

# Basel 2 Pillar 3

Disclosure as at 30 September 2013





*This is an English translation of the Italian language original "Terzo pilastro di Basilea 2 – Informativa al pubblico al 30 settembre 2013" that has been prepared solely for the convenience of the reader. The Italian language original "Terzo pilastro di Basilea 2 – Informativa al pubblico al 30 settembre 2013" was approved by the Management Board of Intesa Sanpaolo on 13 November 2013 and is available on [group.intesasanpaolo.com](http://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.*

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## Basel 2 Pillar 3 Disclosures as at 30 September 2013

**Intesa Sanpaolo S.p.A.**

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<sup>(\*)</sup> As described in detail in the introduction to this document, the other Tables envisaged in the Bank of Italy's instructions (Tables 1 to 2 and Tables 5 to 15) are not published in the quarterly disclosure as specifically laid down by the reference regulations.



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# Introduction

## Notes to the Basel 2 Pillar 3 disclosure

The purpose of the disclosure defined as “Basel 2 Pillar 3” is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The goal is to encourage market efficiency by identifying the transparency requirements that permit operators to enjoy access to fundamental information concerning regulatory capital, exposure and risk assessment processes and thus concerning intermediaries’ capital adequacy. This has particular relevance under the framework introduced by Basel 2, where reliance on internal methodologies gives banks more discretion in assessing capital requirements.

The procedures to be adopted by Italian banks or banking groups when disclosing information (referred to in brief as Pillar 3) to the public have been laid down by the Bank of Italy in its Circular 263 of 27 December 2006: “New regulations for the prudential supervision of banks” (Annex A, Title IV). This disclosure has been prepared in compliance with these provisions, which incorporate the provisions of Annex XII to EU Directive 2006/48 and the subsequent changes made to the regulatory framework.

Note that in accordance with the provisions of the abovementioned Circular, this document is divided into sections called “Tables” and 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 Tables include both a “qualitative section” and a “quantitative section”. The “Basel 2 Pillar 3” disclosure is published in accordance with the rules laid down by the Bank of Italy with the following frequency:

- figures as at 31 December: full qualitative and quantitative disclosure;
- figures as at 30 June: update of the quantitative disclosure only (with the exception of information on remuneration policy – Table 15), because Intesa Sanpaolo is one of the groups that have adopted IRB and/or AMA approaches for credit and operational risk;
- figures as at 31 March and 30 September: update solely of the quantitative disclosure on capital (Table 3) and capital adequacy (Table 4), because Intesa Sanpaolo forms part of the groups that have adopted IRB and/or AMA approaches for credit and operational risk.

Please therefore refer to the document as at 31 December 2012 for a more comprehensive examination of the qualitative aspects. Furthermore, this report highlights any significant changes in the first nine months of the year compared to the Annual Report 2012. In addition, please note that the “prudential” scope of consolidation for the figures as at 30 September 2013 does not differ from that as at 31 December 2012. Also with regard to the scope of companies for the application of internal models there are no significant differences from that as at 31 December 2012, except for some changes with regard to operational risk (see Table 4).

Summary information on regulatory capital and capital adequacy are also published in the Interim statement as at 30 September 2013. This statement also provides an update on Group liquidity risk.

The regulations governing the drafting of the “Basel 2 Pillar 3” disclosure require credit institutions to adopt a formal policy to meet the minimum public disclosure requirements and to put instruments in place that enable them to assess its adequacy. To this end, the Management Board and the Supervisory Board of the Parent Company Intesa Sanpaolo have approved a specific document “Guidelines on Pillar 3 disclosure”. This document sets out the duties and responsibilities of the Corporate Bodies and the various Group departments involved in the different stages of the process governing this disclosure. Given its public importance, this document is submitted by the Manager responsible for preparing the Company's financial reports for approval to the competent Corporate Bodies. This document is therefore subject to the related certification, pursuant to Art. 154 bis of Legislative Decree 58/1998 (Consolidated Law on Finance). As a consequence, the “Basel 2 Pillar 3” disclosure is subject to the checks and controls established in the Group’s “Guidelines for administrative and financial governance”, the document that

sets 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 figures shown for comparison refer to the "Basel 2 Pillar 3" disclosure as at 31 December 2012.

The Intesa Sanpaolo Group publishes this disclosure (Basel 2 Pillar 3) on its Internet site at the address [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com).

## Capital ratios as at 30 September 2013

	(millions of euro)	
	30.09.2013	31.12.2012
<b>Regulatory capital and capital ratios</b>		
<b>Regulatory capital</b>		
Tier 1 capital	34,646	36,013
<i>of which: instruments not included in Core Tier 1 ratio (*)</i>	2,544	2,544
Tier 2 capital	5,455	8,141
Minus items to be deducted (**)	-	-3,410
<b>REGULATORY CAPITAL</b>	<b>40,101</b>	<b>40,744</b>
Tier 3 subordinated loans	-	-
<b>TOTAL REGULATORY CAPITAL</b>	<b>40,101</b>	<b>40,744</b>
<b>Risk-weighted assets</b>		
Credit and counterparty risks	236,130	253,309
Market risks	18,130	18,427
Operational risks	22,689	25,745
Other risks (***)	1,027	1,138
<b>RISK-WEIGHTED ASSETS</b>	<b>277,976</b>	<b>298,619</b>
<b>Capital ratios %</b>		
Core Tier 1 ratio	11.5	11.2
Tier 1 ratio	12.5	12.1
Total capital ratio	14.4	13.6

(\*) This caption includes preferred shares, savings shares and preference ordinary shares.

(\*\*) Effective 1 January 2013, the elements of an insurance nature previously deducted from total regulatory capital have instead been deducted from tier 1 and tier 2 capital (at 50% each), on a par with the other elements deducted, according to the specific indications contained in Bank of Italy Circulars 155 and 263.

(\*\*\*) In relation to risk-weighted assets, this caption includes further specific capital requirements as provided for by the Supervisory Authority to the various Group entities. It also includes the supplement for the floor relating to the calculation of capital requirements for the credit risk according to IRB approaches.

Regulatory capital and related capital ratios as at 30 September 2013 have been determined in accordance with Basel 2 provisions, by applying the Bank of Italy's instructions.

As at 30 September 2013, total regulatory capital came to 40,101 million euro, compared to risk-weighted assets of 277,976 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

The decrease in risk-weighted assets posted during the first nine months of 2013 is primarily attributable to ordinary operations, optimisation processes and the decrease in operational risk, largely due to the stipulation of new insurance coverage (second layer policy) known as Operational Risk Insurance Programme, which offers coverage greater than that of traditional (first layer) policies and therefore significantly increases the limit of liability, in effect transferring the risk of significant operational losses to the insurance market. The internal model insurance mitigation component referring to these policies was approved by the Bank of Italy in June 2013 with immediate effect.

In addition, regulatory capital takes account not only of ordinary operations, but also an estimate of the dividends to be paid on 2013 net income, the amount of which has been determined on a conventional basis as three-quarters of the dividend proposed by the Shareholders' Meeting of 22 April 2013 for 2012 (0.05 euro per ordinary share and 0.061 euro per savings share).

With respect to the method for determining regulatory capital, note that following the notice received from the Bank of Italy on 9 May 2013, a negative prudential filter has been applied to sterilise the positive effects on Core Tier 1 associated with multiple cases of tax realignment of goodwill. The effects of this sterilisation, spread over a 5-year period from report as at 31 March 2013, were calculated in reference to the associated DTAs as at 31 December 2012, net of the substitute tax paid and the total of such DTAs reversed to the income statement during the period. The application of this filter led to a negative effect on Core Tier 1 of 3 hundredths of a point.

The application effective 1 January 2013 of the amendments to IAS 19 (an accounting standard that governs employee benefits) had a limited impact for regulatory purposes, inasmuch as the negative valuation reserve generated was essentially sterilised through the specific prudential filter envisaged by the Bank of Italy.

The Total capital ratio stood at 14.4%, while the Group's Tier 1 ratio was 12.5%. The ratio of Tier 1 capital net of ineligible instruments to risk-weighted assets (Core Tier 1) was 11.5%.

Lastly, in a Regulation published on 18 May 2010, the Bank of Italy provided new supervisory instructions concerning the prudential treatment of reserves associated with debt securities issued by the central governments of EU countries and classified among "Financial assets available for sale". In particular, the Regulation allows the capital gains and losses recognised through such reserves associated with the foregoing securities to be completely neutralised effective 1 January 2010, as an alternative to the already established asymmetrical approach (full deduction of the net capital loss from Tier 1 capital and partial inclusion of the net capital gain in Tier 2 capital). The Intesa Sanpaolo Group has elected to apply this approach. Accordingly, the regulatory capital and capital ratios as at 30 September 2013 account for this measure (the effect on the Core Tier 1 ratio is +5 basis points).



## Table 3 – Regulatory capital structure

### Quantitative disclosure

#### Regulatory capital structure

The structure of the regulatory capital of the Intesa Sanpaolo Group as at 30 September 2013 is summarised in the table below:

	(millions of euro)	
Information	30.09.2013	31.12.2012
<b>A. Tier 1 capital before the application of prudential filters</b>	<b>38,483</b>	<b>38,342</b>
<b>B. Tier 1 capital prudential filters</b>	<b>-134</b>	<b>-387</b>
B.1 Positive IAS/IFRS prudential filters (+)	255	-
B.2 Negative IAS/IFRS prudential filters (-)	-389	-387
<b>C. Tier 1 capital before items to be deducted (A+B)</b>	<b>38,349</b>	<b>37,955</b>
<b>D. Items to be deducted from Tier 1 capital</b>	<b>3,703</b>	<b>1,942</b>
<b>E. Total Tier 1 capital (C-D)</b>	<b>34,646</b>	<b>36,013</b>
<b>F. Tier 2 capital before the application of prudential filters</b>	<b>9,235</b>	<b>10,175</b>
<b>G. Tier 2 capital prudential filters</b>	<b>-77</b>	<b>-92</b>
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	-77	-92
<b>H. Tier 2 capital before items to be deducted (F+G)</b>	<b>9,158</b>	<b>10,083</b>
<b>I. Items to be deducted from Tier 2 capital</b>	<b>3,703</b>	<b>1,942</b>
<b>L. Total Tier 2 capital (H-I)</b>	<b>5,455</b>	<b>8,141</b>
<b>M. Items to be deducted from total Tier 1 and Tier 2 capital</b>	<b>-</b>	<b>3,410</b>
<b>N. Regulatory capital (E+L-M)</b>	<b>40,101</b>	<b>40,744</b>
<b>O. Tier 3 capital</b>	<b>-</b>	<b>-</b>
<b>P. Regulatory capital including Tier 3 (N+O)</b>	<b>40,101</b>	<b>40,744</b>

Regulatory capital takes into account an estimate of the dividends on 2013 net income, determined by convention as 3/4 of the amount distributed to shareholders in 2013 (624 million euro of the 832 million euro on 2012 net income).

Moreover, on the basis of specific instructions concerning regulatory capital issued by the Bank of Italy on 9 May 2013:

- the impact of the introduction of the new version of IAS 19 – *Employee Benefits* has been sterilised for regulatory purposes. In particular, "Regulatory capital before the application of prudential filters" includes -266 million euro attributable to the valuation reserve on actuarial losses (including the share attributable to minority shareholders) introduced effective 1 January 2013. The update to the Standard eliminated the option of using the previous "corridor method," according to which the aforementioned valuation effects passed through the income statement over multiple years, provided that the loss exceeded certain thresholds. This valuation component was sterilised by recognising among "Positive IAS/IFRS prudential filters" an amount equal to the share of the actuarial loss that would not have been recognised in the income statement according to the abovementioned "corridor method" (255 million euro, including the share attributable to minority shareholders);
- effective 31 March 2013, the benefits to the balance sheet from deferred tax assets (DTAs) associated with multiple cases of tax realignment of a single amount of goodwill are excluded from the calculation of regulatory capital, through inclusion among "Negative IAS/IFRS prudential filters". The exclusion is progressive over a period of five years. The amount of the filter as at 30 September 2013 is 81 million euro and, based on the Supervisory Provisions, includes the first year and the amount

attributable to the half year. The remaining amounts will gradually be eliminated from the calculation of Regulatory Capital by 31 December 2016.

The caption “Items to be deducted from total regulatory capital” has a zero balance as at 30 September 2013, since the option that allowed the deduction of insurance investments made prior to 20 July 2006 from total regulatory capital (the only contribution to this item) was eliminated. These forms of investment are now included in the ordinary rule, which provides that they are to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital.

Lastly, during the third quarter of 2013 the Group implemented a specific exchange of existing subordinated notes (Exchange Offer) with newly issued Tier 2 subordinated notes in euro, having a maturity of 13 September 2023, to be issued by Intesa Sanpaolo. This transaction was announced on 28 August 2013 and was finalised on 13 September 2013.

At the end of the Exchange Offer, the aggregate nominal value of the notes offered by the holders and accepted for the exchange by Intesa Sanpaolo was 1,427,721,853 euro. Consequently, as at the settlement date, Intesa Sanpaolo issued an aggregate nominal value of new notes amounting to 1,444,789,000 euro in exchange for existing notes. Intesa Sanpaolo also issued an aggregate nominal value of new notes amounting to 867,000 euro.

The aggregate nominal value of existing notes in each series offered in exchange by holders – accepted by Intesa Sanpaolo – and the exchange ratio applicable to each series of existing notes are indicated in the following table:

Description of Existing Notes	Type	Maturity date	Nominal value at the start of the Exchange	Exchange Price (%)	Aggregate nominal value of Existing Notes accepted for exchange	Exchange Ratio
6.625% Upper Tier II Subordinated Notes 2018	Upper Tier 2	08 May 2018	€1,127,100,000	107.75%	€286,500,000	108.7077%
Lower Tier II Subordinated Fixed to Floating Rate Notes November 2017	Lower Tier 2	12 November 2017	£5,350,000	94.00%	£550,000	94.8355%
Floating Rate Subordinated Notes 2018	Lower Tier 2	20 February 2018	€220,200,000	92.50%	€72,140,000	93.3222%
Lower Tier II Subordinated Fixed to Floating Rate Notes 2018	Lower Tier 2	28 May 2018	€362,050,000	95.50%	€110,900,000	96.3488%
Fixed/Floating Rate Callable Lower Tier II Subordinated Notes 2018	Lower Tier 2	26 June 2018	€167,750,000	91.25%	€58,850,000	92.0611%
Fixed/Floating Rate Callable Subordinated Notes 2020	Lower Tier 2	02 March 2020	€478,000,000	91.25%	€206,000,000	92.0611%
Lower Tier II Fix Floater Callable Subordinated Notes 2024	Lower Tier 2	18 March 2024	£24,901,000	88.75%	£12,879,000	89.5388%
5.00% Lower Tier II Subordinated Notes 2019	Lower Tier 2	23 September 2019	€1,447,100,000	102.50%	€395,950,000	103.4111%
5.15% Lower Tier II Subordinated Notes 16 July 2020	Lower Tier 2	16 July 2020	€1,203,150,000	103.00%	€281,400,000	103.9155%

Summary details of the new notes issued are as follows:

Type	Currency	Aggregate nominal value of New Notes	Maturity	Price of the New Issue	Spread applicable to New Notes	Yield rate of New Notes
Tier 2	Euro	€1,445,656,000	13 September 2023	99.119 %	10-year Euro Mid-Swap + 4.50%	6.749%

As a consequence of the exchange finalisation, the Intesa Sanpaolo Group recorded a positive contribution, including the positive impact of the unwinding of interest rate derivatives, of 87 million euro for profit before tax, approximately 60 million euro for net income and 2 basis points for the Core Tier 1 ratio.

More details of the breakdown of the Tier 1 and Tier 2 capital are provided below.

## Tier 1 capital

Information	(millions of euro)	
	30.09.2013	31.12.2012
<b>TOTAL TIER 1 CAPITAL<sup>(a)</sup></b>		
- Share capital - ordinary shares (b)	8,236	8,236
- Share capital - preference savings shares (c)	488	488
- Share premium reserve	30,987	30,989
- Reserves and net income	10,893	10,896
- Non-innovative equity instruments	478	478
- Innovative equity instruments with final expiry	-	-
- Innovative equity instruments subject to transition requirements (grandfathering) (c)	1,578	1,578
- Positive IAS / IFRS prudential filters (+)		
<i>Fair value option: changes in bank's own creditworthiness</i>	-	-
<i>Redeemable shares</i>	-	-
<i>Capital resources forming the object of forward purchase commitments included in tier 1 capital</i>	-	-
<i>Other positive prudential filters (d)</i>	255	-
<b>TOTAL POSITIVE ITEMS</b>	<b>52,915</b>	<b>52,665</b>
- Treasury shares or quotas (e)	-14	-12
- Goodwill	-9,026	-9,125
- Other intangible assets	-4,871	-5,186
- Loss for the period	-	-
- Adjustments to loans	-	-
- Adjustments calculated on the regulatory trading and banking books	-	-
- Other (d)	-266	-
- Negative IAS / IFRS prudential filters (-)		
<i>Fair value option: changes in bank's own creditworthiness</i>	-	-
<i>Negative reserves on equities and quotas of UCI available for sale</i>	-	-
<i>Negative reserves on debt securities available for sale (f)</i>	-274	-353
<i>Net accumulated capital gain on property and equipment</i>	-	-
<i>Capital resources forming the object of forward purchase commitments not included in tier 1 capital</i>	-	-
<i>Other negative prudential filters (g)</i>	-115	-34
<b>TOTAL NEGATIVE ITEMS</b>	<b>-14,566</b>	<b>-14,710</b>
<b>TOTAL TIER 1 CAPITAL BEFORE ITEMS TO BE DEDUCTED</b>	<b>38,349</b>	<b>37,955</b>
<b>TOTAL ITEMS TO BE DEDUCTED</b>	<b>-3,703</b>	<b>-1,942</b>
- Investment in the Bank of Italy	-312	-312
- Insurance subsidiaries	-2,097	-604
- Other banking and financial investments higher than 20% of the investee's capital	-308	-270
- Excess expected losses with respect to adjustments (IRB approaches)	-805	-600
- Other deductions	-181	-156
<b>TOTAL TIER 1 CAPITAL NET OF ITEMS TO BE DEDUCTED</b>	<b>34,646</b>	<b>36,013</b>

(a) The individual components of the regulatory capital include both the portion relating to the capital of the Group and of the third party shareholders.

(b) It does not include 9 millions euro of preference shares subject to grandfathering, calculated in Tier I capital in application of the transitional arrangements envisaged by Title I, Chapter 2, Section II, paragraph 1.4.1 of Circular No. 263 of 27 December 2006 – 5th update of 22 December 2010, "New regulations for the prudential supervision of banks".

(c) Securities subject to grandfathering, calculated in Tier I capital in application of the transitional arrangements envisaged by Title I, Chapter 2, Section II, paragraph 1.4.1 of Circular No. 263 of 27 December 2006 – 5th update of 22 December 2010, "New regulations for the prudential supervision of banks".

(d) The "Other negative items" of Tier 1 capital include the valuation reserve for actuarial losses introduced on a compulsory basis effective 1 January 2013 by IAS 19 – Employee Benefits in replacement of the previous "corridor method." This method called for the above valuation effects to pass through the income statement over multiple years, provided that those effects exceeded given thresholds. The "Other positive prudential filters" include the reversal of this valuation component, but only with respect to the share that would not have been recognised in the income statement according to the previous "corridor method."

(e) The caption essentially includes ordinary shares, only for the component relating to the Banking Group.

(f) The caption does not include the negative reserves on government bonds of EU countries, for which the supervisory regulations provided for the option – exercised by the Group – to exclude these from the negative Tier 1 capital filters, with an effect on the Core Tier 1 ratio of 5 basis points.

(g) The item includes 81 million euro in deferred tax assets (DTAs) associated with the tax realignment of a single amount of goodwill on multiple occasions.

The "Total items to be deducted" amounted to half the overall deductions, 50% of which were allocated as a reduction to the Tier 1 capital and the remaining 50% as a reduction to the Tier 2 capital. As specified above, effective 1 January 2013 this aggregate also includes insurance investments associated with relationships that arose prior to 20 July 2006, which previously were deducted from total regulatory capital.

## Tier 2 capital

	(millions of euro)	
Information	30.09.2013	31.12.2012
<b>TIER 2 CAPITAL (a)</b>		
- Valuation reserves - Property and equipment		
<i>Legally-required revaluations</i>	361	352
<i>Property and equipment used in operations</i>	-	-
- Valuation reserve - Securities available for sale		
<i>Equities and quotas of UCI</i>	153	184
<i>Debt securities</i>	-	-
- Non-innovative equity instruments not included in tier 1 capital	-	-
- Innovative equity instruments not included in tier 1 capital	-	-
- Hybrid capital instruments	1,102	1,389
- Tier 2 subordinated liabilities	7,724	8,328
- Excess total adjustments with respect to expected losses	305	237
- Net capital gains on equity investments	28	3
- Other positive items	-	-
- Positive IAS / IFRS prudential filters (+)		
<i>Net accumulated capital gain on property and equipment</i>	-	-
<i>Capital resources forming the object of forward purchase commitments included in tier 2 capital</i>	-	-
<i>Other positive items</i>	-	-
<b>TOTAL POSITIVE ITEMS</b>	<b>9,673</b>	<b>10,493</b>
- Net capital losses on equity investments	-	-
- Loans	-	-
- Other negative items	-438	-318
- Negative IAS / IFRS prudential filters (-)		
<i>Portion not included of the valuation reserve on property and equipment used in operations</i>	-	-
<i>Portion not included of positive reserves on securities available for sale - Equities</i>	-77	-92
<i>Portion not included of positive reserves on securities available for sale - Debt securities</i>	-	-
<i>Tier 2 subordinated liabilities and hybrid capital instruments forming the object of forward purchase commitments not included in tier 2 capital</i>	-	-
<i>Other negative filters</i>	-	-
<b>TOTAL NEGATIVE ITEMS</b>	<b>-515</b>	<b>-410</b>
<b>TOTAL TIER 2 CAPITAL BEFORE ITEMS TO BE DEDUCTED</b>	<b>9,158</b>	<b>10,083</b>
<b>TOTAL ITEMS TO BE DEDUCTED</b>	<b>-3,703</b>	<b>-1,942</b>
- Investment in the Bank of Italy	-312	-312
- Insurance subsidiaries	-2,097	-604
- Other banking and financial investments higher than 20% of the investee's capital	-308	-270
- Excess expected losses with respect to adjustments (IRB approaches)	-805	-600
- Other deductions	-181	-156
<b>TOTAL TIER 2 CAPITAL NET OF ITEMS TO BE DEDUCTED</b>	<b>5,455</b>	<b>8,141</b>

(a) The individual components of the regulatory capital include the portion relating to the capital of both the Group and the third party shareholders.



## Table 4 – Capital adequacy

### Quantitative disclosure

According to the “New regulations for the prudential supervision of banks” (Bank of Italy Circular 263 of 27 December 2006 and subsequent amendments), which adopt the provisions on the International convergence of capital measurement and capital standards (Basel 2), the banking Group’s capital must amount to at least 8% of total risk-weighted assets (total capital ratio) arising from the risks typically associated with banking and financial activity (credit, counterparty, market, and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risk following insurance coverage.

In general terms, the group-level capital requirement is calculated as the sum of the individual requirements of the individual companies that make up the Banking group, net of exposures arising from intragroup relations included in the calculation of credit, counterparty and settlement risk.

Moreover, the Intesa Sanpaolo Group was subject to a capital requirement restriction, consisting in a floor of 90% of the sum of the requirements for credit, market and counterparty risk, calculated based on the Basel 1 rules. This penalty was prudently introduced by the Bank of Italy on authorising the use of Internal Methods for the calculation of requirements for credit risk in relation to several aspects deemed worthy of implementing. Taking account of the measures implemented by the Intesa Sanpaolo Group in relation to the problems detected, the Bank of Italy authorised the reduction of said floor from 90% to 85% starting from 30 June 2011.

In addition to the Total capital ratio referred to above, other more rigorous ratios are also used to assess capital soundness: the Tier 1 capital ratio, represented by the ratio between Tier 1 capital and risk-weighted assets, and the Core Tier 1 capital ratio, represented by the ratio between Tier 1 capital (net of preferred shares and savings shares and preference ordinary shares) and risk-weighted assets.

For the calculation of credit and counterparty risk capital requirements, the Intesa Sanpaolo Group, having received authorisation from the Supervisory Authority, uses the Advanced IRB approach (AIRB) and the foundation IRB approach (FIRB) for the Corporate segment and the IRB approach<sup>1</sup> for the Retail Mortgage segment (Residential mortgages for private individuals) and SME retail segment (retail exposures). In particular:

- for the Corporate segment, authorisation was obtained from the Supervisory Authority to use the AIRB approach on a scope that extends to the Parent Company, the network banks and Mediocredito Italiano, as well as the foreign companies Intesa Sanpaolo Bank Ireland Plc and VUB Banka (the authorisation for the latter is for the Foundation IRB). With effect from June 2012 permission was obtained to extend the AIRB approach to the subsidiary Banca IMI and for the adoption of rating models for the hedging of Specialised Lending exposures at Group Level, together with the use of internal LGD estimates for the Corporate segment in relation to the product companies Leasint and Mediofactoring (the FIRB approach had been in use since December 2008);
- for the Retail Mortgage segment, permission was granted for the use of the IRB approach effective from June 2010, extended to the former Casse del Centro network banks effective from the report as at 31 December 2011 and to VUB Banka with effect from the report as at 30 June 2012.
- authorisation for transition to the IRB approach was granted for the SME Retail segment effective from the December 2012 report for the Parent Company, the network banks and Mediocredito Italiano.

The Group is also proceeding with the development of the rating models for the other segments, to which the standard methods are applied, and the extension of the scope of companies and their application in accordance with the plan presented to the Supervisory Authority.

Banks must also comply with capital requirements for market risks calculated on the whole trading book separately for the various types of risk: position risk on debt securities and equities and concentration risk. Moreover, with reference to the entire financial statements, foreign exchange risk, settlement risk and

<sup>1</sup> Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the foundation and the advanced IRB approach.

position risk on commodities must be calculated. The use of internal models to calculate the capital requirement for market risks is permitted; in particular, Intesa Sanpaolo and Banca IMI apply the internal model to calculate general position risk (price fluctuation risk) and specific risk (issuer risk) for equities, and general position risk (rate fluctuation risk) for debt securities. Effective the report as at 30 September 2012, Intesa Sanpaolo and Banca IMI have received authorisation from the Supervisory Authority to extend the scope of the model to specific risk on debt securities. The model was extended on the basis of the current methodological framework (a historical simulation in full evaluation), and required the integration of the incremental risk charge into the calculation of the capital requirement for market risks; for Banca IMI, position risk in quotas of UCIs is also included in the internal model (with regard to the Constant Proportion Portfolio Insurance – CPPI component). The scope of validated risks has subsequently been extended to position risk on dividend derivatives and position risk on commodities for Banca IMI, which is the only legal entity in the Group authorised to hold open positions in commodities. In addition, Banca IMI and Intesa Sanpaolo have been using Stressed VaR to calculate the requirement for market risks, since December 2011. Standardised approaches are used for the other types of risk.

Counterparty risk is calculated independently of the portfolio of allocation. During the third quarter of 2013 an application for validation with the aim of obtaining authorisation to use the internal counterparty risk model for regulatory purposes was submitted to the Bank of Italy in reference to the Parent Company Intesa Sanpaolo S.p.A. and Banca IMI.

With respect to Operational Risks, the Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirements for regulatory purposes:

- effective from 31 December 2009, for an initial set including the Organisational Units, Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka;
- effective from 31 December 2010, for a second set of companies within the Corporate and Investment Banking Division, in addition to Setefi, the remaining banks of the Cassa di Risparmio di Firenze Group and PBZ Banka;
- effective from 31 December 2011, for a third set including Banca Infrastrutture Innovazione e Sviluppo. The full demerger of the Bank in favour of the Parent Company Intesa Sanpaolo and Leasint was completed in December 2012;
- effective from 30 June 2013, for a fourth scope including several companies of the Banca Fideuram group (Banca Fideuram, Fideuram Investimenti, Fideuram Gestions, Fideuram Asset Management Ireland and Sanpaolo Invest) and two subsidiaries of VUB Banka (VUB Leasing and Consumer Finance Holding).

The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced Measurement approaches starting from the end of 2014, based on the roll-out plan presented to the Management and Supervisory Authorities.

The Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and theft damage, cash and valuables in transit losses, computer fraud, forgery, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. In order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to the applicable regulations, the Group implemented a traditional insurance coverage optimisation programme (first layer policies) and stipulated new insurance coverage (a second layer policy) known as the Operational Risk Insurance Programme. 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 as of the end of June.

In April 2013 the Group presented its Annual Internal Capital Adequacy Assessment Process Report as a “class 1” banking group, according to Bank of Italy classification, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available.

## Capital requirements and capital ratios of the Intesa Sanpaolo Group

(millions of euro)

Information	30.09.2013			31.12.2012		
	Unweighted amounts	Weighted amounts	Requirements	Unweighted amounts	Weighted amounts	Requirements
<b>A. CAPITAL REQUIREMENTS</b>						
<b>A.1 Credit and counterparty risks</b>	<b>547,081</b>	<b>236,130</b>	<b>18,891</b>	<b>569,162</b>	<b>253,309</b>	<b>20,265</b>
1. Standardised approach	249,474	98,151	7,852	256,202	105,908	8,473
2. Internal models (IRB)	4,067	4,665	373	4,254	4,308	345
3. Internal models - Advanced approach and retail exposures	290,516	127,265	10,182	305,171	136,848	10,947
4. Securitisations - bankig book	3,024	6,049	484	3,535	6,245	500
<b>A.2 Market risk</b>		<b>18,130</b>	<b>1,450</b>		<b>18,427</b>	<b>1,474</b>
1. Standardised approach		5,389	431		6,294	504
2. Internal models		12,570	1,005		11,927	954
3. Concentration risk		171	14		206	16
<b>A.3 Operational risk</b>		<b>22,689</b>	<b>1,815</b>		<b>25,745</b>	<b>2,059</b>
1. Basic indicator approach		902	72		1,038	83
2. Standardised approach		3,499	280		4,339	347
3. Advanced measurement approach		18,288	1,463		20,368	1,629
<b>A.4 Other capital requirements</b>		-	-		-	-
<b>A.5 Other calculation elements <sup>(a)</sup></b>		<b>1,027</b>	<b>82</b>		<b>1,138</b>	<b>91</b>
<b>A6 Total capital requirements</b>		<b>277,976</b>	<b>22,238</b>		<b>298,619</b>	<b>23,889</b>
<b>B. CAPITAL RATIOS (%)</b>						
<b>B.1 Core Tier 1</b>			<b>11.5%</b>			<b>11.2%</b>
<b>B.2 Tier 1 ratio</b>			<b>12.5%</b>			<b>12.1%</b>
<b>B.3 Total capital ratio</b>			<b>14.4%</b>			<b>13.6%</b>

(a) The caption includes further specific capital requirements as provided for by the Supervisory Authority to the various Group entities and the supplement for the floor relating to the calculation of capital requirements for the credit risk according to IRB approaches.

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 also included when determining EAD.

As always (see also the "Introduction" of this document), the comparative figures presented refer to the Pillar 3 Report of the prior year. During the first nine months of 2013 the scope of companies authorised to use internal models for credit risk has not changed compared to 31 December 2012.

The tables below provide details of the Group's different capital requirements as at 30 September 2013.

### Capital requirement for Credit and Counterparty Risk

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

(millions of euro)

Information	Capital requirement	
	30.09.2013	31.12.2012
Credit risk	18,153	19,424
Counterparty risk	738	841
<b>Total capital requirement for credit risk and counterparty risk</b>	<b>18,891</b>	<b>20,265</b>

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)**

Regulatory portfolio (a)	Capital requirement (millions of euro)	
	30.09.2013	31.12.2012
Exposures to or secured by governments and central banks	77	123
Exposures to or secured by local authorities	253	284
Exposures to or secured by not for profit and public sector organisations	509	566
Exposures to or secured by multilateral development banks	-	-
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	1,501	1,531
Exposures to or secured by corporates	1,930	2,259
Retail exposures	1,774	1,842
Exposures secured by real estate property	243	296
Past due exposures	514	503
High-risk exposures	81	105
Exposures in the form of covered bonds	38	53
Short-term exposures to corporates	64	65
Exposures to UCI	118	117
Other exposures	750	729
<b>Total capital requirement for credit risk and counterparty risk (Standardised Approach)</b>	<b>7,852</b>	<b>8,473</b>

(a) The equity exposures for the companies that have adopted the IRB approach for the corporate regulatory portfolio, subject to grandfathering provisions regarding capital requirements, have a capital requirement of 132 million euro (155 million as at 31 December 2012).

**Capital requirement for Credit and Counterparty Risk (IRB Approach)**

Regulatory portfolio	Capital requirement (millions of euro)	
	30.09.2013	31.12.2012
<b>A. Exposures to or secured by corporates (Foundation IRB Approach)</b>	<b>9,230</b>	<b>9,803</b>
A.1) Specialised lending	1,185	1,291
A.2) Specialised lending - slotting criteria	80	8
A.3) SMEs	2,935	3,143
A.4) Other corporates	5,030	5,361
<b>B. Eetail exposures (IRB Approach)</b>	<b>1,199</b>	<b>1,403</b>
B.1) Exposures secured by residential property: SMEs	52	50
B.2) Exposures secured by residential property: natural persons	752	926
B.3) Other retail exposures: SMEs	395	427
<b>C. Equity exposures (simple risk weight approach)</b>	<b>124</b>	<b>86</b>
C.1) Private equity exposures in sufficiently diversified portfolios	16	21
C.2) Exchange-traded equity exposures	26	3
C.3) Other equity exposures	82	62
<b>D. Other assets</b>	<b>2</b>	<b>-</b>
<b>E. Exposures subject to supervisory transition regarding capital requirements</b>	<b>-</b>	<b>-</b>
<b>Total capital requirement for credit risk and counterparty risk (IRB Approach)</b>	<b>10,555</b>	<b>11,292</b>

**Capital requirement for Credit and Counterparty Risk on securitisations – banking book**

Information	(millions of euro)	
	Capital requirement	
	30.09.2013	31.12.2012
Securitisations - Standardised Approach	311	309
Securitisations - IRB (Rating Based Approach)	173	191
<b>Total capital requirement for credit risk and counterparty risk on securitisations</b>	<b>484</b>	<b>500</b>

**Capital requirement for Market Risk**

Information	(millions of euro)	
	Capital requirement	
	30.09.2013	31.12.2012
<b>Assets included in the regulatory trading book</b>	<b>1,363</b>	<b>1,396</b>
Position risk (a)	1,350	1,380
Concentration risk	13	16
<b>Other assets</b>	<b>87</b>	<b>78</b>
Foreign exchange risk	60	48
Settlement risk for DVP (Delivery Versus Payment) transactions	-	-
Commodity risk	27	30
<b>Total capital requirement for market risk</b>	<b>1,450</b>	<b>1,474</b>

(a) The caption includes capital requirements for exposures to securitisations of 106 million euro (169 million as at 31 December 2012).

**Capital requirement for Operational Risk**

Information	(millions of euro)	
	Capital requirement	
	30.09.2013	31.12.2012
Basic indicator approach	72	83
Standardised approach	280	347
Advanced measurement approach	1,463	1,629
<b>Total capital requirement for operational risk</b>	<b>1,815</b>	<b>2,059</b>

As already noted, almost all the Group companies used the Advanced Measurement Approach (AMA) and the Standardised Approach to determine capital requirements for operational risk. A small remaining number of companies use the Basic Indicator Approach (BIA). For the AMA Approach the requirement is recalculated on a half yearly basis, whereas for the Standardised and the BIA Approaches the requirement is only calculated annually, unless one or more Group companies change approach during the year, by migrating towards more evolved models.

Already as of the first half of 2013, Banca Monte Parma migrated from the BIA Approach to the Standardised Approach, while Banca Fideuram, with four of its subsidiaries and two subsidiaries of the Slovak VUB Banka, migrated from the Standardised Approach to the Advanced Measurement Approach (AMA).

As at 30 September 2013, the capital absorption resulting from this process amounts to 1,815 million euro, down compared to 31 December 2012 (2,059 million euro). Contributing to this decrease were: the benefit from the introduction of the Operational Risk Insurance Programme, the change in the AMA scope and ongoing developments in the historical series of loss data, both within the Group and in the ORX (Operational Riskdata eXchange Association) Consortium, which form part of the AMA models in relation to the LDA (Loss Distribution Approach) component.



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# Declaration of the Manager responsible for preparing the Company's financial reports

The Manager responsible for preparing the Company's financial reports, Ernesto Riva, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document "Basel 2 - Pillar 3 as at 30 September 2013" corresponds to the corporate records, books and accounts.

13 november 2013

Ernesto Riva  
Manager responsible for preparing  
the Company's financial reports



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## Contacts



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GALLERIE D'ITALIA.  
THREE MUSEUM CENTRES, A CULTURAL NETWORK  
FOR THE COUNTRY.

With the Gallerie d'Italia project, Intesa Sanpaolo shares its artistic and architectural assets with the community: 1,000 works of art, selected from the 10,000 owned by the Group, exhibited in three cities, to form a museum network unique in nature.

**In Milano, the Piazza Scala Galleries**, in an extremely valuable architectural setting, host a selection of two hundred works by nineteenth century artists from Lombardy and an exhibition covering the major artists and trends in Italian art in the second half of the twentieth century.

**In Vicenza, the Palazzo Leoni Montanari Galleries** exhibit the greatest collection of Russian icons in the Western world and works from Venetian eighteenth century painters.

**In Napoli, the Palazzo Zevallos Stigliano Galleries** present the *Martyrdom of saint Ursula*, a work from Caravaggio's last season, along with eighteenth and nineteenth-century vedutas of the countryside of Campania.



On the cover:  
Umberto Boccioni  
(Reggio Calabria, 1882 - Verona, 1916)  
*Officine a Porta Romana* (Porta Romana Worksites), 1910  
oil on canvass, 75 x 145 cm  
Intesa Sanpaolo's Collection  
Gallerie d'Italia-Piazza Scala, Milano



