Basel 3 Pillar 3

Disclosure as at 31 March 2018

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa al pubblico al 31 marzo 2018". In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on group.intesasanpaolo.com.
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All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

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Disclosure as at 31 march 2018

Intesa Sanpaolo S.p.A.
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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 is entrusted to the EBA (European Banking Authority), bearing the regulatory or implementing technical standards to regulate the uniform templates for the disclosure of various types of information.

The issue of Pillar 3 disclosure was also the subject of analyses by the Basel Committee in its standard “Revised Pillar 3 disclosure requirements” of January 2015. This document provides indications to the Supervisory Authorities, which should have them incorporated in the national regulations (in our case the EU) so that they come into force. In this regard, on 14 December 2016, the EBA published the final version of the “Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013” (EBA/GL/2016/11). The aim of these guidelines is to increase and improve the consistency and comparability of the information to be provided for Pillar 3, which, from 31/12/2017, requires the publication of new tables in the Pillar 3 disclosure, for G-SII and O-SII 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. These guidelines were also implemented in the proposed draft for the amendment of CRR 575 published in November 2016. 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 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 February 2018, the Basel Committee published the “Pillar 3 disclosure requirements - updated framework” document, in consultation until 25 May 2018, which represents the third phase of revision of the disclosure requirements issued in 2004. The purpose of this proposal, in line with the previous revision phases, is to establish a single reference framework. The document seeks to promote market discipline through regulatory disclosure requirements and it contains:

- new or revised requirements linked to the consolidation of reforms within the Basel 3 framework issued in December 2017, 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 (European Banking Authority) with a specific document regarding the guidelines on materiality, proprietary and confidentiality and on the frequency of disclosure to be provided in Pillar 3 (Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No. 575/2013), which governs additional significant aspects of the preparation of Pillar 3 disclosure:
– application by the institutions of the Materiality criterion;
– application by the institutions of the Proprietary and Confidentiality criteria;
– need to publish the disclosure more frequently than once a year.

The 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), with additional disclosure requirements for liquidity risk measured through the liquidity coverage ratio.

Lastly, 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”. Since the ISP Group has 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.

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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. There were no significant changes in the prudential scope of consolidation with respect to 31 December 2017, except for the inclusion within the scope of consolidation, from 31 March 2018, of Eximbank s.a. (Moldova). For the latter, resulting from the acquisition of the certain assets and liabilities of Banca Popolare di Vicenza and Veneto Banca, the condition of control by Intesa Sanpaolo was subject to the sale of the non-performing loans of the investee, as certified by the Panel of Experts following the due diligence, to Veneto Banca in compulsory administrative liquidation. 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.

In relation to the scope of application of the provisions of the CRR, which refers - as previously indicated - to a “prudential” consolidation area, and the provisions of the CRR, this document does not illustrate all the types of risk that the Intesa Sanpaolo Group is exposed to. Details on own funds and capital ratios are also published in the consolidated Interim Statements for March and September and in the Half-yearly Report.
With specific reference to the information on the Leverage ratio, please note that in February 2016 Commission Implementing Regulation 2016/200 was published in the Official Journal of the European Union, laying down implementing technical standards with regard to the disclosure on the Leverage ratio, under EU Regulation No. 575/2013. Therefore, starting from 31 March 2016, the Intesa Sanpaolo Group has been publishing the Leverage ratio on the basis of the provisions contained in the Delegated Act.

Starting from 2016, the disclosure obligations concerning the countercyclical capital buffers have also been applied. 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.

Under the terms of art. 433 of the CRR, banks publish the disclosures envisaged in European regulations at least once a year, at the same time as the financial statements. They are also required to assess the need to publish some or all these disclosures more frequently, based on the significant characteristics of current activities. In particular, entities must assess whether there is a need to publish disclosures more frequently in relation to "Own Funds" (art. 437), "Capital Requirements" (art. 438), and disclosures regarding risk exposure or other aspects subject to rapid change. In this regard, it is also necessary to consider the specific instructions introduced by the new EBA Guidelines (EBA/GL/2016/11), which require interim disclosures of certain information.

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

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

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 no. 285: Supervisory regulations for banks;
- Bank of Italy Circular no. 286: Instructions for preparing prudential reports for banks and Italian investment companies;
- Update of Bank of Italy Circular no. 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 the European Union in Regulation 680/2014 and by its subsequent amendments and additions.

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 rating;
- 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 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) of 26 June 2013, relating to the introduction of the amendments to IAS 19 solely for 2018, as at 31 December 2017 the transition phase for the introduction of the "Basel 3" regulatory framework had been completed, which 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 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).

On the other hand, 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 Regulation EU 2935/2017 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 transitional 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 31 March 2018 is summarised in the table below.

(millions of euro)

	31.03.2018	31.12.2017
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**45,515**	**48,219**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**-1,457**	**-1,272**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**44,058**	**46,947**
D. Items to be deducted from CET 1	**-9,922**	**-10,176**
E. Transitional period - Impact on CET1 (+/-)	**3,373**	**1,280**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**37,509**	**38,051**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**5,432**	**5,640**
of which AT1 instruments subject to transitional adjustments	820	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)	**5,432**	**5,414**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**9,456**	**8,776**
of which T2 instruments subject to transitional adjustments	741	541
N. Items to be deducted from T2	**-827**	**-821**
O. Transitional period - Impact on T2 (+ / -)	**-903**	**-47**
P. Total Tier 2 (T2) (M - N +/- O)	**7,726**	**7,908**
Q. Total own funds (F + L + P)	**50,667**	**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, 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 Regulation EU 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 662 million euro, equals around 115 million euro.

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	31.03.2018	31.12.2017
Group Shareholders' equity	54,552	56,205
Minority interests	342	399
Shareholders' equity as per the Balance Sheet	**54,894**	**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	-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	-3	-5
- Ineligible minority interests on full phase-in	-305	-335
- Ineligible net income for the period [a]	-1,102	-3,500
- Treasury shares included under regulatory adjustments	94	94
- Other ineligible components on full phase-in [b]	-3,452	-24
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**45,515**	**48,219**
Regulatory adjustments (including transitional adjustments) [c]	**-8,006**	**-10,168**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**37,509**	**38,051**

(a) Common Equity Tier 1 capital as at 31 March 2018 includes the net income for the first quarter of 2018, 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) The amount as at 31 March 2018 primarily includes the dividend and the portion intended for charitable donations relating to 2017 net income, as approved by the Shareholders' Meeting on 27 April 2018.

(c) Adjustments for the transitional period as at 31 March 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)

	31.03.2018	31.12.2017
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	8,247	8,247
Share premium reserve	26,006	26,006
Reserves [(a)]	14,843	10,890
Accumulated other comprehensive income [(b)]	-331	-790
Net income (loss) for the period	1,252	7,316
Net income (loss) for the period not eligible	-1,102	-
Dividends and other foreseeable charges [(c)]	-3,426	-3,500
Minority interests	26	50
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**45,515**	**48,219**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-94	-94
Goodwill	-4,076	-4,079
Other intangible assets	-3,022	-3,103
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,360	-1,417
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-247	-530
Defined benefit pension funds assets	-	-
Prudential filters	795	756
- of which Cash Flow Hedge Reserve	*944*	*1,000*
- of which Gains or Losses due to changes in own credit risk (DVA)	*46*	*-36*
- of which Prudent valuation adjustments	*-195*	*-208*
- of which Other prudential filters	*-*	*-*
Exposures to securitisations deducted rather than risk weighted at 1250%	-226	-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)]	-2,026	-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	*-2,026*	*-1,776*
Deductions with threshold of 17.65% [(e)]	-706	-560
Positive or negative elements - other	-417	-393
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-11,379**	**-11,448**
Total adjustments in the transitional period (CET1)	**3,373**	**1,280**
Common Equity Tier 1 (CET1) - Total	**37,509**	**38,051**

(a) Amount included in CET1, 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 considers the dividends on 2017 results, the portion of the remuneration of the AT1 instruments issued at the 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 DTA 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 31 March 2018 is equal to 226 million euro.

The "Negative elements – other" mainly include the sterilisation in common equity of deferred tax assets (DTA) associated with tax realignment of a single item of goodwill.
The amount of the filter as at 31 March 2018 is equal to 204 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

	31.03.2018	31.12.2017
Additional Tier 1 capital (AT1)		
Saving shares	485	485
Other AT1 instruments	4,121	4,121
Minority interests	6	9
Additional Tier 1 capital (AT1) before regulatory adjustments	**4,612**	**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	**820**	**1,025**
Additional Tier 1 (AT1) - Total	**5,432**	**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	387
Intesa Sanpaolo	up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	YES	1,250,000,000	303
Intesa Sanpaolo	up to 24/9/2018 (excluded): 8.698%; thereafter 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	YES	250,000,000	130
Total Additional Tier 1 instruments subject to transitional provisions									**820**
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	1,250
Intesa Sanpaolo	7.75% fixed rate (up to the first call date)	NO	11-Jan-2017	perpetual	11-Jan-2027	Eur	NO	1,250,000,000	1,250
Intesa Sanpaolo	7.70% fixed rate (up to the first call date)	NO	17-Sep-2015	perpetual	17-Sep-2025	Usd	NO	1,000,000,000	871
Total Additional Tier 1 instruments not subject to transitional provisions									**4,121**
Total Additional Tier 1 equity instruments									**4,941**

Tier 2 Capital (T2)

(millions of euro)

	31.03.2018	31.12.2017
Tier 2 Capital (T2)		
T2 Instruments	7,809	8,105
Minority interests	3	5
Excess of provisions over expected losses eligible (excess reserve)	903	125
Tier 2 capital before regulatory adjustments	**8,715**	**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	-827	-821
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-827**	**-821**
Total adjustments in the transitional period, including minority interests (T2)	**-903**	**-47**
T2 instruments eligible for grandfathering	**741**	**541**
Tier 2 Capital (T2) - Total	**7,726**	**7,908**

Tier 2 (T2) equity instruments

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathe-ring	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo (*)	8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 687 bps/p.a.	YES	14-Oct-2009	perpetual	14-Oct- 2019	Eur	YES	1,500,000,000	344
Intesa Sanpaolo (*)	up to 20/6/2018 excluded: 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun- 2018	Eur	YES	1,250,000,000	269
Intesa Sanpaolo (*)	8.698% up to 24/9/2018 excluded; thereafter 3-month Euribor 3 + 5.05%	YES	24-Sep-2008	perpetual	24-Sep- 2018	Eur	YES	250,000,000	116
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									**741**
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	1,592
Intesa Sanpaolo	6.6625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,409
Intesa Sanpaolo	5.71% fixed rate	NO	15-Jan-2016	15-Jan-2026	NO	Usd	NO	1,500,000,000	1,190
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	665
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	423
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	310
Intesa Sanpaolo	2.855% fixed rate	NO	23-Apr-2015	23-Apr-2025	NO	Eur	NO	500,000,000	480
Intesa Sanpaolo	6.625% fixed rate	NO	08-May-2008	08-May-2018	NO	Eur	NO	1,250,000,000	17
Intesa Sanpaolo	5.75% fixed rate; from 28/05/2013 3-month Euribor +1.98%	YES	28-May-2008	28-May-2018	NO	Eur	NO	1,000,000,000	8
Intesa Sanpaolo	6.16 % fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	NO	120,000,000	6
Intesa Sanpaolo	up to 26/6/2013 excluded: 4.375% p.a.; thereafter: 3-month Euribor + 1.00% p.a.	YES	26-Jun-2006	26-Jun-2018	NO	Eur	NO	500,000,000	5
Total Tier 2 instruments not subject to transitional provisions									**7,809**
Total Tier 2 instruments									**8,550**

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

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

(millions of euro)

	31.03.2018	31.12.2017
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,687	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	3,687	3,912
C. Threshold of 17.65% for significant investments and DTA not deducted in the threshold described under point B	5,121	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%.

Transitional period adjustments as at 31 March 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	**-**	**-**	**-**	**820**	**741**
Minority interests	**26**	**-**	**26**	**-**	**-**
Other adjustments in the transitional period	**655**	**-**	**655**	**-**	**-**
- of which Unrealised gains on assets measured at fair value	655	-	655	-	-
- of which Unrealised losses on assets measured at fair value	-	-	-	-	-
Regulatory adjustments	**-4,295**	**399**	**-3,896**	**-**	**-**
- of which Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,360	-	-1,360	-	-
- of which Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-247	-	-247	-	-
- of which IAS 19 Reserves	-662	117	-545	-	-
- of which CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-	-	-	-
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	-	-	-	-	-
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-2,026	282	-1,744	-	-
Other filters and adjustments	**-**	**272**	**272**	**-**	**-**
Adjustments due to IFRS 9 transitional provisons	**-2,845**	**2,702**	**-143**	**-**	**-903**
Total adjustments in the transitional period and instruments eligible for grandfathering	**-6,459**	**3,373**	**-3,086**	**820**	**-162**

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 31 March 2018 the Banking Group's total own funds must amount to at least 11.59% 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 0.02% in the first 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 equal to 0.07%[1], based on the latest information available, the Common Equity Tier 1 ratio to be met is 8.135% under the transitional arrangements in force for 2018 and 9.32% on a fully loaded basis.

With regard to credit risk, there were no changes in the scope of application of the internal models compared to 31 December 2017. The development of the IRB systems is proceeding according to the plan presented to the Supervisory Authority. Lastly, 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] Calculated taking into account the exposure as at 31 March 2018 in the various countries where the Group has a presence, as well as the respective requirements set by the competent national authorities for the period 2018-2019, if available, or at the latest update of the reference period (this requirement was set to zero per cent for Italy for the second quarter of 2018).

EU OV1 – Overview of RWAs

(millions of euro)

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			31.03.2018	31.12.2017	31.03.2018
	1	**Credit risk (excluding CCR)**	**223,090**	**224,426**	**17,847**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*87,886*	*89,908*	*7,031*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*1,240*	*1,319*	*99*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*127,888*	*129,078*	*10,231*
Article 438(d)	*5*	*Of which equity with simple risk-weighted approach or PD/LGD*	*6,076*	*4,121*	*486*
Article 107 Article 438(c)(d)	**6**	**CCR**	**7,892**	**7,922**	**631**
Article 438(c)(d)	*7*	*Of which mark to market*	*1,786*	*1,852*	*143*
Article 438(c)(d)	*8*	*Of which original exposure*	*-*	*-*	*-*
	9	*Of which the standardised approach*	*-*	*-*	*-*
	10	*Of which internal model method (IMM)*	*4,675*	*4,652*	*374*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*544*	*473*	*43*
Article 438(c)(d)	*12*	*Of which CVA*	*887*	*945*	*71*
Article 438(e)	**13**	**Settlement risk**	**1**	**1**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**3,032**	**3,247**	**242**
	15	*Of which IRB approach*	*264*	*237*	*21*
	16	*Of which IRB supervisory formula approach (SFA)*	*495*	*663*	*39*
	17	*Of which internal assessment approach (IAA)*	*-*	*-*	*-*
	18	*Of which standardised approach*	*2,273*	*2,347*	*182*
Article 438 (e)	**19**	**Market risk**	**15,752**	**17,832**	**1,261**
	20	*Of which the standardised approach*	*2,469*	*2,607*	*198*
	21	*Of which IMA*	*13,283*	*15,225*	*1,063*
Article 438(e)	**22**	**Large exposures**	**-**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**18,617**	**18,597**	**1,489**
	24	*Of which basic indicator approach*	*779*	*759*	*62*
	25	*Of which standardised approach*	*2,325*	*2,325*	*186*
	26	*Of which advanced measurement approach*	*15,513*	*15,513*	*1,241*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**14,046**	**14,800**	**1,124**
Article 500	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**TOTAL**	**282,430**	**286,825**	**22,594**

The total amount of risk-weighted exposures recorded as at 31 March 2018 was 282,430 million euro, with a change of approximately -4.4 billion euro compared to 31 December 2017. The following items contributed to this change:

- Credit Risk of -1.3 billion euro: the reduction of internal IRB (-1.3 billion euro) and Standard (-2 billion euro) models was partly offset by the increase in exposures in equity instruments with simple weighting and weighting based on the PD/LGD method (+2 billion euro), which reflected the end of the transitional grandfathering option allowed for the calculation of the capital requirements of the equity investments acquired before 31 December 2007;
- Market Risk of -2.1 billion euro, of which -1.9 billion euro relating to movements with the IMA;
- Exposures below the thresholds for deduction of -0.75 billion euro;
- Exposures to securitisations of -0.2 billion euro.

For details of the RWA movements 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 first quarter

(millions of euro)

		RWA AMOUNTS	CAPITAL REQUIREMENTS
1	**RWAs as at 31 December 2017**	**136,625**	**10,930**
2	Asset size	1,128	90
3	Asset quality	-6,218	-497
4	Model updates	5,011	401
5	Methodology and policy	972	78
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	389	31
8	Other	6,027	482
9	**RWAs as at 31 March 2018 (*)**	**143,934**	**11,515**

(*) As at 31 March 2018, the RWA relating to IRB models amounted to 143,934 million euro and was attributable to the Foundation IRB approach for 1,240 million euro (Row 3 EU OV1), to the Advanced IRB approach for 127,888 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 6,076 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 8,730 million euro (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: 136,625 million euro as at 31 December 2017 and 143,934 million euro at the end of March 2018. The increase of 7,309 million euro between the two periods can be broken down into the following effects: +1,128 million euro attributable to the asset size; +5,011 million euro attributable to the allocation of new LGD values for the Corporate performing portfolio following the annual update of the time series (*Model updates*); +972 million euro attributable to the expiry, provided for by the regulations (grandfathering), of the transitional regime for the treatment of the equity investments acquired before 31 December 2007 (*Methodology and policy*); +389 million attributable to changes in exchange rates for exposures in original currencies other than the euro; +6,027 million euro mainly attributable to the reclassification to IRBA of significant capital investments, albeit with the maintenance of the fixed weighting of 250%, following the expiry of the transitional regime already noted above (*Other*). The above effects were partially offset by a reduction in RWAs, of -6,218 million euro, due to the improvement in the credit quality assigned to the counterparties present in the portfolio (*Asset quality*).

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

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 31 December 2017**	**4,652**	**372**
2	Asset size	150	12
3	Credit quality of counterparties	-288	-23
4	Model updates (IMM only)	160	13
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	1	-
8	Other	-	-
9	**RWAs as at 31 March 2018**	**4,675**	**374**

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: 4,652 million euro as at 31 December 2017 and 4,675 million euro as at the end of March 2018. The increase of +23 million euro between the two periods can be broken down into the following effects: +150 million euro attributable to the asset size; +160 million attributable to the implementation of a new LGD grid for the Corporate performing portfolio following the annual update of the time series (*Model updates (IMM only)*) and +1 million euro relating to the effects on exchange rates; the aforementioned impacts are partially offset by the effect, of -288 million euro, resulting from the improvement in the quality of credit granted to counterparties (*Credit quality of counterparties*).

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

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 31 December 2017**	**3,076**	**9,956**	**2,107**	**-**	**86**	**15,225**	**1,218**
1a	*Regulatory adjustment*	-	-	-	-	-	-	-
1b	*RWAs at the previous quarter-end (end of the day)*	*2,635*	*8,747*	*1,630*	-	*84*	*13,096*	*1,048*
2	Movement in risk levels	-447	-1,373	-80	-	-42	-1,942	-155
3	Model updates/changes	-	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	-	-	-	-	-	-	-
8a	*RWAs at the end of the reporting period (end of the day)*	*2,611*	*8,631*	*1,842*	-	*42*	*13,126*	*1,050*
8b	*Regulatory adjustment*	-	-	-	-	-	-	-
8	**RWAs as at 31 March 2018**	**2,629**	**8,583**	**2,027**	**-**	**44**	**13,283**	**1,063**

The RWAs relating to market risks decreased by around 2 billion on the previous quarter. The VaR figures were down (-447 million euro) as a result of the reduction in credit spread volatility. The Stressed VaR figures (-1,373 million euro) benefited from the reduction in the exposures in credit indices.

Specific countercyclical capital buffer of the institution

Below is the information relating to the "Countercyclical capital buffer", prepared based on the ratios applicable at 31 March 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 specific countercyclical ratio of the institution consists in 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 second 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 31 March 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 (0.50%) and Slovakia (0.50%);
- at consolidated level, Intesa Sanpaolo's specific countercyclical ratio amounts to 0.021%.

Amount of the specific countercyclical capital buffer of the institution

(millions of euro)

Total risk exposure	282,430
Specific countercyclical ratio of the institution	0.021%
Specific countercyclical capital buffer requirement of the institution	59

EU IFRS9-FL - Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS9 or analogous ECLs

(millions of euro)

	Available capital (amounts)	**31.03.2018**
1	Common Equity Tier 1 capital (CET1)	37,509
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	34,330
3	Tier 1 capital	42,941
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	39,762
5	Total capital	50,667
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	48,393
	Risk-weighted assets (amounts)	
7	Total risk-weighted assets	282,430
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	280,504
	Capital ratios	
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	13.3%
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	12.2%
11	Tier 1 capital (as a percentage of the risk exposure amount)	15.2%
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	Total capital (as a percentage of the risk exposure amount)	17.9%
14	Total capital (as a percentage of the risk exposure amount) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.3%
	Leverage ratio	
15	Leverage ratio total exposure measure	681,623
16	Leverage ratio	6.3%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.9%

As described in the chapter "Own Funds", the first-time adoption of IFRS 9 and the adoption of the "static" approach 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 31 March 2018 shown in the table above due to the following:

- the reduction in CET 1, in line with the decrease in the net book value, due to the increase in provisions -– net of tax – after having eliminated the shortfall outstanding as at 31 December 2017 on the IRB exposures and producing an excess reserve that, based on the provisions of the aforementioned regulation, may be added to the Tier 2 capital solely for the part in excess – from year to year – of the amount re-included in CET 1 as a result of the adoption of the transitional regime;
- 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 in the current year under the local tax regulations;
- the reduction of the risk-weighted assets on standard exposures as a result of the increase in the provisions that reduce the risk exposure (EAD).

Liquidity risk

LIQUIDITY RISK

The Group's liquidity position - supported by suitable extremely high quality liquid assets (EHQLA) and the significant contribution from retail stable funding - remained within the risk limits set out in the current Group Liquidity Policy for the first three months of 2018: both regulatory indicators, LCR and NSFR, were met, already reaching a level well above the regulatory requirements.
In the first quarter of 2018, the Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) n. 2015/61, amounted to an average of 176%, in line with the average figure for 2017. 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) n. 2015/61 (Article 23).
The table below contains the quantitative information on the regulatory 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 refer to the simple averages of month-end observations over the 12 months starting from the LCR recorded at the end of March 2018.

EU LIQ1 - LCR disclosure template and additional disclosure

(millions of euro)

SCOPE OF CONSOLIDATION		TOTAL WEIGHTED VALUE (AVERAGE)	
	Quarter ending	March 31st 2018	December 31st 2017
	Number of data points used in the calculation of averages	12	12
21	LIQUIDITY BUFFER (a)	76,316	74,568
22	TOTAL NET CASH OUTFLOWS	43,406	42,438
23	LIQUIDITY COVERAGE RATIO (%)	176%	176%

(a) Only the portion of reserves held by subsidiaries based in a third country subject to capital controls that is intended to cover net cash outflows in that third country is recognised (all excess amounts are therefore excluded from the consolidation).

At the end of March 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 166 billion euro (171 billion euro at the end of December 2017), of which 87 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017). The HQLA component represented 64% of the reserves in own portfolio and 93% of the unencumbered reserves. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Own Portfolio		Unencumbered (net of haircut)	
	31.03.2018	31.12.2017	31.03.2018	31.12.2017
Cash and Deposits held with Central Banks (EHQLA)	40,525	43,343	40,525	43,343
Highly liquid securities (EHQLA)	64,642	62,663	40,894	42,821
Other eligible and/or marketable reserves	60,410	65,215	5,932	11,710
Total Group Liquidity Buffer	**165,577**	**171,221**	**87,351**	**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 31 March 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.

(milions of euro)

Capital and total exposure measure	31.03.2018	31.12.2017
Tier 1 capital	42,941	43,465
Leverage ratio total exposure measure	681,623	676,967
Leverage ratio	**6.3%**	**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 31 March 2018” corresponds to the corporate records, books and accounts.

Milan, 8 May 2018

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

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Stampa e Prestampa: Agema® S.p.A.

Intesa Sanpaolo S.p.A., nel rispetto dell'ambiente, ha stampato questo bilancio su carta proveniente da foreste gestite in maniera responsabile secondo i criteri FSC® (Forest Stewardship Council®)

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.