INTESA SANPAOLO

Basel 3 Pillar 3

Disclosure as at 30 June 2017

This is an English translation from the original "Terzo pilastro di Basilea 3 – Informativa al pubblico al 30 giugno 2017" and was prepared solely for the convenience of the reader. The Italian original "Terzo pilastro di Basilea 3 – Informativa al pubblico al 30 giugno 2017" was approved by the Board of Directors of Intesa Sanpaolo on 1 August 2017 and is available on group.intesasanpaolo.com

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

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

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

Basel 3 Pillar 3
Disclosure as at 30 June 2017

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.

Contents

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 have introduced greater transparency requirements, more information on the composition of regulatory capital and the methods used by banks to calculate capital ratios.

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

- Regulation (EU) 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 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", issued in January 2015. 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 2016 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. At the end of March 2017, the Basel Committee published the document "Pillar 3 disclosure requirements - consolidated and enhanced framework" which constitutes the second phase of the review of the reference regulatory framework concerning public disclosure, started with the abovementioned document issued in January 2015. This review aims to further promote market regulations through the consolidation of all the requirements already introduced and the arrangement of a dashboard of key prudential metrics to support the market in the analysis of the data and achieve greater comparability.
These guidelines will be applicable starting from 31 December 2017.

* * * * * *

In accordance with the abovementioned provisions, this document has been drawn up on a consolidated basis with reference to a "prudential" scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes (integrated by the proportional consolidation of the jointly controlled entities).
The prudential scope of consolidation as at 30 June 2017 does not differ significantly from that used as at 31 December 2016.
In any event, it is recalled that Intesa Sanpaolo signed a contract, effective as of 26 June 2017, with the liquidators of Banca Popolare di Vicenza and Veneto Banca for the acquisition, at the token price of one euro, of certain assets and liabilities and certain legal relationships of the two banks (hereinafter the Aggregate Set). On 25 June 2017 the two above banks were admitted to the compulsory administrative liquidation procedure provided for in the Consolidated Law on Banking and Decree Law 99 of 25 June 2017. The Aggregate Set includes the shareholdings of Banca Popolare di Vicenza S.p.A. in Banca Nuova S.p.A., of Veneto Banca S.p.A. in Banca Apulia S.p.A. and in the international banks operating in Moldova, Croatia and Albania, as well as the shareholdings of both banks in SEC Servizi S.c.p.a and in Servizi Bancari S.c.p.a. The international branches of Veneto Banca located in Romania are also included.
For this operation, Intesa Sanpaolo received a public contribution of 3.5 billion euro to offset the impacts on the capital ratios deriving from the acquisition and of 1.285 billion euro to support the corporate restructuring measures that Intesa Sanpaolo must activate to fulfil the commitments made with the European Commission. With reference to the subsidiaries of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A. included in the Aggregate Set, Intesa Sanpaolo has not yet received the necessary authorisations from the competent authorities and, therefore, not being able to exercise control, has not carried out their full consolidation at 30 June 2017.
However, the values of the acquired assets and liabilities, and the amount of the contribution offsetting the impacts on capital ratios, included in this document, are to be considered provisional, since they are currently undergoing a specific due diligence process, based on which a detailed inventory will be taken of the items comprising the definitive accounting situation of the portfolio of acquired assets and liabilities.
For further details concerning the aforementioned acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, please refer to the thorough discussion provided in Intesa Sanpaolo's Half-yearly Report at 30 June 2017.
Concerning the scope of application of the internal models for the calculation of the capital requirements as at 30 June 2017, refer to the update presented in the Capital Requirements Section

Pursuant to Art. 433 of the CRR, banks publish the disclosures required by 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.
Details on own funds and capital ratios are also published in the consolidated Interim Statements for March and September and in the Half-yearly Report. Said documents also provide an update on Group liquidity risk.

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

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

The Intesa Sanpaolo Group publishes this disclosure (Basel 3 Pillar 3) and subsequent updates on its website, www.group.intesasanpaolo.com.

Own Funds and capital ratios as at 30 June 2017

(millions of euro)

Own funds and capital ratios	30.06.2017	31.12.2016
Own funds		
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	37,708	35,926
Additional Tier 1 capital (AT1) net of regulatory adjustments	5,376	3,533
TIER 1 CAPITAL	**43,084**	**39,459**
Tier 2 capital net of regulatory adjustments	8,453	8,815
TOTAL OWN FUNDS	**51,537**	**48,274**
Risk-weighted assets		
Credit and counterparty risks	260,219	243,351
Market and settlement risk	19,249	19,199
Operational risks	20,724	19,545
Other specific risks [a]	1,507	1,823
RISK-WEIGHTED ASSETS	**301,699**	**283,918**
% Capital ratios		
Common Equity Tier 1 capital ratio	12.5%	12.7%
Tier 1 capital ratio	14.3%	13.9%
Total capital ratio	17.1%	17.0%

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

The figures as at 30 June 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a.

Own Funds, risk-weighted assets and the capital ratios as at 30 June 2017 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 30 June 2017 take account of the adjustments envisaged by the transitional provisions for 2017.
As at 30 June 2017, total Own Funds came to 51,537 million euro, against risk-weighted assets of 301,699 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
In January and May 2017, Intesa Sanpaolo issued two Additional Tier 1 (AT 1) equity instruments, respectively for 1.25 and 0.75 billion euro. These two issues complete the issue of 4 billion euro of Additional Tier 1 instruments envisaged in the 2014-17 Business Plan (a first issue of AT1 instruments had already been carried out in September 2015 for 1 billion dollars and a second one in January 2016 for 1.25 billion euro). The instruments issued in January and May 2017, both targeted at the international markets, have, as the issues of 2015 and 2016, characteristics in line with the provisions of CRD IV and the CRR, are perpetual (with maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and may be redeemed in advance by the issuer respectively after 10 and 7 years from the issue date and on every coupon payment date thereafter.
With regard to the January 2017 issue for 1.25 billion euro, the coupon, payable semi-annually in arrears on 11 January and 11 July of each year, with first payment on 11 July 2017, is equal to 7.75% per annum. With regard to the May 2017 issue for 0.75 billion euro, the issuer will pay a fixed-rate coupon of 6.25% per annum, payable semi-annually in arrears on 16 May and 16 November of each year, with first coupon payment on 16 November 2017. For both issues, if the early redemption option is not exercised on 11 January 2027 and 16 May 2024, respectively, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged by the regulations applicable to AT1 instruments, the payment of coupons for both instruments is discretionary and subject to certain limitations.
Common Equity Tier 1 capital includes the 3.5 billion euro public contribution received to offset the impact of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca on the capital ratios; this amount was recognised in the income statement for the first half of 2017 and shall not be considered as a distributable amount. Conversely, net income for the period, net of the abovementioned contribution, was not included in Common Equity Tier 1 capital (just as the relative pro-rata dividend for the period), since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of the net income exceeds the total amount of the planned dividend distribution for the year, equal to 3.4 billion euro for 2017 based on the overall objective of 10 billion euro in cumulative cash dividends as indicated in the 2014-2017 Business Plan.
With regard to the acquisition of certain assets and liabilities and certain legal relationships of Banca Popolare di Vicenza and Veneto Banca, please note that, in calculating the Group's prudential ratios as at 30 June 2017, risk-weighted assets of the acquired segregated scope were taken into consideration, while the subsidiaries included within the segregated scope of the sale contract were not subject to consolidation, pending the issuance of authorisation provisions for inclusion in the banking Group, but were considered among the elements deducted from Own funds.
Based on the foregoing, the Total capital ratio was 17.1%, while the ratio of the Group's Tier 1 capital to its total risk-weighted assets (Tier 1 ratio) was 14.3%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the Common Equity ratio) was 12.5%.
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 is 7.25% under the transition arrangements in force for 2017 and 9.25% on a fully loaded basis.

Own funds

Qualitative and quantitative disclosure

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

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

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.

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

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

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

The regulations also envisage a series of elements to be deducted from Common Equity Tier 1:
- goodwill, intangible assets and residual intangible assets;
- deferred tax assets (DTA) associated with future income not deriving from temporary differences (e.g. DTA on losses carried forward);
- expected losses exceeding total adjustments (the shortfall reserve) for positions weighted according to IRB approaches;
- net assets deriving from defined benefit plans;

- exposures for which it is decided to opt for deduction rather than a 1.250% weighting among RWA;
- minor investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations);
- deferred tax assets (DTA) that rely on future profitability and arise from temporary differences (deducted for the amount exceeding thresholds envisaged in the regulations);
- significant investments in CET1 instruments issued by companies operating in the financial sector (less the amount exceeding the thresholds envisaged in the regulations).

In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares or AT1 equity instruments).

Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.

As previously specified, the new regulatory framework will be introduced gradually over a transitional period, generally through 2017, during which several elements that, when the framework is in full effect, will be eligible for full inclusion in or deduction from common equity, will only have a partial percent effect on Common Equity Tier 1 Capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 Capital (AT1) or Tier 2 Capital (T2), or is considered among risk-weighted assets.
Specific transitional provisions have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 30 June 2017 is summarised in the table below.

(millions of euro)

	30.06.2017	31.12.2016
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**46,916**	**43,298**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**-1,736**	**-808**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**45,180**	**42,490**
D. Items to be deducted from CET 1	**-8,949**	**-7,670**
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional adjustments	**1,477**	**1,106**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**37,708**	**35,926**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**5,638**	**3,842**
of which AT1 instruments subject to transitional adjustments	1,024	1,230
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	**-263**	**-309**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**5,375**	**3,533**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**8,864**	**9,154**
of which T2 instruments subject to transitional adjustments	563	410
N. Items to be deducted from T2	**-197**	**-152**
O. Transitional period - Impact on T2 (+ / -), including instruments issued by subsidiaries and included in T2 pursuant to transitional adjustments	**-214**	**-187**
P. Total Tier 2 (T2) (M - N +/- O)	**8,453**	**8,815**
Q. Total own funds (F + L + P)	**51,536**	**48,274**

The figures as at 30 June 2017 include assets and liabilities in relation to the acquired operations of Banca Popolare di Vicenza S.p.a. and Veneto Banca S.p.a.

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

– grandfathered instruments;
– minority interests;
– unrealised profits or losses on instruments designated at fair value;
– negative amounts resulting from the calculation of expected losses (shortfall reserve);
– IAS 19 filter on valuation reserves for actuarial gains or losses on defined benefit plans;
– other minor captions

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

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

	30.06.2017	31.12.2016
Group Shareholders' equity	53,164	48,911
Minority interests	357	408
Shareholders' equity as per the Balance Sheet	**53,521**	**49,319**
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	-4,120	-2,121
- Minority interests eligible for inclusion in AT1	-9	-6
- Minority interests eligible for inclusion in T2	-5	-2
- Ineligible minority interests on full phase-in	-297	-356
- Ineligible net income for the period [(a)]	-1,738	-3,111
- Treasury shares included under regulatory adjustments	89	98
- Other ineligible components on full phase-in	-40	-38
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**46,916**	**43,298**
Regulatory adjustments (including transitional adjustments)	**-9,208**	**-7,372**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**37,708**	**35,926**

[(a)] Common Equity Tier 1 capital includes the public contribution of 3.5 billion euro recognised in the income statement, received to offset the impact of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca on the capital ratios. Conversely, net income for the period, net of the abovementioned contribution, was not included in Common Equity Tier 1 capital (just as the related pro-rata dividend for the period), since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of the net income exceeds the total amount of the planned dividend distribution for the year, equal to 3.4 billion euro for 2017, based on the 2014-2017 Business Plan.

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

Common Equity Tier 1 Capital (CET1)

(millions of euro)

	30.06.2017	31.12.2016
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	8,247	8,247
Share premium reserve	26,006	27,349
Reserves [a]	10,955	9,512
Accumulated other comprehensive income	-1,838	-1,854
Net income (loss) for the period [b]	5,238	3,111
Net income (loss) for the period not eligible [b]	-1,738	-3,111
Dividends and other expected charges	-	-
Minority interests	46	44
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**46,916**	**43,298**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-89	-98
Goodwill	-4,113	-4,183
Other intangible assets	-2,821	-2,822
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-524	-155
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-254	-23
Defined benefit pension funds assets	-	-
Prudential filters		
- of which Cash Flow Hedge Reserve	*984*	*1,146*
- of which Gains or Losses due to changes in own credit risk (DVA)	*-27*	*53*
- of which Prudent valuation adjustments	*-143*	*-144*
- of which Other prudential filters	-	-
Exposures to securitisations deducted rather than risk weighted at 1250%	*-200*	*-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 [c]	-2,350	-1,748
- 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	*-2,350*	*-1,748*
Deductions with threshold of 17.65% [d]	-768	-
Positive or negative elements - other	-380	-389
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-10,685**	**-8,478**
Total adjustments in the transitional period (CET1)	**1,477**	**1,106**
Common Equity Tier 1 (CET1) - Total	**37,708**	**35,926**

[a] Portion included in CET1.

[b] Common Equity Tier 1 capital includes the public contribution of 3.5 billion euro recognised in the income statement, received to offset the impact of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca on the capital ratios. Conversely, net income for the period, net of the abovementioned contribution, was not included in Common Equity Tier 1 capital (just as the related pro-rata dividend for the period), since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of the net income exceeds the total amount of the planned dividend distribution for the year, equal to 3.4 billion euro for 2017, based on the 2014-2017 Business Plan.

[c] See the specific table for the details of the calculation of the deduction thresholds.

[d] The deductions reported refer solely to DTAs and material investments not deducted in the 10% threshold.

Common Equity Tier 1 capital includes the 3.5 billion euro public contribution received to offset the impact on the capital ratios of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca. The amount was recognised in the income statement. Conversely, net income for the period, net of the abovementioned contribution, was not included in Common Equity Tier 1 capital (just as the relative pro-rata dividend for the period), since Intesa Sanpaolo has decided to apply to the ECB for authorisation pursuant to Art. 26 of the CRR to include the net income for the period in Own Funds only when the amount of the net income exceeds the total amount of the planned dividend distribution for the year, equal to 3.4 billion euro for 2017, based on the indications of the 2014-2017 Business Plan.

The "Negative elements – other" mainly include the sterilisation in common equity of deferred tax assets (DTA) associated with tax realignment of a single item of goodwill. Exclusion is gradual. The amount of the filter as at 30 June 2017 is equal to 221 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

	30.06.2017	31.12.2016
Additional Tier 1 capital (AT1)		
Saving shares	485	485
Other AT1 instruments	4,120	2,121
Minority interests	9	6
Additional Tier 1 capital (AT1) before regulatory adjustments	**4,614**	**2,612**
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)	**-263**	**-309**
AT1 instruments eligible for grandfathering	**1,024**	**1,230**
Additional Tier 1 (AT1) - Total	**5,375**	**3,533**

AT1 instruments are detailed in the tables below.

It is worth mentioning that, at the beginning of 2017, Intesa Sanpaolo launched a new Additional Tier 1 issue of 1.25 billion euro, targeted at the international markets.
This issue 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 may be redeemed in advance by the issuer after 10 years from the issue date and on every coupon payment date thereafter. The issuer will pay a fixed rate coupon of 7.75% per annum, payable semi-annually in arrears every 11 January and 11 July of each year, with the first coupon payment on 11 July 2017. In the event that the early redemption rights are not utilised on 11 January 2027, 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.

Furthermore, it is worth mentioning that, in May 2017, Intesa Sanpaolo launched a second Additional Tier 1 issue of 750 million 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 7 years from the issue date and on every coupon payment date thereafter. The issuer will pay a fixed rate coupon of 6.25% per annum, payable semi-annually in arrears every 16 May and 16 November of each year, with the first coupon payment on 11 November 2017. In the event that the early redemption rights are not utilised on 16 May 2024, 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.

Additional Tier 1 (AT1) equity instruments as at 30 June 2017

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfather-ing	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	up to 14/10/2019: 8.375% fixed rate; thereafter 3-month Euribor + 687 bps/year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	484
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	378
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	163
Total Additional Tier 1 instruments subject to transitional provisions									**1,025**
Intesa Sanpaolo	6,25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	750
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	NO	1,250,000,000	1,250
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	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	perpetuo	17-Sep-2025	Usd	NO	1,000,000,000	870
Total Additional Tier 1 instruments not subject to transitional provisions									**4,120**
Total Additional Tier 1 equity instruments									**5,145**

Tier 2 Capital (T2)

(millions of euro)

	30.06.2017	31.12.2016
Tier 2 Capital (T2)		
T2 Instruments	7,910	8,503
Minority interests	5	2
Excess of provisions over expected losses eligible (excess reserve)	386	239
Tier 2 capital before regulatory adjustments	**8,301**	**8,744**
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	-197	-152
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-197**	**-152**
Total adjustments in the transitional period, including minority interests (T2)	**-214**	**-187**
T2 instruments eligible for grandfathering	**563**	**410**
Tier 2 Capital (T2) - Total	**8,453**	**8,815**

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

Tier 2 (T2) capital instruments as at 30 June 2017

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	247
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	193
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	83
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	8
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	11
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
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	7
Total Tier 2 instruments subject to transitional provisions									**563**
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,721
Intesa Sanpaolo	6,6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,409
Intesa Sanpaolo	5,71% fixed	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,314
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	723
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	561
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	467
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	143
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	46
Intesa Sanpaolo	6.16 % fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	NO	120,000,000	24
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	22
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	20
Intesa Sanpaolo	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Eur	NO	30,000,000	-
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	-
Total Tier 2 instruments not subject to transitional provisions									**7,910**
Total Tier 2 instruments									**8,473**

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

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

(millions of euro)

	30.06.2017	31.12.2016
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,935	3,657
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	3,935	3,657
C. Threshold for significant investments and DTA not deducted in the threshold described under point B:		
• 15% during the transitional period until 31 December 2017	5,950	5,526
• 17.65% from 2018	5,435	5,236

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 on a fully loaded basis, for amounts not deducted.

Transitional period adjustments as at 30 June 2017

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	**-**	**-**	**-**	**1,024**	**563**
Minority interests	**46**	**28**	**74**	**-**	**-**
Other adjustments in the transitional period	**299**	**-60**	**239**	**-**	**-**
- of which Unrealised gains on assets measured at fair value	299	-60	239	-	-
- of which Unrealised losses on assets measured at fair value	-	-	-	-	-
Regulatory adjustments	**-3,698**	**903**	**-2,795**	**-263**	**-263**
- of which Deferred tax assets that rely on future profitability and do not arise from temporary differences	-524	105	-419	-	-
- of which Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-254	51	-203	-25	-25
- of which IAS 19 Reserves	-570	194	-376	-	-
- 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	-2,350	553	-1,797	-238	-238
Other filters and adjustments	**-768**	**606**	**-162**	**-**	**49**
Total adjustments in the transitional period and instruments eligible for grandfathering	**-4,121**	**1,477**	**-2,644**	**761**	**349**

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		Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
	Financial statements scope	Prudential scope		
100. Investments in associates and companies subject to joint control	**1,282**	**6,066**	**-2,467**	**8, 19, 41b, 56b**
of which: implicit goodwill in associated companies IAS 28-31	*90*	*584*	*-584*	*8, 19, 41b, 56b*
130. Intangible assets	**7,413**	**6,738**	**-7,227**	**8**
of which: goodwill	*4,059*	*3,589*	*-4,059*	*8*
of which: other intangible assets	*3,354*	*3,149*	*-3,168*	*8*
140. Tax assets	**15,951**	**13,984**	**-477**	**10**
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*530*	*524*	*-477*	*10*

LIABILITIES	Accounting data		Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
	Financial statements scope	Prudential scope		
30. Securities issued	**101,499**	**91,868**	**9,497**	**33, 46, 47, 52**
of which: subordinated instruments subject to transitional arrangements	*1,588*	*1,588*	*1,588*	*33, 47*
of which: subordinated instruments not subject to transitional arrangements	*7,909*	*7,909*	*7,909*	*46, 52*
80. Tax liabilities	**1,972**	**1,239**	**383**	**8**
a) Current tax liabilities	**348**	**308**	**n.a.**	
b) Deferred tax liabilities	**1,624**	**931**	**n.a.**	
of which: tax liabilities related to goodwill and other intangible assets	*0*	*0*	*383*	*8*
140. Valuation reserves	**-1,838**	**-1,838**	**-670**	**3, 9, 11, 26a, 56c**
of which: valuation reserves on securities available for sale	*299*	*299*	*289*	*26a, 56c*
of which: valuation reserves on cash flow hedges	*-984*	*-984*	*0*	*11*
of which: foreign exchange differences	*-928*	*-928*	*-928*	*3*
of which: legally-required revaluations	*345*	*345*	*345*	*3*
of which: valuation reserves on net actuarial losses	*-570*	*-570*	*-376*	*9*
of which: other	*0*	*0*	*0*	
160 Equity instruments	**0**	**4,102**	**4,121**	
170. Reserves	**10,986**	**10,986**	**10,955**	**2**
180. Share premium reserve	**26,006**	**26,006**	**26,006**	**1**
190. Share capital	**0**	**8,732**	**8,732**	**1, 30**
of which: ordinary shares	*0*	*8,247*	*8,247*	*1*
of which: savings shares	*0*	*485*	*485*	*30*
200. Treasury shares (-)	**-62**	**-62**	**-89**	**16**
210. Minority interests (+/-)	**357**	**227**	**87**	**5, 34, 48**
of which CET1 compliant		*0*	*74*	*5*
of which AT1 compliant		*0*	*9*	*34*
of which T2 compliant		*0*	*4*	*48*
220. Net income (loss) for the period (+/-)	**5,238**	**5,238**	**3,500**	**5a**
of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period			*3,500*	*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:	**-814**	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	**-27**	**14**
Value adjustments due to the requirements for prudent valuation	**-143**	**7**
Exposures to securitisations deducted rather than risk weighted at 1250%	**-200**	
IRB shortfall of credit risk adjustments to expected losses	**-254**	**12, 41a, 56a**
IRB Excess of provisions over expected losses eligible	**386**	**50**
Filter on unrealised capital gains on real properties	**-83**	**26**
Filter on double tax realignment	**-221**	**26**
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment	**-197**	**55**
Indirect investments	**-75**	**26**
Total own funds as at 30 June 2017	**51,537**	

Capital requirements

Qualitative and quantitative disclosure

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group's capital must normally amount to at least 9.25% of total risk-weighted assets (Total Capital ratio) arising from the risks typically associated with banking and financial activity (credit, counterparty, market, and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the reduction in operational risk from the recognition of insurance coverage.

With regard to credit risk, compared to the situation as at 31 December 2016, the following changes are reported as at 30 June:

- on 9 March the Group received from the ECB the authorisation relating to the Banks and Public Sector Entities portfolios, valid from the Supervisory reporting as at 30 June 2017;
- on 18 April 2017, the Group received the authorisation from the ECB to use the new internal rating systems (PD) and LGD for the Corporate portfolio, valid from the Supervisory reporting as at 30 June 2017. The scope of the authorisation also extends to the subsidiaries Intesa Sanpaolo Bank Ireland and Intesa Sanpaolo Bank Luxembourg. The Slovak subsidiary, Vseobecna Uverova Banka (VUB), uses this model only for counterparties with a turnover of more than 500 million euro;
- on 31 March, the Slovenian subsidiary, Banka Intesa Sanpaolo (formerly Banka Koper), received the authorisation from the ECB to use the internal rating systems (PD-FIRB) for the Corporate portfolio, valid from the Supervisory reporting as at 31 March 2017.
- On the 7 March, the Slovak subsidiary, Vseobecna Uverova Banka (VUB), received the authorisation from the ECB to use the new internal rating model for the Retail Mortgage regulatory segment, valid from the Supervisory reporting as at 31 March 2017. The first report was presented on 30 June 2017;
- on 9 March the Group received the authorisation from the ECB to extend the internal rating system based on the PD/LGD approach to the Banking Book Equity instruments for the purpose of calculating the capital requirements, valid from the Supervisory reporting as at 30 June 2017.

The credit exposures included in the acquired scope of operations of Veneto Banca S.p.A. and Banca Popolare di Vicenza S.p.A. (former Venetian banks) are evaluated, with reference to 30 June 2017, with the standardised approach. They will migrate to the internal rating systems according to a plan that will be agreed with the Supervisory Authority.

The development and application of IRB systems for the other segments and the extension of the scope of companies is proceeding according to the Group's Basel 3 roll-out plan.

The situation as at 30 June 2017 is shown in the following table:

<table>
<tr><th>Company</th><th>Corporate
FIRB</th><th>Corporate
AIRB LGD</th><th>Mortgage
IRB LGD</th><th>SME Retail
IRB LGD</th><th>Banks and Public Entities
IRB</th><th>Banking Book Equity
IRB</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="6">Dec - 2008</td><td rowspan="7">Dec - 2010</td><td rowspan="7">Jun - 2010</td><td rowspan="7">Dec - 2012</td><td rowspan="7">Jun - 2017</td><td rowspan="7">Jun - 2017</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio di 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>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2009</td></tr>
<tr><td>Mediocredito Italiano</td><td>Dec - 2008</td><td>Dec - 2010</td><td>n.a.</td><td>Dec - 2012</td><td>Jun - 2017</td><td>n.a</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>n.a.</td><td>Dec - 2013</td><td>Jun - 2017</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><td>Jun - 2017</td><td>n.a</td></tr>
<tr><td>IMI Investimenti</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>Jun - 2017</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><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 - 2012</td><td>Jun - 2014</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Banka Intesa Sanpaolo d.d.</td><td>Mar - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Intesa Sanpaolo Bank Luxembourg</td><td>n.a.</td><td>Jun - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
</table>

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.

Furthermore, in addition to top-quality capital necessary to satisfy own funds requirements, banks are expected to maintain a capital conservation buffer amounting to 1.25% of the bank's total risk exposure. The minimum capital requirements requested from 1 January 2017 are equal to 5.75% of Common Equity Tier 1, including the abovementioned capital conservation buffer equal to 1.25%, 7.25% of Tier 1 and 9.25% of Total Capital Ratio.

Following the Supervisory Review and Evaluation Process (SREP), on 12 December 2016 the ECB notified its final decision on the capital requirement that Intesa Sanpaolo must comply with at consolidated level from 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 arrangements for 2017 and 9.25% on a fully loaded basis, while the Total Capital ratio must be equal to 9.5%. Contributing to determining the requirement relating to the Common Equity Tier 1 ratio for 2017 are: the minimum regulatory requirement of 4.5%, an additional Pillar 2 requirement of 1.5% and an additional requirement relating to the capital conservation buffer, equal to 1.25% according to the transitional arrangements in force for 2017, while it is necessary to consider a capital conservation buffer, equal to 2.5% according to the fully-loaded arrangements in force for 2019, and an O-SII Buffer (Other Systemically Important Institutions Buffer), equal to 0.75% on a fully loaded basis in 2021.

The Annual Internal Capital Adequacy Assessment Process (ICAAP) Report, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available, was approved and sent to the ECB in April 2017.

Specific countercyclical capital buffer of the institution

Below is the information relating to the "Countercyclical capital buffer", prepared based on the ratios applicable at 30 June 2017 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 keep the countercyclical ratio (relating to the exposures towards Italian counterparties) for the third quarter 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 portfolios are excluded: exposures to central administrations or central banks; exposures to regional administrations or local authorities; exposures to public-sector entities; exposures to multilateral development banks; exposures to international organisations; exposures to institutions.

In reference to 30 June 2017:

– the countercyclical capital ratios at individual country level were set, with the methods summarised above, generally equal to 0%, with the exception of the following countries: Sweden (2.00%), Norway (1.50%), Hong Kong (1.25%), Iceland (1.00%) and Czech Republic (0.50%);
– at consolidated level, Intesa Sanpaolo's specific countercyclical ratio equals 0.006%.

Amount of the specific countercyclical capital buffer of the institution

(millions of euro)

	30.06.2017	31.12.2016
Total risk exposure	301,699	283,918
Specific countercyclical ratio of the institution	0.006%	0.002%
Specific countercyclical capital buffer requirement of the institution	18	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)

	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 approach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
ITALY	57,956	248,394	967	217	2,807	4,185	*11,082*	*52*	*268*	11,402	69.56	
ABU DHABI	8	1,093	-	-	-	-	*36*	-	-	36	0.22	
ALBANIA	403	49	-	-	-	-	*31*	-	-	31	0.19	
SAUDI ARABIA	8	32	-	-	-	-	*2*	-	-	2	0.01	
ARGENTINA	1	21	-	-	-	-	*1*	-	-	1	0.01	
ARMENIA	1	-	-	-	-	-	-	-	-	-	0.00	
AUSTRALIA	3	659	-	54	-	-	*32*	*6*	-	38	0.23	
AUSTRIA	46	325	-	5	-	-	*18*	-	-	18	0.11	
AZERBAIJAN	266	48	-	-	-	-	*25*	-	-	25	0.15	
BAHAMAS	135	71	-	-	-	-	*9*	-	-	9	0.05	
BELGIUM	146	252	-	9	-	-	*24*	*3*	-	27	0.17	
BELIZE	-	3	-	-	-	-	-	-	-	-	0.00	
BERMUDA	84	390	-	-	-	-	*30*	-	-	30	0.18	
BELARUS	2	-	-	-	-	-	-	-	-	-	0.00	
BOLIVIA	1	-	-	-	-	-	-	-	-	-	0.00	
BOSNIA AND HERZEGOVINA	866	2	-	-	-	-	*60*	-	-	60	0.36	
BRAZIL	180	446	-	7	-	-	*38*	*2*	-	40	0.24	
BULGARIA	1	25	-	-	-	-	*1*	-	-	1	0.01	
CANADA	70	110	-	1	-	-	*6*	-	-	6	0.03	
CAYMAN ISLANDS	193	294	-	7	-	-	*29*	-	-	29	0.17	
CZECH REPUBLIC	209	636	-	-	-	-	*56*	-	-	56	0.34	0.50
CHILE	4	69	-	-	-	-	*3*	-	-	3	0.02	
CHINA	235	721	-	-	-	-	*103*	-	-	103	0.63	
CYPRUS	84	363	-	-	-	-	*30*	-	-	30	0.18	
COLOMBIA	1	6	-	-	-	-	*1*	-	-	1	0.00	
SOUTH KOREA	5	9	-	-	-	-	*1*	-	-	1	0.00	
COSTA RICA	1	-	-	-	-	-	-	-	-	-	0.00	
CROATIA	6,738	166	66	-	-	-	*496*	-	-	496	3.03	
DENMARK	31	128	-	6	-	-	*11*	*3*	-	14	0.09	
DOMINICAN REPUBLIC	-	18	-	-	-	-	*2*	-	-	2	0.01	
ECUADOR	2	543	-	-	-	-	*16*	-	-	16	0.09	
EGYPT	1,820	101	-	-	-	-	*136*	-	-	136	0.83	
ESTONIA	1	-	-	-	-	-	-	-	-	-	0.00	
FINLAND	42	89	-	5	-	-	*6*	*1*	-	7	0.04	
FRANCE	548	3,161	47	80	-	10	*229*	*7*	-	236	1.44	
GABON	38	-	-	-	-	-	*3*	-	-	3	0.02	
GERMANY	1,245	3,569	27	128	5	3	*170*	*10*	-	180	1.10	
GHANA	-	13	-	-	-	-	*1*	-	-	1	0.01	
JAPAN	27	525	-	15	-	-	*13*	-	-	13	0.08	
GREECE	3	28	-	1	-	1	*1*	-	-	1	0.00	
HONG KONG	54	351	-	11	-	-	*12*	*2*	-	14	0.09	1.25
INDIA	3	77	-	-	-	-	*6*	-	-	6	0.04	
INDONESIA	2	24	-	-	-	-	*3*	-	-	3	0.02	
IRELAND	421	300	96	3	55	6	*43*	*9*	*3*	55	0.33	
ISLE OF MAN	-	10	-	-	-	-	-	-	-	-	0.00	
ISRAEL	6	94	-	3	-	-	*6*	*1*	-	7	0.04	
JERSEY	4	86	-	-	-	-	*6*	-	-	6	0.04	
KAZAKHSTAN	18	3	-	-	-	-	-	-	-	-	0.00	
KENYA	2	1	-	-	-	-	-	-	-	-	0.00	
KUWAIT	-	440	-	-	-	-	*13*	-	-	13	0.08	
LIBERIA	37	17	-	-	-	-	*4*	-	-	4	0.03	
LIBYA	5	4	-	-	-	-	-	-	-	-	0.00	
LITHUANIA	5	-	-	-	-	-	-	-	-	-	0.00	
LUXEMBOURG	1,972	1,623	41	37	-	-	*259*	*18*	-	277	1.69	
MACAO	-	6	-	-	-	-	-	-	-	-	0.00	
MALAYSIA	-	7	-	-	-	-	-	-	-	-	0.00	
MALTA	6	39	-	-	-	-	*4*	-	-	4	0.02	
MARSHALL ISLANDS	44	185	-	-	-	-	*28*	-	-	28	0.17	
MEXICO	113	892	-	4	-	-	*40*	*1*	-	41	0.25	
MOLDOVA	38	-	-	-	-	-	*8*	-	-	8	0.05	
MONGOLIA	-	127	-	-	-	-	*11*	-	-	11	0.07	

	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL 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		
NICARAGUA	1	-	-	-	-	-	-	-	-	-	0.00	
NIGERIA	12	8	-	-	-	-	*1*	-	-	1	0.00	
NORWAY	75	104	-	4	-	-	*6*	-	-	6	0.04	1.50
NEW ZEALAND	22	-	-	-	-	-	-	-	-	-	0.00	
OMAN	66	81	-	-	-	-	*4*	-	-	4	0.03	
THE NETHERLANDS	1,905	3,317	166	76	12	5	*321*	*6*	-	327	2.00	
PANAMA	97	40	-	-	-	-	*9*	-	-	9	0.05	
PARAGUAY	3	-	-	-	-	-	-	-	-	-	0.00	
PERU	5	193	-	-	-	-	*9*	-	-	9	0.05	
POLAND	527	377	-	-	-	-	*56*	-	-	56	0.34	
PORTUGAL	154	345	12	2	-	15	*54*	-	*1*	55	0.34	
PUERTO RICO	-	32	-	-	-	-	*5*	-	-	5	0.03	
PRINCIPALITY OF MONACO	1	8	-	-	-	-	-	-	-	-	0.00	
QATAR	160	167	-	-	-	-	*7*	-	-	7	0.05	
UNITED KINGDOM	1,062	8,201	55	171	-	2	*509*	*9*	-	518	3.16	
ROMANIA	679	115	-	-	-	-	*45*	-	-	45	0.27	
RUSSIA	999	1,021	-	23	-	-	*97*	*3*	-	100	0.61	
SAN MARINO	3	12	-	-	-	-	-	-	-	-	0.00	
SERBIA	2,709	161	-	-	-	-	*161*	-	-	161	0.98	
SINGAPORE	30	406	-	-	-	-	*20*	-	-	20	0.12	
SLOVAKIA	3,049	9,690	-	-	-	-	*490*	-	-	490	2.99	
SLOVENIA	925	845	-	-	-	-	*113*	-	-	113	0.69	
SPAIN	361	2,598	67	34	-	45	*158*	*9*	*3*	170	1.04	
UNITED STATES OF AMERICA	564	9,047	15	122	70	15	*387*	*7*	*8*	402	2.45	
SOUTH AFRICA	35	135	-	-	-	-	*9*	-	-	9	0.06	
SWEDEN	134	153	-	19	-	-	*18*	-	-	18	0.11	2.00
SWITZERLAND	366	771	-	174	-	-	*49*	*4*	-	53	0.32	
THAILAND	1	9	-	-	-	-	-	-	-	-	0.00	
TUNISIA	2	2	-	-	-	-	-	-	-	-	0.00	
TURKEY	136	1,363	-	-	-	-	*54*	-	-	54	0.33	
UKRAINE	55	20	-	-	-	-	*3*	-	-	3	0.02	
HUNGARY	2,848	366	-	2	-	-	*212*	-	-	212	1.29	
URUGUAY	4	89	-	-	-	-	*3*	-	-	3	0.02	
VENEZUELA	22	2	-	-	-	-	-	-	-	-	0.00	
BRITISH VIRGIN ISLANDS	10	91	-	-	-	-	*10*	-	-	10	0.06	
VIETNAM	-	10	-	-	-	-	*1*	-	-	1	0.01	
TOTAL	**91,156**	**306,424**	**1,559**	**1,220**	**2,949**	**4,287**	*15,956*	*153*	*283*	**16,392**	**100.00**	

Capital requirements and capital ratios of the Intesa Sanpaolo Group

(milions of euro)

	30.06.2017			31.12.2016		
	Unweighted amounts	**Weighted amounts**	**Requirements**	**Unweighted amounts**	**Weighted amounts**	**Requirements**
A. CAPITAL REQUIREMENTS						
A.1 Credit and counterparty risks	**626,968**	**259,135**	**20,731**	**571,335**	**242,312**	**19,385**
1. Standardised approach	281,219	113,467	9,078	270,507	114,333	9,146
2. Internal models (IRB)	3,315	7,790	623	2,842	6,622	530
3. Internal models - Advanced approach and retail exposures	334,623	133,909	10,713	288,863	117,034	9,363
4. Securitisations - banking book	7,811	3,969	317	9,123	4,323	346
A.2 Credit risk adjustment		**1,084**	**87**		**1,039**	**83**
A.3 Settlement risk		**1**	**-**		**1**	**-**
A.4 Market risk		**19,248**	**1,540**		**19,198**	**1,536**
1. Standardised approach		2,370	190		1,628	130
2. Internal models		16,878	1,350		17,570	1,406
A.5. Concentration risk		**-**	**-**		**-**	**-**
A.6 Operational risk		**20,724**	**1,658**		**19,545**	**1,563**
1. Basic indicator approach		2,981	238		489	39
2. Standardised approach		2,805	225		2,805	224
3. Advanced measurement approach		14,938	1,195		16,251	1,300
A.7 Other capital requirements		**-**	-		**-**	-
A.8 Other calculation elements [a]		**1,507**	**121**		**1,823**	**146**
A.9 Total capital requirements		**301,699**	**24,137**		**283,918**	**22,713**
B. CAPITAL RATIOS (%)						
B.1 Common Equity Tier 1 ratio			**12.5%**			**12.7%**
B.2 Tier 1 ratio			**14.3%**			**13.9%**
B.3 Total capital ratio			**17.1%**			**17.0%**

[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.

Regarding the new models to be applied to the Corporate portfolio, for which the authorisation was mentioned, steps were taken to broaden the information set used for counterparty evaluation using the PD and to simplify the framework and number of the models. Finally, various measures have been adopted that are aimed at favouring a through-the-cycle profile of the probabilities of default produced by the models, consistently with the relational-type commercial approach adopted by the Group. With regard to the LGD, the most significant change is represented by the development of the model dedicated to non-performing loans.

The choice was made, for the model for determining the probability of default for the Banks portfolio, to differentiate between models for banks in mature economies and banks in emerging countries. In short, the model consists of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component 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; The LGD calculation model partly diverges from the models developed for the other segments as the estimation model used is based on the market price of debt instruments observed 30 days after the official date of default and relating to a sample of defaulted banks from all over the world, acquired from an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models.

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

Entities segment, the methodological framework is substantially similar to that used for the development of the LGD models of the already validated segments (Corporate, Retail SME, Retail Mortgage).

Concerning VUB, the updating of the PD and LGD models for the Retail Mortgage segment consisted in a broadening and optimisation of the information set used by the models and their re-calibration to take into account the improvement in Slovakia's economic cycle.

Regarding Banka Intesa Sanpaolo (formerly Banka Koper), the new PD model for the Corporate segment assesses the creditworthiness of the counterparties using both a quantitative and a qualitative component. The quantitative component consists of two main statistic modules: the first considers the financial statements, while the second the performance figures of the counterparty. A questionnaire completed by the manager and a thorough analysis of the customer may, subsequently and under specific conditions, change the final rating of the counterparty.

Regarding the Banking Book Equity instruments, based on EU Regulation 575/2013, the Group decided to adopt the PD/LGD method due to the fact that the investments in the scope are held for a medium-term investment period, that this method is consistent with the treatment of the rest of the Banking Book portfolio and that it is less exposed to model risk (unlike market oriented models). More specifically, the approach chosen requires the PDs to be determined in compliance with the IRB methods applied for exposures towards companies with the introduction of floors (which range from a minimum of 0.09% to a maximum of 1.25% according to the type of instrument); the exposures represented by private equity instruments included in sufficiently diversified portfolios may be attributed a regulatory LGD of 65%, while all the other exposures will have an LGD of 90%.

Capital requirement for Credit and Counterparty Risk

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

(millions of euro)

	Capital requirement	
	30.06.2017	**31.12.2016**
Credit risk	20,227	18,923
Counterparty risk	504	462
Total capital requirement for credit and counterparty risk	**20,731**	**19,385**

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

Capital requirement for Credit and Counterparty Risk (Standardised Approach)

(millions of euro)

Regulatory portfolio	**Capital requirement**	
	30.06.2017	**31.12.2016**
Exposures to or secured by central governments and central banks	1,617	1,383
Exposures to or secured by regional governments or local authorities	36	214
Exposures to or secured by public sector organisations	63	254
Exposures to or secured by multilateral development banks	-	-
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	514	1,314
Exposures to or secured by corporates	2,677	2,350
Retail exposures	1,748	1,440
Exposures secured by real estate property	405	133
Default exposures	325	378
High-risk exposures	18	12
Exposures in the form of covered bonds	10	13
Short-term exposures to corporates or to supervised institutions	-	-
Exposures to UCIs	178	181
Equity exposures	868	881
Other exposures	619	593
Total capital requirement for credit and counterparty risk (Standardised Approach)	**9,078**	**9,146**

Capital requirement for Credit and Counterparty Risk (IRB Approaches)

(millions of euro)

Regulatory portfolio	**Capital requirement**	
	30.06.2017	**31.12.2016**
A. Exposures to or secured by supervised intermediaries, public and local authorities and other counterparties	**1,246**	**-**
B. Exposures to or secured by corporates (FIRB & AIRB Approach)	**8,470**	**8,318**
A.1) Specialised lending	702	739
A.2) Specialised lending - slotting criteria	75	76
A.3) SMEs	2,392	1,996
A.4) Other corporates	5,301	5,507
C. Retail exposures (IRB Approach)	**1,104**	**1,110**
B.1) Exposures secured by property: SMEs	60	61
B.2) Exposures secured by property: natural persons	845	857
B.3) Other retail exposures: SMEs	199	192
D. Equity exposures	**516**	**465**
C.1) Equity exposures (Simple risk weight approach)	96	319
- Private equity exposures in sufficiently diversified portfolios	-	1
- Exchange-traded equity exposures	-	61
- Other equity exposures	96	257
C.2) Equity exposures (PD/LGD approach)	275	-
C.3) Equity exposures (Exposures subject to fixed weighting factors)	145	146
Total capital requirement for credit and counterparty risk (IRB Approach)	**11,336**	**9,893**

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

(millions of euro)

Regulatory portfolio	Capital requirement	
	30.06.2017	31.12.2016
A. Specialised lending - slotting criteria	**75**	**76**
A.1) Category 1 - 50% - 70% greater than or equal to 2.5 years	14	13
A.2) Category 2 - 70% less than 2.5 years - 90%	22	27
A.3) Category 3 - 115%	22	21
A.4) Category 4 - 250%	17	15
A.5) Category 5 - 0%	-	-
Total capital requirement for credit and counterparty risk (IRB Approach) - slotting criteria	**75**	**76**

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

(millions of euro)

	Capital requirement	
	30.06.2017	31.12.2016
Securitisations - Standardised Approach	269	283
Securitisations - IRB (Rating Based Approach - Supervisory formula approach)	48	63
Total capital requirement for credit and counterparty risk on securitisations	**317**	**346**

Capital requirement for Market Risk

(millions of euro)

	Capital requirement	
	30.06.2017	31.12.2016
Assets included in the regulatory trading book	**1,457**	**1,459**
Position risk [(a)]	1,457	1,459
Other assets	**83**	**77**
Foreign exchange risk	52	42
Commodity risk	31	35
Total capital requirement for market risk	**1,540**	**1,536**

(a) The caption includes capital requirements for exposures to securitisations for 45 million euro.

Capital requirement for Operational Risk

(millions of euro)

	Capital requirement	
	30.06.2017	31.12.2016
Basic indicator approach	238	39
Standardised approach	225	224
Advanced measurement approach	1,195	1,300
Total capital requirement for operational risk	**1,658**	**1,563**

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. The capital absorption resulting from this process amounts to 1,658 million euro as at 30 June 2017, up from 1,563 million euro as at 31 December 2016; the increase was mostly due to the addition of the operational risk requirements of Veneto Banca and Banca Popolare di Vicenza.

Credit risk: disclosure for portfolios treated under IRB approaches

Quantitative disclosure

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

As illustrated in this document, 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.

The exposure values as at 30 June 2017 for the various IRB approaches (IRB, Foundation IRB and Advanced IRB) are shown in the tables below.

Exposure values by regulatory portfolio (Foundation IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2017	**31.12.2016**
Exposures to or secured by corporates:		
- Specialised lending	-	-
- SMEs (Small and Medium Enterprises)	*461*	*195*
- Other corporates	*935*	*779*
Total credit risk (Foundation IRB Approach)	**1,396**	**974**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2017	**31.12.2016**
Exposures to or secured by corporates:		
- Specialised lending	*12,776*	*14,056*
- SMEs (Small and Medium Enterprises)	*65,162*	*64,831*
- Other corporates	*127,524*	*115,924*
Total credit risk (Advanced IRB approach)	**205,462**	**194,811**

(millions of euro)

Regulatory portfolio	Exposure value 30.06.2017
Exposures to or secured by supervised institutions, public and territorial entities and other entities	32,304
Total credit risk (Advanced IRB approach)	**32,304**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2017	31.12.2016
Retail exposures:		
- Exposures secured by residential property: SMEs	*5,823*	*5,880*
- Exposures secured by residential property: private individuals	*75,779*	*72,719*
- Other retail exposures: SMEs	*14,355*	*14,504*
Total credit risk (IRB)	**95,957**	**93,103**

(millions of euro)

Regulatory portfolio	Exposure value 30.06.2017
Equity exposures	
- PD/LGD approach	*872*
Total credit risk (IRB approach)	**872**

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitizations	Exposure value	
	30.06.2017	31.12.2016
Exposures to securitisations (RBA - SFA)	*4,287*	*5,145*
Total credit risk (IRB)	**4,287**	**5,145**

The exposure value shown in the tables is expressed gross of adjustments and takes into account (for guarantees given and commitments to disburse funds) credit conversion factors. Conversely, the exposure value does not consider the risk mitigation techniques which – for exposures assessed using internal models – are directly incorporated in the weightings applied to said exposure.
The breakdown of exposures by exposure class and PD class (shown below) passed from 21 to 8 classes as from June 2017, following the introduction of model changes for the Corporate segment, which have been used since 10 April 2017.
As a result of this change, the data for December 2016 are not shown.

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

(millions of euro)

Regulatory portfolio	Rating class	Central PD (%)	30.06.2017 Exposure value	Average risk weight	Weighted average LGD (%) (*)
Exposures to or secured by corporates					
- *Specialised lending*			**12,776**		
	-class 1	0.09	4	35%	36.9
	-class 2	0.31	796	48%	27.8
	-class 3	0.73	2,096	50%	22.0
	-class 4	1.90	3,906	72%	24.0
	-class 5	4.79	1,453	93%	25.5
	-class 6	10.60	1,134	114%	23.9
	-class 7	26.05	705	177%	31.5
	-class 8 (default)	100.00	2,682	23%	41.0
- SMEs (Small and Medium Enterprises)			**65,623**		
	-class 1	0.09	2,859	15%	33.3
	-class 2	0.31	9,606	29%	31.9
	-class 3	0.73	9,197	47%	32.0
	-class 4	1.90	12,120	65%	31.5
	-class 5	4.79	5,543	81%	30.2
	-class 6	10.60	2,878	106%	29.0
	-class 7	26.05	1,555	140%	29.9
	-class 8 (default)	100.00	21,865	22%	56.0
- SMEs (Small and Medium Enterprises)			**128,459**		
	-class 1	0.09	21,730	20%	34.1
	-class 2	0.31	39,836	36%	31.9
	-class 3	0.73	29,941	59%	32.3
	-class 4	1.90	17,006	87%	33.6
	-class 5	4.79	5,391	114%	32.3
	-class 6	10.60	2,005	159%	33.7
	-class 7	26.05	2,101	175%	29.2
	-class 8 (default)	100.00	10,449	22%	43.6

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

(millions of euro)

Regulatory portfolio	Rating class	Central PD (%)	30.06.2017 Exposure value	Average risk weight	Weighted average LGD (%)
Exposures to or secured by supervised institutions, public and territorial entities and other entities			**32,304**		
	-class 1	0.09	7,917	22%	37.1
	-class 2	0.31	10,502	30%	22.8
	-class 3	0.73	4,702	47%	22.4
	-class 4	1.90	7,985	96%	35.9
	-class 5	4.79	429	131%	36.9
	-class 6	10.60	306	76%	16.0
	-class 7	26.05	29	70%	11.0
	-class 8 (default)	100.00	434	25%	58.8

(millions of euro)

Regulatory portfolio	Rating class	Central PD (%)	30.06.2017 Exposure value	Average risk weight	Weighted average LGD (%)
Equity exposures:					
- PD/LGD approach			**872**		
	-class 1	-	-	-	-
	-class 2	-	-	-	-
	-class 3	-	-	-	-
	-class 4	1.90	197	289%	90.0
	-class 5	4.79	53	327%	90.0
	-class 6	10.60	80	504%	90.0
	-class 7	26.05	403	569%	90.0
	-class 8 (default)	100.00	139	-	90.0

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

(millions of euro)

Regulatory portfolio	Rating class	Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%)
	30.06.2017				
Retail exposures					
- Exposures secured by residential property: SMEs			**5,823**		
	-class 1	0.09	410	5%	22.0
	-class 2	0.31	1,286	8%	22.2
	-class 3	0.73	785	18%	22.3
	-class 4	1.90	545	25%	23.2
	-class 5	4.79	725	27%	22.7
	-class 6	10.60	137	33%	22.6
	-class 7	26.05	249	43%	22.4
	-class 8 (default)	100.00	1,686	-	34.7
- Exposures secured by residential property: private individuals			**75,779**		
	-class 1	0.09	16,175	3%	15.1
	-class 2	0.31	30,786	9%	13.1
	-class 3	0.73	10,770	17%	14.2
	-class 4	1.90	8,938	27%	13.9
	-class 5	4.79	3,265	50%	13.9
	-class 6	-	-	-	-
	-class 7	26.05	1,809	80%	13.3
	-class 8 (default)	100.00	4,036	-	25.5
- Other retail exposures: SMEs			**14,355**		
	-class 1	0.09	1,192	7%	32.5
	-class 2	0.31	3,408	13%	33.8
	-class 3	0.73	1,791	28%	35.5
	-class 4	1.90	1,159	38%	37.2
	-class 5	4.79	1,482	43%	37.2
	-class 6	10.60	276	52%	38.4
	-class 7	26.05	338	73%	38.5
	-class 8 (default)	100.00	4,709	-	65.6

Specialised lending and equity exposures subject to the IRB approaches

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2017	**31.12.2016**
A) Exposures to or secured by corporates:		
Specialised lending - slotting criteria	**901**	**949**
A.1) Category 1 - 50% - 70% equal to or higher than 2.5 years	242	241
A.2) Category 2 - 70% lower than 2.5 years - 90%	308	375
A.3) Category 3 - 115%	240	231
A.4) Category 4 - 250%	83	73
A.5) Category 5 - 0%	28	29
B. Equity exposures: Simple risk weight approach	**325**	**1,138**
B.1) Private equity exposures in sufficiently diversified portfolios	2	7
B.2) Exchange-traded equity exposures	-	261
B.3) Other equity exposures	323	870
C. Equity exposures: Exposures subject to fixed weighting factors	722	729
Total Specialised lending and equity exposures subject to the IRB approaches	**1,948**	**2,816**

Market risk: Internal models

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 4% 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.

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 units 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.
The Supervisory Authority authorised the Group to extend the internal model to specific risk on debt securities from the third quarter of 2012.
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)

	30.06.2017	31.12.2016
Total risk weighted exposures: market risk	**1,540**	**1,536**
Standardised approach	190	130
Position risk on debt instruments	*101*	*56*
Position risk on equity exposures	*5*	*7*
Position risk on CIU	*32*	*25*
Foreign exchange risk	*52*	*42*
Position risk on commodities	-	-
Internal models	1,350	1,406
Total risk weighted exposures: concentration risk	**-**	**-**

Position risk also shows the requirements relating to positions exposed towards trading book securitisations separately which amount to 45 million.

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 following paragraphs provide the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

Stress tests

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

Sensitivity and greeks

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

Level measures

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

Daily VaR evolution

During the second quarter of 2017, the market risks generated by Intesa Sanpaolo and Banca IMI decreased compared to the average values of the first quarter of 2017. The average VaR for the period totalled 70 million euro compared to 85.3 million euro of March 2017. The market risk measurements include the items from the operations acquired from the former Venetian banks, based on the information available as at the date of preparation of the financial statements.

Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI

(millions of euro)

Operating VaR [a]	2017				2016			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	11.6	9.6	12.4	11.5	11.7	11.5	11.5	14.9
Banca IMI	58.4	52.9	63.7	73.7	63.8	90.6	85.5	90.0
Total	**70.0**	**62.5**	**75.5**	**85.3**	**75.6**	**102.2**	**97.0**	**104.9**

[a] Each line in the table sets out past estimates of daily operating VaR calculated on the quarterly historical time-series respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for Intesa Sanpaolo and Banca IMI are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

Compared to last year, the risk measures for the first half have decreased: for 2017 an average group VaR of 78 million was recorded whilst in 2016 the average amounted to approximately 101 million.

(millions of euro)

Operating VaR [(a)]	**2017**			**2016**		
	average 1st half	**minimum 1st half**	**maximum 1st half**	**average 1st half**	**minimum 1st half**	**maximum 1st half**
Intesa Sanpaolo	11.5	9.2	12.5	13.2	10.2	17.5
Banca IMI	66.2	52.9	93.2	87.7	64.8	122.4
Total	**77.8**	**62.2**	**104.8**	**100.9**	**78.4**	**134.0**

(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the year respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

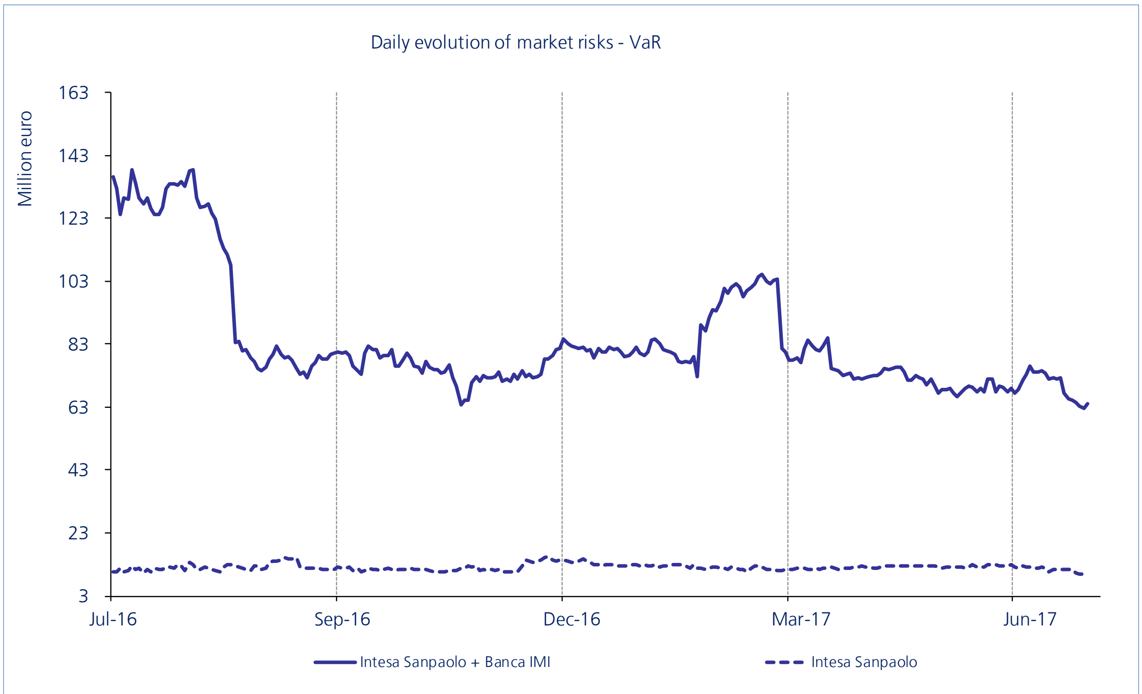
For Intesa Sanpaolo, the breakdown of risk profile in the second quarter of 2017 with regard to the various factors shows the prevalence of the risk generated by credit spread, which produced 34% of total operational VaR; for Banca IMI too credit spread risk was the most significant, representing 77% of total operational VaR.

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

2nd quarter 2017	**Shares**	**Hedge fund**	**Rates**	**Credit spread**	**Foreign exchange rates**	**Other parameters**	**Commodities**
Intesa Sanpaolo	5%	4%	25%	34%	30%	2%	0%
Banca IMI	5%	0%	7%	77%	1%	6%	4%
Total	**5%**	**1%**	**10%**	**69%**	**6%**	**5%**	**4%**

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the second quarter of 2016, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

The trend in VaR is mainly attributable to Banca IMI. During the first quarter of 2017 an increase in risks was recorded, due initially to a "scenario" effect (at the beginning of February a particularly volatile scenario was recorded for the credit spread risk factor) and subsequently to an increase in risks in the credit and equity sector. In the last month of the first quarter, the VaR recorded a decline due to the technical effect linked to the passage of time, whereby past scenarios, at the time volatile, assume, with the passing of days, a lower weighting in the calculation of risks. In the second quarter of 2017, in addition to the abovementioned technical effect, according to which the "Brexit scenario" has been phased out of the VaR calculation period, a further decline in risks was recorded due to a reduction in the securities portfolio.



With regard to the hedge fund portfolio, the table below shows the exposures broken down by type of strategy adopted.

Contribution of strategies to portfolio breakdown (a)

	30.06.2017	31.12.2016
- Catalist Driven	15.9%	12.4%
- Credit	33.0%	37.8%
- Directional trading	35.5%	33.4%
- Equity hedged	0.0%	0.0%
- Equity Long Only	0.0%	3.3%
- Multi-strategy	15.6%	13.1%
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 the first half of 2017 the hedge fund portfolio was focused on directional strategies (35.5% of the total in terms of portfolio value). The VaR of the hedge fund portfolio is calculated on a full transparency basis for funds managed on the Managed Account platform (81%).

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, foreign exchange rates and commodity prices at the end of June is summarised in the following table:

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITY	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-10%	+10%	Crash	Bullish
Total	-43	14	-35	27	295	-289	27	-7	4	-1

In particular:
- on stock market positions, a 5% decrease in stock prices with a resulting 10% increase in volatility would have led to a loss of approximately 43 million euro;
- on interest rate exposures, a rise of the curves of 40 basis points would have had a negative impact of 35 million euro, whereas a scenario with near zero rates would have led to potential gains;
- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 289 million euro loss;
- on foreign exchange exposures, were the Euro to appreciate against the US dollar by 10%, a loss of approximately 7 million euro would be recorded;
- lastly, for commodity exposures potential losses would be recorded for an amount equal to 1 million euro in case of a 20% increase in prices of commodities (accompanied by a reduction in the price of gold of 15%).

Issuer risk

Issuer risk in the trading portfolio is analysed in terms of mark to market, with exposures aggregated by rating class, and is monitored through a system of operating limits based on both rating classes and concentration indexes.

Breakdown of exposures by type of issuer for Intesa Sanpaolo and Banca IMI (a)

	Total	of which					
		Corporate	Financial	Emerging	Covered	Governement	Securitis.
Intesa Sanpaolo	100%	5%	5%	0%	3%	75%	12%
Banca IMI	100%	1%	38%	3%	5%	-3%	56%
Total	**0%**	**5%**	**24%**	**2%**	**4%**	**58%**	**7%**

(a) The table sets out in the Total column the contribution of Intesa Sanpaolo and Banca IMI to issuer risk exposures. The other columns indicate percentage breakdown by type of issuer, considering the total equal to 100%.

Period-end percentage on area total, excluding Italian Government bonds, AAA, own bonds and including CDS.

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment (excluding AAA and Italy) for Intesa Sanpaolo and the securitisation segment for Banca IMI.

Operating limits
The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the 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): 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.

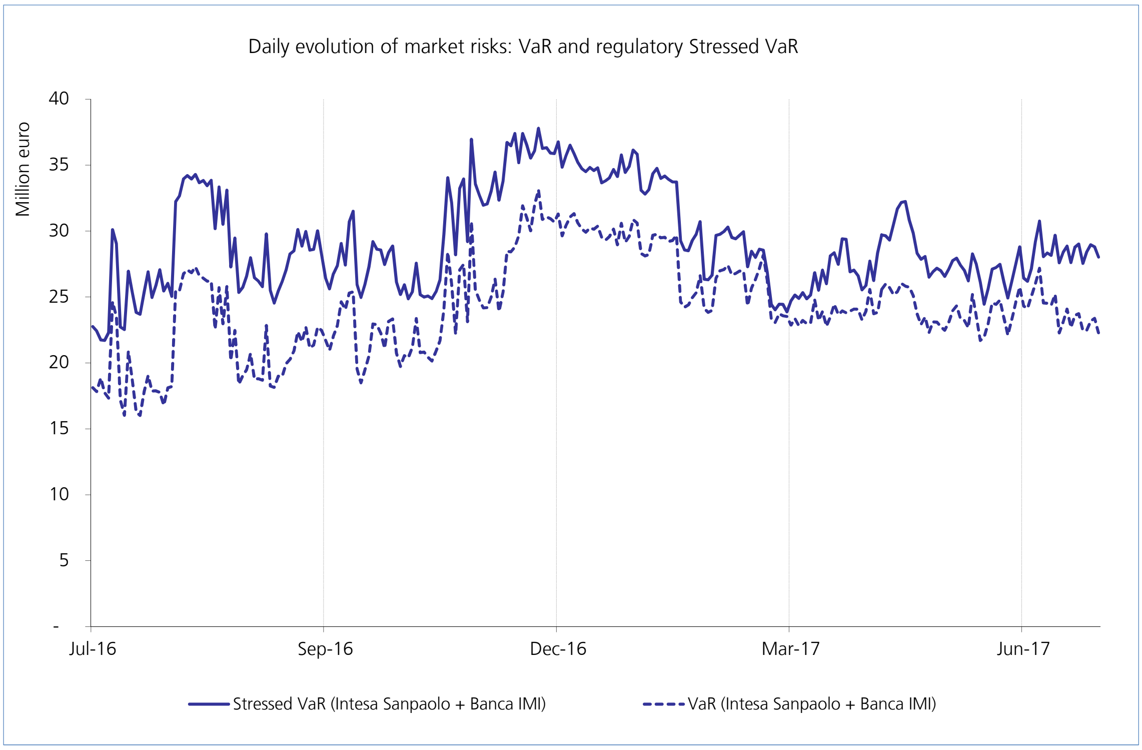
In the 2017 Risk Appetite Framework (RAF), the VaR limit for trading was confirmed to 155 million, in line with the RAF principles established for 2016.

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 58% in the first half of 2017, with a maximum use of 65%. For Banca IMI, the average VaR limit came to 51%, with a maximum use of 72%. 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 VaR operating limits on the AFS component (excluding Banca IMI) at the end of June was 88%. On this component, the 2017 RAF confirmed a limit of 260 million euro, in line with the previous year.

Regulatory VaR and 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

(millions of euro)

	2017				2016			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	10.6	9.7	12.3	9.0	6.2	4.0	3.5	6.4
Banca IMI	17.1	12.4	23.0	19.7	17.1	19.7	14.2	14.1
Total	**27.7**	**22.1**	**35.3**	**28.7**	**23.3**	**23.7**	**17.7**	**20.5**

Value at risk in stress condition

(millions of euro)

	2017				2016			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	14.6	12.0	17.1	12.3	12.0	10.7	11.3	18.2
Banca IMI	54.4	46.6	71.9	58.9	53.4	53.0	39.6	43.3
Total	**69.0**	**58.6**	**89.0**	**71.2**	**65.4**	**63.7**	**50.9**	**61.5**

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.

The use of the IRC limits at the end of June amounted to 30.5% for Intesa Sanpaolo (limit of 150 million euro) and 43.4% for Banca IMI (limit of 430 million euro). The table below shows the summary data concerning the quarterly performance.

Incremental Risk Charge

	2017				2016			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	66.9	45.8	76.1	73.9	88.5	90.6	86.1	118.3
Banca IMI	337.0	223.7	381.6	324.4	310.7	294.1	107.6	106.5
Total	**403.9**	**269.5**	**457.7**	**398.3**	**399.2**	**384.7**	**193.7**	**224.8**

Backtesting

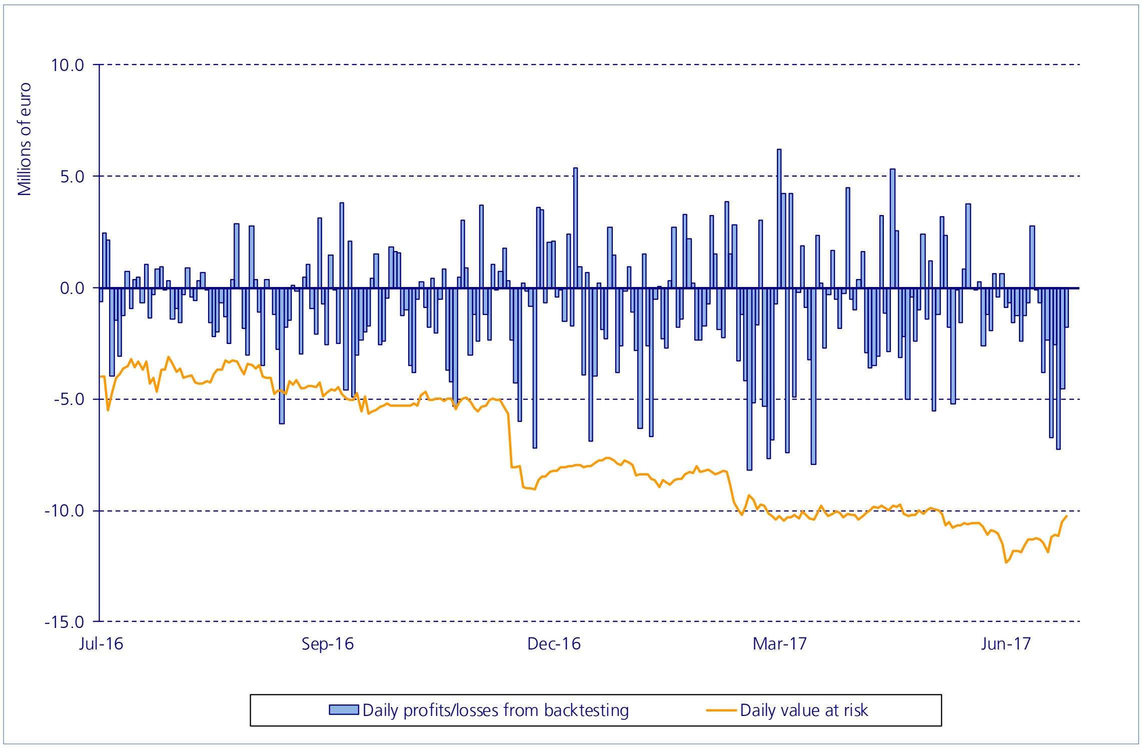
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

– 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 valuation 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.

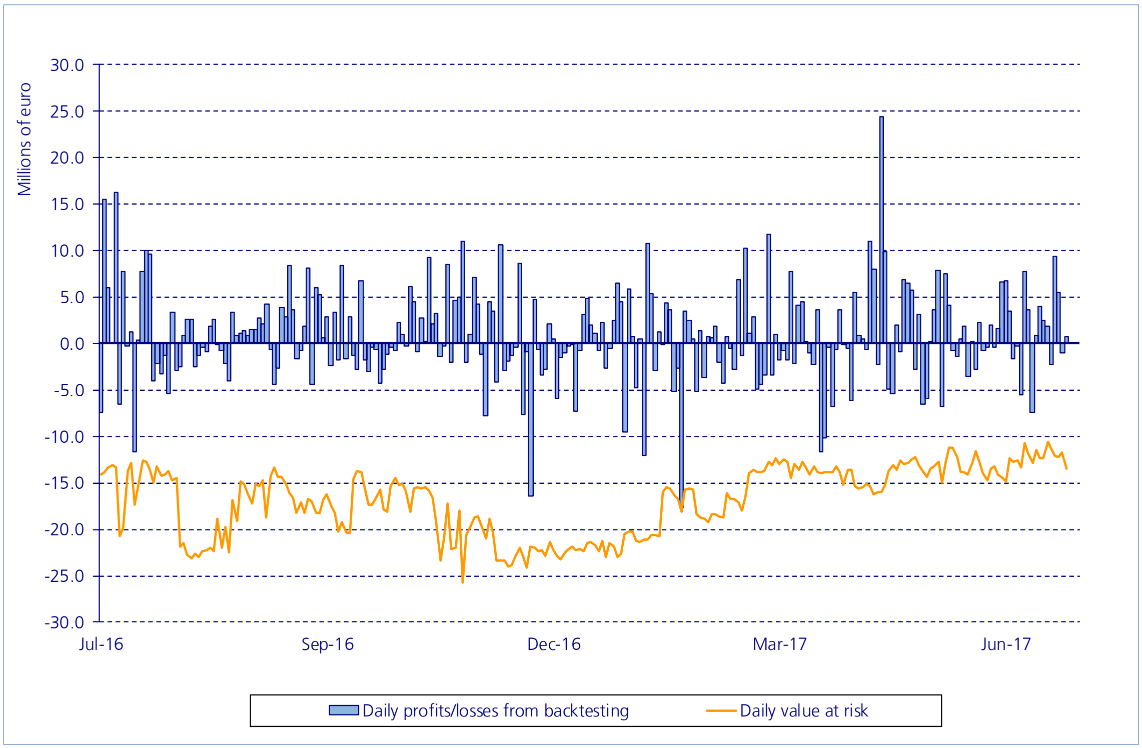
Backtesting in Intesa Sanpaolo

In the past year, there has been only one actual backtesting exception tied to interest rate movements.



Backtesting in Banca IMI

In the past year, there were no backtesting exceptions.



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 Risk Management 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. For details on the accounting criteria, on the various stages of the valuation process of financial instruments and more detailed information on the valuation models used for the measurement of financial instruments, reference should be made to the previous version of this document, relating to the 2016 financial year. These criteria are also summarised in the Consolidated Half-yearly Report as at 30 June 2017 (see "Risk Management"). No material changes took place during the first half of 2017.

Operational risk: Internal models

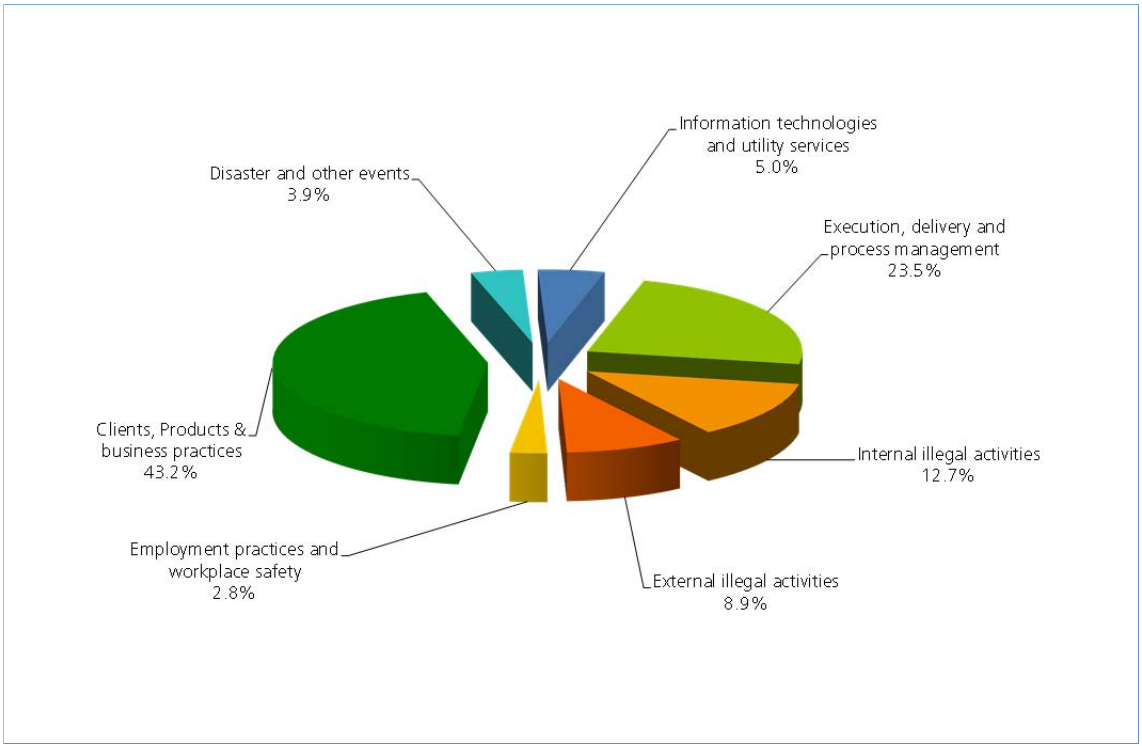
Qualitative and quantitative disclosure

Methods for calculating Operational Risk

With regard to 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.

The following shows the breakdown by type of operational event of capital requirement relating to the AMA, which represents 72% of the total requirement (equal to 1,658 as at 30 June 2017).

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.

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.
In addition, the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and damage, cash and valuables in transit losses, computer fraud, forgery, cyber crimes, earthquake and fire, 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 subscribed 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.

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.

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 2017 RAF update confirmed the choice to define its limits by adding to the regulatory minimum of 3% a stress buffer. Moreover, an Early Warning threshold has been confirmed, with an additional prudential buffer. 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

During the half year, there was a significant change in the capital level (Tier 1 capital) essentially due to the public cash contributionreceived to offset the impact of the acquisition of certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca on the capital ratios. This transaction also had a considerable impact on the increase in total exposures. In addition, there was also a slight increase in 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). These changes were partly offset by the reduction in cash and debt securities. Off-balance sheet and derivatives exposures bucked the overall trend.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 30 June 2017 is presented below, disclosed in accordance with the regulatory principles of the CRR and set out according to the provisions of (EU) Implementing Regulation 2016/200.

The ratio is expressed in percent form and is subject to the regulatory minimum threshold of 3% (the Basel Committee reference value). The Leverage ratio is indicated according to the transitional provisions.

Quantitative disclosure

LRCom table – Harmonised disclosure of the Leverage ratio

The table shows the Leverage ratio as at 30 June 2017 and the breakdown of the total exposure into the main categories, according to the provisions of Article 451(1) (a, b, c) of the CRR.

(millions of euro)

	On-balance sheet exposures (excluding derivatives and SFTs)	30.06.2017	31.12.2016
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	564,791	509,591
2	(Asset amounts deducted in determining Tier 1 capital) - transitional regime	-10,967	-8,781
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**553,824**	**500,810**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	10,105	11,101
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	13,769	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)	-11,408	-8,819
8	(Exempted CCP leg of client-cleared trade exposures)	-17	-
9	Adjusted effective notional amount of written credit derivatives	50,663	53,805
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-48,842	-50,113
11	**Total derivatives exposures (sum of lines 4 to 10)**	**14,270**	**18,529**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	40,089	33,918
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-8,337	-3,038
14	Counterparty credit risk exposure for SFT assets	2,366	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	1,000	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-54	-
16	**Total securities financing transaction exposures (sum of lines 12to 15a)**	**35,064**	**34,131**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	242,275	243,836
18	(Adjustments for conversion to credit equivalent amounts)	-173,085	-171,229
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**69,190**	**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**	43,084	39,459
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	672,348	626,077
	Leverage ratio		
22	**Leverage ratio**	**6.41%**	**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	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)

	Summary reconciliation table	30.06.2017	31.12.2016
1	Total assets as per published financial statements	788,018	725,100
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-143,670	-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	-19,179	-17,925
5	Adjustment for securities financing transactions (SFTs)	-5,017	212
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	69,190	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 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 (*)	-16,994	-15,124
8	**Leverage ratio total exposure measure**	**672,348**	**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 exempted exposures)

For exposures other than derivatives and SFTs, the table provides a breakdown by counterparty, in accordance with the provisions of Article 451 (1) (b) of the CRR.

(millions of euro)

		CRR leverage ratio exposures	
		30.06.2017	31.12.2016
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**564,791**	**509,591**
EU-2	Trading book exposures	15,404	12,625
EU-3	Banking book exposures, of which:	549,387	496,966
EU-4	*Covered bonds*	*839*	*862*
EU-5	*Exposures treated as sovereigns*	*133,950*	*118,880*
EU-6	*Exposures to regional governments, local authorities, MDB, international organisations and PSE not treated as sovereigns*	*14,173*	*15,232*
EU-7	*Exposures to institutions*	*38,878*	*35,955*
EU-8	*Secured by mortgages of immovable properties*	*107,963*	*93,100*
EU-9	*Retail exposures*	*41,823*	*34,240*
EU-10	*Corporate*	*145,663*	*132,196*
EU-11	*Exposures in default*	*27,904*	*29,825*
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	*38,194*	*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 30 June 2017" corresponds to the corporate records, books and accounts.

Milano, 1 August 2017

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

Attachment 1

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

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

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1548475968
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	11/01/2017
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	11/01/2027 (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 11/01/2027
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	7,75% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, 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	XS1614415542
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)	750
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	EUR
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Shareholders' equity
11	Original date of issuance	16/05/2017
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	16/05/2024 (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 16/05/2024
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	6,25% per annum, payable semi-annually (up to the first call date)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Fully discretionary. Moreover, 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	

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	34,253	
	of which: Ordinary shares	*34,253*	
2	Retained earnings	10,955	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(1,838)	
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)	74	28
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	3,500	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**46,944**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(143)	
8	Intangible assets (net of related tax liability) (negative amount)	(6,934)	
9	Transitional adjustment related to IAS 19	194	
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)	(419)	-524
11	Fair value reserves related to gains or losses on cash flow hedges	984	
12	Negative amounts resulting from the calculation of expected loss amounts	(203)	-254
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(27)	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct and indirect holdings by the institution of own CET1 instruments (negative amount)	(89)	
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)	(1,797)	
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	(200)	
20b	*of which: qualifying holdings outside the financial sector (negative amount)*	-	
20c	*of which: securitisation positions (negative amount)*	(200)	
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)	(105)	
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*	(105)	
24	Deferred tax assets	(57)	
25	*of which: deferred tax assets arising from temporary differences*	(57)	
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	(380)	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(60)	
	of which: Unrealised gains on debt securities issued by European Union central governments	8	
	of which: Unrealised gains on equities and quotas of UCI	(68)	
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**	**(9,236)**	
29	**Common Equity Tier 1 (CET1) capital**	**37,708**	

(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	4,606	
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	1,025	
	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	8	
35	*of which: instruments issued by subsidiaries subject to phase-out*	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**5,639**	
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	(25)	
	of which residual amount by which expected losses exceed adjustments for IRB positions	*(25)*	
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	(238)	
	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)	*(241)*	
	of which impacts arising from deductible under transitional adjustments	*3*	
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**	**(263)**	
44	**Additional Tier 1 (AT1) capital**	**5,376**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**43,084**	

(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	8,041	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	563	
	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	5	
49	*of which: instruments issued by subsidiaries subject to phase-out*	-	
50	Credit risk adjustments	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	**8,609**	
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)	(197)	
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 included in 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	362	
	of which residual amount by which expected losses exceed adjustments for IRB positions	(25)	
	of which residual amount by which total adjustments exceed expected losses for IRB position	*387*	
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	(238)	
	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)	*(241)*	
	of which impacts arising from deductible under transitional arrangements	*3*	
56c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	49	
	of which: possible filter for unrealised losses	-	
	of which: unrealised gains on AFS securities subject to additional national filter	*49*	
	of which: other filter	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**(156)**	
58	**Tier 2 (T2) capital**	**8,453**	
59	**Total capital (TC = T1 + T2)**	**51,537**	
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**	**301,699**	

(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)	12.5%	
62	Tier 1 capital (as a percentage of risk exposure amount)	14.3%	
63	Total capital (as a percentage of risk exposure amount)	17.1%	
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)	7.001%	
65	*of which: capital conservation buffer requirement*	*1.25%*	
66	*of which: countercyclical buffer requirement*	*0.006%*	
67	*of which: systemic risk buffer requirement*	-	
67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	-	
68	Common Equity Tier 1 capital available to meet buffers (as a percentage of total risk exposure amount)	5.8%	
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)	1,157	
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)	3,836	
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)	2,114	
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	854	
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	1,025	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	524	
84	Current cap on T2 instruments subject to phase-out arrangements	2,364	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

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