INTESA SANPAOLO

Basel 3 Pillar 3

Disclosure as at 30 June 2018

This is an English translation of the original Italian document "Terzo Pilastro di Basilea 3 Informativa al pubblico al 30 giugno 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.

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

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

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

Basel 3 Pillar 3
Disclosure as at 30 June 2018

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.

Contents

Introduction

Notes to the Basel 3 Pillar 3 disclosure

With effect from 1 January 2014, the reforms of the accord by the Basel Committee (“Basel 3”) were implemented in the EU legal framework. Their aim is to improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks’ transparency and disclosure. 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 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. 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 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 issued in 2004 and, 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 (European Banking Authority) 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 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. The aim of these guidelines is to increase and improve the consistency and comparability of the information to be provided for Pillar 3, through the publication, from 31 December 2017, 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 CRR 575 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.

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.

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.

Lastly on 27 April 2018 the EBA submitted for public consultation until 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.

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.

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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), whose 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 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 for 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, 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").

References to the regulatory disclosure requirements

The tables below provide a summary of the location of the market disclosure, in accordance with the regulatory requirements governed by the European legislation and in particular CRR Part Eight and the EBA Guidelines:

- GL/2016/11 – "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No. 575/2013";
- GL/2017/01 – "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No. 575/2013";
- GL/2018/01 – "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".

Reference to the CRR Part Eight regulatory requirements

CRR Article	Pillar 3 Section Reference as at 30 June 2018	Frequency of publishing Pillar III disclosures	Reference to other company disclosures as at 30 June 2018
435 - Risk management objectives and policies	-	▪ Annual	▪ Half-yearly Report as at 30 June 2018 - Half-yearly condensed consolidated financial statements - Explanatory notes ▪ Half-yearly Report as at 30 June 2018 - Half-yearly report on operations - Overview of the first half of 2018
436 - Scope of application	-	▪ Annual	▪ Half-yearly Report as at 30 June 2018 - Half-yearly condensed consolidated financial statements - Explanatory notes
437 - Own funds	▪ Own funds ▪ Attachment - Own funds: terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments issued in the half-year[1] ▪ Attachment - Own funds: transitional own funds disclosure template	▪ Quarterly (except "Full reconciliation" table half-yearly) ▪ Quarterly (instruments issued in the period) / Annual (full disclosure) ▪ Half-yearly	▪ Half-yearly Report as at 30 June 2018 - Half-yearly condensed consolidated financial statements - Explanatory notes
438 - Capital Requirements	▪ Capital requirements	▪ Quarterly (summary) / Annual (full)	-
439 - Exposure to counterparty credit risk	▪ Counterparty risk	▪ Half-yearly (summary) / Annual (full)	▪ Half-yearly Report as at 30 June 2018 - Half-yearly condensed consolidated financial statements - Explanatory notes
440 - Capital buffers	▪ Capital requirements	▪ Quarterly (summary) / Half-yearly (full)	-
441 - Indicators of global systemic importance	-	▪ Annual	▪ Website (Indicators of the assessment methodology to identify the global systemically important banks)
442 - Credit risk adjustments	▪ Credit risk: credit quality	▪ Half-yearly (summary) / Annual (full)	▪ Half-yearly Report as at 30 June 2018 - Half-yearly condensed consolidated financial statements - Explanatory notes
443 - Unencumbered assets	-	▪ Annual	-
444 - Use of ECAIs	▪ Credit risk: disclosures on portfolios subject to the standardised approach	▪ Half-yearly (summary) / Annual (full)	-
445 - Exposure to market risk	▪ Market risk	▪ Half-yearly	-
446 - Operational risk	▪ Operational risk	▪ Half-yearly (summary) / Annual (full)	▪ Half-yearly Report as at 30 June 2018 - Half-yearly condensed consolidated financial statements - Explanatory notes
447 - Exposures in equities not included in the trading book	-	▪ Annual	-
448 - Exposure to interest rate risk on positions not included in the trading book	-	▪ Annual	-

[1] No instruments were issued in the half-year.

CRR Article	Pillar 3 Section Reference as at 30 June 2018	Frequency of publishing Pillar III disclosures	Reference to other company disclosures as at 30 June 2018
449 - Exposure to securitisation positions	-	▪ Annual	-
450 - Remuneration policy	-	▪ Annual	-
451 - Leverage	▪ Leverage Ratio	▪ Quarterly (summary) / Half-yearly (full)	-
452 - Use of the IRB Approach to credit risk	▪ Credit risk: disclosures on portfolios subject to IRB approaches	▪ Half-yearly (summary) / Annual (full)	▪ Half-yearly Report as at 30 June 2018 - Half-yearly condensed consolidated financial statements - Explanatory notes
453 - Use of credit risk mitigation techniques	▪ Credit risk mitigation techniques	▪ Half-yearly (summary) / Annual (full)	-
454 - Use of the Advanced Measurement Approaches to operational risk	▪ Operational risk	▪ Annual	▪ Half-yearly Report as at 30 June 2018 - Half-yearly condensed consolidated financial statements - Explanatory notes
455 - Use of Internal Market Risk Models	▪ Market risk	▪ Half-yearly	▪ Half-yearly Report as at 30 June 2018 - Half-yearly condensed consolidated financial statements - Explanatory notes
492 – Disclosure of own funds	▪ Own Funds ▪ Attachment – Own funds: transitional own funds disclosure template	▪ Quarterly ▪ Half-yearly	-

Reference to EBA requirements (EBA/GL/2016/11, EBA/GL/2017/01 and EBA/GL/2018/01)

The table below shows the location within the Pillar 3 document of the disclosure requirements introduced by the EBA Guidelines (EBA/GL/2016/11 and EBA/GL/2017/01), in force from 31 December 2017. In addition, the requirement was implemented regarding the IFRS9 transitional period requested by the EBA Guidelines (EBA/GL/2018/01), with first-time adoption on 31 March 2018.

EBA GL Table	Description of EBA GL Table	ISP Group publication frequency	Pillar III Section (annual document)
EU OVA	Institution risk management approach	Annual	Section 1 – General requirements
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Annual	Section 2 – Scope of application
EU LI1	Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	Annual	
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Annual	
EU LIA	Explanations of differences between accounting and regulatory exposure amounts	Annual	
EU OV1	Overview of RWAs	Quarterly	Section 4 - Capital Requirements
EU CR8	RWA flow statements of credit risk exposures under the IRB approach	Quarterly	
EU CCR7	RWA flow statements of CCR exposures under the IMM	Quarterly	
EU MR2-B	RWA flow statements of market risk exposures under the IMA	Quarterly	
EU INS1[2]	Non-deducted participations in insurance undertakings	Half-yearly	
EU IFRS9-FL	Comparison of own funds, capital ratios and leverage ratio with and without the application of transitional provisions for IFRS 9	Quarterly	
EU LIQA	Qualitative information of liquidity risk	Quarterly (summary) / Half-yearly (full)	Section 5 – Liquidity Risk
EU LIQ1	LCR disclosure template and additional disclosure	Quarterly (summary) / Half-yearly (full)	
EU CRA	General information about credit risk	Annual	Section 6 – Credit risk: General information
EU CRB-B	Total and average net amount of exposures	Annual	
EU CRB-C	Geographical breakdown of exposures	Annual	
EU CRB-D	Concentration of exposures by industry or counterparty types	Annual	
EU CRB-E	Breakdown of exposures by residual maturity	Annual	
EU CRB-A	Additional disclosure related to the credit quality of assets	Annual	Section 7 – Credit risk: Credit quality
EU CR1-A	Credit quality of exposures by exposure class and instrument	Half-yearly	
EU CR1-B	Credit quality of exposures by industry or counterparty types	Half-yearly	
EU CR1-C	Credit quality of exposures by geography	Half-yearly	
EU CR1-D	Ageing of past-due exposures	Half-yearly	
EU CR1-E	Non-performing and forborne exposures	Half-yearly	
EU CR2-B	Changes in gross non-performing on-balance sheet exposures	Half-yearly	
EU CR2-A	Changes in adjustments to non-performing on-balance sheet exposures	Half-yearly	
EU CRD	Qualitative disclosure on the institution’s use of external credit ratings under the standardised approach for credit risk	Annual	Section 8 – Credit risk: Disclosures on portfolios subject to the standardised approach
EU CR4	Standardised approach - Credit risk exposure and CRM effects	Half-yearly	
EU CR5	Standardised approach - Exposures post CCF and CRM	Half-yearly	
EU CR5a	Standardised approach - Exposures before CCF and CRM	Half-yearly	
EU CRE	Qualitative disclosure on IRB models	Annual	Section 9 – Credit risk: Disclosures on portfolios subject to IRB approaches
EU CR7	IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques	Half-yearly	
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	Half-yearly	
EU CR10	IRB (specialised lending and equities)	Half-yearly	
EU CR9	IRB approach – Backtesting of PD per exposure class	Annual	

[2] Table not applicable to the Intesa Sanpaolo Group

EBA GL Table	Description of EBA GL Table	ISP Group publication frequency	Pillar III Section (annual document)
EU CRC	Qualitative disclosure on CRM techniques	Annual	Section 10 – Risk mitigation techniques
EU CR3	CRM techniques – Overview	Half-yearly	
EU CCRA	Qualitative disclosure on CCR	Annual	Section 11 – Counterparty risk
EU CCR1	Analysis of CCR exposure by approach	Half-yearly	
EU CCR2	CVA capital charge	Half-yearly	
EU CCR3	Standardised approach – CCR exposures by regulatory portfolio and risk weighting	Half-yearly	
EU CCR3a	Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation	Half-yearly	
EU CCR4	IRB approach – CCR exposures by portfolio and PD scale	Half-yearly	
EU CCR6	Credit derivatives exposures	Half-yearly	
EU CCR5-A	Impact of netting and collateral held on exposure values	Half-yearly	
EU CCR5-B	Composition of collateral for exposures to CCR	Half-yearly	
EU CCR8	Exposures to CCPs	Half-yearly	
EU MRA	Qualitative disclosure on market risk	Annual	Section 13 – Market risk
EU MRB	Qualitative disclosure for institutions using the IMA	Annual	
EU MR1	Market risk under the standardised approach	Half-yearly	
EU MR2-A	Market risk under the IMA	Half-yearly	
EU MR3	IMA values for trading portfolios	Half-yearly	
EU MR4	Comparison of VaR estimates with gains/losses	Half-yearly	

Own funds

Qualitative 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: Supervisory regulations for Banks;
- Bank of Italy Circular 286: Instructions for preparing prudential reports for Banks and Italian Investment Companies;
- Update to Bank of Italy Circular 154: Credit and financial institutions supervisory reports: Preparation and transmission.

The harmonised reporting requirements contained in Circulars 286 and 154 will now be gradually repealed by those established by the 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 has been 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 Regulation EU 2395/2017 of adopting the “static” approach that allows the neutralisation in its CET 1 of a progressively decreasing amount of the impact of IFRS 9 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.

Quantitative disclosure

Breakdown of Own Funds

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

(millions of euro)

	30.06.2018	31.12.2017
A. Common Equity Tier 1 (CET1) before the application of prudential filters	**44,414**	**48,219**
of which CET1 instruments subject to transitional adjustments	-	-
B. CET1 prudential filters (+ / -)	**599**	**756**
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	**45,013**	**48,975**
D. Items to be deducted from CET 1	**-12,375**	**-12,204**
E. Transitional period - Impact on CET1 (+/-)	**3,374**	**1,280**
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	**36,012**	**38,051**
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	**5,342**	**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)	**5,342**	**5,414**
M. Tier 2 (T2) before items to be deducted and effects of transitional period	**8,634**	**8,776**
of which T2 instruments subject to transitional adjustments	12	541
N. Items to be deducted from T2	**-832**	**-821**
O. Transitional period - Impact on T2 (+ / -)	**-819**	**-47**
P. Total Tier 2 (T2) (M - N +/- O)	**6,983**	**7,908**
Q. Total own funds (F + L + P)	**48,337**	**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 677 million euro, equals around 114 million euro.

Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, as well as the filters and deductions applied to the institution’s own funds and the balance sheet of the financial statements are shown at the end of this Section.

Attachment 1 reports the Transitional Own Funds Disclosure Template envisaged in the instructions issued by the EBA.

Reconciliation of net book value and Common Equity Tier 1 Capital

(millions of euro)

Captions	30.06.2018	31.12.2017
Group Shareholders' equity	50,863	56,205
Minority interests	364	399
Shareholders' equity as per the Balance Sheet	**51,227**	**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	-333	-335
- Ineligible net income for the period (a)	-1,932	-3,500
- Treasury shares included under regulatory adjustments	131	94
- Other ineligible components on full phase-in	-65	-24
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**44,414**	**48,219**
Regulatory adjustments (including transitional adjustments) (b)	**-8,402**	**-10,168**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**36,012**	**38,051**

(a) Common Equity Tier 1 capital as at 30 June 2018 includes the net income for the first half 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) Adjustments for the transitional period as at 30 June 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)

	30.06.2018	31.12.2017
Common Equity Tier 1 capital (CET1)		
Share capital - ordinary shares	8,247	8,247
Share premium reserve	23,940	26,006
Reserves [(a)]	13,320	10,890
Accumulated other comprehensive income [(b)]	-1,363	-790
Net income (loss) for the period	2,179	7,316
Net income (loss) for the period not eligible	-1,932	-
Dividends and other foreseeable charges [(c)]	-	-3,500
Minority interests	23	50
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**44,414**	**48,219**
Common Equity Tier 1 capital (CET1): Regulatory adjustments		
Treasury shares	-131	-94
Goodwill	-4,099	-4,079
Other intangible assets	-3,050	-3,103
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,366	-1,417
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-204	-530
Defined benefit pension funds assets	-	-
Prudential filters	599	756
- of which Cash Flow Hedge Reserve	*946*	*1,000*
- of which Gains or Losses due to changes in own credit risk (DVA)	*-142*	*-36*
- of which Prudent valuation adjustments	*-205*	*-208*
- of which Other prudential filters	*-*	*-*
Exposures to securitisations deducted rather than risk weighted at 1250%	-213	-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)]	-1,970	-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	*-1,970*	*-1,776*
Deductions with threshold of 17.65% [(e)]	-926	-560
Positive or negative elements - other	-416	-393
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-11,776**	**-11,448**
Total adjustments in the transitional period (CET1)	**3,374**	**1,280**
Common Equity Tier 1 (CET1) - Total	**36,012**	**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 30 June 2018 is equal to 213 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 June 2018 is equal to 192 million euro.

Additional Tier 1 Capital (AT1)

(millions of euro)

	30.06.2018	31.12.2017
Additional Tier 1 capital (AT1)		
Saving shares	485	485
Other AT1 instruments	4,121	4,121
Minority interests	5	9
Additional Tier 1 capital (AT1) before regulatory adjustments	**4,611**	**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	**5,342**	**5,414**

During the first half of 2018 no Additional Tier 1 equity instruments were issued. In January and May 2017, Intesa Sanpaolo issued two Additional Tier 1 (AT 1) equity instruments, respectively for 1.25 and 0.75 billion euro. These two issues complete the issue of 4 billion euro of Additional Tier 1 instruments envisaged in the 2014-17 Business Plan (a first issue of AT1 instruments had already been carried out in September 2015 for 1 billion dollars and a second one in January 2016 for 1.25 billion euro). The instruments issued in January and May 2017, both targeted at the international markets, have, as the issues of 2015 and 2016, characteristics in line with the provisions of CRD IV and the CRR, are perpetual (with maturity date tied to the duration of Intesa Sanpaolo, as set in its articles of association) and may be redeemed in advance by the issuer respectively after 10 and 7 years from the issue date and on every coupon payment date thereafter.
With regard to the January 2017 issue for 1.25 billion euro, the coupon, payable semi-annually in arrears on 11 January and 11 July of each year, with first payment on 11 July 2017, is equal to 7.75% per annum. With regard to the May 2017 issue for 0.75 billion euro, the issuer will pay a fixed rate coupon of 6.25% per annum, payable semi-annually in arrears on 16 May and 16 November of each year, with first coupon payment on 16 November 2017. For both issues, if the early redemption option is not exercised on 11 January 2027 and 16 May 2024, respectively, a new fixed-rate coupon will be determined for the following five years (until the next recalculation date). As envisaged by the regulations applicable to AT 1 instruments, the payment of coupons for both instruments is discretionary and subject to certain limitations.

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
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	0
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	1,250
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									**4,852**

(*) Instrument no longer regarded as eligible for own funds since the prior repurchase authorisation was obtained from the ECB.

Tier 2 Capital (T2)

(millions of euro)

	30.06.2018	31.12.2017
Tier 2 Capital (T2)		
T2 Instruments	7,800	8,105
Minority interests	3	5
Excess of provisions over expected losses eligible (excess reserve)	819	125
Tier 2 capital before regulatory adjustments	**8,622**	**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	-832	-821
Positive or negative items - other	-	-
Total regulatory adjustments to Tier 2 (T2)	**-832**	**-821**
Total adjustments in the transitional period, including minority interests (T2)	**-819**	**-47**
T2 instruments eligible for grandfathering	**12**	**541**
Tier 2 Capital (T2) - Total	**6,983**	**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	1,684
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	1,262
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	626
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	377
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	258
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									**7,800**
Total Tier 2 instruments									**7,812**

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

(millions of euro)

	30.06.2018	31.12.2017
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,553	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	3,553	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 regime adjustments

Greater details on the impact of the transitional regime on the different levels of capital for the period under review are provided below.

(millions of euro)

	ADJUSTMENTS TO CET1			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	**23**	**-**	**23**	**-**	**-**
Other adjustments in the transitional period	**-329**	**-**	**-329**	**-**	**-**
- of which Unrealised gains / lossess on assets measured at fair value	-329	-	-329	-	-
Regulatory adjustments	**-4,217**	**396**	**-3,821**	**-**	**-**
- of which Deferred tax assets that rely on future profitability and do not arise from temporary differences	-1,366	-	-1,366	-	-
- of which Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-204	-	-204	-	-
- of which IAS 19 Reserves	-677	114	-563	-	-
- 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 (a)	-1,970	282	-1,688	-	-
Other filters and adjustments (a)	**-**	**274**	**274**	**-**	**-**
Adjustments due to IFRS 9 transitional provisons	**-2,847**	**2,704**	**-143**	**-**	**-819**
Total adjustments in the transitional period and instruments eligible for grandfathering	**-7,370**	**3,374**	**-3,996**	**731**	**-807**

(a) The “Adjustments to CET1” column includes the indirect effects of IFRS9 transitional regime

Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements

(millions of euro)

ACCOUNTING DATA			Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
Total Accounting data			**50,348**	
ASSETS	**Financial statements scope**	**Prudential scope**		
70. Investments in associates and companies subject to joint control	647	5,973	-2,166	8, 19, 41b, 56b
of which: implicit goodwill in associated companies IAS 28-31	*65*	*559*	*-65*	*8, 19, 41b, 56b*
100. Intangible assets	7,741	7,076	-7,571	8
of which: goodwill	*4,083*	*3,588*	*-4,083*	*8*
of which: other intangible assets	*3,658*	*3,488*	*-3,488*	*8*
110. Tax assets	16,934	16,501	-1,605	10
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*1,372*	*1,366*	*-1,366*	*10*
LIABILITIES				
10. Securities issued	87,471	88,123	8,544	33, 46, 47, 52
of which: subordinated instruments subject to transitional arrangements	*0*	*743*	*743*	*33, 47*
of which: subordinated instruments not subject to transitional arrangements	*0*	*7,801*	*7,801*	*46, 52*
60. Tax liabilities	2,121	1,607	486	8
a) Current tax liabilities	124	91	N.A.	
b) Deferred tax liabilities	1,997	1,516	N.A.	
of which: tax liabilities related to goodwill and other intangible assets	*0*	*0*	*0*	*8*
120. Valuation reserves	-1,363	-1,363	-306	3, 9, 11, 26a, 56c
of which: valuation reserves on securities available for sale	*3*	*3*	*0*	*26a, 56c*
of which: valuation reserves on cash flow hedges	*-946*	*-946*	*0*	*11*
of which: foreign exchange differences	*-999*	*-999*	*-999*	*3*
of which: legally-required revaluations	*1,588*	*1,588*	*1,588*	*3*
of which: valuation reserves on net actuarial losses	*-677*	*-677*	*-563*	*9*
of which: other	*0*	*0*	*0*	
140 Equity instruments	4,103	4,103	4,121	
150. Reserves	13,351	13,351	16,026	2
of which: impact of the adoption of IFRS9 net of transitional arrangements			*-143*	
160. Share premium reserve	23,940	23,940	23,940	1
170. Share capital	8,732	8,732	8,732	1, 30
of which: ordinary shares	*8,247*	*8,247*	*8,247*	*1*
of which: savings shares	*485*	*485*	*485*	*30*
180. Treasury shares (-)	-79	-79	-131	16
190. Minority interests (+/-)	364	248	31	5, 34, 48
of which CET1 compliant		*0*	*23*	*5*
of which AT1 compliant		*0*	*5*	*34*
of which T2 compliant		*0*	*3*	*48*
200. Net income (loss) for the period (+/-)	2,179	2,179	247	5a
of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period			*247*	*5a*

OTHER COMPONENTS OF OWN FUNDS	Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
Total other components, of which:	-2,011	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-142	14
Value adjustments due to the requirements for prudent valuation	-205	7
Exposures to securitisations deducted rather than risk weighted at 1250%	-213	
IRB shortfall of credit risk adjustments to expected losses	-204	12, 41a, 56a
IRB Excess of provisions over expected losses eligible	0	50
Filter on unrealised capital gains on real properties	-98	26
Filter on double tax realignment	-192	26
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment	-832	55
Indirect investments	-125	26
Total own funds as at 30 June 2018	**48,337**	

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 June 2018 the Banking Group's total own funds must amount to at least 11.60% 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 0.03% in the second 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[3], the Common Equity Tier 1 ratio to be met is 8.135% under the transitional arrangements in force for 2018 and 9.33% on a fully loaded basis.

With regard to credit risks, there have been no changes in the scope of application of the internal models compared to 31 December 2017, except for the extension in June 2018 of the Group's Banks and Public Sector Entities and Corporate internal models to the acquired portfolio of former Banca Nuova. 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 and SFT 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.

[3] *Countercyclical Capital Buffer* calculated taking into account the exposure as at 30 June 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 the first nine months of 2018).

EU OV1 – Overview of RWAs

(millions of euro)

			RWAs		MINIMUM CAPITAL REQUIREMENTS
			30.06.2018	31.03.2018	30.06.2018
	1	**Credit risk (excluding CCR)**	**222,452**	**223,090**	**17,796**
Article 438(c)(d)	*2*	*Of which the standardised approach*	*86,241*	*87,886*	*6,900*
Article 438(c)(d)	*3*	*Of which the foundation IRB (FIRB) approach*	*1,142*	*1,240*	*91*
Article 438(c)(d)	*4*	*Of which the advanced IRB (AIRB) approach*	*130,254*	*127,888*	*10,420*
Article 438(d)	*5*	*Of which equity with simple risk-weighted approach or PD/LGD*	*4,815*	*6,076*	*385*
Article 107 Article 438(c)(d)	**6**	**CCR**	**7,166**	**7,892**	**573**
Article 438(c)(d)	*7*	*Of which mark to market*	*1,538*	*1,786*	*123*
Article 438(c)(d)	*8*	*Of which original exposure*	-	-	-
	9	*Of which the standardised approach*	-	-	-
	10	*Of which internal model method (IMM)*	*4,307*	*4,675*	*345*
Article 438(c)(d)	*11*	*Of which risk exposure amount for contributions to the default fund of a CCP*	*381*	*544*	*30*
Article 438(c)(d)	*12*	*Of which CVA*	*940*	*887*	*75*
Article 438(e)	**13**	**Settlement risk**	**1**	**1**	**-**
Article 449(o)(i)	**14**	**Securitisation exposures in the banking book (after the cap)**	**3,958**	**3,032**	**317**
	15	*Of which IRB approach*	*129*	*264*	*10*
	16	*Of which IRB supervisory formula approach (SFA)*	*1,258*	*495*	*101*
	17	*Of which internal assessment approach (IAA)*	-	-	-
	18	*Of which standardised approach*	*2,571*	*2,273*	*206*
Article 438 (e)	**19**	**Market risk**	**17,322**	**15,752**	**1,386**
	20	*Of which the standardised approach*	*2,017*	*2,469*	*161*
	21	*Of which IMA*	*15,305*	*13,283*	*1,225*
Article 438(e)	**22**	**Large exposures**	**-**	**-**	**-**
Article 438(f)	**23**	**Operational risk**	**17,962**	**18,617**	**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*	*15,513*	*1,189*
Article 437(2), Article 48 and Article 60	**27**	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**13,522**	**14,046**	**1,082**
Article 500	**28**	**Floor adjustment**	**-**	**-**	**-**
	29	**TOTAL**	**282,383**	**282,430**	**22,591**

The total amount of risk-weighted exposures recorded as at June 2018 is essentially stable compared to March 2018. In particular please note the following:

- on the credit risk (excluding the counterparty risk), a decrease that, among other things, refers to the effect of the acquisition of a guarantee on the positions towards central governments outside the Eurozone and the sale of the equity investment in Nuovo Trasporto Viaggiatori (NTV); this decrease was offset by the effect connected to the introduction of the new LGD Corporate grid, which includes the obligations provided by the Regulator when validating the *model change*, and the accounting for the depreciation of the euro/dollar exchange rate;
- on the counterparty risk, a slight reduction caused by a drop in the volumes and the improvement of the risk parameters;
- on the banking book securitisations, an increase in the positions measured with internal models and, to a lesser extent, in those measured with standard models;
- on the market risk, an increase mainly attributable to the component with internal models, only partially offset by the reduction of the exposures treated with standardised approaches;
- on the operational risk, a slight reduction attributable to updating the AMA models.

For details of the RWA movements with the IRB, IMM and IMA approaches, see also 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 second quarter

(millions of euro)

		RWA AMOUNTS	CAPITAL REQUIREMENTS
1	**RWAs as at 31 March 2018**	**143,934**	**11,515**
2	Asset size	-2,533	-203
3	Asset quality	-685	-55
4	Model updates	3,175	254
5	Methodology and policy	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	823	66
8	Other	-363	-29
9	**RWAs as at 30 June 2018 (*)**	**144,351**	**11,548**

(*) As at 30 June 2018, the RWA relating to IRB models amounted to 144,351 million euro and was attributable to the Foundation IRB approach for 1,142 million euro (Row 3 EU OV1), to the Advanced IRB approach for 130,254 million euro (Row 4 EU OV1), to equity instruments measured using the simple weighted average or PD/LGD approach for 4,815 million euro (Row 5 EU OV1), and to amounts below the deduction thresholds for 8,140 million euro (Row 27 EU OV1).

With regard to the changes in RWAs related to the exposures subject to credit risk measurement trough 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: 143,934 million euro as at 31 March 2018 and 144,351 million euro at the end of June 2018. The increase of +417 million euro between the two periods can be broken down into the following effects: +3,175 million euro deriving from updating the internal models, an effect mainly generated by the introduction of a new LGD grid for the Corporate performing portfolio, which includes the *obligations* provided by the Supervisory Authority when validating the *model change* and, to a lesser extent, by the extension of ISP internal models to the portfolios acquired from Banca Nuova; +823 million euro attributable to the change in exchange rates for the exposures in currencies and, in particular, for the exposures denominated in dollars. The effects above were mainly offset by the following RWA reductions: -2,533 million euro due to the asset size and -685 million euro attributable to the improvement in the credit quality connected to the counterparties in the portfolio (asset quality).

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

(millions of euro)

		RWA amounts	Capital requirements
1	**RWAs as at 31 March 2018**	**4,675**	**374**
2	Asset size	-197	-16
3	Credit quality of counterparties	-1	-
4	Model updates (IMM only)	-174	-14
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	4	1
8	Other	-	-
9	**RWAs as at 30 June 2018**	**4,307**	**345**

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: 4,675 million euro as at March 2018 and 4,307 million euro as at June 2018. The overall decrease equal to 368 million euro between the two periods can be broken down into the following effects: -197 million euro due to asset size, -174 million euro attributable to the introduction of a new LGD grid for the Corporate performing portfolio, which includes the *obligations* provided by the Supervisory Authority when validating the *model change* (model updates) and -1 million euro following the improvement in the credit quality of the counterparties (asset quality); these effects are partially offset by the effect relating to the exchange rates equalling +4 million euro.

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

(millions of euro)

		VaR	SVaR	IRC	Comprehensive risk measure	Other	Total RWAs	Total capital requirements
1	**RWAs as at 31 March 2018**	**2,629**	**8,583**	**2,027**	**-**	**44**	**13,283**	**1,063**
1a	*Regulatory adjustment*	-	-	-	-	-	-	-
1b	*RWAs at the previous quarter-end (end of the day)*	*2,611*	*8,631*	*1,842*	-	*42*	*13,126*	*1,050*
2	Movement in risk levels	322	397	280	-	13	1,012	162
3	Model updates/changes	-	-	-	-	-	-	-
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other	190	632	188	-	-	1,010	-
8a	*RWAs at the end of the reporting period (end of the day)*	*5,142*	*10,731*	*2,495*	-	*52*	*18,420*	*1,474*
8b	*Regulatory adjustment*	-	-	-	-	-	-	-
8	**RWAs as at 30 June 2018**	**3,141**	**9,612**	**2,495**	**-**	**57**	**15,305**	**1,225**

The recent trend of the market RWA is closely connected to the exposure on the financial sector in the trading book. The VaR figures were up (512 million euro) as a result of the rise in credit spread volatility. The Stressed VaR figure was positively affected (1,029 million euro) by the exposure on the financial sector. The prudential multiplier linked to the backtesting exceptions weighs on both the measurements.

Specific countercyclical capital buffer of the institution

Below is the information relating to the “Countercyclical capital buffer”, prepared based on the ratios applicable at 30 June 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 third 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 June 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%), Slovakia (0.50%) and United Kingdom (0.50%);.
- at consolidated level, Intesa Sanpaolo’s specific countercyclical ratio amounts to 0.032%.

Amount of the specific countercyclical capital buffer of the institution

(millions of euro)

Total risk exposure	282,383
Specific countercyclical ratio of the institution (%)	0.032%
Specific countercyclical capital buffer requirement of the institution	90

The table below shows the geographic distribution of the relevant credit exposures for the purpose of calculating the specific countercyclical capital buffer of the institution as at 30 June 2018.

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 1 of 3)*

(millions of euro)

LINE	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approcach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
ITALY	70,732	260,359	688	361	2,852	5,546	*10,843*	*68*	*312*	11,223	69.33	-
ABU DHABI	50	999	-	-	-	-	*29*	-	-	29	0.18	-
ALBANIA	488	28	-	-	-	-	*41*	-	-	41	0.26	-
ALGERIA	8	-	-	-	-	-	*1*	-	-	1	0.00	-
SAUDI ARABIA	99	162	-	-	-	-	*15*	-	-	15	0.09	-
ARGENTINA	85	4	-	-	-	-	*7*	-	-	7	0.04	-
AUSTRALIA	4	671	-	-	-	-	*23*	-	-	23	0.14	-
AUSTRIA	74	554	-	6	-	-	*26*	-	-	26	0.16	-
AZERBAIJAN	-	302	-	-	-	-	*20*	-	-	20	0.13	-
BAHAMAS	121	62	-	-	-	-	*7*	-	-	7	0.05	-
BAHRAIN	1	-	-	-	-	-	-	-	-	-	0.00	-
BELGIUM	48	1,116	-	2	-	-	*41*	-	-	41	0.25	-
BELIZE	1	2	-	-	-	-	-	-	-	-	0.00	-
BERMUDA	2	313	-	-	-	-	*21*	-	-	21	0.13	-
BOLIVIA	3	-	-	-	-	-	-	-	-	-	0.00	-
BOSNIA AND HERZEGOVINA	806	1	-	-	-	-	*64*	-	-	64	0.40	-
BRAZIL	145	344	-	-	-	-	*25*	-	-	25	0.15	-
BULGARIA	3	46	-	-	-	-	*2*	-	-	2	0.01	-
CANADA	78	94	-	-	-	-	*5*	-	-	5	0.03	-
CAYMAN ISLANDS	160	272	-	-	-	-	*21*	-	-	21	0.13	-
CZECH REPUBLIC	256	680	-	-	-	-	*58*	-	-	58	0.37	0.50
CHILE	4	118	-	-	-	-	*5*	-	-	5	0.03	-
CHINA	88	441	-	-	-	-	*21*	-	-	21	0.13	-
CYPRUS	13	277	-	-	-	-	*11*	-	-	11	0.07	-
COLOMBIA	1	69	-	-	-	-	*3*	-	-	3	0.02	-
CONGO	-	1	-	-	-	-	-	-	-	-	0.00	-
SOUTH KOREA	6	13	-	3	-	-	*1*	-	-	1	0.01	-
CROATIA	7,805	223	76	-	-	-	*545*	-	-	545	3.37	-
DENMARK	36	12	-	3	-	-	*2*	*1*	-	3	0.03	-
DOMINICAN REPUBLIC	-	15	-	-	-	-	*1*	-	-	1	0.01	-
ECUADOR	3	508	-	-	-	-	*13*	-	-	13	0.08	-
EGYPT	2,040	3	-	-	-	-	*125*	-	-	125	0.77	-
ESTONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
ETHIOPIA	113	1	-	-	-	-	-	-	-	-	0.00	-
FINLAND	89	280	11	9	-	-	*16*	-	-	16	0.10	-
FRANCE	444	2,350	48	162	-	5	*113*	*6*	-	119	0.74	-
GABON	37	-	-	-	-	-	*3*	-	-	3	0.02	-
GERMANY	386	4,679	19	201	-	4	*172*	*6*	-	178	1.10	-
GHANA	-	19	-	-	-	-	*1*	-	-	1	0.01	-
JAPAN	18	878	-	33	-	-	*34*	*1*	-	35	0.22	-
JORDAN	2	-	-	-	-	-	-	-	-	-	0.00	-
GREECE	22	31	-	7	-	-	*12*	-	-	12	0.07	-

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 2 of 3)*

(millions of euro)

LINE	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approcach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
HONG KONG	50	531	-	5	-	-	11	-	-	11	0.07	1.88
INDIA	3	88	-	-	-	-	7	-	-	7	0.05	-
INDONESIA	26	119	-	-	-	-	7	-	-	7	0.04	-
IRELAND	359	242	150	7	-	34	37	19	-	56	0.36	-
ISRAEL	5	29	-	1	-	-	2	-	-	2	0.01	-
JERSEY	10	132	-	-	-	-	10	-	-	10	0.06	-
KAZAKHSTAN	-	16	-	-	-	-	-	-	-	-	0.00	-
KENYA	1	1	-	-	-	-	-	-	-	-	0.00	-
KUWAIT	1	373	-	-	-	-	12	-	-	12	0.07	-
LIBERIA	9	26	-	-	-	-	4	-	-	4	0.03	-
LIBYA	5	3	-	-	-	-	-	-	-	-	0.00	-
LITHUANIA	8	-	-	-	-	-	1	-	-	1	0.00	-
LUXEMBOURG	1,558	3,098	55	20	-	-	230	11	-	241	1.49	-
MACAO	-	11	-	-	-	-	-	-	-	-	0.00	-
MACEDONIA	1	-	-	-	-	-	-	-	-	-	0.00	-
MALAYSIA	-	172	-	-	-	-	3	-	-	3	0.02	-
MALTA	2	40	-	-	-	-	3	-	-	3	0.02	-
MOROCCO	1	-	-	-	-	-	-	-	-	-	0.00	-
MARSHALL ISLANDS	37	174	-	-	-	-	18	-	-	18	0.11	-
MEXICO	96	959	-	28	-	-	43	1	-	44	0.27	-
REPUBLIC OF MOLDOVA	81	-	-	-	-	-	4	-	-	4	0.02	-
MONGOLIA	-	125	-	-	-	-	16	-	-	16	0.10	-
MONTENEGRO	1	-	-	-	-	-	-	-	-	-	0.00	-
NICARAGUA	1	-	-	-	-	-	-	-	-	-	0.00	-
NIGERIA	10	1	-	-	-	-	-	-	-	-	0.00	-
NORWAY	50	61	-	3	-	-	3	-	-	3	0.02	2.00
NEW ZEALAND	2	-	-	-	-	-	-	-	-	-	0.00	-
OMAN	29	28	-	-	-	-	2	-	-	2	0.01	-
THE NETHERLANDS	504	3,011	211	147	-	17	173	6	-	179	1.11	-
PANAMA	7	123	-	-	-	-	9	-	-	9	0.05	-
PARAGUAY	4	-	-	-	-	-	-	-	-	-	0.00	-
PERU	1	138	-	-	-	-	5	-	-	5	0.03	-
POLAND	663	416	-	-	-	-	67	-	-	67	0.41	-
PORTUGAL	130	169	46	4	-	6	11	2	-	13	0.07	-
PRINCIPALITY OF MONACO	1	9	-	-	-	-	-	-	-	-	0.00	-
PUERTO RICO	-	30	-	-	-	-	5	-	-	5	0.03	-
QATAR	92	240	-	-	-	-	5	-	-	5	0.03	-
UNITED KINGDOM	713	7,916	30	288	-	-	359	11	-	370	2.29	0.50
ROMANIA	1,039	75	-	-	-	-	747	-	-	747	4.61	-
RUSSIA	1,726	461	-	-	-	-	90	-	-	90	0.55	-
SAN MARINO	4	18	-	-	-	-	1	-	-	1	0.01	-
SERBIA	3,248	106	-	-	-	-	195	-	-	195	1.20	-
SINGAPORE	65	575	-	-	-	-	20	-	-	20	0.12	-
SLOVAKIA	2,980	10,695	-	-	-	-	499	-	-	499	3.08	0.50
SLOVENIA	1,053	810	-	-	-	-	106	-	-	106	0.65	-
SPAIN	184	2,787	67	9	-	22	113	3	-	116	0.72	-

Geographic distribution of the relevant credit exposures for the purpose of calculating the countercyclical capital buffer *(Table 3 of 3)*

(millions of euro)

LINE	GENERIC CREDIT EXPOSURES		EXPOSURE IN THE TRADING BOOK		EXPOSURE TO SECURITISATIONS		OWN FUNDS REQUIREMENTS				WEIGHTING FACTORS OF OWN FUNDS REQUIREMENTS	COUNTERCYCLICAL CAPITAL RATIO
	Exposure value according to the SA approach	Exposure value according to the IRB approcach	Sum of the long and short position of the trading book	Exposure value in the trading book according to the internal models	Exposure value according to the SA approach	Exposure value according to the IRB approcach	*Of which: Generic credit exposures*	*Of which: Exposures in the trading book*	*Of which: Exposures to securitisations*	Total		
UNITED STATES OF AMERICA	393	7,172	1	83	-	81	240	8	3	251	1.55	-
SOUTH AFRICA	1	229	-	-	-	-	12	-	-	12	0.07	-
SWEDEN	59	145	-	22	-	-	9	-	-	9	0.06	2.00
SWITZERLAND	498	669	-	168	-	-	61	3	-	64	0.40	-
TAIWAN	1	-	-	-	-	-	-	-	-	-	0.00	-
TANZANIA	1	-	-	-	-	-	-	-	-	-	0.00	-
THAILAND	-	7	-	-	-	-	-	-	-	-	0.00	-
TUNISIA	2	2	-	-	-	-	-	-	-	-	0.00	-
TURKEY	209	1,372	-	-	-	-	53	-	-	53	0.33	-
UKRAINE	142	9	-	-	-	-	11	-	-	11	0.07	-
HUNGARY	2,658	266	-	-	-	-	184	-	-	184	1.14	-
URUGUAY	3	62	-	-	-	-	1	-	-	1	0.01	-
VENEZUELA	1	2	-	-	-	-	-	-	-	-	0.00	-
BRITISH VIRGIN ISLANDS	-	77	-	-	-	-	5	-	-	5	0.03	-
VIETNAM	-	7	-	-	-	-	-	-	-	-	0.00	-
TOTAL	**103,000**	**319,754**	**1,402**	**1,572**	**2,852**	**5,715**	**15,721**	**146**	**315**	**16,182**	**100.00**	

Non-deducted participations in insurance undertakings

The Intesa Sanpaolo Group has not exercised the option provided by Article 49 of the CRR regarding the treatment of positions in insurance undertakings. As a result, the related disclosure (EU INS1) is not applicable at Group level.

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)	**30.06.2018**	**31.03.2018**
1	Common Equity Tier 1 capital (CET1)	36,012	37,509
2	Common Equity Tier 1 capital (CET1) if IFRS 9 or analogous ECLs transitional arrangements had not been applied	32,833	34,330
3	Tier 1 capital	41,354	42,941
4	Tier 1 capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	38,175	39,762
5	Total capital	48,337	50,667
6	Total capital if IFRS 9 or analogous ECLs transitional arrangements had not been applied	45,977	48,393
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	282,383	282,430
8	Total risk-weighted assets if IFRS 9 or analogous ECLs transitional arrangements had not been applied	280,464	280,504
	Capital ratios		
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	12.8%	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	11.7%	12.2%
11	Tier 1 capital (as a percentage of the risk exposure amount)	14.6%	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	13.6%	14.2%
13	Total capital (as a percentage of the risk exposure amount)	17.1%	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	16.4%	17.3%
	Leverage ratio		
15	Leverage ratio total exposure measure	665,393	681,623
16	Leverage ratio	6.2%	6.3%
17	Leverage ratio if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.7%	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 30 June 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 their deduction 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

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).
Intesa Sanpaolo's internal control and management system for liquidity risk is implemented within the Group Risk Appetite Framework and in compliance with the tolerance thresholds for liquidity risk approved in the system, which establish that the Group must maintain an adequate liquidity position in order to cope with periods of strain, including prolonged periods, on the various funding supply markets, also by establishing adequate liquidity reserves consisting of marketable securities and refinancing at Central Banks. To this end, a balance needs to be maintained between incoming and outgoing funds, both in the short and medium-long term. This goal is implemented by the Group Liquidity Risk Management Guidelines approved by the Corporate Bodies of Intesa Sanpaolo.

The "Group Liquidity Risk Management Guidelines" of the Intesa Sanpaolo Group contain the latest regulatory provisions on liquidity risk and illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of such risk, thereby preventing the emergence of crisis situations.

In particular, from an organisational standpoint, a detailed definition is prepared of the tasks assigned to the Board of Directors and information are presented to the senior management concerning certain important fulfillments such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.
The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Head Office Department, the Active Value Management Head Office Department, responsible for liquidity management, and the Financial and Market Risks Head Office Department, directly responsible for measuring liquidity risk on a consolidated basis.

With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity metrics, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.

The short-term liquidity is aimed at providing an adequate, balanced level of cash inflows and outflows the timing of which is certain or estimated to fall within a period of 12 months, while ensuring a sufficient liquidity buffer, available for use as the main mitigation tool for liquidity risk. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio - LCR), in addition to a system of early warning indicators for maturities from 3 months to one year.

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR, the minimum regulatory threshold for which is 100% after 1 January 2018, is aimed at strengthening the short-term liquidity risk profile, ensuring the holding of sufficient unencumbered high quality liquid assets (HQLA) that can be easily and immediately converted into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario, as defined by Delegated Regulation (EU) 2015/61.

The aim of the Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. Early warning indicators have been established for maturities of more than 1 year, with particular attention to long-term gaps (> 5 years). NSFR's regulatory requirement, which is still subject to a period of observation, will come into force at the end of the legislative process in progress for the application of the global reform package on the CRR and CRD IV (Regulation 575/2013 and Directive 2013/36/EU).

The Group Liquidity Risk Management Guidelines also envisage the time extension of the stress scenario for the LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions. Within this framework, the Treasury Head Office Department and the Active Value Management Head Office Department were officially entrusted with drawing up the Contingency Funding Plan (CFP), which contains the various lines of actions that can be activated in order to face potential stress situations, specifying the extent of the mitigating effects attainable in the short-term. These actions must be updated periodically to verify their compatibility with the market conditions and the stress scenario adopted.
The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group’s asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, also indicating the immediate lines of action, and the intervention measures for the resolution of emergencies.
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’s Liquidity Guidelines for the first six months of 2018: both regulatory limits on LCR and NSFR were met, already reaching a level well above the limits provided for by the Regulations. The Liquidity Coverage Ratio (LCR) of the Intesa Sanpaolo Group, measured according to Delegated Regulation (EU) 2015/61, amounted to an average of 171%. 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 EU Delegated Regulation 2015/61 (Article 23).

As at 30 June 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 163 billion euro (171 billion euro at December 2017), of which 79 billion euro, net of haircut, was unencumbered (98 billion euro at the end of December 2017). The HQLA component represented 63% of the own portfolio and 93% of the unencumbered position. The other eligible reserves mainly consist of retained self-securitisations.

(millions of euro)

	Bonds Own Portfolio		Unencumbered (net of haircut)	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Cash and Deposits held with Central Banks (HQLA)	36,345	43,343	36,345	43,343
Other High Quality Liquid Assets (HQLA)	66,434	62,663	36,555	42,821
Other eligible and/or marketable reserves	59,769	65,215	5,697	11,710
Total Group Liquidity Buffer	**162,548**	**171,221**	**78,597**	**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. This report includes an assessment of the liquidity risk exposure, also determined based on the adverse scenarios. The Board of Directors of Intesa Sanpaolo is regularly involved in defining the strategy for maintaining an adequate liquidity position at the level of the entire Group.

The corporate assessment on the adequacy of Intesa Sanpaolo’s position is reported in the ILAAP (Internal Liquidity Adequacy Assessment Process), which also includes the Group’s Funding Plan. Within the annual approval process for this report by the Governing Bodies of Intesa Sanpaolo, the Liquidity Adequacy Statement (LAS) of the Members of the Board of Directors, which also presents the main findings from the self-assessment of the adequacy of the liquidity position, taking into account the results and values shown by the main indicators, confirms that the management of the liquidity position is considered to be adequate and deeply rooted in the Group’s culture and business processes. It also notes, including from a prospective standpoint, that the current system of rules and procedures appears adequate to ensure a prompt and effective reaction should the risks and challenges actually materialise in severe and adverse stress scenarios.

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 June 2018.

EU LIQ1 - LCR disclosure template and additional disclosure

(millions of euro)

SCOPE OF CONSOLIDATION		TOTAL UNWEIGHTED VALUE (AVERAGE)	TOTAL WEIGHTED VALUE (AVERAGE)
	Quarter ending	June 30st 2018	June 30st 2018
	Number of data points used in the calculation of averages	12	12
HIGH-QUALITY LIQUIDIT ASSETS			
1	**Total high-quality liquid assets (HQLA)** (a)		**76,691**
CASH-OUTFLOWS			
2	**Retail deposits and deposits from small business customers, of which:**	**183,948**	**13,154**
3	*Stable deposits*	*127,208*	*6,360*
4	*Less stable deposits*	*56,740*	*6,794*
5	**Unsecured wholesale funding**	**95,581**	**45,117**
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*30,138*	*7,531*
7	*Non operational deposits (all counterparties)*	*63,263*	*35,406*
8	*Unsecured debt*	*2,180*	*2,180*
9	**Secured wholesale funding**		**1,325**
10	**Additional requirements**	**48,272**	**9,661**
11	*Outflows related to derivative exposure and other collateral requirements*	*2,589*	*2,392*
12	*Outflos related to loss of funding on debt products*	*19*	*19*
13	*Credit and liquidity facilities*	*45,664*	*7,250*
14	**Other contractual funding obligations**	**39**	**34**
15	**Other contingent funding obligations**	**115,955**	**-**
16	**TOTAL CASH OUTFLOWS**		**69,291**
CASH-INFLOWS			
17	Secured lending (e.g. reverse repos)	27,262	1,980
18	Inflows from fully performing exposures	22,648	14,072
19	Other cash inflows	22,999	8,324
19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restriction or which are denominated in non-convertible currencies)		-
19b	(Excess inflows from related specialised credit institution)		-
20	**TOTAL CASH INFLOWS**	**72,909**	**24,376**
20a	*Fully exempt inflows*	*-*	*-*
20b	*Inflows subject to 90% cap*	*-*	*-*
20c	*Inflows subject to 75% cap*	*72,909*	*24,375*
21	**LIQUIDITY BUFFER**		**76,691**
22	**TOTAL NET CASH OUTFLOWS**		**44,915**
23	**LIQUIDITY COVERAGE RATIO (%)**		**171%**

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

Group liquidity management model and interaction between affiliates

Integrated management is a key factor in the successful governance of liquidity risk. The existence of integrated liquidity management models is also recognised by the current European legislation, which provides the possibility of being exempted from individual compliance with the LCR requirement.

In this context, and in view of the centralised liquidity management model adopted by the Intesa Sanpaolo Group, the ECB has accepted the application for exemption from the individual compliance with the LCR requirement and the related reporting obligations (see Part 6, CRR) for all the Italian banks of the Group.

Intesa Sanpaolo is therefore required to comply with the provisions of Part 6 of the CRR, on a consolidated basis and at Italian liquidity sub-group level (see Bank of Italy Circular no. 285 of 17 December 2013 – Part II, Chapter 11, Section III), and at individual level for the international affiliates based in the European Union.

All the international subsidiary banks of the Group comply with the individual LCR requirements, as they were above the minimum regulatory amounts required in the reference period. To this end, and based on the particular characteristics of each international jurisdiction, adequate liquid reserves are maintained that are readily available at local level. For affiliates resident in a third country subject to restrictions on the free transferability of funds, the calculation of the Group LCR can only include the reserves held there to meet liquidity outflows in that third country (accordingly, all surplus amounts are excluded from the consolidation).

Currency mismatch in the Liquidity Coverage Ratio

The Intesa Sanpaolo Group operates primarily in euro. The EU regulations require the monitoring and reporting of the "LCR in foreign currency" when the aggregate liabilities held in a foreign currency are "material", i.e. equal to or greater than 5% of the total liabilities held by the institution.

As at 30 June 2018, the material currency at consolidated level for the Group was the US dollar (USD). Intesa Sanpaolo has an LCR position in USD of over 100% and has ample highly liquid US dollar liquidity reserves (EHQLA), mainly consisting of unrestricted deposits held at the Federal Reserve.

Concentration of funding

Intesa Sanpaolo's funding strategy is based on maintaining diversity in terms of customers, products, maturities and currencies. Intesa Sanpaolo's main sources of funding consist of: (i) deposits from the domestic Retail and Corporate market, which represent the stable portion of funding, (ii) short-term funding on wholesale markets, largely consisting of repurchase agreements and CD/CP funding, and (iii) medium/long-term funding, mainly composed of own issues (covered bonds/ABS and other senior debt securities in the euro and US markets, in addition to subordinated securities) and refinancing transactions with the Eurosystem (TLTROII). The Group Liquidity Risk Management Guidelines require the regular monitoring of the concentration analyses for the funding (by counterparty/product) and for the liquidity reserves (by issuer/counterparty).

Derivatives transactions and potential collateral calls

Intesa Sanpaolo enters into derivatives contracts with central counterparties and third parties (OTC) covering various risk factors, arising, for example, from changes in interest rates, exchange rates, securities prices, commodity prices, etc. As market conditions change, these risk factors generate an impact on the Group's liquidity, affecting potential future exposures in derivatives, for which the provision of collateral in the form of cash or other liquid collateral is typically required. The quantification of the potential liquidity absorption, generated by the need for additional collateral in the event of adverse market movements, is measured both through historical analysis of the net collateral paid (Historical Look Back Approach), and by using advanced internal counterparty risk models. These figures are calculated from the potential outflows of the various liquidity indicators, contributing to the determination of the minimum Liquidity Buffer to be held to cover the estimated outflows.

Other liquidity risks not captured in the LCR calculation, but relevant to the Group's liquidity profile

Participation in payment, settlement and clearing systems requires the development of appropriate strategies and procedures for the control of intraday liquidity risk.

Intraday liquidity risk is the risk of not having sufficient funds to meet payment obligations by the deadlines set, within the business day, in the various systems referred to above (with potentially significant negative consequences also at a systemic level).

Intesa Sanpaolo actively manages its intraday liquidity positions to ensure that its settlement obligations are met in a timely manner, thereby contributing to the smooth operation of the payment circuits across the entire system. Intraday liquidity management necessarily involves careful and continuous monitoring of intraday cash flows exchanged at the various settlement systems used by the Group. To cover intraday liquidity risk, at the Parent Company and at the other Banks/Group companies that participate directly in the payment systems, a minimum portfolio of eligible assets is held in a central bank as an immediately available reserve (in euro or in foreign currency). The control functions also monitor specific indicators of the availability of reserves at the start of the day and their ability to cover any unexpected peaks in collateral. In particular, the Intraday liquidity usage ratio, which measures the relationship between the maximum cumulative net outflows and the amount of available reserves at the ECB at the start of the day (see BCBS - "Monitoring tools for intraday liquidity management", April 2013), is extremely low, confirming the careful management of intraday liquidity risk.

Credit risk: credit quality

Qualitative disclosure

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.

The overall watch-list and non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring through a control system and reporting. In particular, this activity is performed using measurement methods and performance controls that allow the production of synthetic risk indicators. The quality of the loan portfolio is pursued through specific operating checks for all the phases of loan management, through the use of both IT procedures and systematic supervision of positions with the aim of detecting any symptoms of difficulty and promote corrective measures to prevent possible deterioration of credit risk.

Positions are detected and automatically entered in the credit management processes by way of daily and monthly checks using objective risk indicators that allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and monitoring.

Within the Group, in accordance with pre-set rules, positions which are attributed a persistent high-risk rating are intercepted (manually or automatically) and classified to the following categories based on their risk profile, in accordance with the regulatory provisions on credit quality:

- Bad loans: the set of "on-" and "off-balance sheet" exposures towards borrowers in default or similar situations;
- Unlikely to pay: "on-" and "off-balance sheet" exposures which the bank, based on its opinion, does not deem likely to be completely (as principal and/or interest) repaid by the borrowers without the implementation of actions such as enforcement of guarantees. This assessment is irrespective of the presence of any amounts (or instalments) due and unpaid.

The category of non-performing loans also includes past due positions that cannot be considered mere delays in reimbursements, as established by the Bank of Italy.

Lastly, non-performing exposures also include the individual forborne exposures which comply with the definition of "Non-performing exposures with forbearance measures" envisaged by the EBA ITS (European Banking Authority - Implementing Technical Standards), which are not a separate category of non-performing assets, but rather a sub-category. Similarly, exposures characterised by "forbearance measures" are also included among performing loans.

The management process for such exposures, in close accordance with regulatory provisions concerning classification times and methods, is assisted by automatic mechanisms that ensure pre-established, autonomous and independent management procedures.

For more detailed qualitative disclosure on Credit risk, see the Basel 3 – Pillar 3 Disclosure as at 31 December 2017.

Quantitative disclosure

The quantitative information on the credit quality of the exposures is provided below. For additional information see Part E of the Notes to the Consolidated Financial Statements as at 31 December 2017.

EU CR1-A – Credit quality of on-balance sheet and off-balance sheet exposures by exposure class and instrument as at 30 June 2018

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Credit risk adjustment charges of the period (**)	NET VALUES (a+ b -c-d)
		Defaulted exposures (a)	Non-defaulted exposures (b)					
1	**Central governments or central banks**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2	**Institutions**	382	63,257	179	-	21	-87	63,460
3	**Corporates**	35,501	292,015	20,197	-	4,573	792	307,319
4	*- Of which: Specialised lending*	*2,503*	*12,448*	*1,468*	-	*71*	*125*	*13,483*
5	*- Of which: SMEs*	*21,523*	*69,617*	*13,109*	-	*3,163*	*628*	*78,031*
6	**Retail**	**9,353**	**109,145**	**5,603**	**-**	**545**	**278**	**112,895**
7	Secured by real estate property	4,508	92,790	1,974	-	83	128	95,324
8	*- SMEs*	1,349	4,467	615	-	51	17	5,201
9	*- Non-SMEs*	3,159	88,323	1,359	-	32	111	90,123
10	Qualifying revolving	-	-	-	-	-	-	-
11	Other retail	4,845	16,355	3,629	-	462	150	17,571
12	*- SMEs*	4,845	16,355	3,629	-	462	150	17,571
13	*- Non-SMEs*	-	-	-	-	-	-	-
14	**Equity**	**106**	**4,455**	**-**	**-**	**-**	**-**	**4,561**
15	**Total IRB approach**	**45,342**	**468,872**	**25,979**	**-**	**5,139**	**983**	**488,235**
16	Central governments or central banks	-	124,540	102	-	-	13	124,438
17	Regional governments or local authorities	-	945	6	-	-	4	939
18	Public sector entities	-	1,649	13	-	-	1	1,636
19	Multilateral development banks	-	452	-	-	-	-	452
20	International organisations	-	225	-	-	-	-	225
21	Institutions	-	7,944	53	-	-	3	7,891
22	Corporates	-	42,223	324	-	-	-4	41,899
23	*- Of which: SMEs*	-	10,705	109	-	-	4	10,596
24	Retail	-	38,600	363	-	-	7	38,237
25	*- Of which: SMEs*	-	5,228	76	-	-	6	5,152
26	Secured by mortgages on immovable property	-	7,512	77	-	-	-4	7,435
27	*- Of which: SMEs*	-	1,919	40	-	-	-	1,879
28	Exposures in default (***)	7,487	-	4,376	-	367	213	3,111
29	Items associated with particularly high risk	-	1,655	122	-	-	15	1,533
30	Covered bonds	-	558	1	-	-	-	557
31	Claims on institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-
32	Collective investments undertakings	-	2,519	-	-	-	-	2,519
33	Equity exposures	-	2,466	-	-	-	-1	2,466
34	Other exposures	-	14,737	20	-	-	-	14,717
35	**Total standardised approach**	**7,487**	**246,025**	**5,457**	**-**	**367**	**247**	**248,055**
36	**Total**	**52,829**	**714,897**	**31,436**	**-**	**5,506**	**1,230**	**736,290**
37	Of which: Loans (****)	50,024	415,236	30,823	-	5,506	1,304	434,437
38	Of which: Debt securities	65	73,147	158	-	-	-18	73,054
39	Of which: Off-balance-sheet exposures	2,635	219,855	453	-	-	-56	222,037

(*) Includes the specific adjustments on non-performing and portfolio assets on performing assets.

(**) Net adjustments (+) or recoveries (-) referring to the first half of 2018.

(***) With regard to the standardised approach, the gross value of defaulted exposures may be broken down as follows by original portfolio (prior to classification as defaulted): 10 million euro attributable to the Central governments and central banks portfolio, 81 million euro attributable to the Public sector entities portfolio, 785 million euro attributable to the Exposures secured by real estate property portfolio, 2,701 million euro attributable to the Entities portfolio, 3,906 million euro attributable to the Retail portfolio and 4 million euro attributable to the Other exposures portfolio.

(****) In addition to Loans, the caption includes other items that have been included in Credit risk from a prudential standpoint.

In the half-year, the weight of the exposures measured using advanced approaches (65.6%) in relation to the overall aggregate shows a marginal change (+0.9%), within a performance of Loans and Debt securities slightly down in the period (-0.8%), with a more appreciable decrease in the off-balance sheet exposures. The internal breakdown by exposure classes is confirmed essentially unchanged with reference to the aggregate of exposures subject to standard measurement approaches and shows a slight rebalancing among Corporate and Retail Exposures as part of the aggregate of exposures subject to advanced measurement approaches, as reflected by the volume performance.

EU CR1-B – Credit quality of on-balance sheet and off-balance sheet exposures by industry or counterparty types as at 30 June 2018

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Credit risk adjustment charges of the period (**)	NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)					(a+ b -c-d)
1	Agriculture, forestry and fishing	1,492	7,812	921	-	163	22	8,383
2	Mining and quarrying	315	7,556	162	-	26	22	7,709
3	Manufacturing	10,856	95,655	6,359	-	1,974	169	100,152
4	Electricity, gas, steam and air conditioning supply	761	19,471	378	-	70	5	19,854
5	Water supply; sewerage, waste management and remediation activities	235	2,750	167	-	64	-3	2,818
6	Construction	11,720	27,739	6,724	-	928	295	32,735
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	5,925	49,291	3,999	-	868	178	51,217
8	Transport and storage	1,972	12,988	1,253	-	181	36	13,707
9	Accommodation and food service activities	1,611	6,701	903	-	79	50	7,409
10	Information and communication	489	12,710	316	-	80	15	12,883
11	Financial Institutions	815	90,482	672	-	77	-54	90,625
12	Governments and Central Banks	10	127,399	114	-	6	16	127,295
13	Households	5,752	123,864	3,401	-	202	199	126,215
14	Real estate activities	6,654	17,110	3,420	-	473	187	20,344
15	Professional, scientific and technical activities	1,574	24,429	890	-	122	21	25,113
16	Administrative and support service activities	760	6,216	462	-	144	13	6,514
17	Public administration and defence, compulsory social security	88	14,114	33	-	1	-8	14,169
18	Education	67	737	43	-	6	2	761
19	Human health services and social work activities	304	5,687	168	-	4	9	5,823
20	Arts, entertainment and recreation	328	1,658	170	-	27	18	1,816
21	Other services activities	1,101	50,465	864	-	11	38	50,702
22	**TOTAL (***)**	**52,829**	**704,834**	**31,419**	**-**	**5,506**	**1,230**	**726,244**

(*) Includes the specific adjustments on non-performing and portfolio assets on performing assets.

(**) Net adjustments (+) or recoveries (-) referring to the first half of 2018.

(***) The table does not include property and equipment and on-balance sheet exposures that cannot be classified to any sector or counterparty type, amounting to 10,046 million euro.

Given a moderate drop in the overall aggregate (-2.9%), the breakdown of the exposures by industry remained essentially stable, with a marginal shift of the portfolio from exposures to Financial institutions (-1.1%) to exposures to the Public Administration (+1.1%) and from exposures to Professional, scientific and technical activities (-0.7%) to exposures to Manufacturing Activities (+1.1%). The focal point of the overall portfolio remains firmly based on types of counterparties with more limited exposure to risk.

EU CR1-C – Credit quality of on-balance sheet and off-balance sheet exposures by geography as at 30 June 2018

(millions of euro)

		GROSS CARRYING VALUES		Specific credit risk adjustment (c) (*)	General credit risk adjustment (d)	Accumulated write-offs	Credit risk adjustment charges of the period (**)	NET VALUES
		Defaulted exposures (a)	Non-defaulted exposures (b)					(a+ b -c-d)
1	**EUROPE**	**52,344**	**636,034**	**31,057**	**-**	**5,476**	**1,213**	**657,321**
2	*of which: France*	*20*	*14,096*	*24*	*-*	*8*	*-2*	*14,092*
3	*of which: United Kingdom*	*3*	*14,737*	*18*	*-*	*3*	*-4*	*14,722*
4	*of which: Netherlands*	*2*	*7,098*	*7*	*-*	*-*	*2*	*7,093*
5	*of which: Spain*	*35*	*18,970*	*23*	*-*	*-*	*-4*	*18,982*
6	*of which: Turkey*	*-*	*7,547*	*13*	*-*	*-*	*2*	*7,534*
7	*of which: Italy*	*50,225*	*484,727*	*29,234*	*-*	*5,433*	*1,193*	*505,718*
8	*of which: Luxembourg*	*71*	*8,435*	*48*	*-*	*20*	*-5*	*8,458*
9	*of which: Germany*	*109*	*15,630*	*69*	*-*	*1*	*-10*	*15,670*
10	*of which: Croatia*	*634*	*11,634*	*528*	*-*	*1*	*24*	*11,740*
11	*of which: Slovakia*	*347*	*15,369*	*378*	*-*	*-*	*24*	*15,338*
12	**AMERICA**	**223**	**43,938**	**146**	**-**	**3**	**14**	**44,015**
13	*Of which: United States*	*53*	*31,376*	*34*	*-*	*2*	*-8*	*31,395*
14	**ASIA**	**52**	**24,213**	**47**	**-**	**24**	**11**	**24,218**
15	**REST OF THE WORLD**	**210**	**10,712**	**186**	**-**	**3**	**-8**	**10,736**
16	**TOTAL**	**52,829**	**714,897**	**31,436**	**-**	**5,506**	**1,230**	**736,290**

(*) Includes the specific adjustments on non-performing and portfolio assets on performing assets.

(**) Net adjustments (+) or recoveries (-) referring to the first half of 2018.

In the table, only the countries towards which the Group has exposures that exceed the threshold of 6 billion euro are shown individually (which represent, in any case, approximately 90% of the total exposures).
The most significant remaining countries not shown are:
1) for Europe: Serbia, Hungary, Russia, Switzerland and Slovenia;
2) for the Americas: Brazil, Mexico and Canada;
3) for Asia: China, Abu Dhabi, Qatar, India, Hong Kong and Japan;
4) for the Rest of the World: Egypt and Australia.

The distribution of the exposures by geographical area is essentially stable, mostly concerning the Italian market (67.8%) and with an appreciable presence in the countries of Central and South-Eastern Europe (Croatia, Slovenia, Slovakia, Serbia, Hungary, Bosnia-Herzegovina, Albania, Romania), in the Russian Federation and in the Mediterranean Basin. In the half-year, a moderate drop in the domestic market was observed, a common trend in the portfolios of to most European countries, with a more favourable performance polarised on some financial markets (UK, Luxembourg) and on Asian markets. The credit quality of the overall portfolio shows an appreciable improvement, which is reflected in the significant reduction in the percentage of the non performing exposures and the net adjustments.

EU CR1-D – Ageing of on-balance sheet past-due exposures as at 30 June 2018

This table reports the on-balance-sheet exposures that are more than zero days past due, regardless of their risk status. The values shown in the table include the amount of the debt not yet past due.

(millions of euro)

		GROSS CARRYING VALUES					
		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	6,597	1,574	9,567	1,256	1,835	39,748
2	Debt securities	-	-	46	-	-	102
3	**TOTAL EXPOSURES**	**6,597**	**1,574**	**9,613**	**1,256**	**1,835**	**39,850**

Overall the breakdown by past-due as at 30 June 2018 is essentially in line with that as at 31 December 2017.

EU CR1-E – On-balance-sheet and off-balance-sheet non-performing and forborne exposures as at 30 June 2018

(millions of euro)

	Debt securities	Loans and advances	Off-balance-sheet exposures
GROSS CARRYNG VALUE OF PERFORMING AND NON-PERFORMING EXPOSURES	**74,761**	**461,943**	**226,026**
Of which performing but past due > 30 days and <= 90 days	-	3,729	-
Of which performing forborne	89	7,937	636
Of which non-performing	138	50,561	2,584
Of which defaulted / impaired	*138*	*50,561*	2,584
Of which forborne	-	*40,245*	-
ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK	**198**	**30,978**	**403**
On performing exposures	109	2,188	161
Of which forborne	-	*340*	*10*
On non-performing exposures	89	28,790	242
Of which forborne	-	*4,574*	*22*
COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	**-**	**-**	**-**
On non- performing exposures	-	16,892	760
Of which forborne	-	*11,077*	*405*

Gross amounts are essentially in line with the previous period. The changes in provisions for adjustment compared to 31 December 2017 are mainly due to the transition to the new accounting standard IFRS9.

EU CR2-B – Changes in gross non-performing on-balance sheet exposures as at 30 June 2018

(millions of euro)

		Gross carrying value defaulted exposures
1	**Opening balance as at 1 Jannuary 2018**	**52,615**
2	Transfers from performing exposures categories	2,589
3	Return to non-defaulted status	-953
4	Amounts written off	-1,924
5	Other changes	-1,628
6	**Closing balance as at 30 June 2018**	**50,699**

EU CR2-A - Changes in adjustments to non-performing on-balance sheet exposures as at 30 June 2018

(millions of euro)

		Accumulated specific credt risk adjustments	Accumulated general credit risk adjustments
1	**Opening balance as at 1 Jannuary 2018**	**29,669**	**-**
2	Increases due to credit risk adjustments	3,677	-
3	Decreases due to recoveries on valuation/collection	-2,217	-
4	Decreases due to sale/write-off	-1,968	-
5	Transfers from other non-performing exposures categories	10	-
6	Impact of exchange rate differences	4	-
7	Business combinations	67	-
8	Other adjustments	-363	-
9	**Closing balance as at 30 June 2018**	**28,879**	**-**

With reference to tables CR2-A and CR2- B, it is specified that the final balances as at 30 June 2018 include the amounts relating to the bad loan portfolio subject to the forthcoming sale to Intrum (gross exposure of 10,330 million euro and total adjustments for 7,559 million euro) and the so-called high risk loans originating from the Aggregate Set of Banca Popolare di Vicenza and Veneto Banca, reclassified as bad loans and/or unlikely-to-pay loans, for which the sale contract provides the option to transfer them to the Banks in compulsory administrative liquidation (gross exposure of 572 million euro and total adjustments for 78 million euro). These have been classified among "Non-current assets held for sale and discontinued operations" in accordance with IFRS 5 in the financial statements.
Also the opening balances, which show the opening values as at 1 January 2018 following the application of the new accounting standard IFRS 9, likewise consider the application of accounting standard IFRS 5. In particular, as at 1 January 2018 this item includes the amounts relating to the high risk loans. The figures relating to the bad loan portfolio subject to the forthcoming sale to Intrum were not restated.

Credit risk: disclosures on portfolios subject to the standardised approach

Quantitative disclosure

In this Section, each regulatory portfolio provided by regulations under the standardised approach is broken down as follows:

- amount of on-balance sheet and off-balance sheet exposures, “without” the Credit Risk Mitigation (CRM), which does not take into account the decrease in exposure or portfolio transfer arising from application of collateral and personal guarantees and before the application of the Credit Conversion Factors (CCF) to off-balance-sheet exposures;
- Amount of the same exposures “with” the Credit Risk Mitigation effect and after the application of the Credit Conversion Factors.

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

The column “Deducted” of the following tables EU CR5 and EU CR5bis reports all the exposures not considered for the purposes of determining the weighted assets, as they are directly deducted from the regulatory capital (see Own Funds).

EU CR4 – Standardised approach - Credit risk exposure and CRM effects as at 30 June 2018

(millions of euro)

	EXPOSURE CLASSES	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST CCF AND CRM		RWAS AND RWA DENSITY	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central government or central banks	120,564	3,874	137,593	1,622	18,978	14%
2	Regional government or local authorities	708	231	831	159	347	35%
3	Public sector entities	1,243	393	641	147	655	83%
4	Multilateral development banks	312	140	338	1	-	0%
5	International organisations	225	-	236	-	-	0%
6	Institutions	6,280	1,611	6,482	293	3,114	46%
7	Corporates	30,200	11,699	22,218	3,646	25,010	97%
8	Retail	29,990	8,247	28,351	1,058	21,357	73%
9	Secured by mortgages on immovable property	7,321	114	7,319	71	2,792	38%
10	Exposures in default	3,041	70	2,891	25	3,109	107%
11	Exposures associated with particularly high risk	1,307	226	1,257	111	2,053	150%
12	Covered bonds	557	-	557	-	83	15%
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	0%
14	Collective investment undertaking	1,335	1,184	1,157	590	1,776	102%
15	Equity	2,414	52	2,414	52	2,724	110%
16	Other items	14,707	10	14,707	2	9,484	64%
17	**TOTAL**	**220,204**	**27,851**	**226,992**	**7,777**	**91,482**	**39%**

In the first half of 2018, a slight reduction in the RWA density (-2.7%) was observed for the exposures subject to credit risk measurement standardised approaches, mainly to be attributed to the Equity instrument portfolio for the different calculation treatment and the consequent restatement of the equity investments acquired before 2007 which, with a 10-year maturity period and until 31 December 2017, had benefited from the more favourable treatment permitted during the transitional period (so-called *grandfathering)*. The convergence to the advanced approaches, Simple Risk Weight or PD/LGD, starting from 2018, means a higher weight of these items, shown in the relevant tables. Whereas with reference to the other portfolios, the RWA density is stable overall.

EU CR5 – Standardised approach - Exposures post CCF and CRM as at 30 June 2018 *(Table 1 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	121,711	-	36	312	863	-	1,042	-	-
2	Regional government or local authorities	-	-	-	-	701	-	164	-	-
3	Public sector entities	46	-	-	-	92	-	26	-	-
4	Multilateral development banks	339	-	-	-	-	-	-	-	-
5	International organisations	236	-	-	-	-	-	-	-	-
6	Institutions	-	269	-	-	2,651	-	2,613	-	-
7	Corporates	-	-	-	-	295	-	457	54	-
8	Retail	-	-	-	-	-	-	-	-	29,409
9	Secured by mortgages on immovable property	-	-	-	-	-	4,892	2,498	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	361	186	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	3,921	-	-	-	1,633	-	-	-	-
17	**TOTAL**	**126,253**	**269**	**36**	**673**	**6,421**	**4,892**	**6,800**	**54**	**29,409**

EU CR5 – Standardised approach - Exposures post CCF and CRM as at 30 June 2018 *(Table 2 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL	OF WHICH UNRATED
		100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	13,212	58	1,981	-	-	-	1,606	**139,215**	*114,321*
2	Regional government or local authorities	125	-	-	-	-	-	-	**990**	*693*
3	Public sector entities	624	-	-	-	-	-	-	**788**	*97*
4	Multilateral development banks	-	-	-	-	-	-	-	**339**	*339*
5	International organisations	-	-	-	-	-	-	-	**236**	*224*
6	Institutions	1,170	72	-	-	-	-	-	**6,775**	*2,139*
7	Corporates	24,926	132	-	-	-	-	832	**25,864**	*9,188*
8	Retail	-	-	-	-	-	-	-	**29,409**	*29,395*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**7,390**	*6,791*
10	Exposures in default	2,531	385	-	-	-	-	-	**2,916**	*2,909*
11	Exposures associated with particularly high risk	-	1,368	-	-	-	-	-	**1,368**	*1,369*
12	Covered bonds	10	-	-	-	-	-	-	**557**	*105*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	*-*
14	Collective investment undertakings	1,463	50	57	-	-	177	-	**1,747**	*1,746*
15	Equity	2,294	-	172	-	-	-	2,102	**2,466**	*2,466*
16	Other items	9,153	-	2	-	-	-	-	**14,709**	*14,680*
17	**TOTAL**	**55,508**	**2,065**	**2,212**	**-**	**-**	**177**	**4,540**	**234,769**	**186,462**

In the first half of 2018, the distribution by weighting factor of the exposures subject to credit risk measurement trough standardised approaches, shows a change of the scope subject to weighting equal to 250% to be attributed to the different calculation treatment and the consequent restatement of the equity investments acquired before 2007 which, with a 10-year maturity period and until 31 December 2017, had benefited from the more favourable treatment permitted during the transitional period (so-called *grandfathering)*.
The distribution of the exposures among the other weighting factors is essentially stable.

EU CR5 bis – Standardised approach - Exposures before CCF and CRM as at 30 June 2018 *(Table 1 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT								
		0%	2%	4%	10%	20%	35%	50%	70%	75%
1	Central governments or central banks	105,358	-	36	307	784	-	513	-	-
2	Regional government or local authorities	-	-	-	-	653	-	164	-	-
3	Public sector entities	57	-	-	-	150	-	115	-	-
4	Multilateral development banks	452	-	-	-	-	-	-	-	-
5	International organisations	225	-	-	-	-	-	-	-	-
6	Institutions	-	269	-	-	3,424	-	2,954	-	-
7	Corporates	-	-	-	-	236	-	638	-	-
8	Retail	-	-	-	-	-	-	-	-	38,237
9	Secured by mortgages on immovable property	-	-	-	-	-	4,913	2,522	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	361	186	-	-	-	-
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-	-	-	-
16	Other items	3,921	-	-	-	1,633	-	-	-	-
17	**TOTAL**	**110,013**	**269**	**36**	**668**	**7,066**	**4,913**	**6,906**	**-**	**38,237**

EU CR5 bis – Standardised approach - Exposures before CCF and CRM as at 30 June 2018 *(Table 2 of 2)*

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT							TOTAL	OF WHICH UNRATED
		100%	150%	250%	370%	1250%	Others	Deducted		
1	Central governments or central banks	15,401	58	1,981	-	-	-	1,606	**124,438**	*99,874*
2	Regional government or local authorities	122	-	-	-	-	-	-	**939**	*656*
3	Public sector entities	1,314	-	-	-	-	-	-	**1,636**	*318*
4	Multilateral development banks	-	-	-	-	-	-	-	**452**	*452*
5	International organisations	-	-	-	-	-	-	-	**225**	*225*
6	Institutions	1,151	93	-	-	-	-	-	**7,891**	*2,483*
7	Corporates	40,893	132	-	-	-	-	832	**41,899**	*17,661*
8	Retail	-	-	-	-	-	-	-	**38,237**	*38,221*
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	**7,435**	*6,824*
10	Exposures in default	2,694	417	-	-	-	-	-	**3,111**	*3,093*
11	Exposures associated with particularly high risk	-	1,533	-	-	-	-	-	**1,533**	*1,533*
12	Covered bonds	10	-	-	-	-	-	-	**557**	*105*
13	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	**-**	*-*
14	Collective investment undertakings	2,235	50	57	-	-	177	-	**2,519**	*2,519*
15	Equity	2,294	-	172	-	-	-	2,102	**2,466**	*2,466*
16	Other items	9,161	-	2	-	-	-	-	**14,717**	*14,689*
17	**TOTAL**	**75,275**	**2,283**	**2,212**	**-**	**-**	**177**	**4,540**	**248,055**	**191,119**

Credit risk: disclosures on portfolios subject to IRB approaches

Qualitative disclosure

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

The table below shows the scope of companies for which the Group, as at 30 June 2018, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the “Corporate” (Foundation and Advanced IRB), Retail Mortgages (IRB[4]), SME Retail (IRB), Banks and Public Entities (Advanced IRB) regulatory segments and for Banking Book equity exposures (IRB). There have been no changes with respect to the situation as at 31 December 2017, except for the extension in June 2018 of the Group’s Banks and Public Sector Entities and Corporate internal models to the acquired portfolio of Banca Nuova.

Scope of companies for application of the IRB approaches

<table>
<tr><th>Company</th><th>Corporate</th><th>Corporate</th><th>Corporate</th><th>Retail Mortgage</th><th>SME Retail</th><th>Banks and Public Entities</th><th>Banking Book Equity*</th></tr>
<tr><th></th><th>FIRB</th><th>AIRB LGD</th><th>EAD</th><th>IRB LGD</th><th>IRB LGD</th><th>IRB</th><th>IRB</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="6">Dec - 2008</td><td rowspan="7">Dec - 2010</td><td rowspan="7">Sep - 2017</td><td rowspan="7">Jun - 2010</td><td rowspan="7">Dec - 2012</td><td rowspan="7">Jun - 2017</td><td rowspan="7">Jun - 2017</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio in Bologna</td></tr>
<tr><td>Cassa di Risparmio del Friuli Venezia Giulia</td></tr>
<tr><td>Cassa dei Risparmi di Forlì e della Romagna</td></tr>
<tr><td>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2009</td></tr>
<tr><td>Mediocredito Italiano</td><td>Dec - 2008</td><td>Dec - 2010</td><td>Sep - 2017</td><td>n.a.</td><td>Dec - 2012</td><td>Jun - 2017</td><td>n.a</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>Sep - 2017</td><td>n.a.</td><td>Dec - 2013</td><td>Jun - 2017</td><td>n.a</td></tr>
<tr><td>Banca IMI</td><td>n.a.</td><td>Jun - 2012</td><td>Sep - 2017</td><td>n.a.</td><td>n.a.</td><td>Jun - 2017</td><td>Jun - 2017</td></tr>
<tr><td>IMI Investimenti</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>Jun - 2017</td></tr>
<tr><td>Intesa Sanpaolo Bank Ireland</td><td>Mar - 2010</td><td>Dec - 2011</td><td>Sep - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Vseobecna Uverova Banka</td><td>Dec - 2010</td><td>Jun - 2014</td><td>n.a.</td><td>Jun - 2012</td><td>Jun - 2014</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Banka Intesa Sanpaolo d.d.</td><td>Mar - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
<tr><td>Intesa Sanpaolo Bank Luxembourg</td><td>n.a.</td><td>Jun - 2017</td><td>Sep - 2017</td><td>n.a.</td><td>n.a.</td><td>n.a</td><td>n.a</td></tr>
</table>

(*) Based on authorisation ECB/SSM/2017 - 2W8N8UU78PMDQKZENC08/95 "Decision on the Supervised Entity’s application for approval of an internal model for credit risk", the internal PD/LGD system for Equity exposures is applied to the entire scope of Companies authorised to use the Corporate model, irrespective of the current materiality of the portfolio

The EAD values of exposures as at 30 June 2018 for the various IRB approaches (IRB, Foundation IRB and Advanced IRB) are shown in the tables below.

[4] Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the Foundation and the Advanced IRB approach.

Exposure values by regulatory portfolio (Foundation IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2018	31.12.2017
Exposures to or secured by corporates:		
- Specialised lending	-	-
- SMEs (Small and Medium Enterprises)	476	459
- Other corporates	984	1,210
Total credit risk (IRB)	**1,460**	**1,669**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2018	31.12.2017
Exposures to or secured by corporates:		
- Specialised lending	11,907	12,072
- SMEs (Small and Medium Enterprises)	67,709	67,828
- Other corporates	127,177	128,966
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities:	34,205	36,545
Total credit risk (Advanced IRB approach)	**240,998**	**245,411**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2018	31.12.2017
Retail exposures:		
- Exposures secured by residential property: SMEs	5,778	5,565
- Exposures secured by residential property: private individuals	90,337	85,791
- Other retail exposures: SMEs	14,216	14,398
Total credit risk (IRB)	**110,331**	**105,754**

(millions of euro)

Regulatory portfolio	Exposure value	
	30.06.2018	31.12.2017
Exposures in equity instruments subject to the PD/LGD approach	893	742
Total credit risk (IRB)	**893**	**742**

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitizations	Exposure value	
	30.06.2018	31.12.2017
Exposures to securitisations (RBA - SFA)	5,525	6,473
Total credit risk (IRB)	**5,525**	**6,473**

The exposure value shown in the tables set forth in this Section is expressed gross of adjustments and takes into account (for guarantees given and commitments to disburse funds) credit conversion factors. Conversely, the exposure value does not consider the risk mitigation techniques which – for exposures assessed using internal models – are directly incorporated in the weightings applied to said exposure.

EU CR7 - IRB approach - Effect on the RWAs of credit derivatives used as CRM techniques as at 30 June 2018

(millions of euro)

		PRE-CREDIT DERIVATIVES RWAs	ACTUAL RWAs
1	**Exposures under FIRB**	**1,142**	**1,142**
2	Central governments and central banks	-	-
3	Institutions	-	-
4	Corporates – SMEs	395	395
5	Corporates – Specialised lending	-	-
6	Corporates – Other	747	747
7	**Exposures under AIRB**	**143,209**	**143,209**
8	Central governments and central banks	-	-
9	Institutions	14,077	14,077
10	Corporates – SMEs	34,292	34,292
11	Corporates – Specialised lending	7,782	7,782
12	Corporates – Other	58,319	58,319
13	Retail – Secured by real estate SMEs	757	757
14	Retail – Secured by real estate non-SMEs	12,649	12,649
15	Retail – Qualifying revolving	-	-
16	Retail – Other SMEs	2,378	2,378
17	Retail – Other non-SMEs	-	-
18	Equity IRB	12,955	12,955
19	Other non credit obligation assets	-	-
20	**TOTAL**	**144,351**	**144,351**

The column relating to RWAs before the effect of the credit derivatives was defined as being equivalent to the column relating to the RWAs, in view of the immateriality for the Group of the effects resulting from the use of credit derivatives as risk mitigation techniques.

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 30 June 2018 *(Table 1 of 2)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Exposures to or secured by Supervised Intermediaries, Public sector and local authorities and Other entities												
0,00 to <0,15	4,265	15,061	5%	5,061	0.06	929	44.7	774	1,332	26%	1	-
0,15 to <0,25	5,589	6,155	6%	5,911	0.19	937	25.2	1,112	1,631	28%	3	-
0,25 to <0,50	2,905	3,438	8%	3,213	0.35	592	26.3	1,048	1,220	38%	3	-
0,50 to <0,75	1,906	1,572	9%	2,056	0.54	524	12.8	1,504	556	27%	2	-
0,75 to <1,25	3,052	3,666	7%	3,343	0.80	569	30.2	992	2,109	63%	8	-
1,25 to <2,50	4,995	6,250	8%	5,500	1.59	695	36.4	737	5,167	94%	32	-
2,50 to <5,00	800	1,699	19%	1,055	2.99	295	31.0	743	996	94%	10	-
5,00 to <10,00	306	1,318	7%	364	6.94	185	41.7	667	632	174%	10	-
10,00 to <20,00	169	93	6%	176	14.99	115	37.6	724	330	188%	10	-
20,00 to <100,00	10	8	0%	10	27.14	24	18.5	1,064	10	107%	-	-
100,00 (default)	377	5	12%	378	100.00	245	60.9	693	94	25%	222	-
Subtotal	24,374	39,265	7%	27,067	2.27	5,110	32.0	951	14,077	52%	301	179
Exposures to or secured by corporates:												
- Specialised lending												
0,00 to <0,15	1	1	-	1	0.14	4	22	1,805	-	17%	-	-
0,15 to <0,25	8	8	19%	10	0.23	31	23.8	1,623	2	25%	-	-
0,25 to <0,50	429	565	14%	389	0.35	84	21.5	1,478	141	36%	-	-
0,50 to <0,75	1,561	425	20%	1,643	0.54	172	25.2	1,437	865	53%	2	-
0,75 to <1,25	727	305	15%	772	0.82	295	23.1	1,718	443	57%	1	-
1,25 to <2,50	2,505	963	19%	2,654	1.57	800	21.3	1,537	1,607	60%	9	-
2,50 to <5,00	1,921	485	17%	1,994	3.65	743	21.0	1,292	1,325	66%	15	-
5,00 to <10,00	260	43	14%	265	7.85	157	25.3	1,598	283	107%	5	-
10,00 to <20,00	680	88	20%	697	15.10	279	24.6	1,598	895	128%	25	-
20,00 to <100,00	419	85	20%	433	34.30	244	25.7	1,347	590	136%	39	-
100,00 (default)	2,328	157	98%	2,428	100.00	1,072	42.2	950	569	23%	980	-
Subtotal	10,839	3,125	21%	11,286	25.11	3,881	26.9	1,361	6,720	60%	1,076	1,408
- SMEs (small and medium enterprises)												
0,00 to <0,15	1,094	1,418	20%	1,386	0.13	4,963	34.4	865	274	20%	1	-
0,15 to <0,25	2,157	2,069	25%	2,628	0.21	9,341	34.6	850	681	26%	2	-
0,25 to <0,50	7,886	6,500	23%	8,821	0.41	30,739	35.6	796	3,275	37%	13	-
0,50 to <0,75	5,259	3,716	24%	5,682	0.66	19,439	35.8	789	2,674	47%	14	-
0,75 to <1,25	5,575	3,146	23%	5,762	1.15	18,806	35.6	831	3,374	59%	24	-
1,25 to <2,50	9,217	4,008	23%	9,404	1.85	29,835	34.9	937	6,362	68%	61	-
2,50 to <5,00	4,942	1,623	24%	4,856	3.41	14,799	34.3	967	3,815	79%	57	-
5,00 to <10,00	6,307	1,427	21%	5,875	7.42	18,205	33.0	1,084	5,671	97%	143	-
10,00 to <20,00	2,015	354	25%	1,955	16.14	5,067	31.9	1,238	2,565	131%	100	-
20,00 to <100,00	780	125	24%	1,010	30.12	2,674	32.7	1,193	1,532	152%	101	-
100,00 (default)	20,935	588	82%	20,456	100.00	28,583	55.4	782	4,464	22%	10,984	-
Subtotal	66,167	24,974	25%	67,835	32.43	182,451	41.0	873	34,687	51%	11,500	13,109
- Other corporates												
0,00 to <0,15	12,662	32,918	22%	19,715	0.10	2,235	31.3	797	3,842	19%	6	-
0,15 to <0,25	13,755	27,337	18%	18,640	0.22	2,857	31.0	700	5,585	30%	14	-
0,25 to <0,50	18,192	24,591	21%	23,137	0.37	6,689	30.8	731	9,086	39%	27	-
0,50 to <0,75	16,389	14,073	25%	20,121	0.57	4,258	30.8	718	9,764	49%	36	-
0,75 to <1,25	8,536	6,768	26%	9,192	1.02	3,858	30.4	803	5,727	62%	28	-
1,25 to <2,50	12,736	7,723	25%	14,332	1.76	5,420	30.3	819	10,917	76%	78	-
2,50 to <5,00	3,460	2,434	33%	3,965	3.36	1,723	29.4	881	3,579	90%	40	-
5,00 to <10,00	4,516	1,582	34%	4,425	7.01	1,517	29.0	965	5,098	115%	90	-
10,00 to <20,00	882	153	22%	872	16.08	413	28.9	1,049	1,352	155%	41	-
20,00 to <100,00	1,048	196	26%	1,185	28.70	425	27.0	888	1,844	156%	91	-
100,00 (default)	9,775	1,701	61%	10,172	100.00	3,429	43.3	732	2,272	22%	4,231	-
Subtotal	101,951	119,476	22%	125,756	9.31	32,824	31.7	767	59,066	47%	4,682	5,621

EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range as at 30 June 2018 *(Table 2 of 2)*

(millions of euro)

PD scale	Original on-balance-sheet gross exposures	Off-balance-sheet exposures pre-CCF	Average CCF	EAD post CRM and post CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density	EL	Value adjust-ments and provisions
Retail exposures: (*)												
- Exposures secured by residential properties: SMEs												
0,00 to <0,15	506	10	0%	511	0.12	3,360	22.1	-	26	5%	-	-
0,15 to <0,25	503	11	4%	509	0.15	3,933	22.2	-	30	6%	-	-
0,25 to <0,50	988	15	0%	996	0.31	7,795	22.1	-	95	10%	1	-
0,50 to <0,75	382	6	6%	385	0.68	3,166	22.2	-	59	15%	1	-
0,75 to <1,25	474	7	2%	478	1.12	3,968	22.2	-	92	19%	1	-
1,25 to <2,50	529	7	7%	532	1.85	4,710	22.7	-	126	24%	2	-
2,50 to <5,00	460	6	7%	463	3.10	4,114	23.0	-	130	28%	3	-
5,00 to <10,00	214	3	0%	216	5.15	1,990	22.8	-	63	29%	3	-
10,00 to <20,00	232	5	1%	235	14.76	2,067	22.4	-	84	36%	8	-
20,00 to <100,00	105	4	0%	106	44.68	976	22.9	-	50	47%	11	-
100,00 (default)	1,345	4	0%	1,347	100.00	9,991	35.2	-	2	0%	475	-
Subtotal	5,738	78	2%	5,778	25.56	46,070	25.4	-	757	13%	505	615
- Exposures secured by residential properties: individuals												
0,00 to <0,15	20,321	493	94%	20,709	0.09	288,223	14.7	-	674	3%	3	-
0,15 to <0,25	12,554	47	50%	12,498	0.24	144,562	12.8	-	779	6%	4	-
0,25 to <0,50	24,263	142	82%	24,232	0.45	314,030	13.3	-	2,429	10%	14	-
0,50 to <0,75	252	51	100%	303	0.55	4,372	26.6	-	71	23%	-	-
0,75 to <1,25	12,389	42	82%	12,303	0.84	126,389	13.8	-	2,009	16%	14	-
1,25 to <2,50	10,978	58	82%	10,760	1.86	108,807	13.8	-	2,917	27%	28	-
2,50 to <5,00	86	24	100%	110	2.68	1,656	26.5	-	72	65%	1	-
5,00 to <10,00	4,895	27	76%	4,670	5.20	47,476	14.0	-	2,338	50%	34	-
10,00 to <20,00	1,610	1	50%	1,584	19.87	17,753	13.2	-	1,247	79%	42	-
20,00 to <100,00	88	-	100%	89	32.46	1,921	11.5	-	87	99%	5	-
100,00 (default)	3,158	1	50%	3,079	100.00	32,427	29.3	-	26	1%	901	-
Subtotal	90,594	886	88%	90,337	4.57	1,087,616	14.3	-	12,649	14%	1,046	1,359
- Other retail exposures: SMEs												
0,00 to <0,15	1,398	1,275	7%	1,335	0.12	55,370	32.6	-	100	7%	1	-
0,15 to <0,25	1,272	1,096	6%	1,216	0.15	62,911	33.3	-	109	9%	1	-
0,25 to <0,50	2,371	1,814	4%	2,229	0.31	110,439	33.7	-	324	15%	2	-
0,50 to <0,75	850	450	6%	807	0.68	40,126	34.9	-	192	24%	2	-
0,75 to <1,25	983	463	6%	931	1.11	47,588	35.5	-	283	30%	4	-
1,25 to <2,50	1,127	447	8%	1,068	1.85	56,229	36.6	-	398	37%	7	-
2,50 to <5,00	1,057	359	7%	998	3.11	55,798	37.3	-	421	42%	12	-
5,00 to <10,00	464	146	7%	435	5.19	26,419	37.5	-	195	45%	8	-
10,00 to <20,00	462	127	8%	424	13.79	32,681	37.9	-	245	58%	22	-
20,00 to <100,00	131	63	8%	121	42.05	18,594	39.8	-	98	81%	20	-
100,00 (default)	4,770	75	20%	4,633	100.00	106,458	65.4	-	13	0%	3,031	-
Subtotal	14,885	6,315	6%	14,197	34.11	612,613	44.9	-	2,378	17%	3,110	3,629
Exposures in equity instruments subject to the PD/LGD approach												
0,00 to <0,15	-	-	-	-	-	-	-	-	-	-	-	-
0,15 to <0,25	-	-	-	-	-	-	-	-	-	-	-	-
0,25 to <0,50	-	-	-	-	-	-	-	-	-	-	-	-
0,50 to <0,75	-	-	-	-	-	-	-	-	-	-	-	-
0,75 to <1,25	-	-	-	-	-	-	-	-	-	-	-	-
1,25 to <2,50	312	11	100%	323	1.54	-	90.0	1,825	849	263%	4	-
2,50 to <5,00	28	28	100%	56	3.15	-	90.0	1,825	172	305%	2	-
5,00 to <10,00	23	1	100%	24	5.76	-	90.0	1,825	94	392%	1	-
10,00 to <20,00	83	10	100%	93	18.60	-	90.0	1,825	505	546%	15	-
20,00 to <100,00	291	-	100%	291	28.87	-	90.0	1,825	1,657	569%	76	-
100,00 (default)	106	-	100%	106	100.00	-	90.0	1,825	-	0%	96	-
Subtotal	843	50	100%	893	24.14	-	90.0	1,825	3,277	367%	194	-

(*) The average maturity is not shown for retail portfolios since this parameter is not used when calculating risk-weighted assets in accordance with regulations.

In the first half, the aggregate of the exposures subject to credit risk measurement trough advanced approaches, is essentially stable (+0.2% equal to 0.7 billion euro), increased by the Mortgage portfolio (accounting for +1.3% on the aggregate, equal to 4.8 billion euro) and decreased by the SME portfolios (accounting for -0.1% on the aggregate, equal to -0.3 billion euro), Other Enterprises (accounting for -0.7%, on the aggregate, equal to -2 billion euro) and Bank/Public Entity (accounting for -0,6% on the aggregate, equal to -1.9 billion euro). The risk of the fully performing exposures shows a widespread improvement, which leads to an average reduction equal to about 24 bps (from 192 bps to 168 bps), mainly attributable to the Corporate portfolio and, to a lesser extent, to the Mortgage portfolio. The introduction of a new grid for the Corporate portfolio, with an annual update of the time series and completing the instructions provided by the Regulator when validating the model change, is reflected in a marginal increase in severity (+1%).

EU CR10 - IRB (specialised lending and equities) as at 30 June 2018

(millions of euro)

SPECIALISED LENDING								
Regulatory categories	**Remaining maturity**	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Expected losses**
Category 1	Less than 2.5 years	-	-	50%	-	-	-
	Equal to or more than 2.5 years	190	6	70%	195	136	1
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	Equal to or more than 2.5 years	240	53	90%	280	252	2
Category 3	Less than 2.5 years	-	-	115%	-	-	-
	Equal to or more than 2.5 years	225	126	115%	323	371	9
Category 4	Less than 2.5 years	-	-	250%	-	-	-
	Equal to or more than 2.5 years	117	5	250%	121	303	10
Category 5	Less than 2.5 years	-	-	-	-	-	-
	Equal to or more than 2.5 years	18	-	-	18	-	9
Total	**Less than 2.5 years**	**-**	**-**		**-**	**-**	**-**
	Equal to or more than 2.5 years	**790**	**190**		**937**	**1,062**	**31**

EQUITIES UNDER THE SIMPLE RISK-WEIGHTED APPROACH						
Categories	**On- balance-sheet amount**	**Off-balance-sheet amount**	**Risk weight**	**Exposure amount**	**RWAs**	**Capital requirements**
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	**21**	**-**	290%	**21**	**60**	**5**
Other equity exposures	238	162	370%	400	1,478	118
TOTAL	**259**	**162**		**421**	**1,538**	**123**

There was also an amount of 3,256 million euro (EAD) relating to the equity exposures subject to fixed weighting factors.

The table above shows the exposures related to specialised lending according to their respective regulatory categories and contractual maturities, as well as the disclosure of the equities calculated based on the simple risk-weight approach.

Credit risk mitigation techniques

Quantitative disclosure

As required by the applicable regulations, this Section reports the amounts of the exposures, split between secured and unsecured. The secured exposures are also broken down by type of guarantee.

EU CR3 – CRM techniques – Overview

This table shows the use of the risk mitigation techniques, with details of the net value of both the secured and unsecured exposures for the loans and debt securities. The secured exposures are further broken down according to type of guarantee (collateral, personal guarantees and exposures secured by credit derivatives; with the latter being non-material for the Group).

(millions of euro)

		Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans (*)	278,656	155,781	133,812	21,969	-
2	Total debt securities	72,934	120	116	4	-
3	**Total exposures as at 30 June 2018 (**)**	**574,676**	**161,614**	**137,006**	**24,608**	**-**
4	*Of which defaulted*	*10,381*	*14,053*	*12,018*	*2,035*	*-*

(*) In addition to loans, the caption includes other items that have been included in credit risk from a prudential standpoint.

(**) In addition to loans and debt securities, the amount of "Total exposures" includes equity instruments, property and equipment, cash and cash equivalents and off-balance sheet exposures.

As part of a general trend featuring a moderate drop in volumes (-2.9%), the weight of the secured exposures shows a more favourable performance (+5.9%), which the loans backed by collateral contribute to and, to a lesser extent, loans backed by personal guarantees. No substantial changes are recorded in debt securities.
The positive reorganisation of the portfolio towards higher levels of protection and risk mitigation, together with the appreciable reduction already recorded in the book value of the exposures in default, confirms the solid direction of the management.

Counterparty risk

Qualitative disclosure

Counterparty risk is a particular type of credit risk, relating to OTC derivatives and SFTs (Securities Financing Transactions, i.e. repurchase agreements and security lending), which refers to the possible default of the counterparty before the expiry of a contract that has a positive market value.

The Group uses techniques to mitigate counterparty risk through bilateral netting arrangements which enable the offsetting of credit and debit positions in the event of counterparty default.
This is achieved by entering into ISDA and ISMA/PSA agreements, for OTC derivatives, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
In addition, the bank establishes collateral arrangements, where possible, usually with daily margining, to hedge bilateral OTC derivatives (CSAs) and SFTs (GMRAs and GMSLAs).

For reporting purposes, Intesa Sanpaolo, Banca IMI and the banks of the Banca dei Territori Division have obtained authorisation from the Supervisory Authority to use the internal models approach to calculate the counterparty risk requirement for OTC derivatives and SFTs.
These advanced risk measurement methods are also used at operational level to perform the “use test”: the Financial and Market Risks Office Department calculates, validates and sends the metrics to the credit monitoring systems on a daily basis to measure the use of the credit lines for OTC derivatives and SFTs.
The Group’s banks which are not included in the roll-out plan for the internal models nevertheless apply the advanced metrics in a simplified manner at operational level.

To perform the use test of the model, the Group has implemented the processes required by the “Basel 3” regulations.
In particular, stress tests are carried out to measure the impacts on risk measures under extreme market conditions. Backtesting is also conducted to ensure the robustness of the model.
To complete the risk analysis process, the following corporate processes have been activated:

- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty’s probability of default;
- definition and monitoring of management limits;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for margined OTC derivatives and SFTs;
- periodic reporting to management of the measures calculated using the current and future internal exposure model, analysis of portfolio composition by type of counterparty/division/segment/country, underlying type per SFT capital requirement, level of use of management limits, and results of stress tests and Wrong-Way Risk analyses.

Quantitative disclosure

EU CCR1 – Analysis of CCR exposure by approach as at 30 June 2018

(millions of euro)

		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		579	189			766	236
2	Original exposure	-					-	-
3	Standardised approach		-			-	-	-
4	IMM (for derivatives and SFTs)				15,157	1.4	21,219	4,307
5	*Of which securities financing transactions*				*3,646*	*1.4*	*5,104*	*398*
6	*Of which derivatives and long settlement transactions*				*11,511*	*1.4*	*16,115*	*3,909*
7	*Of which from contractual cross-product netting*				-	-	-	-
8	Financial collateral simple method (for SFTs)						-	-
9	Financial collateral comprehensive method (for SFTs)						3,438	1,302
10	VaR for SFTs						-	-
11	**TOTAL**							**5,845**

As already illustrated, the Parent Company, Banca IMI and the banks of the Banca dei Territori Division were authorised to use EPE (Expected Positive Exposure) internal models to determine the capital requirement for counterparty risk against derivatives.

This approach is applicable to almost the entire derivatives portfolio (as shown in the table, as at 30 June 2018 approximately 96% of the total EAD of financial and credit derivatives is measured using EPE models). At consolidated level, derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 30 June 2018 accounting for approximately 4% of overall EAD) and refer to:

– residual contracts of Banca IMI, Intesa Sanpaolo and banks of the Banca dei Territori Division to which EPE is not applied (in compliance with the insignificance of the EBA thresholds);
– EAD generated by all other banks and companies in the Group which report using the mark-to-market approach.

The EPE internal model considers the collateral collected to mitigate credit exposure and any excess collateral paid. The value of the guarantees received and included in the calculation of the EAD amounts to more than 2.9 billion euro for the Parent Company, Banca IMI and the banks of the Banca dei Territori Division, while the collateral paid equals 13.9 billion euro (including the collateral connected to transactions with central counterparties).

As part of the stress test programme on counterparty risks, it was estimated that a downgrade of Intesa Sanpaolo by the rating agencies would generate additional liquidity outflows (in terms of collateral paid) of 10 million euro for Banca IMI (of which 5.8 million euro to vehicles) and 2.1 billion euro for the Parent Company, linked to contractual clauses that would be activated following this event (for almost all of those deriving from vehicles of the group).

Starting from the reporting as at 31 December 2016, also SFTs were reported with the EPE internal model approach.

EU CCR2 – CVA capital charge as at 30 June 2018

(millions of euro)

		Exposure value	RWAs
1	**Total portfolios subject to the advanced method**	**1,483**	**744**
2	VaR component (including the 3× multiplier)		132
3	SVaR component (including the 3× multiplier)		612
4	**All portfolios subject to the standardised method**	**354**	**196**
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**1,837**	**940**

Total RWAs generated by CVA Capital Charge are stable compared to the end of the previous half-year. The contribution calculated with the advanced measurement approach is down compared to December 2017: the instability of the spreads recorded in May on the VaR was more than offset by the stressed VaR component (SVaR).
The RWAs measured with the standardised approach are up.

EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk weighting as at 30 June 2018

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL	Of WHICH UNRATED
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1	Central governments or central banks	6,192	-	-	-	-	-	-	-	131	-	-	6,323	6,315
2	Regional government or local authorities	-	-	-	-	20	-	-	-	-	-	-	20	20
3	Public sector entities	-	-	-	-	-	-	-	-	18	-	-	18	1
4	Multilateral development banks	1,525	-	-	-	-	-	-	-	-	-	-	1,525	1,525
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	6,379	-	-	83	21	-	-	3	-	-	6,486	6,452
7	Corporates	-	-	-	-	2	113	-	-	283	-	-	398	85
8	Retail	-	-	-	-	-	-	-	33	-	-	-	33	33
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
11	**TOTAL**	**7,717**	**6,379**	**-**	**-**	**105**	**134**	**-**	**33**	**435**	**-**	**-**	**14,803**	**14,431**

EU CCR3 bis – Standardised approach – CCR exposures by regulatory portfolio and risk weighting - Amounts without risk mitigation as at 30 June 2018

(millions of euro)

	EXPOSURE CLASSES	RISK WEIGHT											TOTAL	Of WHICH UNRATED
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others		
1	Central governments or central banks	6,192	-	-	-	-	-	-	-	131	-	-	6,323	6,315
2	Regional government or local authorities	-	-	-	-	20	-	-	-	-	-	-	20	20
3	Public sector entities	-	-	-	-	-	-	-	-	37	-	-	37	-
4	Multilateral development banks	1,525	-	-	-	-	-	-	-	-	-	-	1,525	1,525
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	7,009	-	-	102	21	-	-	17	-	-	7,149	7,114
7	Corporates	-	-	-	-	2	127	-	-	335	-	-	464	114
8	Retail	-	-	-	-	-	-	-	239	-	-	-	239	239
9	Institutions and corporates with a short-term credit rating	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	-
11	**TOTAL**	**7,717**	**7,009**	**-**	**-**	**124**	**148**	**-**	**239**	**520**	**-**	**-**	**15,757**	**15,327**

EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale as at 30 June 2018 *(Table 1 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Exposures to or secured by Supervised Intermediaries, Public sector and local entities and Other entities							
0.00 to <0.15	3,611	0.07	150	35.6	465	531	15%
0.15 to <0.25	1,455	0.17	62	31.3	398	369	25%
0.25 to <0.50	407	0.35	48	32.1	602	152	37%
0.50 to <0.75	155	0.54	6	27.7	1,811	102	66%
0.75 to <1.25	296	0.82	16	16.1	1,794	129	44%
1.25 to <2.50	185	1.61	30	25.6	1,374	140	76%
2.50 to <5.00	494	2.95	14	34.4	440	501	102%
5.00 to <10.00	516	5.66	13	29.9	49	468	91%
10.00 to <20.00	-	15.73	1	39.3	880	-	207%
20.00 to <100.00	3	27.14	2	28	1,798	6	176%
100.00 (default)	16	100.00	3	25.9	1,386	4	25%
Subtotal	7,138	1.03	345	32.8	538	2,402	34%
Exposures to or secured by corporates:							
- Specialised loans							
0.00 to <0.15	-	-	-	-	-	-	-
0.15 to <0.25	-	-	-	-	-	-	-
0.25 to <0.50	14	0.35	3	17.0	1,468	4	30%
0.50 to <0.75	132	0.54	19	15.2	1,636	45	34%
0.75 to <1.25	44	0.83	15	18.9	1,527	19	43%
1.25 to <2.50	178	1.34	46	28.8	1,645	155	87%
2.50 to <5.00	38	3.28	19	19.8	1,215	25	65%
5.00 to <10.00	10	8.53	2	38.9	1,269	17	177%
10.00 to <20.00	190	13.22	5	28.5	1,809	305	161%
20.00 to <100.00	11	35.70	4	18.6	853	12	107%
100.00 (default)	4	100.00	7	58.3	862	1	24%
Subtotal	621	6.20	120	24.4	1,630	583	94%
- SMEs (small and medium enterprises)							
0.00 to <0.15	4	0.14	147	44.8	802	1	27%
0.15 to <0.25	8	0.42	351	44.9	735	3	33%
0.25 to <0.50	32	0.77	1,344	45.0	701	16	49%
0.50 to <0.75	25	1.21	884	45.1	807	16	63%
0.75 to <1.25	27	1.97	902	44.7	837	21	78%
1.25 to <2.50	80	3.57	1,404	44.9	1,067	82	103%
2.50 to <5.00	39	7.57	651	44.6	928	41	105%
5.00 to <10.00	61	14.82	768	45.2	947	87	143%
10.00 to <20.00	30	26.76	198	45.1	1,072	57	192%
20.00 to <100.00	15	28.50	72	45.5	1,044	33	216%
100.00 (default)	29	100.00	262	49.5	857	7	24%
Subtotal	350	1.03	6,983	45.4	932	364	104%
- Other corporates							
0.00 to <0.15	249	0.09	101	36.0	1,261	70	28%
0.15 to <0.25	548	0.22	157	35.4	1,230	249	46%
0.25 to <0.50	357	0.71	473	36.1	833	173	48%
0.50 to <0.75	390	1.09	318	35.1	1,197	264	68%
0.75 to <1.25	123	1.86	281	35.4	767	90	73%
1.25 to <2.50	372	2.83	390	36.0	1,391	384	103%
2.50 to <5.00	83	6.34	131	35.2	1,034	94	114%
5.00 to <10.00	246	7.32	118	36.1	831	352	143%
10.00 to <20.00	6	15.39	15	35.5	844	11	184%
20.00 to <100.00	14	21.74	10	36.2	1,380	29	216%
100.00 (default)	17	100.00	51	40.2	842	4	24%
Subtotal	2,405	2.22	2,045	35.7	1,120	1,720	72%

EU CCR4 – IRB approach – CCR exposures by portfolio and PD scale as at 30 June 2018 *(Table 2 of 2)*

(millions of euro)

PD scale	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWAs	RWA density
Retail exposures: (*)							
- Other retail exposures: SMEs							
0.00 to <0.15	2	0.12	359	49.4	-	-	11%
0.15 to <0.25	2	0.15	316	48.6	-	-	13%
0.25 to <0.50	3	0.32	550	48.6	-	1	21%
0.50 to <0.75	2	0.68	184	47.5	-	1	33%
0.75 to <1.25	2	1.09	224	47.8	-	1	41%
1.25 to <2.50	2	1.86	240	48.5	-	1	50%
2.50 to <5.00	1	3.08	187	48.7	-	1	55%
5.00 to <10.00	1	5.14	85	48.2	-	-	58%
10.00 to <20.00	2	13.58	86	47.5	-	1	72%
20.00 to <100.00	1	44.20	40	46.7	-	1	94%
100.00 (default)	1	100.00	107	46.3	-	-	0%
Subtotal	19	11.62	2,378	48.1	-	7	35%

(*) The average maturity is not shown for retail portfolios since this parameter is not used when calculating risk-weighted assets according to regulations.

In the first half of 2018 the aggregate of the exposures subject to counterparty risk, measured using advanced approaches, shows a moderate decrease (-5.6% equal to -0.6 billion euro), attributable to the Banks and Public Entities Portfolio (-0.5 billion euro). A significant improvement is observed for performing customers, with a reduction of about 47 bps, mainly due to the Banks and Public Entities Portfolio. The introduction of a new grid for the Corporate portfolio, with an annual update of the time series and completing the instructions provided by the Regulator when validating the *model change*, is reflected in a limited increase in severity (+2.4%).

EU CCR6 – Credit derivatives exposures as at 30 June 2018

(millions of euro)

	CREDIT DERIVATIVE HEDGES		OTHER CREDIT DERIVATIVES
	Protection bought	Protection sold	
Notionals			
Credit default products - On single counterparty	-	-	14,688
Credit spread products - On single counterparty	-	-	-
Total rate of return swap - On single counterparty	-	-	-
Other - On single counterparty	-	-	-
Credit default products - On more counterparties (basket)	-	-	92,379
Credit spread products - On more counterparties (basket)	-	-	-
Total rate of return swap - On more counterparties (basket)	-	-	-
Other - On more counterparties (basket)	-	-	-
Total notionals	**-**	**-**	**107,067**
Fair values			
Positive fair value (asset)	-	-	*874*
Negative fair value (liability)	-	-	*-935*

The transactions in credit derivatives related to the own credit portfolio with a notional value of 62 billion euro (of which 29 billion euro relating to protection sales), whereas the dealing on behalf of customers had a notional value of 45 billion euro (of which 22 billion euro relating to protection sales).

EU CCR5-A – Impact of netting and collateral held on exposure values as at 30 June 2018

This table provides an overview of the impact of the netting and collateral held on exposures whose value is measured in accordance with part three, title II, chapter six, of the CRR, including the exposures resulting from transactions netted through a CCP (Central Counterparty). For more comprehensive information on the netting arrangements in accordance with IAS 32, see the disclosure provided in the Notes to the Consolidated Financial Statements - Part B - Information on the consolidated balance sheet - Liabilities - Other information of the Consolidated financial statements as at 31 December 2017.

(millions of euro)

		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	20,911	17,198	3,713	2,909	804
2	SFTs	38,609	18,042	20,567	20,204	363
3	Cross-product netting	-	-	-	-	-
4	**TOTAL**	**59,520**	**35,240**	**24,280**	**23,113**	**1,167**

EU CCR5-B – Composition of collateral for exposures to CCR as at 30 June 2018

(millions of euro)

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS		COLLATERAL USED IN SFTS	
	Fair value of collateral received	Fair value of posted collateral	Fair value of collateral received	Fair value of posted collateral
Cash	3,104	12,964	1,150	524
Debt Securities	206	1,339	284	81
TOTAL	**3,310**	**14,303**	**1,434**	**605**

The collateral paid and received on derivative transactions remained essentially unchanged compared to the previous half-year.

Regarding the collateral in securities, the collateral received on SFTs with underlying Italian securities seems notably higher, due to the increase in credit spreads of Italian government securities recorded starting from May 2018.

EU CCR8 – Exposures to CCPs as at 30 June 2018

(millions of euro)

		EAD POST CRM	RWAs
1	**Exposures to QCCPs (total)**		508
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	773	15
3	i) OTC derivatives	223	4
4	ii) Exchange-traded derivatives	124	2
5	iii) SFTs	426	9
6	iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	5,607	112
9	Prefunded default fund contributions	1,204	381
10	Alternative calculation of own funds requirements for exposures		-
11	**Exposures to non-QCCPs (total)**		-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	i) OTC derivatives	-	-
14	ii) Exchange-traded derivatives	-	-
15	iii) SFTs	-	-
16	iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Prefunded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

The EAD towards clearing houses is mainly generated by Initial Margins paid by Banca IMI to LCH (SFT and OTC trading), Cassa di Compensazione e Garanzia (central counterparty clearing house) and Eurex (SFT and ETD trading).
Intesa Sanpaolo has a direct exposure to CCP only for SFT trading; the rest of the Parent Company's trading for which there is a clearing obligation is carried out by Banca Imi, which acts as the clearing broker on Intesa Sanpaolo's behalf.

Market risks

Qualitative and quantitative disclosure regarding the trading book

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

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

A number of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios are interest rates and foreign exchange rates, both relating to linear pay-offs.

Internal model validation

For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital requirement of both Intesa Sanpaolo and Banca IMI.
In particular, the validated risk profiles for market risks are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The VaR and the Stressed VaR used to determine the capital requirement, use the same calculation engine and the same pricing libraries for the full evaluation of the managerial measures. With regard to the latter, however, there is no decay factor in the application of the scenarios.
The observation window for the VaR and SVaR is 1 year and the figure is updated on a daily basis.
The daily measures are turned into ten-day measures through the square root of time formula to obtain data that can be used to determine the requirement.

See the paragraph below, for more details on the Incremental Risk Charge.

Effective from June 2014, market risks capital requirements for the Parent Company's hedge fund portfolios is included in the Internal Model.
Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Supervisory Authority following completion of the previously recommended corrective actions.
As of 31 December 2017 the requirement includes the effects from the extension of the trading books of Banca Popolare di Vicenza and Veneto Banca to the scope of Intesa Sanpaolo. Starting from the second quarter of 2018, the requirement includes the residual trading positions of former Banca Nuova.

Following that reduction, the prudential multipliers for both banks were set at 3.4, both for current VaR values and for those in stress conditions.

EU MR1 - Market risk under the standardised approach

(millions of euro)

		RWAs	Capital requirements
	Outright products		
1	Interest rate risk (general and specific)	475	38
2	Equity risk (general and specific)	350	28
3	Foreign exchange risk	583	46
4	Commodity risk	8	1
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	**Securitisation (specific risk)**	**601**	**48**
9	**Total**	**2,017**	**161**

The requirement calculated with the Standard methodology recorded a reduction, compared to December 2017, mainly due to the decrease of the residual requirement calculated for UCIs, the contribution to the group RWAs is down further, becoming marginal compared to total RWAs.

EU MR2-A – Market risk under the IMA[5]

(millions of euro)

			RWAs	Capital requirements
1		**VaR (higher of values a and b)**	**3,198**	**256**
	a)	Previous day's VaR (Article 365(1) of the CRR (VaRt-1))		113
	b)	Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR		256
2		**SVaR (higher of values a and b)**	**9,612**	**769**
	a)	Latest SVaR (Article 365(2) of the CRR (SVaRt-1))		237
	b)	Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)		769
3		**IRC (higher of values a and b)**	**2,495**	**200**
	a)	Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)		200
	b)	Average of the IRC number over the preceding 12 weeks		166
4		**Comprehensive risk measure (higher of values a, b and c)**	-	-
	a)	Most recent risk number for the correlation trading portfolio (Article 377 of the CRR)		-
	b)	Average of the risk number for the correlation trading portfolio over the preceding 12 weeks		-
	c)	8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338(4) of the CRR)		-
5		**Other**	**-**	**-**
6		**TOTAL**	**15,305**	**1,225**

The average portfolio breakdown remained stable overall. The requirement changes, up by about 7 million euro compared to December 2017, are attributable to a different allocation among credit positions, which have a different impact on the metrics that constitute the internal model. The net effect is essentially unchanged Market RWAs.

[5] The VaR figure in the table includes illiquid parameters.

Stressed VAR

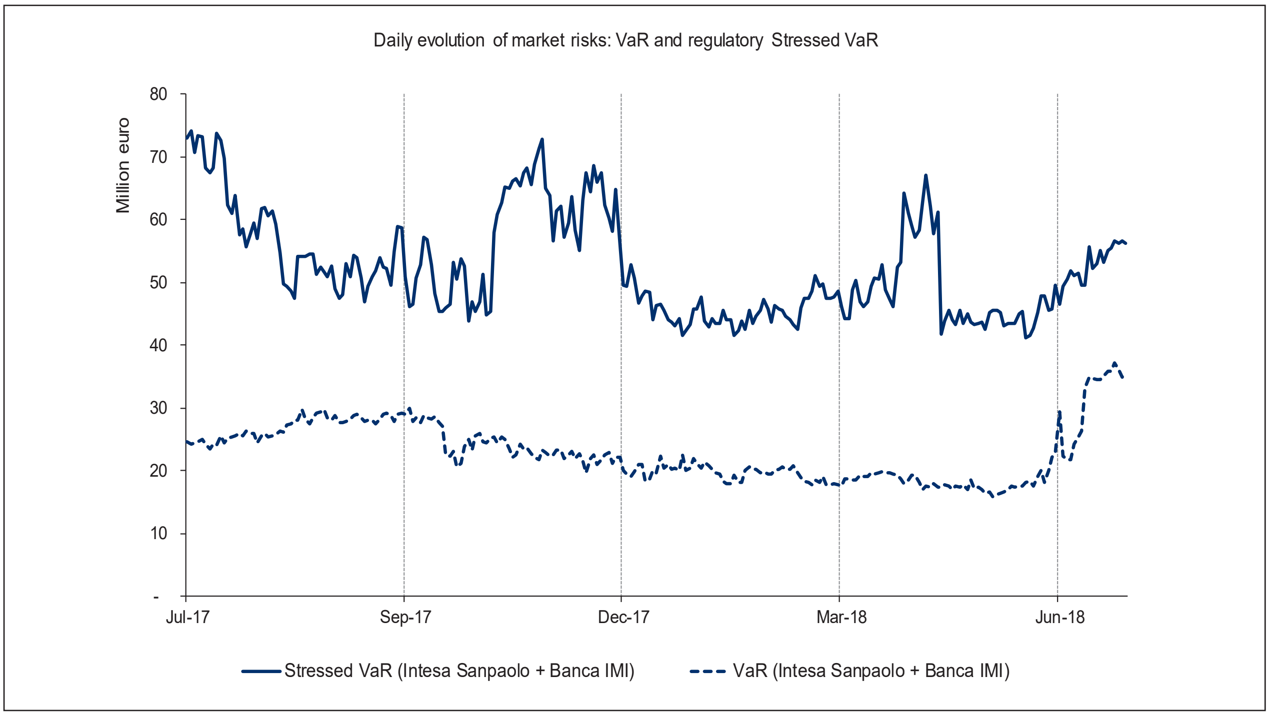
From 31 December 2011, the capital requirement for market risk includes stressed VaR. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document “Revision to the Basel II market risk framework”:

- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real historical series to be used for all portfolio risk factors.

While using the historical simulation approach, the latter point is a discriminating condition in the selection of the holding period. Actually, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As at the date of preparation of the document, the period relevant to the measurement of stressed VaR was set as 1 April 2008 to 31 March 2009 for Intesa Sanpaolo and as 1 July 2011 to 30 June 2012 for Banca IMI.

The graph below shows the trend of the measures.



The table below shows the breakdown of the capital requirements for current and Stressed VaR measures

EU MR3 – IMA values for trading portfolios

(millions of euro)

VaR (10 day 99%)		
1	Maximum value	118
2	Average value	69
3	Minimum value	50
4	Period end	113
SVaR (10 day 99%)		
5	Maximum value	284
6	Average value	211
7	Minimum value	179
8	Period end	237
IRC (99.9%)		
9	Maximum value	230
10	Average value	166
11	Minimum value	126
12	Period end	200
Comprehensive risk capital charge (99.9%)		
13	Maximum value	-
14	Average value	-
15	Minimum value	-
16	Period end	-

The recent trend of the Group capital requirement is closely connected to the exposure on the financial sector in the trading book. This exposure is related to both individual issuers and, primarily, to positions on credit indices (CDS).

Managerial VaR

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.
The section “Quantitative information” presents the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the trading portfolio resulting from an upgrade/downgrade or default of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.
This measure applies to all financial products that are sensitive to credit spreads included in the trading books except for the securitisations.
The simulation is based on a Modified Merton Model. The probabilities of transition and default are those observed through the historical matrices of the main rating agencies. The asset correlation is inferred from the equity correlation of the issuers. The model is based on the assumption of a constant position with a holding period of one year.
A regular stress program is applied to the model’s main parameters (correlation, and transition, default and credit spread matrices).

Stress tests

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

Sensitivity and greeks

Sensitivity measures make risk profiling more accurate, especially in the presence of optional or non-linear components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters (i.e. a one basis point increase in interest rates).

Level measures

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

Daily VaR evolution

During the second quarter of 2018, the market risks generated by Intesa Sanpaolo and Banca IMI increased compared to the average values of the first quarter of 2018. The average VaR for the period totalled 61.9 million euro compared to 48.1 million euro of March 2018.

Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI[(a)]

(millions of euro)

	2018				2017			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	11.8	6.7	20.9	7.8	8.0	8.9	11.6	11.5
Banca IMI	50.1	28.0	85.8	40.3	50.5	52.6	58.4	73.7
Total	**61.9**	**34.8**	**105.3**	**48.1**	**58.6**	**61.5**	**70.0**	**85.3**

(a) Each line in the table sets out past estimates of daily VaR calculated on the quarterly historical time-series respectively of Intesa Sanpaolo and Banca IMI; the estimate of the minimum and maximum value on the overall scope does not correspond to the sum of the individual values in the column as it is recalculated on the aggregate historical time-series.

Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI – Comparison between 2018 and 2017 [(a)]

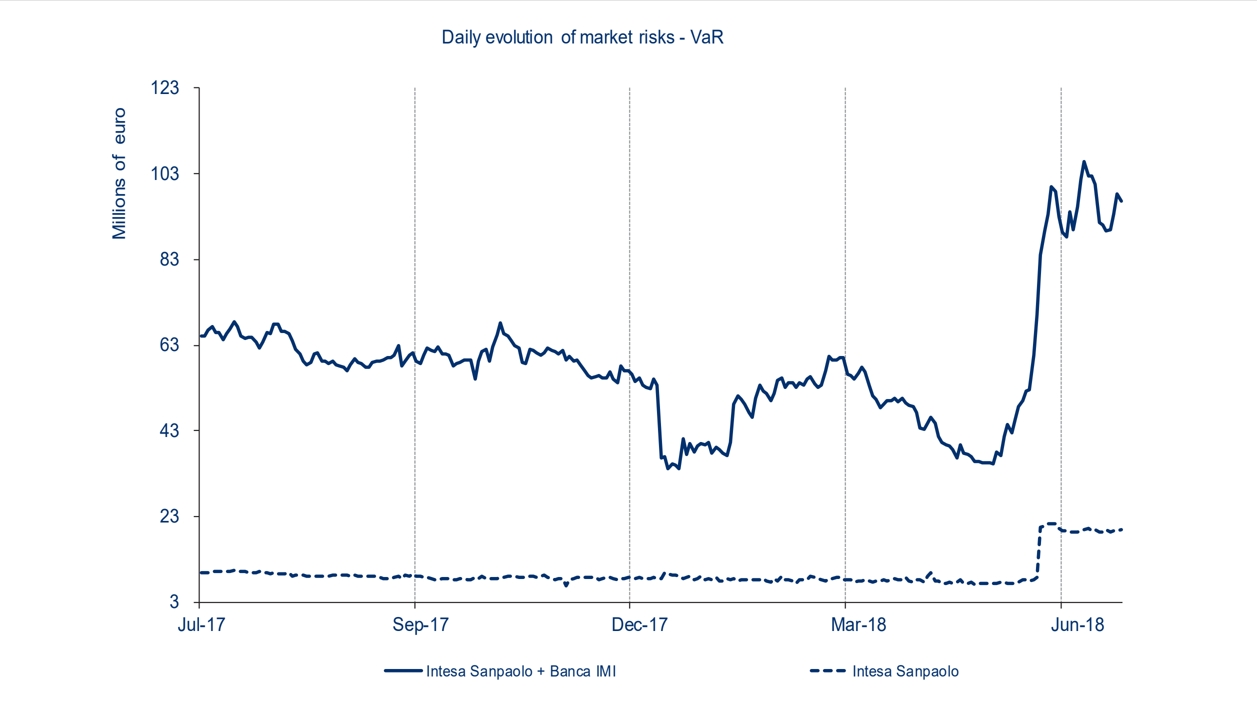
However, compared to last year, the risk measures for the first half have decreased: for 2018 an average group VaR of 55 million was recorded whilst in 2017 the average amounted to approximately 78 million euro.

(millions of euro)

	2018			2017		
	average 1st half	minimum 1st half	maximum 1st half	average 1st half	minimum 1st half	maximum 1st half
Intesa Sanpaolo	9.8	6.7	20.9	11.5	9.2	12.5
Banca IMI	45.2	24.6	85.8	66.2	52.9	93.2
Total	**55.0**	**33.7**	**105.3**	**77.8**	**62.2**	**104.8**

(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first six months of the year respectively of Intesa Sanpaolo and Banca IMI; the estimate of the minimum and maximum value on the overall scope does not correspond to the sum of the individual values in the column as it is recalculated on the aggregate historical time-series.

The trend in the Group's VaR, shown in the following chart, was mainly determined by Banca IMI.



The trend in VaR is mainly attributable to Banca IMI. During the first half of 2018 (May), the risk measures rose and reflected the increase in the volatility of the financial markets, particularly in the Italian government sector. In June, the trend was also influenced by changes in the portfolio. The Parent Company also recorded an increase in risks, albeit to a lesser extent, and this was also due to the increase in volatility of the credit spread risk factor (indices). The VaR limits were sufficient at Group level.

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

2nd quarter 2018	Shares	Hedge funds	Interest rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	3%	4%	16%	66%	10%	1%	0%
Banca IMI	4%	0%	13%	76%	0%	6%	1%
Total	**5%**	**1%**	**13%**	**74%**	**1%**	**5%**	**1%**

(a) Each line in the table sets out the contribution of the risk factors considering the overall Var as 100%, calculated as the average of daily estimates in the second quarter of 2018, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall scope.

For Intesa Sanpaolo the breakdown of risk profile in the second quarter of 2018 with regard to the various factors shows the prevalence of the risk generated by credit spread, which produced 66% of total managerial VaR; for Banca IMI too credit spread risk was the most significant, representing 76% of total managerial VaR.

Contribution of strategies to portfolio breakdown [(a)]

	30.06.2018	31.12.2017
- Catalist Driven	7.8%	20.1%
- Credit	42.9%	33.9%
- Directional trading	11.1%	25.5%
- Equity hedged	29.0%	2.9%
- Equity Long Only	0.0%	0.0%
- Multi-strategy	9.2%	17.6%
Total hedge funds	**100.0%**	**100.0%**

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

In 2018, the hedge fund portfolio (trading book) focused on strategies relating to credit (about 43% of the total in terms of portfolio value). As at 30 June, there are investments in hedge funds in the banking book for about 90 million euro (main credit categories, catalist driven, directional trading and equity hedged).

Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of June is summarised in the following table: The shocks applied to the portfolio were updated on an annual basis by the Financial and Market Risks Head Office Department.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITY	
	Crash	Bullish	+40bp	lower rate	-25bp	+25bp	-10%	+10%	Crash	Bullish
Total	-1	7	-71	62	295	-289	35	-15	2	-4

In particular:
– on stock market positions, a 15% decrease in stock prices with a resulting 25% increase in volatility would have led to a loss of approximately one million euro;
– on interest rate exposures, a rise of the curves of 40 basis points would have had a negative impact of 71 million euro, whereas a scenario with a reduction in interest rates would have led to potential gains;
– on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 289 million euro loss;
– on foreign exchange exposures, were the Euro to appreciate against the US dollar by 10%, a loss of approximately 15 million euro would be recorded;
– lastly, for commodity exposures potential losses would be recorded for an amount equal to 4 million euro in case of a 20% increase in prices of commodities (accompanied by a reduction in the price of gold of 15%).

Backtesting

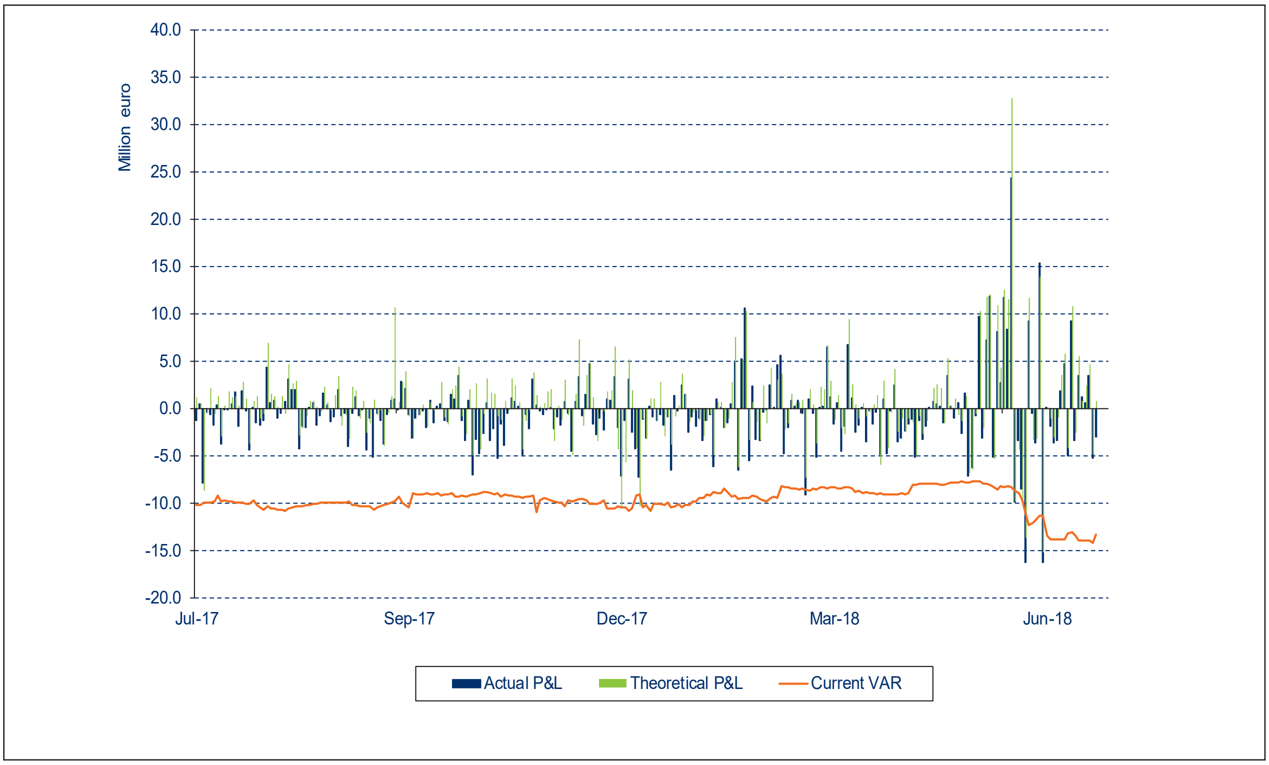
The soundness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:
– the daily estimates of value at risk;
– the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting.

Backtesting allows verification of the model’s capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the Internal Model are represented by situations in which daily profits/losses based on backtesting exceeds VaR more than four occasions, in the year of observation. Current regulations require that backtesting is performed by taking into consideration both the actual and hypothetical P&L series. For the Group, the latter is based on revaluation of the portfolio value through the use of pricing models adopted for the VaR measurement calculation (Theoretical P&L). The number of significant backtesting exceptions is determined as the maximum between those for actual P&L and theoretical P&L.

EU MR4 – Comparison of VaR estimates with gains/losses

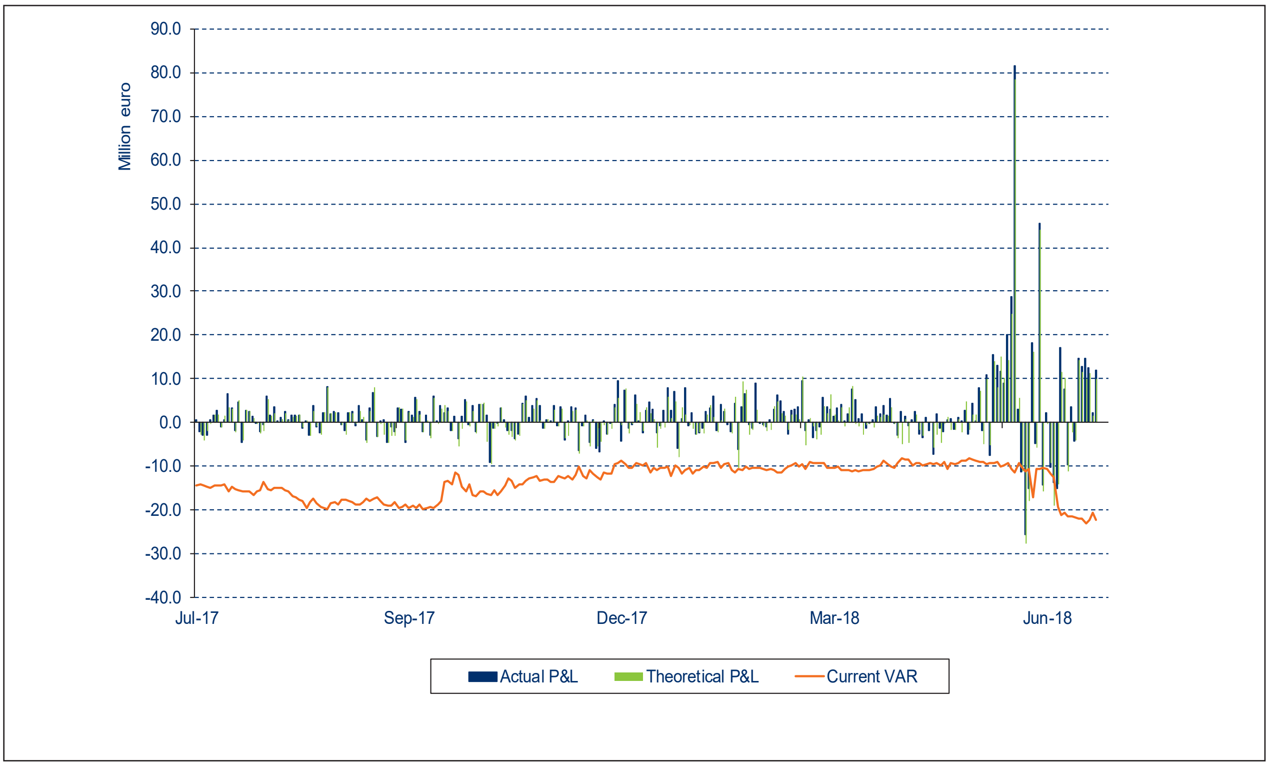
Backtesting in Intesa Sanpaolo

Over the last twelve months there have been four backtesting exceptions. The breaches were caused by the credit component of the portfolio, which was particularly affected by the volatility in the second half of May 2018. The volatility was particularly high for purchase positions hedging credit indices.



Backtesting in Banca IMI

The credit spread volatility was very high in the second quarter of 2018. This volatility led to five backtesting breaches for both theoretical and actual P&L. The portfolio was particularly sensitive to the performance of the financial sector and to a lesser extent to the government sector.



Issuer risk

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

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

	Total	Of which					
		Corporate	Financial	Emerging	Covered	Governement	Securitis.
Intesa Sanpaolo	84%	5%	3%	0%	3%	78%	11%
Banca IMI	16%	10%	18%	14%	2%	25%	31%
Total	**100%**	**8%**	**11%**	**7%**	**3%**	**49%**	**22%**

(a) The table sets out in the Total column the contribution of Intesa Sanpaolo and Banca IMI to the total issuer risk exposure, providing details of the contribution of the exposure by type of issuer, considering the total equal to 100%.

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

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

Operating limits

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the following basic concepts of hierarchy and interaction.
The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

- first level limits (VaR): at the level of individual legal entities, these are approved by the Board of Directors, concurrently with approval of the RAF. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risk Committee. Following approval, these limits are then allocated to the desks of the individual legal entities, considering the proposals by the business units;
- second level limits (sensitivity and greeks): they have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures.

For the 2018 RAF, an overall limit was set for the trading component of 155 million euro, in line with the previous year.

With respect to the component sub-allocated to the organisational units, it may be noted that the use of the VaR limit (held for trading component) for Intesa Sanpaolo averaged 46% in 2018, with a maximum use of 104% (this overdraft was managed by the Group Financial Risks Committee). For Banca IMI, the average VaR limit came to 35%, with a maximum use of 68%. It should be specified that for Banca IMI the VaR limit also includes the HTCS component.

The use of the IRC limits as at June 2018 amounted to 30.4% for Intesa Sanpaolo (limit of 150 million euro) and 35.7% for Banca IMI (limit of 430 million euro).

Incremental Risk Charge – Summary of 2018 performance

(millions of euro)

	2018				2017			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	35.7	32.2	46.3	32.0	32.2	39.5	66.9	65.5
Banca IMI	130.5	94.0	183.5	128.6	98.2	123.7	270.5	337.0
Total	**166.2**	**126.2**	**229.8**	**160.6**	**130.4**	**163.2**	**337.4**	**402.5**

The use of VaR operating limits on the HTCS component (excluding Banca IMI) at the end of June was 77%. For 2018, the limit for this component remained in line with 2017 at 260 million euro.

Financial measurements

The fair value of financial instruments

The methods for the fair value measurement of financial instruments are governed by the Intesa Sanpaolo Group through its Fair Value Policy and are described in detail in the 2017 Annual Report. This chapter provides a summary of the most significant changes during the first half of 2018.

In particular, the Group has aligned its Fair Value Policy to IFRS 9, introducing a methodology for the fair valuation of loans measured at fair value required by the business model classification or by the failure of the Solely Payment of Principal and Interest (SPPI) Test. The Fair Value Policy also established rules for the quantitative methods supporting the SPPI Test (Benchmark Cash Flow Test and Credit Risk Assessment) for the instruments that require them.

The prudent value of financial instruments

Following the introduction of IFRS 9, the Group has also updated its Prudent Valuation Policy, which governs the measurement of the prudent value of the financial instruments, as described in detail in the 2017 Annual Report.

With respect to 31 December 2017, the calculation rules for the Additional Value Adjustments (AVAs) have been extended to measure the prudent value of the loans at fair value and the Prudential filters have been updated following the termination of the transitional period established by the Bank of Italy with the issue of Circular 285.

Independent price verification (IPV)

In the first half of 2018, the Group formalised its Independent Price Verification Process through its IPV Policy.

According to the provisions of Regulation EU 575/2013, Article 4, par. 1.70 and Article 105, par. 8, the IPV process is the regular verification of the accuracy and independence of market prices or the data input in pricing models, carried out by an organisational unit independent from the managers of the business, at a frequency commensurate with the trading carried out and the nature of the market. The IPV process is integrated with the risk management processes, in compliance with the regulations on the measurement of financial instruments (IFRS) and the measurement of risk (CRR).

The IPV Policy formalises in a single framework at Group level a series of already existing controls that have been developed over time.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

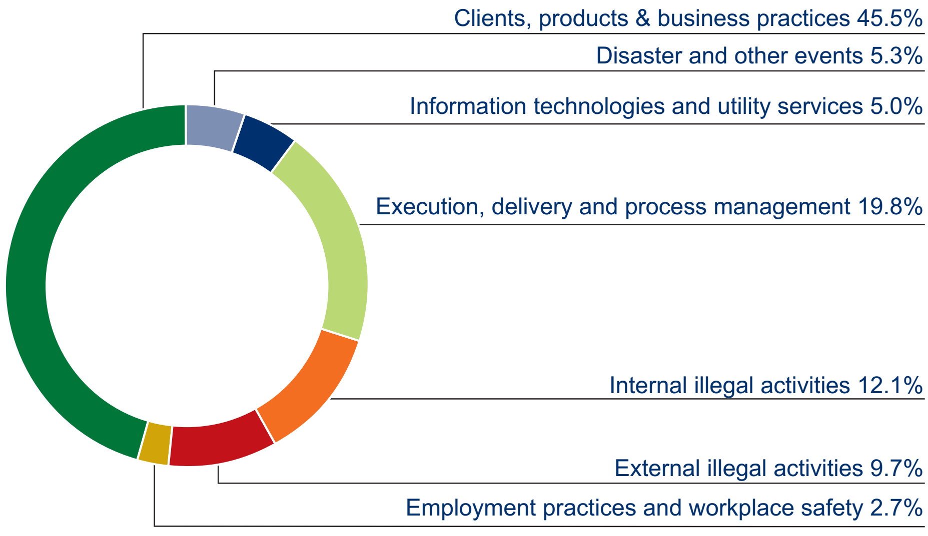
Methods for calculating Operational Risk

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

The capital absorption resulting from this approach amounts to 1,437 million euro as at 30 June 2018, down from 1,488 million euro as at 31 December 2017.

The following shows the breakdown by type of operational event of capital requirement relating to the AMA, which represents 83% of the total requirement.

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



The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative (Self-diagnosis) information.
The quantitative component is based on an analysis of historical data concerning internal events (recorded by the organisational units, appropriately verified by the Head Office Department and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).
The qualitative component (Scenario Analysis) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company's business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly severe operational events.
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment (Business Environment Evaluation), to take into account the effectiveness of internal controls in the various Organisational Units.

Operational risks are monitored by an integrated reporting system, which provides management with support information for managing and/or mitigating the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.
In addition, the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and damage, cash and valuables in transit losses, computer fraud, forgery, cyber-crimes, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group subscribed an insurance coverage policy named Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market. The internal model’s insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

Leverage Ratio

Qualitative disclosure

Under the Basel 3 prudential regulations, the Leverage ratio entered definitively into effect on 1 January 2015. The Leverage ratio measures the degree to which Tier 1 Capital covers the Banking Group's total exposure. The ratio is calculated by considering 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.

Description of the processes used to manage the risk of excessive leverage

The Intesa Sanpaolo Group shares the regulatory indication of monitoring and containing a leverage ratio to integrate the capital ratios based on risk, and acknowledges their usefulness in order to limit the excessive accumulation of leverage in the banking system and especially to provide supplementary monitoring against model risk and the possible related measurement errors.
Accordingly, the leverage ratio is given a high level of attention and, as such, it has been selected as a reference measurement criterion within the scope of the Risk Appetite Framework for the monitoring of the overall risk and, more specifically, of the Group's capital adequacy.
In line with the previous year, the 2018 RAF update confirmed both the choice to define its limit by adding a stress buffer to the regulatory minimum of 3% and the decision to also set an early warning threshold quantified based on an additional prudential buffer. Compliance with these limits is monitored in the Tableau de Bord of the risks and reported to the Risk Committee and the Board of Directors on a quarterly basis.
Lastly, it is noted that the Group has one of the highest leverage ratios in the industry and, in view of the operations carried out, the management of the risk of excessive leverage, although it is subject to the utmost attention from Top Management, is not a significant constraint for the Group's strategic planning.

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

During the first half of the year, both aggregates that determine the leverage ratio recorded decreases. In particular:

- the reduction in capital level (Tier 1 capital) is mainly attributable to the decrease in valuation reserves; see the Section relating to Own Funds of this document for a thorough analysis of the breakdown of the Tier 1 capital;
- the reduction in Total exposure is due – in addition to the effects caused by the first-time adoption of IFRS9 – to:
  - a decline in on-balance sheet exposures (excluding SFTs and derivatives), mainly attributable to the drop in exposures to sovereign entities, institutions and other assets other than loans, partially offset by exposures to customers;
  - a decrease in SFTs, attributable to the higher deductions for reverse repos that meet the conditions required by the Delegated Act;
  - a decrease in the off-balance sheet items.

Derivatives exposures bucked the overall trend.

Leverage ratio of the Intesa Sanpaolo Group

The disclosure of the Leverage ratio of the Intesa Sanpaolo Group as at 30 June 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 ratio is expressed in percent form and is subject to the regulatory minimum threshold of 3% (the Basel Committee reference value). The Leverage ratio is indicated according to the transitional provisions.

Quantitative disclosure

LRCom table – Leverage ratio common disclosure

The table shows the Leverage ratio as at 30 June 2018 and the breakdown of the total exposure into the main categories, according to the provisions of Article 451(1) (a, b, c) of the CRR.

(millions of euro)

	On-balance sheet exposures (excluding derivatives and SFTs)	30.06.2018	31.12.2017
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	567,802	572,977
2	(Asset amounts deducted in determining Tier 1 capital) - transitional regime	-12,032	-11,557
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**555,770**	**561,420**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	9,542	8,519
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	13,714	12,110
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-10,633	-11,244
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	51,200	40,565
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-48,703	-39,193
11	**Total derivatives exposures (sum of lines 4 to 10)**	**15,120**	**10,757**
	SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	41,629	39,879
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-13,003	-6,920
14	Counterparty credit risk exposure for SFT assets	5,226	3,259
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**33,852**	**36,218**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	222,912	240,025
18	(Adjustments for conversion to credit equivalent amounts)	-162,261	-171,453
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**60,651**	**68,572**
	(Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))		
EU-19a	(Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	-
	Capital and total exposure measure		
20	**Tier 1 capital**	41,354	43,465
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	665,393	676,967
	Leverage ratio		
22	**Leverage ratio**	**6.21%**	**6.42%**
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-	-

LRSum table - Summary reconciliation of accounting assets and leverage ratio exposure

The table shows the reconciliation between total exposure (the denominator of the ratio) and the information disclosed in the financial statements in accordance with the provisions of Article 451 (1) (b) of the CRR.

(millions of euro)

		30.06.2018	31.12.2017
1	Total assets as per published financial statements	793,718	796,861
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-149,035	-148,508
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 (CRR)	-	-
4	Adjustments for derivative financial instruments	-13,108	-18,250
5	Adjustment for securities financing transactions (SFTs)	-7,778	-3,665
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	60,651	68,572
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013 (CRR))	-	-
EU-6b	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013 (CRR))	-	-
7	Other adjustments (*)	-19,055	-18,043
8	**Leverage ratio total exposure measure**	**665,393**	**676,967**

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

LRSpl table – Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

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

(millions of euro)

		CRR leverage ratio exposures	
		30.06.2018	31.12.2017
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**567,802**	**572,977**
EU-2	Trading book exposures	14,945	13,937
EU-3	Banking book exposures, of which:	552,857	559,040
EU-4	*Covered bonds*	*770*	*595*
EU-5	*Exposures treated as sovereigns*	*122,850*	*127,030*
EU-6	*Exposures to regional governments, local authorities, MDB, international organisations and PSE not treated as sovereigns*	*12,257*	*12,865*
EU-7	*Exposures to supervised institutions*	*36,852*	*38,258*
EU-8	*Secured by mortgages of immovable properties*	*118,617*	*113,525*
EU-9	*Retail exposures*	*38,394*	*41,862*
EU-10	*Corporate*	*159,717*	*154,592*
EU-11	*Exposures in default*	*21,715*	*25,638*
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	*41,685*	*44,675*

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

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

Milan, 1 August 2018

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

Attachment 1

Own funds: Transitional own funds disclosure template

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	32,187	
	of which: Ordinary shares	32,187	
2	Retained earnings	13,320	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-1,363	
3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1 capital	-	
	Public sector capital injections grandfathered until 1 January 2018	-	
5	Minority interests (amount allowed in consolidated CET1)	23	23
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	247	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	44,414	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-205	
8	Intangible assets (net of related tax liability) (negative amount)	-7,149	
9	Transitional adjustment related to IAS 19	114	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-1,366	-1,366
11	Fair value reserves related to gains or losses on cash flow hedges	946	
12	Negative amounts resulting from the calculation of expected loss amounts	-204	-204
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-142	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct and indirect holdings by the institution of own CET1 instruments (negative amount)	-131	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-1,689	
20	[not relevant in EU regulation]	-	
20a	Exposure amount of the following items which qualify for a risk weighting of 1250%, where the institution opts for the deduction alternative	-213	
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	
20c	of which: securitisation positions (negative amount)	-213	
20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	

(millions of euro)

			Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
22		Amount exceeding the 15% threshold (negative amount)	-651	
	23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
24		Deferred tax assets	-	
	25	of which: deferred tax assets arising from temporary differences	-	
25a		Losses for the current financial year (negative amount)	-	
25b		Foreseeable tax charges relating to CET1 items (negative amount)	-	
26		Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-416	
26a		Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0	
		of which: Unrealised gains on debt securities issued by European Union central governments	0	
		of which: Unrealised gains on debt securities of issuers other than European Union central governments	-	
		of which: Unrealised gains on equities and quotas of UCI	0	
26b		Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre-CRR	2,704	
		of which deduction of deferred tax assets that rely on future profitability and do not arise from temporary differences (Articles 469(1)(a), 36(1)(c) and 478(1) of the CRR)	-	
		of which deduction of negative amounts resulting from the calculation of expected loss amounts in accordance with Articles 158 and 159 of the CRR (Articles 469(1)(a), 36(1)(d) and 478(1) of the CRR)	-	
		of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	-	
		of which impacts arising from deductible under transitional adjustments	2,704	-2,847
27		Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	
28		Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	-8,402	
29		Common Equity Tier 1 (CET1) capital	36,012	

(millions of euro)

			Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Additional Tier 1 (AT1) capital: instruments				
30		Capital instruments and the related share premium accounts	4,606	
	31	of which: classified as equity under applicable accounting standards	-	
	32	of which: classified as liabilities under applicable accounting standards	-	
33		Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	731	
		Public sector capital injections grandfathered until 1 January 2018	-	
34		Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	5	
	35	of which: instruments issued by subsidiaries subject to phase-out	-	
36		Additional Tier 1 (AT1) capital before regulatory adjustments	5,342	
Additional Tier 1 (AT1) capital: regulatory adjustments				
37		Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	
38		Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39		Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	
40		Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	
41		Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
41a		Residual amounts deducted from Additional Tier 1 capital with regard to deduction from CET1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	0	
		of which residual amount by which expected losses exceed adjustments for IRB positions	0	
41b		Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	0	
		of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	0	
		of which impacts arising from deductible under transitional adjustments	0	
41c		Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-	
		of which: possible filter for unrealised losses	-	
		of which: possible filter for unrealised gains	-	
		of which: other filter	-	
42		Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	
43		Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	
44		Additional Tier 1 (AT1) capital	5,342	
45		Tier 1 capital (T1 = CET1 + AT1)	41,354	

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	7,901	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2	12	
	Public sector capital injections grandfathered until 1 January 2018	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	3	
49	of which: instruments issued by subsidiaries subject to phase-out	-	
50	Credit risk adjustments	-	
51	Tier 2 (T2) capital before regulatory adjustments	7,916	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-101	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	
54	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0	
54a	of which new holdings not subject to transitional arrangements	0	
54b	of which holdings existing before 1 January 2013 and subject to transitional arrangements	0	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-832	
56	Regulatory adjustments applied to T2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0	
56a	Residual amounts deducted from T2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	0	
	of which residual amount by which expected losses exceed adjustments for IRB positions	0	
56b	Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	0	
	of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	0	
	of which impacts arising from deductible under transitional arrangements	0	
56c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	0	
	of which: possible filter for unrealised losses	0	
	of which: unrealised gains on AFS securities subject to additional national filter	0	
	of which: other filter	0	
57	Total regulatory adjustments to Tier 2 (T2) capital	-933	

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Tier 2 (T2) capital: regulatory adjustments			
58	Tier 2 (T2) capital	6,983	
59	Total capital (TC = T1 + T2)	48,337	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
	of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability, net of the related tax liabilities, indirect holdings of own CET1 instruments, etc.)	-	
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be deducted line by line, e.g. reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.)	-	
60	Total risk weighted assets	282,383	
Capital ratios and buffers			
61	Common Equity Tier 1 capital (as a percentage of risk exposure amount)	12.75%	
62	Tier 1 capital (as a percentage of risk exposure amount)	14.64%	
63	Total capital (as a percentage of risk exposure amount)	17.12%	
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	6.60%	
65	of which: capital conservation buffer requirement	1.88%	
66	of which: countercyclical buffer requirement	0.03%	
67	of which: systemic risk buffer requirement	0.00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.19%	
68	Common Equity Tier 1 capital available to meet buffers (as a percentage of total risk exposure amount)	6.37%	
69	[not relevant in EU regulation]		
70	[not relevant in EU regulation]		
71	[not relevant in EU regulation]		
Capital ratios and buffers			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	1,157	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	3,835	
74	[not relevant in EU regulation]	-	
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	2,220	

(millions of euro)

		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Applicable caps on the inclusion of provisions in T2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	819	
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase-out arrangements	730	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase-out arrangements	1,891	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

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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.