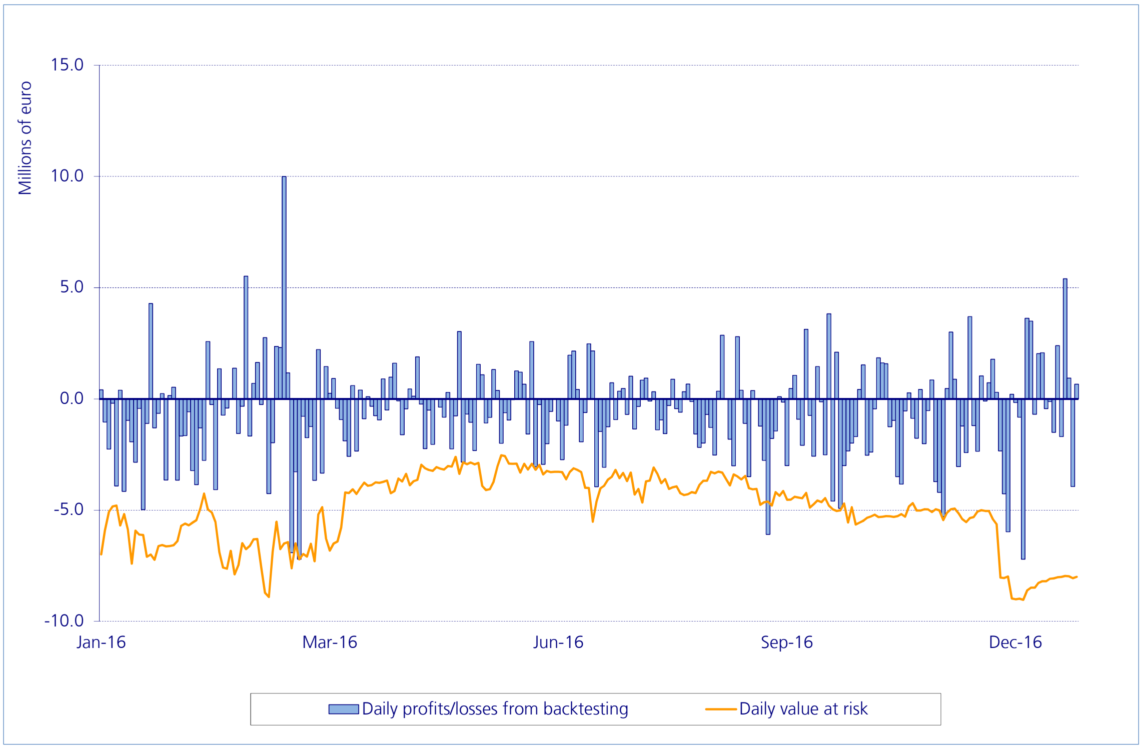
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting such as commissions and intraday activities.

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 three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual P&L series recorded and the theoretical series. The latter is based on revaluation 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.

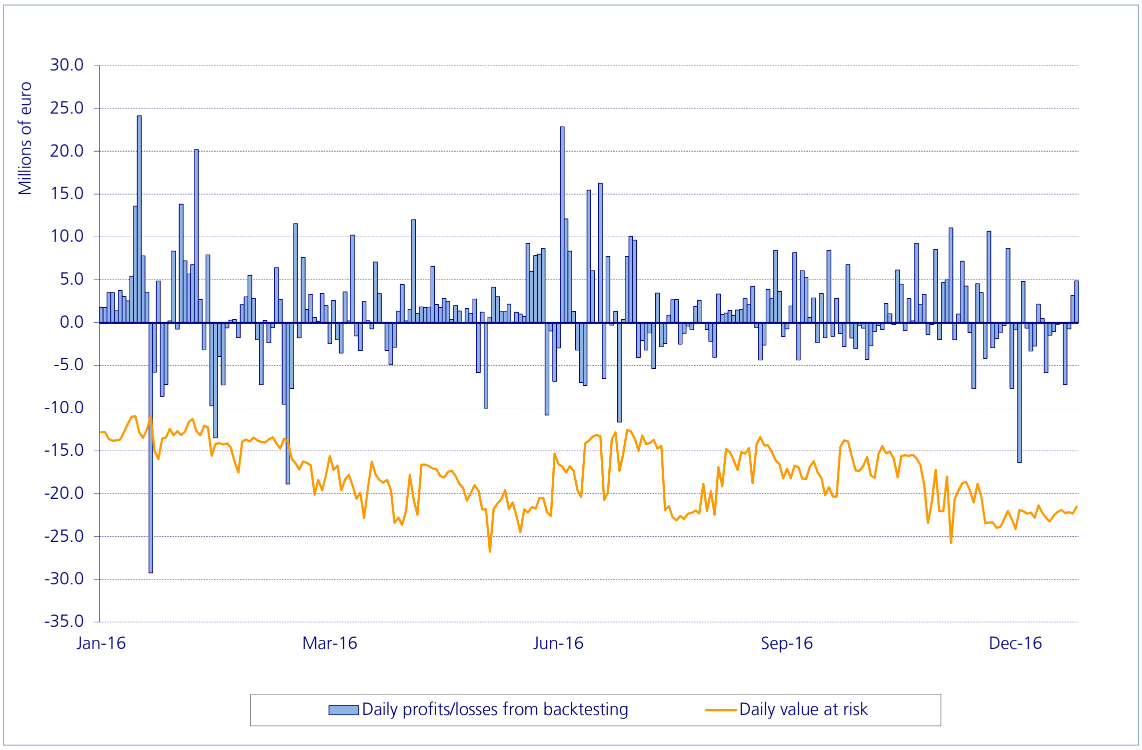
Backtesting in Intesa Sanpaolo

The effective backtesting exception of Intesa Sanpaolo relates to interest rate dynamics, with particular regard to the performance of cross currency swaps.



Backtesting in Banca IMI

The two backtesting exceptions of Banca IMI refer to the actual P&L data. The losses derive from the increased volatility of credit spreads.



Issuer risk

Issuer risk in the trading portfolio is analysed in terms of mark to market, with exposures aggregated by rating class, and it 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	39%	5%	1%	0%	4%	81%	9%
Banca IMI	61%	8%	53%	0%	1%	9%	29%
Total	**100%**	**7%**	**33%**	**0%**	**2%**	**37%**	**21%**

[(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.

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for Intesa Sanpaolo and the financial 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 Risks Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;
– second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures.

In the 2016 RAF, a total limit of 155 million euro was set for the trading component, representing an increase compared to the previous year in relation to the guidelines for the RAF concerning the growth of the securities portfolio.

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 57% in 2016, with a maximum use of 81%. For Banca IMI, the average VaR limit came to 66%, with a maximum use of 96%. It should be specified that for Banca IMI the VaR limit also includes the AFS component, inasmuch as these assets are managed in close synergy with HFT assets.

The use of the IRC limits at year end amounted to 15.8% for Intesa Sanpaolo (limit of 290 million euro) and 82% for Banca IMI (limit of 400 million euro).

Incremental Risk Charge – Summary of 2016 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	88.5	46.7	45.6	116.8	90.6	86.1	118.3
Banca IMI	268.1	324.4	175.5	421.8	310.7	294.1	107.6
Total	**356.6**	**371.1**	**221.1**	**538.6**	**401.3**	**380.2**	**225.9**

The use of VaR operating limits on the AFS component (excluding Banca IMI) at year end was 38%. For 2016, the limit for this component was revised from 200 million euro to 260 million euro. The new limit is in line with the RAF guidelines concerning the increase in the securities portfolio.

Fair Value Policy

The Intesa Sanpaolo Group's Fair Value Policy governs the measurement of financial instruments after initial recognition with reference to the Group's portfolios measured at fair value.
The Fair Value Policy, in all of its constituent documents, is governed and formalised by the Financial and Market Risks Head Office Department, applies to the Parent Company and all the consolidated subsidiaries, is integrated into the risk measurement and management processes, is subject to regular review and updating and approval by the relevant functions, and is used for the preparation of the financial statement documents. The related accounting criteria are detailed below. A summary is also provided below of the various stages of the process of measurement of financial instruments together with details of the valuation models used to measure the financial instruments.

General principles

The application of IFRS 13 governing fair value measurement and related disclosure became mandatory from 1 January 2013.
The new standard does not extend the scope of application of fair value measurement, but rather provides a guide as to how to measure the fair value of financial instruments and non-financial assets and liabilities where already required or permitted by other accounting standards. The aim was to concentrate into a single standard the rules for measurement at fair value, previously contained in various standards, in some cases with prescriptions in conflict with one another.

The fair value is 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 entity. Underlying the definition of fair value is the assumption that the company 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.

A business has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market operators to determine the price of an asset or liability, presuming that the market operators act with a view to satisfying their own economic interest in the best possible way. Measurement at fair value presumes that the asset is sold or the liability transferred:

- in the principal active market for the asset or liability;
- 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. A Bank considers the principal market of a financial asset or liability to be the market in which the Bank generally operates.
A Bank 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.

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 contained in the trading book.

If there is no active market, the fair value is determined using measurement 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 measurement 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 measurement 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 measurement technique used to measure fair value or the risk relating to the inputs of the measurement 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 reflects 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 measurement techniques rather than the measurement techniques themselves.
The document "Fair Value Hierarchy Rules" 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 close 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)[14] and hedge funds whose Net Asset Value (NAV) is made available by the manager, according to the frequency established in the subscription contract, and the checklist, which is the summary document of significant information on underlying assets of the fund, 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);
- 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).

In the case of level 2 inputs, the valuation is not based on the price of the same financial instrument to be measured, but on prices or credit spreads presumed from 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 valuation.
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;
- derivatives measured through specific models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- ABS 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;
- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers;
- loans measured through the discounting of future cash flows.

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

[14] 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 international branches and banks and pursuant to local regulatory requirements, where the decentralised Risk Management units confirm that there is an active market, and when the Financial and Market Risks Department expressly authorises it.

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;
- shareholdings and other equities measured using models based on discounted cash flows;
- some loans, of a smaller amount, classified in the available-for-sale portfolio;
- derivative transactions relating to securitisations and equity-risk structured options.

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 – a document prepared and updated by the Financial and Market Risks Head Office Department on the basis of the Group's Internal Regulations approved by the Management bodies of the Parent Company and Group Companies – 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 valuation of financial instruments held for any purpose in the proprietary portfolios of the Bank and its subsidiaries. The same sources are used in valuations 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 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.

Valuation of financial instruments and Model Risk Management

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;
- certification and treatment of market data for measurements: this stage consists of the accurate verification 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. In particular:
  - o reference categories are established for the various types of market parameters;
  - o the reference requirements governing the identification of official revaluation sources are set;
  - o the fixing conditions of official figures are established;
  - o the data certification conditions are established;
- certification of pricing models and Model Risk Assessment: 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. The validation process is particularly important at the start

of activities in a new financial instrument which requires the development of further valuation models, and when the Bank decides to use a new model to measure payoffs previously managed with models deemed to be less adequate. All models used for the valuation must be submitted to an internal certification process which involves various competent structures or independent companies in highly complex or particularly critical cases;
– monitoring consistency of valuation models over time: periodical monitoring of the adherence to the market of the valuation model in order to promptly discover any gaps and start the necessary verifications and interventions.

A more detailed description of the fair value measurement models can be found below in the section on "Information on valuation models which are concretely used for measurement of financial instruments".

Certification and monitoring of the market parameters and the model risk

As part of its overall monitoring of the controls on the individual transactions dealt with by the ICT Department (IT modules) and the Operations Department (back office controls), the Financial and Market Risks Head Office Department monitors and certifies the models used for the valuation processes and the market parameters identified to feed them. If the valuation systems are found to be incapable of providing reliable valuations, the Financial and Market Risks Head Office Department values the financial instrument directly using specially developed internal instruments. These activities are broken down into various stages, which are described briefly below.

Model Risk Management

In general, Model Risk is represented by the possibility that the price of a financial instrument is materially influenced by the valuation approach chosen. In the case of complex financial instruments, for which there is no standard valuation method in the market, or during periods when new valuation methods are being established in the market, it is possible that different methods may consistently value the elementary instruments of reference, but provide differing valuations for exotic instruments. The model risk is monitored through a series of analyses and checks carried out at different stages, aimed at certifying the various valuation methods used by the Bank ("Model Validation"), at regularly monitoring the performance of the models in operation to promptly identify any deviation from the market ("Model Risk Monitoring") and at identifying any adjustments to be made to the valuations ("Model Risk Adjustment", see the section below "Adjustments adopted to reflect model risk and other uncertainties related to the valuation").

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). 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 valuations. If the analysis identifies a significant "Model Risk", which, however, is within the limits of the approach's ability to correctly manage the related contracts, the Financial and Market Risks Department selects a supplementary approach to determine the appropriate adjustments to be made to the mark to market, and validates the supplemented approach.

Model Risk Monitoring

The performance of the valuation models in operation 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 and sufficiently liquid. For interest rate derivatives, 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. Where significant deviations are found, especially outside the market bid-ask quotes, the impact on the respective trading portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified;
– comparison with benchmarks: the monitoring method described above is further enhanced by the extensive use of data supplied by qualified external providers (e.g. Markit), which provide consensus valuations from leading market counterparties for interest rate instruments (swaps, basis swaps, cap/floor, European and Bermuda swaptions, CMS, CMS spread options), equity instruments (options on indexes and on single stocks), credit instruments (CDS) and commodity instruments (options on commodity indexes). Such information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. Any significant gap between the model and benchmark data is quantified with respect to the average bid-ask spread supplied by the outside provider and therefore treated as in the previous case. The possibility of extending the comparison with benchmarks to other instruments or underlying assets is constantly monitored;
– comparison with market prices: verification against 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.

Adjustments adopted to reflect model risk and other uncertainties related to the valuation

If problems are found by the Model Validation process or the Model Risk Monitoring process in the calculation of the fair value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments 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 addition to the adjustments relating to the abovementioned factors, the Mark-to-Market Adjustment Policy also provides for other types of adjustments relating to other factors capable of influencing the valuation. These factors essentially involve:

– high and/or complex risk profile;
– illiquidity of the positions determined by temporary or structural market conditions or in relation to the amount of assets held (in case of excessive concentration);
– valuation difficulties due to the lack of liquid and observable market parameters.

For illiquid products an adjustment is made to the fair value. This adjustment is generally not very relevant for instruments for which the measurement is supplied directly by an active market (level 1). Specifically, highly liquid quoted securities are valued directly at mid-price, whereas for quoted securities with low liquidity and unquoted securities the bid price is used for long positions and the ask price for short positions. Bonds that are not quoted are valued according to credit spreads that differ based on the position of the security (long or short).

Conversely, for derivatives for which fair value is determined with a valuation technique (levels 2 and 3), the adjustment may be calculated with different means according to the availability on the market of bid and ask prices and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.
Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, to be discussed in further detail below) and for which the respective adjustments have been calculated, are represented in this market context and are connected to risks on Commodities, on Dividends and Variance Swaps, FOI (Consumer price index for blue and white-collar worker households) inflation and options on inflation, on specific indexes such as Rendistato, volatility of 12-month cap indexes, correlations between swap rates and “quanto” correlation (connected to pay offs and index-linking expressed in different currencies).
The management process of the Mark-to-Market Adjustment is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Financial and Market Risks Head Office Department. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Financial and Market Risks Head Office Department. 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 Mark-to-Market Adjustment processes is taken by the New Product Committee upon the proposal of the Financial and Market Risks Head Office Department.

Information on valuation models which are concretely used for measurement of financial instruments
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 for the various financial instruments.

I. Valuation model for non-contributed 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 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 relatively 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.
Similarly, with respect to financial liabilities designated at fair value through profit and loss, the credit spread of the Intesa Sanpaolo Group 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.
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.
If there is also an embedded option, a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and the illiquidity of the underlying assets. This component is calculated on the basis of the type of option and its maturity.

II. Valuation models for interest rate, foreign exchange, equity, inflation and commodity derivatives

Following the crisis of 2007, the market progressively introduced a series of adjustments linked to the credit and liquidity risk, with impacts on both the income statement and the capital, collectively shown as XVA.

The Bank introduced the Credit and Debt Value Adjustment (CVA/DVA) in the past, and has implemented the Funding Value Adjustment (FVA) with effect from 31 March 2016. Accordingly, 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 or not the instrument is subject to collateralisation agreements (CSAs) aimed at mitigating the liquidity and counterparty risk.

a. For CSA transactions with characteristics that reduce counterparty and liquidity 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 liquidity 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 (see point above), and several additional valuation components related to the counterparty and liquidity risk premium, referred to jointly as XVA.
   a) An initial valuation component, called Bilateral Credit Value Adjustment (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.
   b) A second assessment component, the so-called Funding Value Adjustment (FVA), takes into consideration the liquidity 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).

For derivatives, 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 and commodity 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 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 on the basis of 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)	Interest rate curves, spot and forward FX curves, FX volatility, "quanto" volatility and correlations
Equity	Accrual, Net present Value Equity, Generalised Black-Scholes, Heston, Jump Diffusion	Interest rate curves, underlying asset spot rate, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto"
Inflation	Bifactorial Inflation	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward	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	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.

III. 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 info providers 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, was 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 valuations, a series of corrections have been prepared for valuations referred to the main input parameters; in particular:

- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (50% for REITS underlying securities);
- stress of asset value correlation: inter and intra correlations have been 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, have been increased by 25%;
- stress of expected residual lives: the latter have been 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 were 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 have been identified which correspond to a number of downgrades, so as to proceed to a consistent adjustment in the valuation. Lastly, for this class of products, an additional adjustment may be applied, subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

With respect to credit derivatives on index tranches, off-the-run series are valued at level 3 when no reliable and verifiable quotes are available from the Financial and Market Risks Head Office Department. Fair value is determined based on the quotes of series being issued, adjusted to reflect the different underlying.

IV. Valuation of equities with relative and absolute models

Financial instruments for which fair value is determined using level 2 inputs also include equities 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. Multipliers are used under the comparable companies' or comparable transactions' approach. In the former case, reference is made to a sample of comparable listed companies, therefore the stock prices from which the multiples to measure the investment are deducted. In the latter case, reference is made to the trading prices of the market related to comparable companies registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions.

Equities to which the above "relative" models are not applied are valued using "absolute" valuation models. In particular, these models are based on flows which substantially anticipate the measurement of the stock value by estimating the cash flows it can generate over time, discounted using a rate that is in line with the risk level of the instrument, equity models or equity-income models.

V. The valuation model for hedge funds

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to funds managed through the use of a Management Account Fund infrastructure and funds not managed according to such a platform.

For the funds managed in the Managed Account platform, which ensures full daily transparency of the assets underlying the funds, the NAV provided by the Fund Administrator is considered as fair value of the fund. It is not deemed necessary to apply the two prudential adjustments described above to the NAV, since:

- the adjustment for counterparty risk is not necessary because the Managed Account platform is subject to limited recourse clauses and non-petition provisions, through which each Managed Account Fund achieves contractual separation/segregation of assets and manager. Intesa Sanpaolo effectively holds 100% of the quotas of the MAF;
- the adjustment for illiquidity risk is not necessary because there is a delivery in kind clause, according to which the fund's assets may be transferred to Intesa Sanpaolo's books and liquidated, where necessary.

Moreover, a due diligence confirmed that the valuation model used by the Fund Administrator is consistent with the Intesa Sanpaolo's Fair Value Policy.

If the daily full transparency analysis were to bring to light additional elements of risk, mark-to-market adjustments would be applied in accordance with Intesa Sanpaolo's Fair Value Policy.

The platform's characteristics make it possible to perform an analysis of the financial instruments underlying the funds and to assign the fair value hierarchy level based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

For funds not managed in the Managed Account platform, the operational NAV provided by the Fund Administrator is used. However, this value may be prudentially adjusted by the Financial and Market Risks Head Office Department, during the valuation of inventories for accounting purposes, on the basis of an individual valuation process aimed at verifying specific idiosyncratic risks, mainly identified as follows:

- counterparty risk;
- illiquidity risk.

Specifically, the first risk driver – counterparty risk - relates to the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, which is a potential source of risk in case of default. The resulting prudential adjustment to the operational NAV differs according to whether this activity is concentrated in a single name or is diversified across several service providers.

With regard to the illiquidity drivers, these relate to the risk intrinsic to the valuation of the fund assets; therefore, the prudential adjustment is applied based on the availability of prices or certain weaknesses in the valuation policies used by the fund.

The application of the foregoing prudential adjustments (counterparty risk and illiquidity risk) is subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

VI. Other level 2 and 3 valuation models

Loans 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 to the granting of loans are taken into consideration in the rate used to discount future cash flows.

As required by IFRS 13, 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	Discounting Cash Flows	Credit Spread	-44	63	%	42,384	-59,157
Structured securities	Black model	Volatility	-23	14	%	37	-65
ABSs	Discounting Cash Flows	Credit Spread	-30	28	%	1,290	-1,335
ABSs	Discounting Cash Flows	Recovery rate	-25	10	%	605	-1,512
CLOs Cash	Discounting Cash Flows	Credit Spread	-16	69	%	3,596	-15,766
CLOs Cash	Discounting Cash Flows	Recovery rate	-25	10	%	27	-68
CLOs Cash	Discounting Cash Flows	CPR	-10	10	%	442	-442
CDOs	Gaussian copula	Credit Spread	-25	25	%	655	-655
CDOs	Gaussian copula	Joint default correlation	-10	10	%	107	-107
CDOs	Gaussian copula	Recovery rate	-25	10	%	288	-719
OTC derivatives subject to FV adjustment for CVA/DVA - Non-performing counterparies	bCVA	Loss Given Default Rate (LGD)	0.00	100.00	%	20,194	-11,630
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	251	-226
OTC derivatives - Equity basket option	Black - Scholes model	Correlation between underlying equity baskets	2.22	93.20	%	545	-322
OTC derivatives - Spread option on swap rates	Lognormale bivariato model	Correlation between swap rates	-61.04	97.35	%	892	-318
OTC derivatives - Equity option	Black - Scholes model	Historical volatility - EuroClass	35.70	75.51	%	391	-368
OTC derivatives - JPY swaption	Black model	Historical volatility - swap rate	16.83	56.83	%	2,135	-319

Section 12 – Operational risk

Qualitative disclosure

Methods for calculating Operational Risk

On 31 December 2009, the Group adopted the Advanced Measurement Approach (AMA – internal model), in partial use with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the leading banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium, by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.

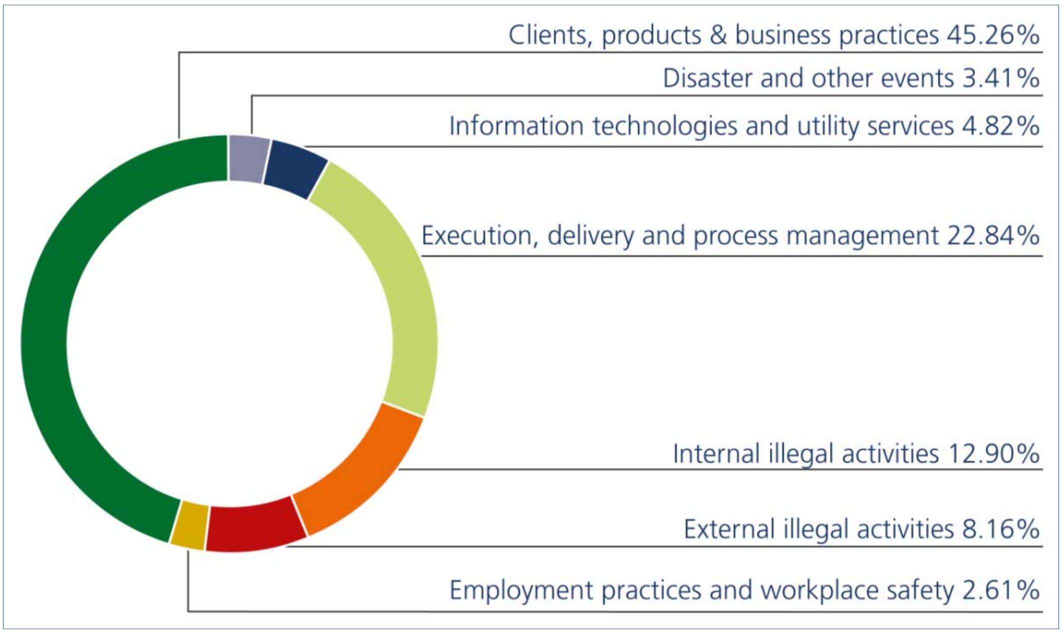
Breakdown of capital requirements by Calculation approach

(millions of euro)

Approach	Capital requirement
Advanced Measurement Approach (AMA)	**1,300**
Traditional Standardised Approach (TSA)	**224**
Corporate Finance	11
Trading & Sales	38
Retail Banking	89
Commercial Banking	64
Payment & Settlement	16
Agency Services	2
Asset Management	4
Retail Brokerage	-
Basic Indicator Approach (BIA)	**39**
Total as at 31.12.2016	**1,563**
Total as at 31.12.2015	**1,652**

The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by type of event.

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



The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative (Self-diagnosis) information.
The quantitative component is based on an analysis of historical data concerning internal events (recorded by the organisational units, appropriately verified by the Head Office Department and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).
The qualitative component (scenario analysis) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company's business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly severe operational events.

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk 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 (Business Environment Evaluation), to take into account the effectiveness of internal controls in the various organisational units.

In addition, the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft including in valuable transport, cyber fraud, forgery, damage to real estate and IT assets, also as a result of earthquake or terrorism, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an insurance coverage policy named Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market.

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.

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.

Section 13 - Equity Exposures: disclosures for positions not included in the trading book

Qualitative disclosure

Equity exposures not included in the trading book: differentiation between exposures according to the objectives pursued

The investments in equities present in the Banking Group have a variety of functions:

- strategic: companies subject to significant influence, joint ventures with industry partners and institutional investments;
- instrumental to the Bank's business and the development of commercial operations;
- systemic institutional: investments in public finance, consortium companies, and local bodies and institutions;
- financial investment: especially private equity investments.

Recognition and valuation of the equity instruments not included in the trading book

As set forth by Legislative Decree 38 of 28 February 2005, the Intesa Sanpaolo Group's Consolidated financial statements have been prepared in compliance with the accounting principles issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002.
The Consolidated financial statements as at 31 December 2016 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Art. 9 of Legislative Decree 38/2005, with Regulation of 22 December 2005, which issued Circular 262/05, and subsequent updates. These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.

The equity exposures not included in the trading book are classified under the balance sheet items Investments in subsidiaries, associates and companies subject to joint control and Assets available for sale. They are not, however, except for marginal amounts, included within the Financial assets designated at fair value through profit and loss, because the Intesa Sanpaolo Group essentially classifies investments against insurance policies in this category (not included in the scope of this disclosure), and certain debt securities with embedded derivatives or debt securities subject to financial hedging.

Therefore, 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 2, 5 and 7 set out the criteria for classification, recognition, measurement and derecognition for "Financial assets available for sale", "Financial assets designated at fair value" and "Investments in subsidiaries, associates and companies subject to joint control" respectively; point 19 shows the Methods for determining impairment losses both for financial assets and for investments. For details on the criteria for impairment testing of financial assets available for sale and of investments in subsidiaries, associates and companies subject to joint control, reference should be made to Part B of the Notes to the consolidated financial statements (SECTION 4 - FINANCIAL ASSETS AVAILABLE FOR SALE and SECTION 10 - INVESTMENTS IN SUBSIDIARIES, 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	31.12.2016							
	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 (**)	426	809	445	X	203	-81	X	X
B. Financial assets vailable for sale (AFS)	191	3,698	191	3,698	159	-69	233	-40
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	2	-1	X	X

Exposure type/values	31.12.2015							
	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 (**)	451	1,196	495	X	235	-125	X	X
B. Financial assets vailable for sale (AFS)	68	3,907	68	3,907	54	-85	342	-18
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-1	-	X	X

(*) 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 quoted companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level during 2016 of 95 million euro (27 million euro at the end of 2015), with peak and minimum values of 161 million euro and 16 million euro respectively (161 million euro at the end of 2016).

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 AFS category.

Non-trading book: impact on shareholders' equity of price risk as at 31 December 2016

(millions of euro)

		Impact on shareholders' equity
Price shock	+10%	19
Price shock	-10%	-19

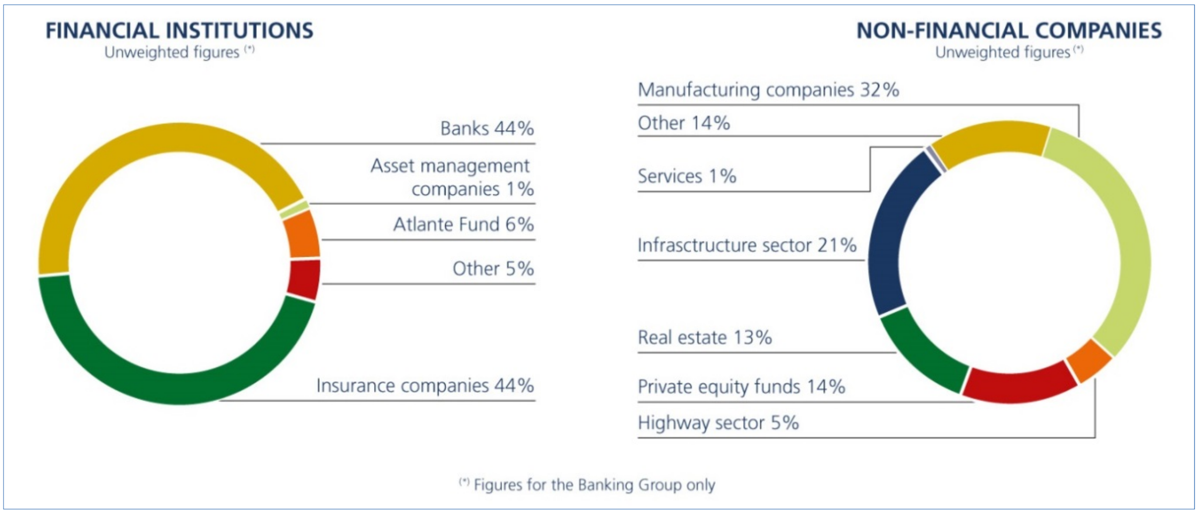
Non-trading book: on-balance sheet equity exposures - weighted values

(millions of euro)

	Weighted exposure	
	31.12.2016	**31.12.2015**
IRB approach	**5,813**	**4,112**
Equity exposures (Simple risk weight approach)		
- Private equity exposures in sufficiently diversified portfolios	13	41
- Exchange-traded equity exposures	758	465
- Other equity exposures	3,218	2,005
Equity exposures (PD/LGD approach)	-	-
Equity exposures (Exposures subject to fixed weighting factors)	1,824	1,601
Standardised approach	**11,010**	**11,661**

The investment sectors are shown below, expressed in percentage terms

Equity exposures



With reference to the type and nature of the equity exposures in the non-trading book, it is specified that the total aggregate (expressed in terms of exposure at default) equal to 8,489 million euro consists of exposures to "financial institutions" for 7,170 million euro (mainly exposures to banks for 3,169 million euro, exposures to insurance companies for 3,129 million euro and exposures to the Atlante Fund for 459 million euro) and exposures to "non-financial companies" for 1,319 million euro (mainly exposures to manufacturing companies for 420 million euro, exposures to companies of the infrastructure sector for 271 million euro and exposures to private equity funds for 189 million euro).

Section 14 – Interest rate risk on positions not included in the trading book

Qualitative disclosure

Interest rate risk
Interest rate risk originated by the banking book arises primarily in the Parent Company and in the other Group Companies that carry out retail and corporate banking and represents the risk that potential variations in the rates will have an impact on net interest income and on the net present value of the assets and liabilities included within the banking book.

As already mentioned in Section 1 – General requirements of this disclosure, three types of measurement have been adopted for the consolidated measurement of the financial risks generated by the banking book, at least monthly, namely Value at Risk (VaR), Shift sensitivity of value (EVE) and Shift sensitivity of net interest income (NII).

In addition to being used to measure the price and exchange risks generated by the equity investments, the VaR is also used to consolidate exposure to financial risks of the various Group companies that perform banking book activities, thereby taking into account diversification benefits.

The sensitivity of economic value (EVE) measures the change in the economic value of the Group's commercial portfolio following shocks in the market rates curves. The standard shock is defined as a parallel, uniform shift in the curve of +100 basis points. In measurements, capital items are represented as "to maturity" or "repricing" depending on whether they involve a fixed or variable rate, 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 sensitivity of net interest income is measured on the basis of a parallel and instantaneous shock in the interest rate curve of +-50 basis points, over a period of 12 months. It should be noted that this measure highlights the effect of changes in market interest rates on the portfolio being measured, and excludes assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered as a predictor of the future levels of net interest income.

The Group's overall financial risk profile and the eventual necessary changes are examined periodically by the Group Financial Risks Committee.

Quantitative disclosure

Interest rate risk

The sensitivity of net interest income – assuming a +50 and +100 basis point change in interest rates – amounted to 571 million euro and 1,081 million euro, respectively, at the end of 2016. This latter figure was up compared to the end of 2015, when it was 535 million euro. In the document "Guidelines on the management of interest rate risk in the Group's banking book" the Group has also defined a sensitivity limit for net interest income as the maximum acceptable value of the loss in the income statement, as represented by the greater decrease in net interest income generated in two scenarios of parallel increases and decreases in rates (+50 bps and -50 bps). Consequently, the measurement of the sensitivity of net interest income in the scenario of a change in rates of -50 basis points has also been introduced starting in the fourth quarter of 2016. At the end of 2016, that value was -665 million euro.
In the case of invariance of the other income components, the aforesaid potential impact would be reflected also in the Group's year-end net income, net of the tax effect and taking into account the abovementioned assumptions concerning the measurement procedures.

In 2016, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity of value, averaged 891 million euro, with a year-end figure of 945 million euro compared to the 547 million euro at the end of 2015.

The table below shows, in absolute terms, the impact on the banking book of the 100 bps shock, broken down into the main currencies that the Intesa Sanpaolo Group is exposed to.

(millions of euro)

		31.12.2016
EUR	Euro	1,131
CHF	Swiss Franc	19
USD	US Dollar	77
AUD	AUD Dollar	11
	Other currencies	79

Interest rate risk, measured in terms of VaR, averaged 76 million euro in 2016, with a minimum value of 40 million euro and a maximum value of 122 million euro. The value at the end of 2016 was 117 million euro (139 million euro at the end of 2015).
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 15 - 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 57 billion euro for the owned assets recorded and to approximately 1.4 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. 433), 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 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 valuesof quarterly data on a rolling basis during the previous twelve months.

Encumbered and unencumbered assets as at 31 December 2016

(millions of euro)

	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
	Book value	Fair value	Book value	Fair value
Total Banking Group assets	134,331	X	443,326	X
1. Equity instruments	356	356	6,764	6,885
2. Debt securities	42,817	43,113	51,949	50,425
3. Other assets	91,158	X	384,613	X

Encumbered and unencumbered assets as at 31 December 2015

(millions of euro)

	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
	Book value	Fair value	Book value	Fair value
Total Banking Group assets	116,009	X	432,768	X
1. Equity instruments	416	415	7,691	7,543
2. Debt securities	35,277	35,105	55,782	53,165
3. Other assets	80,316	X	369,295	X

Information on the guarantees received by type of assets is also provided hereunder.

Guarantees received as at 31 December 2016

(millions of euro)

	FAIR VALUE	
	Encumbered collateral or own securities	Unencumbered collateral or own securities
Total collateral received by the Banking Group	14,358	28,713
1. Equity instruments	107	36
2. Debt securities	14,207	25,586
3. Other guarantees received	44	3,091
Debt securities issued other than covered bonds and ABS	55	18,549

Guarantees received as at 31 December 2015

(millions of euro)

	FAIR VALUE	
	Encumbered collateral or own securities	Unencumbered collateral or own securities
Total collateral received by the Banking Group	15,251	20,078
1. Equity instruments	109	43
2. Debt securities	15,093	15,898
3. Other guarantees received	49	4,137
Debt securities issued other than covered bonds and ABS	2,359	21,610

Finally, the details of liabilities associated with the received encumbered assets or guarantees are stated below.

Liabilities associated with the received encumbered assets, guarantees or own securities as at 31 December 2016

(millions of euro)

	Associated liabilities	Encumbered assets, collateral or own securities
Liabilities associated to encumbered assets, collateral received or own securities	130,974	148,743

Liabilities associated with the received encumbered assets, guarantees or own securities as at 31 December 2015

(millions of euro)

	Associated liabilities	Encumbered assets, collateral or own securities
Liabilities associated to encumbered assets, collateral received or own securities	114,631	133,619

Section 16 - 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 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 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 Commission Delegated Act 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 - amending 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).

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 the reference measurement criterion 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 compliance with these limits is monitored in the Tableau de Bord of the risks and reported to the Risks Committee and the Board of Directors on a quarterly basis.

Description of the factors that had an impact on the Leverage ratio during the period

Given an essentially stable (Tier 1) capital level (whose limited change is explained by the significant increase in subordinated liabilities taking place in the first quarter, partially offset by the lower adjustments of the transitional period foreseen for 2016 and the worsening of the valuation reserves), during the year an increase was recorded in total Exposures essentially attributable - in addition to the change of the calculation method following the entry into force of Delegated Regulation 2015/62 of 10 October 2014 (so-called Delegated Act) - to the increase in exposures in AFS securities (with specific reference to those issued by the Member states of the European Union), exposures to customers (especially with reference to commercial banking loans) and exposures to Banks (referring above all to the increase in the Mandatory Reserve attributable to the temporary excess liquidity at the ECB). This contrasted with the overall performance of financial assets held for trading, which were impacted by the decline in bonds and other debt securities.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 31 December 2016 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 Indicator is indicated according to the transitional provisions.

Quantitative disclosure

LRCom table – Harmonised disclosure of the Leverage ratio

The table shows the Leverage ratio as at 31/12/2016 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)	**31.12.2016**
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	509,591
2	(Asset amounts deducted in determining Tier 1 capital) - transitional regime	-8,781
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**500,810**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	11,101
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	12,555
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)	-8,819
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	53,805
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-50,113
11	**Total derivatives exposures (sum of lines 4 to 10)**	**18,529**
	SFT exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	33,918
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-3,038
14	Counterparty credit risk exposure for SFT assets	3,251
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 12to 15a)**	**34,131**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	243,836
18	(Adjustments for conversion to credit equivalent amounts)	-171,229
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**72,607**
	(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**	39,459
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	626,077
	Leverage ratio	
22	**Leverage ratio**	**6.30%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

LRSum table - Summary of the reconciliation between assets and exposures used to calculate the leverage ratio

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)

	Tavola di raffronto sintetico	**31.12.2016**
1	Total assets as per published financial statements	725,100
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-138,793
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 (CRR)	-
4	Adjustments for derivative financial instruments	-17,925
5	Adjustment for securities financing transactions (SFTs)	212
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	72,607
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013 (CRR))	-
EU-6b	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013 (CRR))	-
7	Other adjustments (*)	-15,124
8	**Leverage ratio total exposure measure**	**626,077**

(*) "Other adjustments" mainly include amounts related to assets deducted for the calculation of Tier 1 Capital (transitional regime)

LRSpl table - Breakdown of the balance sheet disclosures (excluding derivatives, SFTs and exempt 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 31.12.2016
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**509,591**
EU-2	Trading book exposures	12,625
EU-3	Banking book exposures, of which:	496,966
EU-4	*Covered bonds*	*862*
EU-5	*Exposures treated as sovereigns*	*118,880*
EU-6	*Exposures to regional governments, local authorities, MDB, international organisations and PSE not treated as sovereigns*	*15,232*
EU-7	*Exposures to supervised intermediaries*	*35,955*
EU-8	*Secured by mortgages of immovable properties*	*93,100*
EU-9	*Retail exposures*	*34,240*
EU-10	*Corporate*	*132,196*
EU-11	*Exposures in default*	*29,825*
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	*36,676*

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 2016" corresponds to the corporate records, books and accounts.

14 March 2017

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

Independent Auditors' Report on Basel 3 Pillar 3

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent limited assurance report on the Basel 3 Pillar 3 - Disclosure

To the board of directors of
Intesa Sanpaolo S.p.A.

We have performed a limited assurance engagement in relation to the accompanying Basel 3 Pillar 3 - Disclosure (the "Pillar 3") of the Intesa Sanpaolo Group (the "group") at 31 December 2016.

Directors' responsibility for the Pillar 3

The parent's directors are responsible for the preparation of the Pillar 3 in accordance with the provisions of Circular no. 285 of 17 December 2013 and subsequent amendments. They are also responsible for those internal controls they deem necessary for the preparation of a Pillar 3 that is free from material misstatement, either due to fraud or errors.

Independent auditors' independence and quality control

We have complied with the independence and 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.

KPMG S.p.A. applies International Standard on Quality Control 1 (ISQC (Italia) 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Independent auditors' responsibility

Our responsibility is to express a conclusion on the Pillar 3 based on our procedures. We carried out our work in accordance with the criteria 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 (IAASB) applicable to limited assurance engagements.

This standard requires that we plan and perform the engagement to obtain limited assurance about whether the Pillar 3 is free from material misstatement.

The procedures we performed on the Pillar 3 are based on our professional judgement and include inquiries, primarily of persons responsible for the preparation of information presented in the Pillar 3, documental analyses, recalculations and other evidence gathering procedures.

Specifically, we carried out the following procedures:

— comparing the information and data presented in the Pillar 3 to the corresponding information and data included in the group's consolidated financial statements as at and for the year ended 31 December 2016, on which we issued our report dated 13 March 2017 pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010;

— interviews and discussions with the management of the parent and the main banks included in the "Banking Group", as defined in Section 2 of the Pillar 3, to gather information on the IT, accounting and reporting systems used in preparing the Pillar 3, 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;

— sample-based analyses of documentation supporting the preparation of the Pillar 3 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 systems in calculating 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;

— obtaining the representation letter on the compliance of the Pillar 3 with Circular no. 285 of 17 December 2013 and subsequent amendments and on the reliability and completeness of the information and data contained therein.

A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and, therefore, it does not offer assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the group's Pillar 3 at 31 December 2016 has not been prepared, in all material respects, in accordance with the provisions of Circular no. 285 of 17 December 2013 and subsequent amendments.

Other matters

This report has been prepared for the parent's board of directors in compliance with our engagement. We carried out our work for the purposes of informing the parent of the matters contained herein. Therefore, we have no responsibility to any party other than Intesa Sanpaolo S.p.A. in relation to the work performed, this report or the conclusions expressed herein.

Milan, 14 March 2017

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli
Director

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)	35,596
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	Noncomulative or comulative	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	IT0000072626
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Preferred shares - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	485
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	Noncomulative or comulative	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	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
5	Post-transitional CRR rules	Additional TIer 1
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)	1000
	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	Equity
11	Original date of issuance	17/09/2015
12	Perpetual or dated	Unredeemable
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	Noncomulative or comulative	Non-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	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 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	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004634983
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
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)	24
9	Nominal amount of instrument: original amount in currency of issuance (mln)	805
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	805
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	30/09/2010
12	Perpetual or dated	Dated
13	Original maturity date	30/09/2017
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 + 160bps
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	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	IT0004648686
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
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)	17
9	Nominal amount of instrument: original amount in currency of issuance (mln)	479
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	479
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	10/11/2010
12	Perpetual or dated	Dated
13	Original maturity date	10/11/2017
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 + 160 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	Noncomulative or comulative	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	IT0004692817
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
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)	37
9	Nominal amount of instrument: original amount in currency of issuance (mln)	373
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	373
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	31/03/2011
12	Perpetual or dated	Dated
13	Original maturity date	31/03/2018
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 + 200bps
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	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	IT0005118838
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
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	Eur
	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	30/06/2015
12	Perpetual or dated	Dated
13	Original maturity date	30/06/2022
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	Euribor 3m + 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	Noncomulative or comulative	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	XS0456541506
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
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)	580 (AT1) - 150 (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 Capital Disqualification Event or Tax Deductibility Event)
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	14/10/2009
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 before 14/10/2019 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. Following reset, 3m Euribor plus margin of 6.871 per cent. (thus 687.1 bps)
19	Existence of a dividend stopper	No
	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
20a	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
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	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)	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	XS0388841669
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
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)	196 (AT1) - 50 (T2)
9	Nominal amount of instrument: original amount in currency of issuance (mln)	250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	250
9a	Issue price	100
9b	Redemption price	100% (in caso di esercizio dell'opzione di rimborso o "Additional Amount Event"); 100% o "Make Whole " (in caso di "Regulatory Event" o "Tax Deductibility Event")
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	24/09/2008
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	24/09/18
	Contingent call dates and redemption amount	06/09/00
16	Subsequent call dates, if applicable	In addition to issuer call on 24/9/2018 and each IPD thereafter, issuer may also redeem following Regulatory Event or Tax Event at any time before the first call date subject to notice
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 24/09/2018)
18	Coupon rate and any related index	8.698% through to 14.10.2019. Following reset, 3m Euribor plus margin of 5.05 per cent. (thus 505 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
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	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)	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	XS0371711663
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
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)	454 (AT1) - 118 (T2)
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% (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	20/06/2008
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	20/06/18
	Contingent call dates and redemption amount	03/06/03
16	Subsequent call dates, if applicable	In addition to issuer call on 20/6/2018 and each IPD thereafter, issuer may also redeem following Regulatory Event or Tax Event at any time before the first call date subject to notice
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 20/06/2018)
18	Coupon rate and any related index	8.047% through to 20/6/2018. Following reset, floating rate at 3m Euribor plus 4.10%
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
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	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)	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	US46115HAT41
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,865
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	26/06/2014
12	Perpetual or dated	Dated
13	Original maturity date	26/06/2024
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	Noncomulative or comulative	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
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,408
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)	1,446
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	13/09/2013
12	Perpetual or dated	Dated
13	Original maturity date	13/09/2023
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	Noncomulative or comulative	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	XS0452166324
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo and 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 (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	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	23/09/2009
12	Perpetual or dated	Dated
13	Original maturity date	23/09/2019
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	Noncomulative or comulative	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
5	Post-transitional CRR rules	Tier 2
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	16/07/2010
12	Perpetual or dated	Dated
13	Original maturity date	16/07/2020
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	0.0515
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 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

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0360809577
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	226
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	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	08/05/2008
12	Perpetual or dated	Dated
13	Original maturity date	08/05/2018
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	Noncomulative or comulative	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	XS0365303675
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	71
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	28/05/2008
12	Perpetual or dated	Dated
13	Original maturity date	28/05/2018
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 (then floating from 28/05/2013)
18	Coupon rate and any related index	3m Euribor + 198 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	Noncomulative or comulative	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	XS0243399556
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	34
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	20/02/2006
12	Perpetual or dated	Dated
13	Original maturity date	20/02/2018
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 + 85 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	Noncomulative or comulative	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	XS0364645852
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	36
9	Nominal amount of instrument: original amount in currency of issuance (mln)	120
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	120
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	27/06/2008
12	Perpetual or dated	Dated
13	Original maturity date	27/06/2018
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	0.0616
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	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
5	Post-transitional CRR rules	Tier 2
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	15/09/2014
12	Perpetual or dated	Dated
13	Original maturity date	15/09/2026
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	0.03928
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	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	XS0258143477
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	32
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	26/06/2006
12	Perpetual or dated	Dated
13	Original maturity date	26/06/2018
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 + 100 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	Noncomulative or comulative	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	XS0311441322
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	3
9	Nominal amount of instrument: original amount in currency of issuance (mln)	30
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	30
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	17/07/2007
12	Perpetual or dated	Dated
13	Original maturity date	17/07/2017
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 + 85 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	Noncomulative or comulative	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	XS0188046543
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
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	18/03/2004
12	Perpetual or dated	Dated
13	Original maturity date	18/03/2024
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	Noncomulative or comulative	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	XS1222597905
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
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	Eur
	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	23/04/2015
12	Perpetual or dated	Dated
13	Original maturity date	23/04/2025
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	0.02855
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	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 securities
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	XS0324790657
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
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
9	Nominal amount of instrument: original amount in currency of issuance (mln)	250
	Nominal amount of instrument: original amount - currency of issuance	GBP
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	298
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	12/10/2007
12	Perpetual or dated	Dated
13	Original maturity date	12/11/2017
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	-
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 GBP + 135 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	Noncomulative or comulative	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	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)	1,423
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	Liabilities - Amortised cost
11	Original date of issuance	15/01/2016
12	Perpetual or dated	Dated
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	

Attachment 2

Own funds: Transitional own funds disclosure template

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	35,596	
	of which: Ordinary shares	*35,596*	
2	Retained earnings	9,512	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-1,854	
3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1 capital	-	
	Public sector capital injections grandfathered until 1 January 2018	-	
5	Minority interests (amount allowed in consolidated CET1)	90	46
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**43,344**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-144	
8	Intangible assets (net of related tax liability) (negative amount)	-7,005	
9	Transitional adjustment related to IAS 19	339	
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)	-93	-155
11	Fair value reserves related to gains or losses on cash flow hedges	1,146	
12	Negative amounts resulting from the calculation of expected loss amounts	-14	-23
13	Any increase in equity that results from securitised assets (negative amount)	0	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	54	
15	Defined-benefit pension fund assets (negative amount)	0	
16	Direct and indirect holdings by the institution of own CET1 instruments (negative amount)	-98	
17	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)	-	
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)	-	
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)	-911	
20	[not relevant in EU regulation]	-	
20a	Exposure amount of the following items which qualify for a risk weighting of 1250%, where the institution opts for the deduction alternative	(115)	
20b	*of which: qualifying holdings outside the financial sector (negative amount)*	-	
20c	*of which: securitisation positions (negative amount)*	(115)	
20d	*of which: free deliveries (negative amount)*	-	
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)	-	

(millions of euro)

			Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
22		Amount exceeding the 15% threshold (negative amount)	-	
	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*	-	
24		Deferred tax assets	-	
	25	*of which: deferred tax assets arising from temporary differences*	-	
25a		Losses for the current financial year (negative amount)	-	
25b		Foreseeable tax charges relating to CET1 items (negative amount)	-	
26		Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-389	
26a		Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-188	
		of which: Unrealised gains on debt securities issued by European Union central governments	*0*	
		of which: Unrealised gains on debt securities of issuers other than European Union central governments	*-43*	
		of which: Unrealised gains on equities and quotas of UCI	*-145*	
26b		Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre-CRR	-	
		of which deduction of deferred tax assets that rely on future profitability and do not arise from temporary differences (Articles 469(1)(a), 36(1)(c) and 478(1) of the CRR)	-	
		of which deduction of negative amounts resulting from the calculation of expected loss amounts in accordance with Articles 158 and 159 of the CRR (Articles 469(1)(a), 36(1)(d) and 478(1) of the CRR)	-	
		of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	-	
		of which impacts arising from deductible under transitional adjustments	-	
27		Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	
28		**Total regulatory adjustments to Common Equity Tier 1 (CET1) capital**	**(7,418)**	
29		**Common Equity Tier 1 (CET1) capital**	**35,926**	

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	2,606	
31	*of which: classified as equity under applicable accounting standards*	-	
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	1,230	
	Public sector capital injections grandfathered until 1 January 2018	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	6	
35	*of which: instruments issued by subsidiaries subject to phase-out*	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**3,842**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	
38	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)	-	
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)	-	
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)	-	
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from CET1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	(5)	
	of which residual amount by which expected losses exceed adjustments for IRB positions	*(5)*	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	(304)	
	of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	*(309)*	
	of which impacts arising from deductible under transitional adjustments	*5*	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-	
	of which: possible filter for unrealised losses	-	
	of which: possible filter for unrealised gains	-	
	of which: other filter	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**(309)**	
44	**Additional Tier 1 (AT1) capital**	**3,533**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**39,459**	

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	8,635	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	410	
	Public sector capital injections grandfathered until 1 January 2018	-	
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	2	
49	*of which: instruments issued by subsidiaries subject to phase-out*	-	
50	Credit risk adjustments	240	
51	**Tier 2 (T2) capital before regulatory adjustments**	**9,287**	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	(132)	
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)	-	
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)	-	
54a	*of which new holdings not subject to transitional arrangements*	-	
54b	*of which holdings existing before 1 January 2013 and subject to transitional arrangements*	-	
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)	(152)	
56	Regulatory adjustments applied to T2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
56a	Residual amounts deducted from T2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	(5)	
	of which residual amount by which expected losses exceed adjustments for IRB positions	*(5)*	
56b	Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	(304)	
	of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	*(309)*	
	of which impacts arising from deductible under transitional arrangements	*5*	
56c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	121	
	of which: possible filter for unrealised losses	-	
	of which: unrealised gains on AFS securities subject to additional national filter	*121*	
	of which: other filter	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(472)**	
58	**Tier 2 (T2) capital**	**8,815**	
59	**Total capital (TC = T1 + T2)**	**48,274**	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
	of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability, net of the related tax liabilities, indirect holdings of own CET1 instruments, etc.)	-	
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be deducted line by line, e.g. reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.)	-	
60	**Total risk weighted assets**	**283,918**	

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Capital ratios and buffers			
61	Common Equity Tier 1 capital (as a percentage of risk exposure amount)	12.7%	
62	Tier 1 capital (as a percentage of risk exposure amount)	13.9%	
63	Total capital (as a percentage of risk exposure amount)	17.0%	
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	7.0%	
65	*of which: capital conservation buffer requirement*	*2.5%*	
66	*of which: countercyclical buffer requirement*	*0.002%*	
67	*of which: systemic risk buffer requirement*	*0.0%*	
67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	*0.0%*	
68	Common Equity Tier 1 capital available to meet buffers (as a percentage of total risk exposure amount)	5.9%	
69	[not relevant in EU regulation]		
70	[not relevant in EU regulation]		
71	[not relevant in EU regulation]		
Capital ratios and buffers			
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)	1,600	
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)	3,684	
74	[not relevant in EU regulation]	-	
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)	1,359	
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)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	747	
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase-out arrangements	1,230	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	319	
84	Current cap on T2 instruments subject to phase-out arrangements	2,836	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Glossary

GLOSSARY

The definition of certain technical terms is provided below, in the meaning adopted in the "Pillar 3 Basel 3 disclosure" and excluding the terms today widely used in the Italian language or which are used in a context that already clarifies their meaning

AIRB (Advanced Internal Rating Based)
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 for certain regulatory segments by institutions meeting more stringent requirements compared to the Foundation Approach. With the Advanced Approach, banks use their own internal estimates for all inputs (PD, LGD, EAD) used for credit risk assessment, whereas for Foundation IRB they only estimate PD.

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.

AMA
(Advanced Measurement Approach) - A method for determining the operational risk capital requirements using calculation models based on operational loss data and other assessment elements collected and processed by the bank. Specific access thresholds and eligibility requirements are defined for adoption of the Standardised and Advanced approaches. For AMA systems, the requirements concern not only the management system but also the measurement system.

AT1
Additional Tier 1 (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).

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.

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 (or Junior) Tranche: 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: 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: 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.

Cap test
A test performed in respect of the originator or the promoter to establish capital requirements in securitisation transactions. Under the regulations, the risk-weighted value of all exposures in respect of a single securitisation cannot exceed the weighted value of the securitised assets, calculated as if said assets had not been securitised (cap). The capital requirement in respect of all exposures to the same securitisation is equal to 8% of the cap.

Categories of financial instruments provided for by IAS 39
Financial assets "held-for-trading", which include: 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; assets designated at fair value, under the IAS, this category may include the assets that the entity decides in any case to measure at fair value with value changes recognized through profit and loss, in the cases provided for by IAS 39; *financial assets "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.

CCF – Credit Conversion Factor
For banks that use the Standardised Approach and the FIRB, the Credit Conversion Factor is the weighting - provided for by the applicable regulations - applied to off-balance sheet exposures to determine their EAD:
- 100% to full-risk guarantees and commitments;
- 50% to medium-risk guarantees and commitments (e.g. margins available on irrevocable credit lines with an original maturity of more than one year);
- 20% to medium-low risk guarantees and commitments (import-export documentary credits);
- 0% to low-risk guarantees and commitments (e.g. undrawn revocable credit facilities);

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.

CET1
Common Equity Tier 1.

Common equity tier 1 ratio (CET1 Ratio)
The ratio of Common Equity Tier 1 (CET1) to total risk-weighted assets.

Corporate
Customer segment consisting of medium- and large-sized companies (*mid-corporate and large corporate*).

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.

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 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.

CRM
Credit Risk Mitigation.

Cumulative loss
Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

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.

EAD – Exposure At Default
Relating to positions on or off balance sheet, 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.

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.

Exotics (derivatives)
Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

EPE
Internal model to determine the requirement for counterparty risk (Expected Positive Exposure). According to this model, the EPE is calculated as a statistical-time-based average of the future mark-to-market evolution of the derivatives, strengthened by conservative restrictions on the mark-to-market profiles that do not decrease over time

Expected loss
Amount of losses on loans or receivables that an entity could sustain over a holding period of one year. Given a portfolio of loans and receivables, the expected loss represents the average value of the distribution of losses.

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.

FiRB
See "*IRB*"

Goodwill
The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Grandfathering
The new composition of own funds according to Basel 3 and other less significant measures shall enter into force following a transitional period. Specifically, old instruments included in Basel 2 regulatory capital which are not included as per Basel 3 shall be gradually eliminated (known as the grandfathering period).

Hybrid instruments included in Tier 1 capital
Financial instruments that may be included in Tier 1 capital up to specific limits when the funding raised is available on an ongoing basis and there is an ability to absorb losses that fully guarantees the bank's capital stability. Such instruments may be classified as innovative or non-innovative depending on whether there are incentives for early redemption by the issuer (e.g., step-up clauses).

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
Under the "Second Pillar" banks are required to adopt processes and instruments for implementing the Internal
Capital Adequacy Assessment Process, (ICAAP) to determine the amount of 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: it can be used to calculate market risks.

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.

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." 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."

Intangible asset
An identifiable, non-monetary asset lacking physical substance.

IRB (Internal Rating Based)
Approach based on internal ratings within the framework of the New Basel Accord. In the internal ratings approach the expected loss on a loan portfolio is estimated through three parameters (PD, LGD and EAD). In the foundation approach only the PD is estimated by the Bank, for the other parameters reference is made to the indications from the supervisory authorities.

Junior
In a securitisation transaction it is the lowest-ranking tranche of the securities issued (Equity tranche), being the first to bear losses that may occur in the course of the recovery of the underlying assets.

LDA - Loss Distribution Approach
Method for quantitative assessment of the risk profile through the actuarial analysis of single events of internal and external loss; by extension, Loss Distribution Approach shall also include the historical capital calculation model by Business Unit

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).

Loss Given Default (LGD)
It indicates the estimated loss rate in the event of borrower default.

Macro-hedging
Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

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.).

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.

Mezzanine
In a securitisation transaction it is the tranche ranking between junior and senior tranche.

Non performing
Term generally referring to loans for which payments are overdue.

Operational risk
The risk of suffering losses due to inadequacy or failures of processes, human resources and 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 tortious liability or other disputes, ICT (Information and Communication Technology) risk and model risk. Strategic and reputational risks are not included.

Past due loans
"Past due loans" are non-performing loans on which payments are past due on a continuing basis for over 90/180 days, in accordance with the definition set forth in current supervisory reporting rules.

Performing
Term generally referring to loans characterised by regular performance.

Pool (transactions)
See "*Syndicated lending*".

Private equity
Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

Probability of Default (PD)
The likelihood that a debtor will default within the space of 1 year.

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).

Ratings
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.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

Risk Management
Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

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.

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.

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.

Syndicated lending
Loans arranged and guaranteed by a pool of banks and other financial institutions.

Slotting
A system for calculating capital requirements, based on regulatory classification criteria, applicable to the exposures relating to Specialised Lending by banks authorised to use the internal credit risk rating system (for more details, see Bank of Italy Circular 263/2006, Title II, Chapter 1, Part II, Section V).

SPE/SPV
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.

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.

Stress tests
A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

Tier 1
Tier 1 equity includes Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1).

Tier 1 ratio
The ratio of Tier 1 capital, which includes 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).

Total capital ratio
Capital ratio referred to own funds components (Tier 1 plus Tier 2).

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

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.

Contacts

Intesa Sanpaolo S.p.A.

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

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

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

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

Internet: group.intesasanpaolo.com