INTESA SANPAOLO

Basel 3 Pillar 3

Disclosure as at 30 September 2018

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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 9,084,056,582.12. Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

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Introduction

Notes to the Basel 3 Pillar 3 disclosure

With effect from 1 January 2014, the reforms of the accord by the Basel Committee (“Basel 3”) were implemented in the EU legal framework. Their aim is to improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks’ transparency and disclosures. In doing so, the Committee maintained the approach founded on three Pillars, which was at the basis of the previous capital accord, known as “Basel 2”, supplementing and strengthening it to increase the quantity and quality of intermediaries’ available capital as well as introducing counter-cyclical regulatory instruments, provisions on liquidity risk management and financial leverage containment.

In particular, Pillar 3 – which concerns public disclosure obligations on capital adequacy, risk exposure and the general characteristics of related management and control systems, with the aim of better regulating the market – was also reviewed. Amongst other things, the amendments were designed to introduce greater transparency requirements, more information on the composition of regulatory capital and the methods used by banks to calculate capital ratios.

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

– Regulation (EU) No. 575/2013 of 26 June 2013 (CRR), which governs the prudential supervision requirements of Pillar 1 and public disclosure requirements (Pillar 3);
– Directive 2013/36/EU of 26 June 2013 (CRD IV), which, among other things, deals with the access to the activity of credit institutions, freedom of establishment, freedom to provide services, supervisory review process, and additional equity reserves.

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

The above Circular does not dictate specific rules for the preparation and disclosure of Pillar 3 reporting, but simply reports the list of provisions envisaged for that purpose by the CRR. Therefore, the issue is directly regulated by:

– the CRR, Part Eight "Disclosure by Institutions" (art. 431-455) and Part 10, Title I, Chapter 3, "Transitional provisions for disclosure of own funds" (Art. 492);
– the Regulations of the European Commission, whose preparation may be entrusted to the EBA, which draws up plans for regulatory or implementing technical standards;
– the Guidelines issued by the EBA - in line with the mandate entrusted to it by Regulation (EU) 1093/2010, which created it - for the purpose of establishing uniform templates for the publication of various types of information.

The issue of disclosure, handled for the first time in 2004, and subsequently revised in 2006 in the “Basel Framework” document, was the subject of an initial revision by the Basel Committee through its standard “Revised Pillar 3 disclosure requirements”, published in January 2015. This document contains indications that the Supervisory Authorities should incorporate in the national regulations (in our case the EU) so that they come into force. At the end of March 2017, the Basel Committee published the standard “Pillar 3 disclosure requirements - consolidated and enhanced framework” which constitutes the second phase of the review of the regulatory framework concerning public disclosure, started with the abovementioned document issued in January 2015. This latest review aims to further promote market regulations through the consolidation of all the requirements already introduced and the arrangement of a dashboard of a bank’s key prudential metrics to support the market in the analysis of the data and achieve greater comparability.

In this regard, in May 2018 the consultation phase of the “Pillar 3 disclosure requirements - updated framework” document, published in draft form in February 2018 by the Basel Committee, ended. This document represents the third phase of revision of the disclosure requirements defined in 2004. In line with the previous revision phases, it aims to establish a single reference framework in relation to disclosure, thus with the objective of harmonising the market discipline. The areas subject to the revision proposal are below:

– new or revised requirements linked to the consolidation of reforms within the Basel 3 framework published in December 2017 and in force from 1 January 2022, covering the following aspects in particular:
    - credit risk (including provisions for prudential treatment of assets);
    - operational risks, the leverage ratio and credit valuation adjustment (CVA);
    - benchmarking of risk-weighted assets (RWA) as calculated using internal models with RWA calculated according to the standardised approaches;
    - an overview on risk management, RWA and the key prudential metrics;
– requirements on asset encumbrance;
– requirements on capital distribution constraints;

– amendments to the scope of application of disclosures on the composition of regulatory capital introduced in March 2017.

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

– application by the institutions of the Materiality criterion;
– application by the institutions of the Proprietary and Confidentiality criteria;
– need to publish the disclosure more frequently than once a year.

In this regard, on 14 December 2016, the EBA published the first version of the “Guidelines on disclosure requirements under Part Eight of Regulation (EU) No. 575/2013” (EBA/GL/2016/11), subsequently updated on 4 August 2017. These guidelines aim to increase and improve the consistency and comparability of the information to be provided for Pillar 3, requiring, from 31 December 2017, the publication of new tables in the Pillar 3 disclosure, for G-SIBs and O-SIIs banks, specifying their frequency of publication, with detailed information on credit and counterparty risk - including risk mitigation techniques and credit quality - as well as market risk. Likewise, these guidelines were also implemented in the proposed draft for the amendment of the CRR (CRR II) published in November 2016 and subject, from July 2018, to inter-institutional negotiations (trialogues) according to the usual approval procedure whose conclusion is expected by the end of the first quarter of 2019. As regards the disclosure on encumbered and unencumbered assets, said Guidelines refer to the content set out in the EBA/GL/2014/03 Guidelines and Delegated Regulation 2017/2295.

The EBA also supplemented the abovementioned guidelines with the publication, in June 2017, of the “Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 575/2013” (EBA/GL/2017/01), containing additional disclosure requirements for liquidity risk measured through the liquidity coverage ratio.

In January 2018 the EBA issued the “Guidelines on uniform disclosures under Article 473a of Regulation (EU) No. 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds” (EBA/GL/2018/01) which establish the templates for the publication of information relating to the impacts on own funds resulting from the introduction of the regulation (EU) 2017/2395, containing “Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds”. As the ISP Group opted for the transitional arrangement through the “static” approach to mitigate this impact, it is also required to provide market disclosure on the amounts of its own funds, Common Equity Tier 1 Capital, Tier 1 Capital, CET1 ratio, Tier 1 ratio, Total ratio and fully loaded Leverage ratio, as if it had not adopted this transitional arrangement.

Lastly, on 27 April 2018 the EBA submitted for public consultation, which ended on 27 July 2018, the “Draft Guidelines on disclosure of non-performing and forborne exposures” document (EBA/CP/2018/06), which contains instructions concerning the disclosure regarding non-performing loans and exposures subject to renegotiation. The templates contained in the document for consultation will be published starting from 31 December 2019.

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

With specific reference to the information on the Leverage ratio, please note that in February 2016 Commission Implementing Regulation 2016/200 was published in the Official Journal of the European Union, laying down implementing technical standards with regard to the disclosure on the Leverage ratio, under 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 1 January 2016, in application of Delegated Regulation 2015/1555 which sets out “regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440 of the CRR”, the disclosure obligations concerning the countercyclical capital buffers have also been applied.
With effect from 31 December 2016, the disclosure includes – in addition to the amount of the countercyclical capital buffer – details on the geographical distribution of relevant credit exposures for the purpose of calculating the countercyclical capital buffer according to the regulations.

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In accordance with the abovementioned provisions, this document has been drawn up on a consolidated basis with reference to a “prudential” scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes.

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

– the inclusion of Eximbank s.a. (Moldova), of which the acquisition of control by Intesa Sanpaolo was subject to the sale to Veneto Banca in compulsory administrative liquidation of the non-performing loans of the investee, as certified by the

Panel of Experts following the due diligence envisaged by the contract of 26 June 2017. The deed of sale for these loans was formalised on 28 February 2018 and the transfer of the shares and the registration of Intesa Sanpaolo as a new shareholder was completed on 13 March 2018;
- the inclusion of Morval Vonwiller Holding S.A, a Swiss group engaged in wealth management and fund management, after the acquisition of the group, concluded in the second quarter of 2018;
- the exclusion of Imi Fondi Chiusi Sgr, which is now consolidated at equity, given that the investment is no longer material following the disposal of fund management operations.

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

All the amounts reported in this disclosure, unless otherwise specified, are stated in millions of euro.
The Group's website publishes information, upon the required deadlines, on the value of the indicators of global systemic importance (Governance\Risk management Section of the website: “Indicators of the assessment methodology to identify the global systemically important banks”).

Own funds

Qualitative and quantitative disclosure

Introduction

As mentioned earlier above, 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 of 17 December 2013 and subsequent amendments: Supervisory regulations for banks;
- Bank of Italy Circular 286 of 17 December 2013: Instructions for preparing prudential reports for banks and Italian investment companies;
- Update to Bank of Italy Circular 154: Credit and financial institutions supervisory reports.
- Preparation and transmission.

The harmonised reporting requirements contained in Circulars 286 and 154 will now be gradually repealed by those established by Commission Implementing Regulation (EU) No. 680/2014 and by its subsequent amendments and additions, which includes implementing technical standards regarding the supervisory reporting of institutions for supervisory purposes in compliance with the provisions of the CRR.

This regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:
- Tier 1 capital, in turn composed of:
    - Common Equity Tier 1 Capital (CET1);
    - Additional Tier 1 Capital (AT1);
- Tier 2 capital (T2).

Tier 1's predominant element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, profit reserves, valuation reserves, 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 risk (DVA);
- adjustments to fair value assets associated with the "prudent valuation".

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

- significant investments in CET1 instruments issued by companies operating in the financial sector (deducted for the amount exceeding the thresholds envisaged in the regulation).

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 credit risk adjustments over and above expected losses (the excess reserve) for exposures weighted according to IRB approaches.
Except for the application of Article 473 of EU Regulation 575/2013 (CRR) paragraph 4 point e), relating to the amendments to be applied to IAS 19 until the end of 2018, the transition phase for the introduction of the "Basel 3" regulatory framework was completed as at 31 December 2017. It provided for the partial inclusion within or deduction from the Own Funds of certain items in accordance with the provisions of Directive 2013/36/EU (CRD IV) and the CRR.
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 that will end in 2021).

The transitional period (2018-2022), aimed at mitigating the capital impacts linked to the introduction of the new financial reporting standard IFRS 9, started from 1 January 2018. The Intesa Sanpaolo Group has exercised the option provided in EU Regulation 2395/2017 of adopting the “static” approach that allows the neutralisation of a progressively decreasing amount of the impact of IFRS 9 in its CET 1 relating solely to the FTA component of the impairment. In particular, the result from the comparison between the IAS 39 adjustments at 31 December 2017 and the IFRS 9 adjustments at 1 January 2018 – relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of tax and having eliminated any shortfall reserve – is re-included in the capital according to phase-in percentages of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, and 25% in 2022. During the transition period, the Group may also elect to change this approach once only, subject to authorisation from the Supervisory Authority, moving from the “static” approach to the “dynamic” approach or suspending the application of the transitional treatment in favour of the fully loaded regime.

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own Funds as at 30 September 2018 is summarised in the table below.

(millions of euro)

	30.09.2018	31.12.2017
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**45,870**	**48,219**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**-1,598**	**-1,272**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**44,272**	**46,947**
D. Items to be deducted from CET 1	**-10,243**	**-10,176**
E. Transitional period - Impact on CET1 (+/-)	**3,160**	**1,280**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**37,189**	**38,051**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**4,855**	**5,640**
of which AT1 instruments subject to transitional adjustments	731	1,025
H. Items to be deducted from AT1	**-**	**-**
I. Transitional period - Impact on AT1 (+/-)	**-**	**-226**
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**4,855**	**5,414**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**8,592**	**8,776**
of which T2 instruments subject to transitional adjustments	12	541
N. Items to be deducted from T2	**-817**	**-821**
O. Transitional period - Impact on T2 (+ / -)	**-862**	**-47**
P. Total Tier 2 (T2) (M - N +/- O)	**6,913**	**7,908**
Q. Total own funds (F + L + P)	**48,957**	**51,373**

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

- grandfathered instruments;
- minority interests;
- IAS 19 filter on valuation reserves for actuarial gains or losses on defined benefit plans (for 2018);
- IFRS 9 FTA filter (pursuant to Article 473a amending EU Regulation 575/2013);
- other minor captions;

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

In particular, consolidated own funds benefited from the regulation which permits the gradual recognition in the regulatory capital of the effects deriving from application of IAS 19 from 1 January 2013. The amount of the “prudential filter” under the actuarial profits (losses) reserve on the defined benefit pension plans, negative for about 670 million euro, equals around 113 million euro.

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	30.09.2018	31.12.2017
Group Shareholders' equity	52,473	56,205
Minority interests	344	399
Shareholders' equity as per the Balance Sheet	**52,817**	**56,604**
Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period		
- Capital of savings shares eligible for inclusion in AT1	-	-485
- Other equity instruments eligible for inclusion in AT1	-4,121	-4,121
- Minority interests eligible for inclusion in AT1	-5	-9
- Minority interests eligible for inclusion in T2	-10	-5
- Ineligible minority interests on full phase-in	-303	-335
- Ineligible net income for the period [a]	-2,603	-3,500
- Treasury shares included under regulatory adjustments	110	86
- Other ineligible components on full phase-in	-15	-16
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**45,870**	**48,219**
Regulatory adjustments (including transitional adjustments) [b]	**-8,681**	**-10,168**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**37,189**	**38,051**

(a) Common Equity Tier 1 capital as at 30 September 2018 includes the net income for the period, less the related dividend, calculated according to the payout envisaged in the 2018-2021 Business Plan (85% for 2018) and other foreseeable charges (accrued coupon on Additional Tier 1 instruments).

(b) Adjustments for the transitional period as at 30 September 2018 take account of the prudential filter, which allows re-inclusion in Common Equity of a portion of the impact of IFRS 9 (95% in 2018) set to decrease progressively until 2022.

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

Common Equity Tier 1 Capital (CET1)

(millions of euro)

	30.09.2018	31.12.2017
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	9,084	8,247
Share premium reserve	24,770	26,006
Reserves (a)	13,256	10,890
Accumulated other comprehensive income (b)	-1,675	-790
Net income (loss) for the period	3,012	7,316
Net income (loss) for the period not eligible	-2,603	-
Dividends and other foreseeable charges (c)	-	-3,500
Minority interests	26	50
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**45,870**	**48,219**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-227	-94
Goodwill	-4,096	-4,079
Other intangible assets	-3,075	-3,103
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,359	-1,417
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-204	-530
Defined benefit pension funds assets	-	-
Prudential filters	485	756
- of which Cash Flow Hedge Reserve	*883*	*1,000*
- of which Gains or Losses due to changes in own credit risk (DVA)	*-191*	*-36*
- of which Prudent valuation adjustments	*-207*	*-208*
- of which Other prudential filters	*-*	*-*
Exposures to securitisations deducted rather than risk weighted at 1250%	-222	-252
CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically, which exceed the threshold of 10% of Common Equity	-	-
Deductions with 10% threshold (d)	-1,861	-1,776
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	*-*	*-*
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	*-1,861*	*-1,776*
Deductions with threshold of 17.65% (e)	-889	-560
Positive or negative elements - other	-393	-393
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-11,841**	**-11,448**
Total adjustments in the transitional period (CET1)	**3,160**	**1,280**
Common Equity Tier 1 (CET1) - Total	**37,189**	**38,051**

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

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

(c) As at 31 December 2017, the figure includes the dividends on 2017 results, the portion of the remuneration of the AT1 instruments issued as at the same date and the portion of 2017 income allocated to charity, net of the tax effect.

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

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

As the regulatory conditions for its inclusion (Article 26, paragraph 2 of the CRR) were met, Common Equity Tier 1 Capital included net income for the period, net of the related dividend, calculated taking into account the payout envisaged in the 2018-2021 Business Plan (85% for 2018), and other foreseeable costs.

As envisaged by Article 258 of (EU) Regulation no. 575/2013 which governs the case, in place of the weighting of the positions towards securitisations that meet the requirements to receive a weighting of 1,250%, it was chosen to proceed with the direct deduction of these exposures from the Own Funds.
The amount of such deduction as at 30 September 2018 is equal to -222 million euro.

The “Negative elements – other” mainly include the sterilisation in common equity of deferred tax assets (DTA) associated with tax realignment of a single item of goodwill.

The amount of the filter as at 30 September 2018 is equal to approximately 181 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

	30.09.2018	31.12.2017
Additional Tier 1 capital (AT1)		
Saving shares	-	485
Other AT1 instruments	4,121	4,121
Minority interests	3	9
Additional Tier 1 capital (AT1) before regulatory adjustments	**4,124**	**4,615**
Additional Tier 1 capital (AT1): Regulatory adjustments		
AT1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
AT1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-	-
Positive or negative items - other	-	-
Total regulatory adjustments to Additional Tier 1 (AT1)	**-**	**-**
Total adjustments in the transitional period, including minority interests (AT1)	**-**	**-226**
AT1 instruments eligible for grandfathering	**731**	**1,025**
Additional Tier 1 (AT1) - Total	**4,855**	**5,414**

The full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments have been reported in Attachment 1 to the Basel 3 Pillar 3 - Disclosure as at 31 December 2017.

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

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfather-ing	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	up to 14/10/2019: 8.375% fixed rate; thereafter 3-month Euribor + 687 bps/year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	731
Total Additional Tier 1 instruments subject to transitional provisions									**731**
Intesa Sanpaolo	6.25% fixed rate	NO	16-May-2017	perpetual	16-May-2024	Eur	NO	750,000,000	750
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	19-Jan-2016	perpetual	19-Jan-2021	Eur	NO	1,250,000,000	1,248
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	1,249
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	NO	1,000,000,000	871
Total Additional Tier 1 instruments not subject to transitional provisions									**4,118**
Total Additional Tier 1 equity instruments									**4,849**

Tier 2 Capital (T2)

(millions of euro)

	30.09.2018	31.12.2017
Tier 2 Capital (T2)		
T2 Instruments	7,708	8,105
Minority interests	10	5
Excess of provisions over expected losses eligible (excess reserve)	862	125
Tier 2 capital before regulatory adjustments	**8,580**	**8,235**
Tier 2 Capital (T2): Regulatory adjustments		
T2 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-
T2 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-817	-821
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-817**	**-821**
Total adjustments in the transitional period, including minority interests (T2)	**-862**	**-47**
T2 instruments eligible for grandfathering	**12**	**541**
Tier 2 Capital (T2) - Total	**6,913**	**7,908**

Tier 2 (T2) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfather-ing	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	up to 18/3/2019 excluded: 5.625% p.a.; thereafter: 3-month Sterling Libor + 1.125 p.a.	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gbp	YES	165,000,000	12
Total Tier 2 instruments subject to transitional provisions									**12**
Intesa Sanpaolo	3-month Euribor + 190 bps/4	NO	26-Sep-2017	26-Sep-2024	NO	Eur	NO	724,000,000	724
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,696
Intesa Sanpaolo	6.6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,410
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,296
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	587
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	330
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	205
Intesa Sanpaolo	2.855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	480
Total Tier 2 instruments not subject to transitional provisions									**7,708**
Total Tier 2 instruments									**7,720**

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

(millions of euro)

	30.09.2018	31.12.2017
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,678	3,912
B. Threshold of 10% for CET1 instruments of financial sector entities where the institution has a significant investment and for DTA that rely on future profitability and arise from temporary differences	3,678	3,912
C. Threshold of 17.65% for significant investments and DTA not deducted in the threshold described under point B	5,105	5,517

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

Transitional period adjustments as at 30 September 2018

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			ADJUSTM. TO AT1	ADJUSTM. TO T2
	Amounts eligible /deductible on full phase-in	Adjustments to CET1	Net effect on CET1 at the date		
Instruments eligible for grandfathering	**-**	**-**	**-**	**731**	**12**
Minority interests	**26**	**-**	**26**	**-**	**-**
Other adjustments in the transitional period	**-643**	**-**	**-643**	**-**	**-**
- of which Unrealised gains on assets measured at fair value	-643	-	-643	-	-
- of which Unrealised losses on assets measured at fair value	-	-	-	-	-
Regulatory adjustments	**-4,094**	**124**	**-3,970**	**-**	**-**
- of which Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,359	-	-1,359	-	-
- of which Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-204	-	-204	-	-
- of which IAS 19 Reserves	-670	113	-557	-	-
- of which CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-	-	-	-
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	-	-	-	-	-
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-1,861	11	-1,850	-	-
Other filters and adjustments	**-**	**66**	**66**	**-**	**-**
Adjustments due to IFRS 9 transitional provisions	**-3,126**	**2,970**	**-156**	**-**	**-819**
Total adjustments in the transitional period and instruments eligible for grandfathering	**-7,837**	**3,160**	**-4,677**	**731**	**-807**

In the third quarter, the EBA published two Q&As which resulted in the inclusion in the basis of calculation of the components of regulatory capital, among adjustments due to IFRS 9 transitional provisions, as previously described, of the provisions outstanding as at 31 December 2017 on off-balance-sheet exposures, as well as of the provisions on debt securities, classified as AFS in accordance with IAS 39 and measured at Fair Value through Other Comprehensive Income (FVOC) under FTA IFRS 9.

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), as at 30 September 2018 the Banking Group's total own funds must amount to at least 11.62% of total risk-weighted assets (total capital ratio including the minimum requirement for Pillar 1, the additional Pillar 2 requirement equal to 1.5%, the capital conservation buffer, equal to 1.875% under the transitional arrangements in force for 2018, the additional O-SII Buffer, equal to 0.19% under the transitional arrangements in force for 2018, and the Institution specific Countercyclical Capital Buffer, equal to 0.05% in the third quarter of 2018) arising from the risks typically associated with banking and financial activity (credit, counterparty, market and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risks following insurance coverage. The competent authorities, as part of the Supervisory Review and Evaluation Process (SREP), may require higher capital requirements compared to those resulting from the application of the regulatory provisions.

As already illustrated in the Section on "Own Funds", the total regulatory capital is made up of the algebraic sum of the elements specified below:

- Tier 1 Capital (capable of absorbing losses under going concern conditions). This capital is divided into Common Equity Tier 1 Capital and Additional Tier 1 Capital;
- Tier 2 Capital (capable of absorbing losses in the event of a crisis).

The elements indicated above are subject to the following limits:

- Common Equity Tier 1 must at all times be equal to at least 4.5% of risk-weighted assets;
- Tier 1 Capital must at all times be equal to at least 6% of risk-weighted assets;
- Own Funds (i.e. the total regulatory capital), equal to Tier 1 plus Tier 2 Capital, must at all times be equal to at least 8.0% of risk-weighted assets.

Following the Supervisory Review and Evaluation Process (SREP), the ECB annually makes a final decision on the capital requirement that Intesa Sanpaolo must comply with at consolidated level.
On 22 December 2017, Intesa Sanpaolo received the final decision from the ECB regarding the overall capital requirement the Bank has to meet in terms of Common Equity Tier 1 ratio from 1 January 2018, set at 8.065% under the transitional arrangements for 2018 and at 9.25% on a fully loaded basis.
This requirement for the Common Equity Tier 1 ratio for 2018 is the result of: a) the SREP requirement in terms of Total Capital ratio of 9.5%, comprising a minimum Pillar 1 capital requirement of 8%, of which 4.5% is Common Equity Tier 1 ratio, and a 1.5% additional Pillar 2 capital requirement, entirely in terms of Common Equity Tier 1 ratio; b) the additional requirement relating to a Capital Conservation Buffer of 1.875% under the transitional arrangements for 2018 and 2.5% on a fully loaded basis in 2019, and the additional O-SII Buffer (Other Systemically Important Institutions Buffer) requirement of 0.19% under the transitional arrangements for 2018 and 0.75% on a fully loaded basis in 2021.
Considering the additional requirement consisting of the Institution specific Countercyclical Capital Buffer[1], based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.125% under the transitional arrangements in force for 2018 and 9.32% on a fully loaded basis.

On 31 August 2018, the Group received the authorisation to use the new Retail model, applied to the Retail Mortgages sub-segment (Model Change) and the Other Retail sub-segment (First Adoption). The new model adopts a counterparty approach instead of the previous product approach. During the first disbursement phase, an on-line rating is calculated, also including social and income information. A mass calculation is then used for the entire Retail portfolio (Retail and Other Retail Mortgages).

There were no changes in the scope of application of the internal models concerning counterparty risk for OTC derivatives and operational risks compared to 31 December 2017.

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 2018.

[1] Countercyclical Capital Buffer calculated taking into account the exposure as at 30 September 2018 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities for 2018-2019, if available, or at the latest update of the reference period (this requirement was set to zero per cent for Italy for 2018).

EU OV1 – Overview of RWAs

(millions of euro)

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			30.09.2018	30.06.2018	30.09.2018
	1	**Credit risk (excluding CCR)**	**215,343**	**222,452**	**17,227**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*72,034*	*86,241*	*5,763*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*1,184*	*1,142*	*95*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*137,131*	*130,254*	*10,970*
Article 438(d)	*5*	*Of which equity with simple risk-weighted approach or PD/LGD*	*4,994*	*4,815*	*399*
Article 107 Article 438(c)(d)	**6**	**CCR**	**7,129**	**7,166**	**570**
Article 438(c)(d)	*7*	*Of which mark to market*	*2,052*	*1,538*	*164*
Article 438(c)(d)	*8*	*Of which original exposure*	-	-	-
	9	*Of which the standardised approach*	-	-	-
	10	*Of which internal model method (IMM)*	*3,991*	*4,307*	*319*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*340*	*381*	*27*
Article 438(c)(d)	*12*	*Of which CVA*	*746*	*940*	*60*
Article 438(e)	**13**	**Settlement risk**	**-**	**1**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**3,535**	**3,958**	**283**
	15	*Of which IRB approach*	*157*	*129*	*12*
	16	*Of which IRB supervisory formula approach (SFA)*	*1,209*	*1,258*	*97*
	17	*Of which internal assessment approach (IAA)*	-	-	-
	18	*Of which standardised approach*	*2,169*	*2,571*	*174*
Article 438 (e)	**19**	**Market risk**	**19,120**	**17,322**	**1,530**
	20	*Of which the standardised approach*	*2,458*	*2,017*	*197*
	21	*Of which IMA*	*16,662*	*15,305*	*1,333*
Article 438(e)	**22**	**Large exposures**	**-**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**17,962**	**17,962**	**1,437**
	24	*Of which basic indicator approach*	*779*	*779*	*62*
	25	*Of which standardised approach*	*2,325*	*2,325*	*186*
	26	*Of which advanced measurement approach*	*14,858*	*14,858*	*1,189*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**12,855**	**13,522**	**1,028**
Article 500	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**TOTAL**	**275,944**	**282,383**	**22,075**

The total amount of risk-weighted exposures recorded as at 30 September 2018 was approximately 276 billion euro, with a change of approximately -6 billion euro compared to 30 June 2018. In particular please note the following:

– as regards credit risk (excluding counterparty risk), a significant decrease, mainly due to the Other Retail segment's transition to AIRB internal models, the discharge of a significant exposure to a foreign counterparty and the recovery of the eligibility of financial guarantees;

- as regards counterparty risk, a decrease in the component with internal models, almost completely due to the improvement in the credit quality of counterparties, offset by the increase in risk of the mark-to-market component on SFT exposures;
- as regards securitisation exposures in the banking book, a slight decrease relating to the standardised approach;
- as regards market risk, an increase, mainly attributable to internal models, as a result of the rise in volatility observed on the markets.

For details of the RWA changes with the IRB, IMM and IMA approaches, see the qualitative comments at the bottom of the RWA Flow Statement tables (EU CR8, EU CCR7 and EU MR2-B).

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

(millions of euro)

		RWA AMOUNTS	CAPITAL REQUIREMENTS
1	**RWAs as at 30 June 2018**	**144,351**	**11,548**
2	Asset size	-3,124	-250
3	Asset quality	-76	-6
4	Model updates	9,339	747
5	Methodology and policy	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	38	3
8	Other	336	27
9	**RWAs as at 30 September 2018 (*)**	**150,864**	**12,069**

(*) As at 30 September 2018, the RWA relating to IRB models amounted to 150,864 million euro and was attributable to the Foundation IRB approach for 1,184 million euro (Row 3 EU OV1), to the Advanced IRB approach for 137,131 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 4,994 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 7,555 million euro (included in Row 27 EU OV1).

With regard to the changes in RWAs related to the exposures subject to credit risk measured using advanced approaches (for which the risk-weighted amount is determined in accordance with part three, title II, chapter 3, of the CRR, and the related capital requirement is determined in accordance with Article 92, paragraph 3, letter a), the following amounts are reported: 144,351 million euro at the end of June 2018 and 150,864 million euro at the end of September 2018. The change during the quarter, amounting to 6,513 million euro, is mainly attributable to the following components: an increase totalling +9,339 million euro as a result of the adoption of new internal models, which was due to the extension of advanced approaches to the Other Retail portfolio, measured in the previous quarter using the standardised approach (+6 billion euro), the application of the new Retail approaches to the Mortgage portfolio (+3 billion euro) and the extension of the internal models already used by ISP to the SME Retail portfolio of the Aggregate Set of Banca Popolare di Vincenza and Veneto Banca recently included in the business unit constituents (~ +300 million euro); a decrease of 3,124 million euro attributable to the decline in volumes (of which -2 billion euro deriving from the discharge of an exposure to a foreign counterparty).

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

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 30 June 2018**	**4,307**	**345**
2	Asset size	-35	-3
3	Credit quality of counterparties	-282	-23
4	Model updates (IMM only)	-	-
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	1	-
8	Other	-	-
9	**RWAs as at 30 September 2018**	**3,991**	**319**

With regard to the changes in RWAs related to CCR exposures (derivatives and SFTs, determined based on the IMM, in accordance with part three, title II, chapter 6 of the CRR) the following amounts are reported: 4,307 million euro at the end of June 2018 and 3,991 million euro at the end of September 2018. The overall decrease of 316 million euro between the two periods can mainly be broken down into the following effects: -281 million euro attributable to the improvement in the credit quality of exposures and -35 million euro attributable to the reduction in volumes.

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

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 30 June 2018**	**3,141**	**9,612**	**2,495**	**-**	**57**	**15,305**	**1,225**
1a	*Regulatory adjustment*	-	-	-	-	-	-	-
1b	*RWAs at the previous quarter-end (end of the day)*	*5,142*	*10,731*	*2,495*	-	*52*	*18,420*	*1,474*
2	Movement in risk levels	643	-417	-160	-	24	90	7
3	Model updates/changes	-	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	269	755	243	-	-	1,267	101
8a	*RWAs at the end of the reporting period (end of the day)*	*4,056*	*8,822*	*2,578*	-	*79*	*15,535*	*1,243*
8b	*Regulatory adjustment*	-	-	-	-	-	-	-
8	**RWAs as at 30 September 2018**	**4,053**	**9,950**	**2,578**	**-**	**81**	**16,662**	**1,333**

In the third quarter, RWAs relating to market risks subject to the internal model increased by 1,357 million euro. The VaR measurement reacted to the increase in volatility of credit spreads that occurred at the end of May and the beginning of June 2018. Though impacted by the move of the reference (now set from October 2011 to September 2012), the Stressed VaR recorded a decrease of 417 million euro in RWA in consideration of the hedging strategies implemented on the financial sector. The IRC (-160 million euro in RWA) also benefited from the same hedging strategies of the Stressed VaR. The prudential multiplier linked to the backtesting exceptions weighs on both the measurements.

Institution specific Countercyclical Capital Buffer

Below is the information relating to the “Countercyclical capital buffer”, prepared based on the ratios applicable at 30 September 2018 and Delegated Regulation (EU) 2015/1555 of the Commission of 28 May 2015 which integrates regulation (EU) No. 575/2013 of the European Parliament and of the Council (so-called CRR) regarding the regulatory technical standards pertaining to the publication of information in relation to the compliance of the institutions’ obligation to hold a countercyclical capital buffer pursuant to Article 440 of the same CRR. As established by Article 140, paragraph 1, of directive 2013/36/EU (so-called CRD IV), the institution specific countercyclical capital buffer is the weighted average of the countercyclical ratios which are applied in the countries where the relevant credit exposures of the institutions are located.
CRD IV established the obligation for the designated national authorities to activate an operational framework for the definition of the ratio of the countercyclical capital buffer (CCyB) starting from 1 January 2016. The ratio is subject to review on a quarterly basis. The European regulation was implemented in Italy with Bank of Italy circular no. 285, which contains suitable regulations concerning CCyB. Based on the analysis of the reference indicators, the Bank of Italy decided to set the countercyclical ratio (relating to the exposures towards Italian counterparties) for the fourth quarter of 2018 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 September 2018:
- the countercyclical capital ratios at individual country level were set, with the methods summarised above, generally equal to 0%, with the exception of the following countries: Sweden (2.00%), Norway (2.00%), Hong Kong (1.875%), Iceland (1.25%), Czech Republic (1%), Slovakia (1.25%) and United Kingdom (0.50%);
- at consolidated level, Intesa Sanpaolo's specific countercyclical ratio amounts to 0.051%.

Amount of the Institution specific Countercyclical Capital Buffer

(millions of euro)

Total risk exposure	275,944
Specific countercyclical ratio of the institution (%)	0.051%
Specific countercyclical capital buffer requirement of the institution	141

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

(millions of euro)

	Available capital (amounts)	30.09.2018	30.06.2018
1	Common Equity Tier 1 capital (CET1)	37,189	36,012
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	34,219	32,833
3	Tier 1 capital	42,044	41,354
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	39,074	38,175
5	Total capital	48,957	48,337
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	46,850	45,977
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	275,944	282,383
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	275,424	280,464
	Capital ratios		
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	13.5%	12.8%
10	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.4%	11.7%
11	Tier 1 capital (as a percentage of the risk exposure amount)	15.2%	14.6%
12	Tier 1 capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.2%	13.6%
13	Total capital (as a percentage of the risk exposure amount)	17.7%	17.1%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.0%	16.4%
	Leverage ratio		
15	Leverage ratio total exposure measure	675,453	665,393
16	Leverage ratio	6.2%	6.2%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.8%	5.7%

As described in the chapter "Own Funds", the first-time adoption of IFRS 9 and the "static" approach adopted during the transitional period (2018-2022), as permitted by Regulation (EU) 2017/2395, resulted in the effects on regulatory capital and prudential ratios as at 30 September 2018 (with and without applying the transitional provisions for IFRS 9) shown in the table above due to the following:

- the reduction of CET 1, due to the FTA impact linked to the first-time adoption of IFRS 9, after eliminating the shortfall existing as at 31 December 2017 on IRB exposures;
- the increase in CET 1 due to the re-inclusion of the gradually decreasing transitional component, as a result of the adoption of the adjustment introduced by the afore-mentioned Regulation, aimed at mitigating the impact of FTA;
- a positive impact on CET 1 resulting from the change in the classification of the financial assets in the new categories established by IFRS 9 and the consequent change in measurement metrics;
- an increase in the DTAs that are deducted from CET 1 due to the exceeding of the prudential thresholds, only when there is no requirement for their deduction under the local tax regulations;
- the increase in the excess reserve, based on the provisions of the aforementioned Regulation, may be added to the Tier 2 capital, up to the amount of 0.6% of IRB RWA, solely for the part in excess of the amount re-included in CET 1 as a result of the adoption of said transitional adjustment;
- the reduction of the risk-weighted assets (RWA) on standard exposures which reduced the risk exposure (EAD), as a result of the increase in the provisions linked to the first-time adoption of IFRS 9;
- the increase in risk-weighted assets (RWA) on standard exposures due to the application, under said provisions, of the scaling factor set out in Regulation (EU) 2017/2395.

Liquidity risk

LIQUIDITY RISK

The Group's liquidity position - supported by suitable high-quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for the first nine months of 2018: both regulatory indicators, LCR and NSFR, were met, already reaching a level well above the limits provided for by the European Regulations under normal conditions. In the third quarter of 2018, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 165%. For the purposes of compliance with the internal limits, the LCR indicator also takes account of the prudential estimate of the "additional outflows for other products and services", assessed based on the provisions of Delegated Regulation (EU) 2015/61 (Article 23).

The table below contains the quantitative information on the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured in accordance with the EU regulations (CRR and CRD IV) and subject to periodic reporting to the competent Supervisory Authority. The figures shown refer to the simple average of the last 12 months of monthly observations starting from the LCR recorded at the end of September 2018.

EU LIQ1 - LCR disclosure template and additional disclosure

(millions of euro)

SCOPE OF CONSOLIDATION		TOTAL WEIGHTED VALUE (AVERAGE)	
	Quarter ending	September 30th 2018	December 31st 2017
	Number of data points used in the calculation of averages	12	12
21	LIQUIDITY BUFFER [a]	75,146	74,568
22	TOTAL NET CASH OUTFLOWS	45,558	42,438
23	LIQUIDITY COVERAGE RATIO (%)	165%	176%

(a) Liquidity reserves, held by subsidiaries based in a third country subject to restrictions to assets transferability, are recognised only for the portion intended to cover net cash outflows in that third country. All excess amounts are therefore excluded from the consolidation.

At the end of September 2018, the Central Banks eligible and liquid reserves, mainly under centralised management by the Treasury Head Office Department of the Parent Company, including the reserves held with Central Banks (Cash and Deposits), amounted to a total of 173 billion euro (171 billion euro at December 2017), of which 82 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017). The HQLA component represented 64% of the own portfolio and 95% of the unencumbered. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Bonds Own Portfolio		Unencumbered (net of haircut)	
	30.09.2018	**31.12.2017**	**30.09.2018**	**31.12.2017**
Cash and Deposits held with Central Banks (HQLA)	39,439	43,343	39,439	43,343
Other High Quality Liquid Assets (HQLA)	71,725	62,663	37,944	42,821
Other eligible and/or marketable reserves	61,866	65,215	4,483	11,710
Total Group Liquidity Buffer	**173,030**	**171,221**	**81,866**	**97,874**

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

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was regularly provided to the corporate bodies and internal committees in order to ensure full awareness and manageability of the risk factors.

Leverage Ratio

Qualitative and quantitative disclosure

Under the Basel 3 prudential regulations, the Leverage ratio entered definitively into effect on 1 January 2015. The Leverage ratio measures the degree to which Tier 1 Capital covers the Banking Group's total exposure. The ratio is calculated by considering off-balance sheet exposures and assets. The objective of the indicator is to contain the degree of indebtedness on banks' accounts by establishing a minimum level of coverage of exposures with equity. The ratio, which is monitored by the authorities, is expressed in percent form and is subject to a regulatory minimum threshold of 3% (the Basel Committee's reference value).

The Leverage ratio is calculated quarterly. The indicator is monitored at both the individual and Banking Group level.

The Leverage ratio is calculated as the ratio of Tier 1 Capital to total exposure. Focusing on the denominator of the ratio, total exposure includes on-balance sheet exposures, net of any components deducted from Tier 1 Capital, and off-balance sheet exposures.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 30 September 2018 is presented below, disclosed in accordance with the regulatory principles of the CRR and set out according to the provisions of (EU) Implementing Regulation 2016/200.

The Leverage ratio is indicated according to the transitional provisions.

(millions of euro)

Capital and total exposure measure	30.09.2018	31.12.2017
Tier 1 capital	42,044	43,465
Leverage ratio total exposure measure	675,453	676,967
Leverage ratio	**6.2%**	**6.4%**

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

The Manager responsible for preparing the Company’s financial reports, Fabrizio Dabbene, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document “Basel 3 - Pillar 3 as at 30 September 2018” corresponds to the corporate records, books and accounts.

6 November 2018

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

Contacts

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GALLERIE D’ITALIA.
THREE MUSEUM VENUES: AN ITALIAN CULTURAL NETWORK.

Through the Gallerie d’Italia project, Intesa Sanpaolo intends to share its artistic and architectural heritage with the public at large: 1,000 works of art displayed in historic palazzi in three cities creating a unique museum network.

Set in an architectural context of great value, **Gallerie d’Italia - Piazza Scala in Milan** displays a selection of two hundred nineteenth-century works of the Lombard school of painting, along with a collection representative of twentieth-century Italian art. **Gallerie d’Italia - Palazzo Leoni Montanari in Vicenza** holds the most important western collection of Russian icons, examples of eighteenth-century Veneto art, and a collection of Attic and Magna Graecia pottery.

Gallerie d’Italia - Palazzo Zevallos Stigliano in Naples houses The *Martyrdom of Saint Ursula*, Caravaggio’s last documented painting, as well as a collection of over one hundred and twenty artworks representative of Neapolitan artistic output from the early seventeenth century to the beginning of the twentieth century.

Cover photo:

CARLO BRANCACCIO (Naples 1861–1920)
Napoli, Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression c. 1888-1889
oil on canvas, 40 x 80 cm
Intesa Sanpaolo Collection
Gallerie d’Italia - Palazzo Zevallos Stigliano, Naples

Napoli, *Via Toledo: impressione di pioggia / Naples, Via Toledo: Rain Impression* by Carlo Brancaccio depicts an outdoor daily-life scene with a lively narrative style. The artist is particularly renowned for his radiant depictions of the most famous streets and sites in Naples, as well as for his seascapes and landscapes.

This picture is part of the permanent collection on display at Gallerie d’Italia - Palazzo Zevallos Stigliano, Intesa Sanpaolo’s museum venue in Via Toledo, Naples. This collection of nineteenth-century paintings offers a remarkable overview of landscape painting, a genre that experienced an incredible season in Naples, on a par with the most advanced figurations developed in the rest of Europe.